

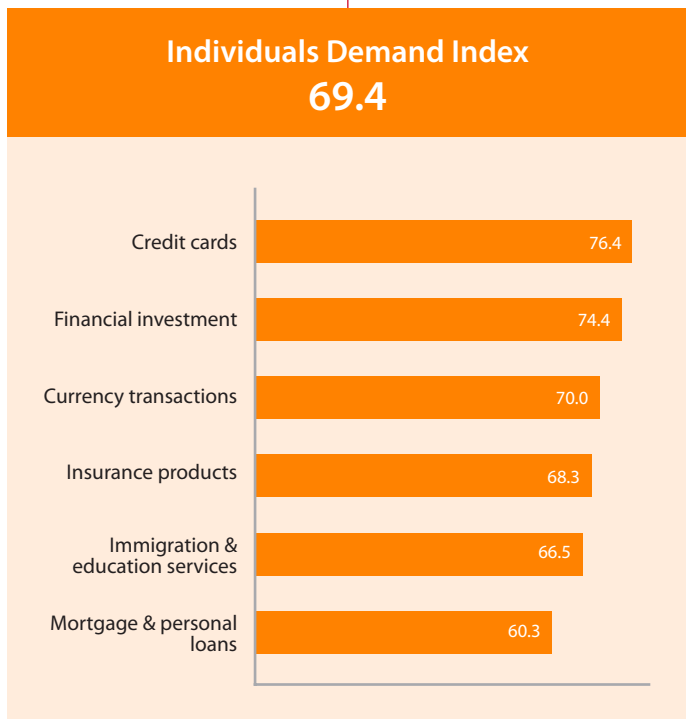
# CNCBI Cross-border Banking Demand Index hits 63.6

Demand from across the border for Hong Kong banking services to surge significantly

[www.cncbinternational.com/cross-border-index](http://www.cncbinternational.com/cross-border-index)

- 1Q2014 Cross-border Banking Demand Index reaches 63.6 with Corporate Demand Index at 62.6 and Individuals Demand Index at 69.4, well above the 50 threshold
- The upsurge in service demand from individuals is more pronounced, particularly in areas such as financial investment, credit card and currency transaction
- Corporate Demand Index shows stronger demand for services including settlement & cash management, currency transactions, asset management & financial consultancy, and loans

## CNCBI Cross-border Banking Demand Index 63.6

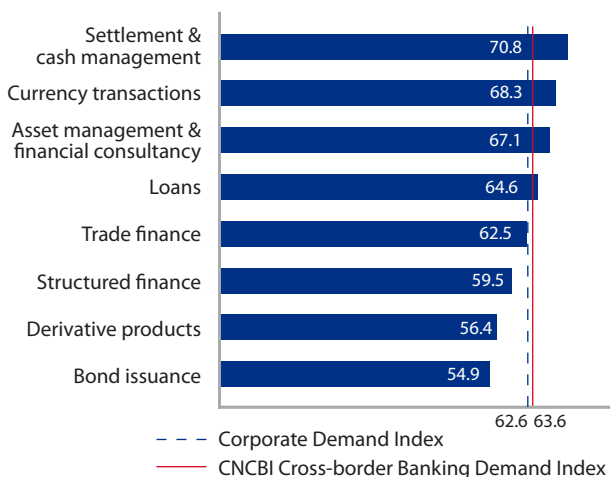


## 1. Overview

- The 1Q2014 CNCBI Cross-border Banking Demand Index, which was compiled from 4Q2013 data, stands at 63.6. It is well above the 50 threshold and signals an upsurge in cross-border demand from mainland companies and individuals for Hong Kong's banking services in 1Q2014.
- The strengthening demand from mainland individuals is particularly pronounced with the Individuals Demand Index registering a 69.4 high. Marked improvement in the demand for financial investment services, credit cards and currency transactions was supported by related sub-indices at 70 or above. With regard to financial investment services, more mainlanders are reaching affluence and an increasing number of these rising riches are looking to diversifying their investment portfolios across different geographic regions with Hong Kong as the primary destination.
- The Corporate Demand Index also scores an impressive 62.6, indicating stronger 1Q2014 demand from mainland companies over the previous quarter. Particularly, the companies polled revealed stronger interest in settlement & cash management services, currency transactions, asset management & financial consultancy and loans, with the respective sub-indices hitting 65 or above. The stronger momentum of RMB internationalisation and resultantly faster development of RMB business in Hong Kong, an accelerating growth in mainland companies' outbound investments, and tighter liquidity in the mainland banking market from time to time as a result of a change in the PBOC's liquidity management strategy, are believed to underpin the strengthening corporate demand.
- There are two common factors for the cross-border demand upsurge, as the survey results suggest. The first is confidence in Hong Kong's banking services. The second, in turn, is confidence in the prospects of business or of Hong Kong.

## 2. Sub-index analysis

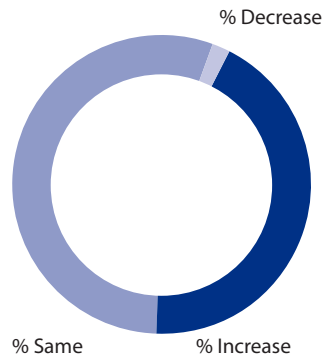
### 2.1 Corporate demand sub-indices



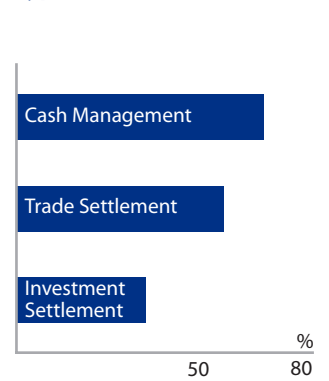
### Settlement & cash management (70.8)

The settlement & cash management sub-index posts the highest reading among corporate demand sub-indices and this signals a considerable strengthening of cross-border demand for related services in 1Q2014 over 4Q2013. Of the survey respondents, 43% replied with "Increase" while only 2% with "Decrease" regarding the service demand. Meanwhile, 67%, 56% and 35% of the respondents attributed the demand to cash management, trade settlement and investment settlement respectively, and as high as 72% and 70% of them cited confidence in business prospects and in the settlement and cash management services provided by banks in Hong Kong as the reasons for the rising demand.

#### Expected changes in service demand



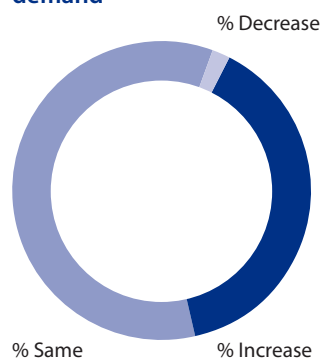
#### Type of services



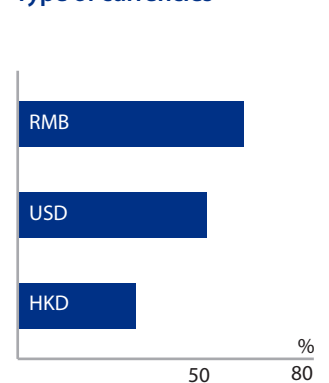
### Currency transactions (68.3)

This sub-index scores high and indicates significantly stronger cross-border demand for currency transaction services in 1Q2014, with 39% of the respondents reporting "Increase" as compared to a mere 2% registering "Decrease" in the demand. Of the panellists, 61%, 51% and 32% chose RMB, USD and HKD as the currencies for transaction respectively, while more than two-thirds of the respondents considered confidence in the prospects of business and the currency transaction services offered by banks in Hong Kong as the two major drivers of the stronger demand.

#### Expected changes in service demand



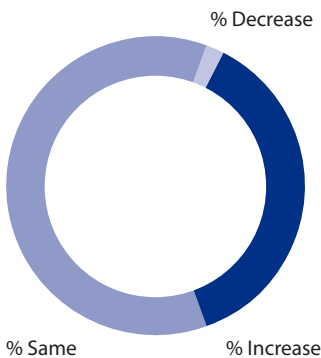
#### Type of currencies



## Asset management & financial consultancy (67.1)

Mainland companies also signal a much higher level of demand for asset management & financial consultancy services in 1Q2014, as 37% of the respondents expected a demand increase against 2% for the opposite. The demand was 63% directed to asset management services and 63% to financial consultancy. Even higher percentages of the panellists – 78% and 71%, cited confidence in the banking services in Hong Kong and increases in asset size as the two driving forces of the demand respectively.

### Expected changes in service demand



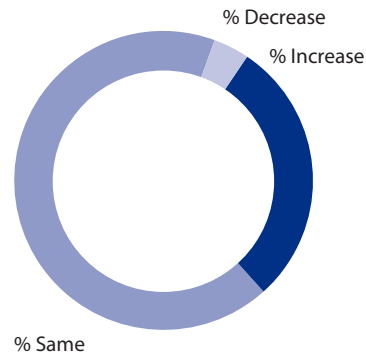
### Type of services



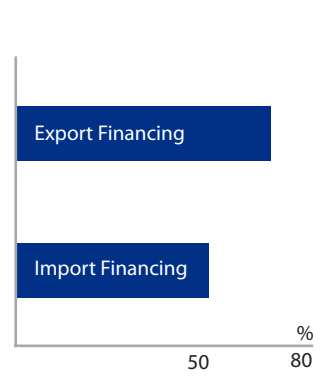
## Trade finance (62.5)

Trade finance demand was expected to rise noticeably, with 29% of the respondents foreseeing an increase as compared to 4% predicting a decrease. Meanwhile, 69% and 52% of the survey respondents claimed the demand coming from export financing and import financing respectively. More than 70% of the panellists stated that confidence in the trade finance services from banks in Hong Kong and confidence in the prospects of business would be underpinning the demand increase.

### Expected changes in service demand



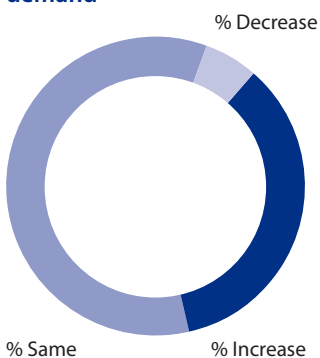
### Type of financing



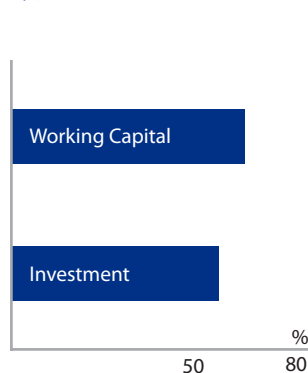
## Loans (64.6)

The data show a marked step-up in the demand for loans offered by banks in Hong Kong among mainland companies. Of the respondents, 35% reported an increase while 6% claimed a decrease in the demand. Among these, 63% would take out loans as working capital and 56% use them for investment purposes. As regards the reasons for expecting the higher demand, about two-thirds of the panellists reckoned that confidence in the future prospects of business and the loan services provided by Hong Kong banks would sustain the demand.

### Expected changes in service demand



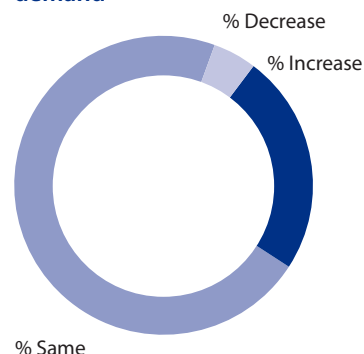
### Type of loans



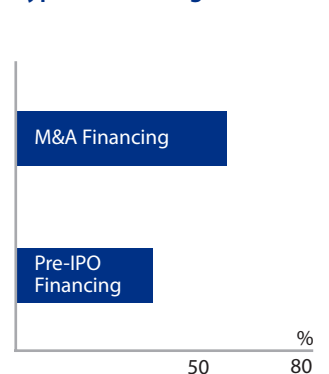
## Structured finance (59.5)

The survey also suggests a strengthening demand for structured finance as 24% of the respondents reported a demand increase while 5% claimed the opposite. At the same time, 57% and 37% of them expressed stronger intention to use M&A financing and pre-IPO financing facilities respectively. With regard to the reasons, while the top one is the need for adequate capital for business expansion as reckoned by as high as 80% of the panellists, confidence in the services being offered by banks in Hong Kong and future prospects of business were also chosen by 74% and 64% of the survey respondents respectively.

### Expected changes in service demand



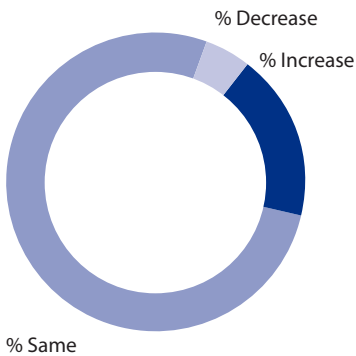
### Type of financing



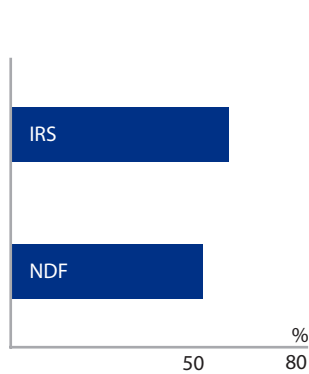
## Derivative products (56.4)

Derivative product demand was predicted to rise moderately as 18% and 5% of the respondents expected an increase and a decrease respectively. The demand was expected 59% on Interest Rate Swap (IRS) and 52% on Non-Deliverable Forward (NDF). About two-thirds of the panellists claimed the demand rise to stem from confidence in future prospects of business and confidence in derivative products offered by banks in Hong Kong.

### Expected changes in service demand



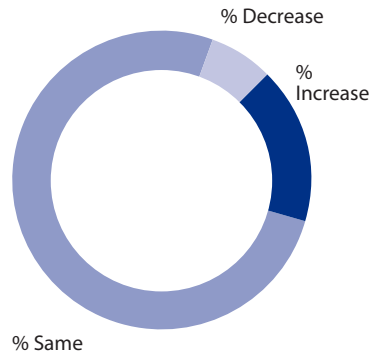
### Type of products



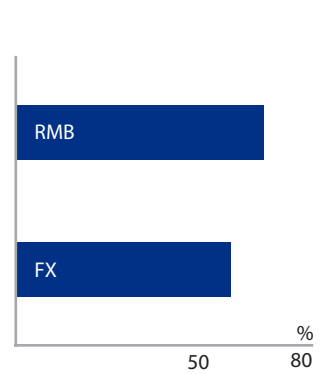
## Bond issuance (54.9)

Bond issuance demand was expected to strengthen only modestly given 17% of the respondents foresaw an increase while 7% predicting a decrease. Meanwhile, 67% and 58% of the panellists showed stronger interest in RMB bonds and FX bonds respectively. More than 70% of the panellists cited that confidence in Hong Kong's banking services and business prospects contributed to the higher demand.

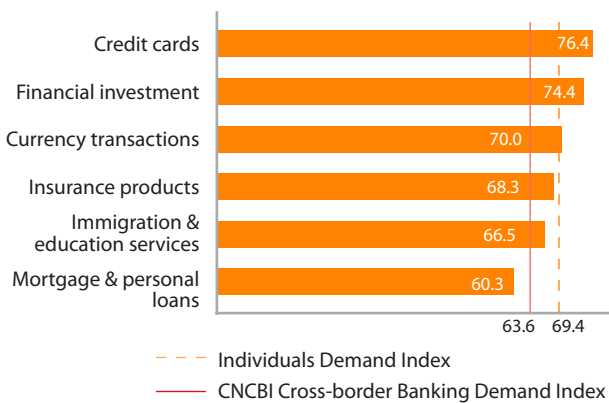
### Expected changes in service demand



### Type of currencies



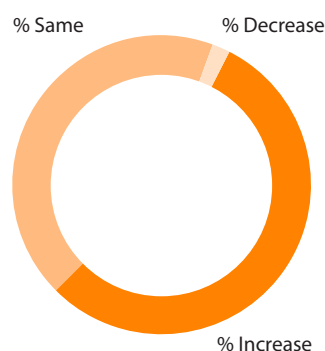
## 2.2 Individuals demand sub-indices



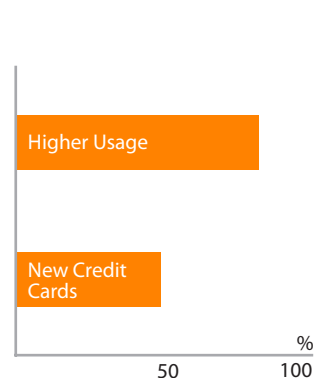
## Credit cards (76.4)

This sub-index registers the highest score across the individuals demand sub-indices, indicating a considerably higher level of demand for credit card services offered by banks in Hong Kong among mainland individuals in 1Q2014 over 4Q2013. As high as 55% of the panellists responded "Increase" while a mere 2% replied with "Decrease". Among them 82% signalled a higher usage of credit cards and 49% expressed a stronger intention on new credit cards. Explaining the robust demand increase, 74% said it would be to facilitate higher spending in Hong Kong and 51% attributed it to higher confidence in the credit card services offered by banks in Hong Kong.

### Expected changes in service demand



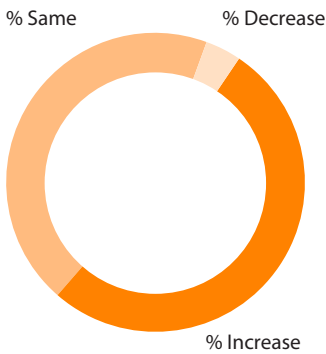
### Nature of demand



## Financial investment (74.4)

The financial investment sub-index is impressive and it signals a significantly stronger demand for financial investment services in Hong Kong by mainland individuals in 1Q2014. As high as 52% of the respondents reported an increase in the demand against 4% who claimed the opposite. While 75%, 64%, 42% and 30% of the panellists would make stock, fund, bond and derivative products their investment tools, 64% and 58% of the panellists stated that confidence in the future prospects of Hong Kong and the services of banks in Hong Kong would underpin the stronger demand respectively.

### Expected changes in service demand



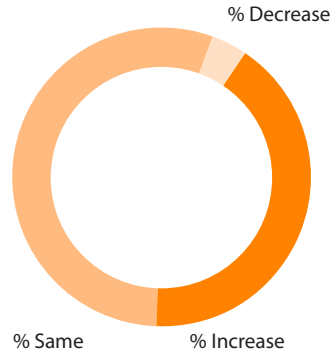
### Type of investment products



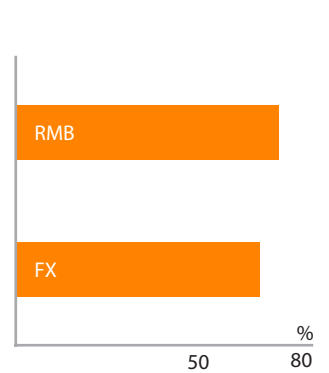
## Insurance products (68.3)

The data show that insurance product demand would be markedly stronger since 41% and 4% of the panellists reported an increase and a decrease in the demand respectively. Insurance products denominated in RMB and in FX would be on high demand as claimed by 71% and 66% of the panellists respectively. The top two reasons are again confidence in insurance products provided by banks in Hong Kong and confidence in the future prospects of Hong Kong as reported by more than two-thirds of the panellists.

### Expected changes in service demand



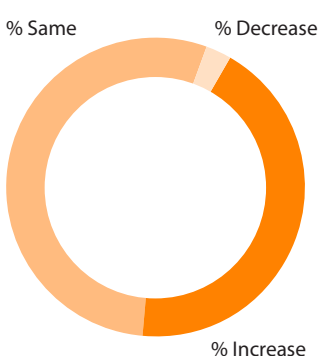
### Type of currencies



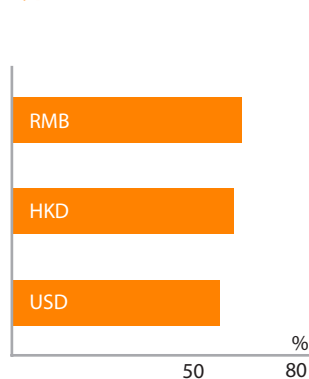
## Currency transactions (70.0)

Mainland individuals indicate a strong rise in currency transaction demand in 1Q2014 with 43% of the respondents expecting an increase while only 3% anticipating a decrease in the demand. In the meantime, 62%, 60% and 56% of the panellists selected RMB, HKD and USD as the currencies for transaction respectively. Confidence in the future prospects of Hong Kong and confidence in the services offered by Hong Kong banks were cited by over half of the panellists as the two major factors for the demand rise.

### Expected changes in service demand



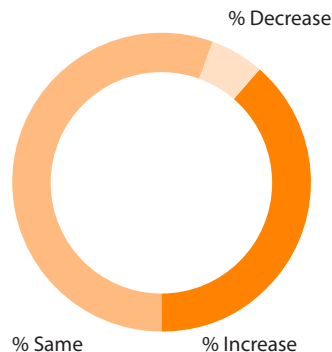
### Type of currencies



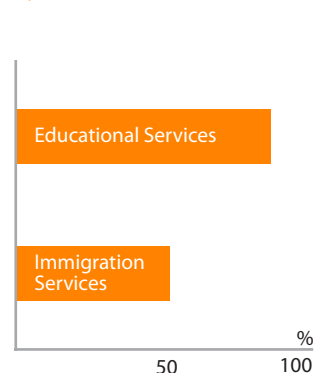
## Immigration & education services (66.5)

Cross-border demand for immigration & education services would also be enhanced in a marked way as evidenced by 39% and 6% of the respondents replying with "Increase" and "Decrease" respectively. Of them, 86% showed higher interest in educational services and 52% expressed stronger keenness on immigration services. Confidence in Hong Kong's banking services and the prospects of Hong Kong were thought to be the major reasons by 67% and 57% of the panellists.

### Expected changes in service demand



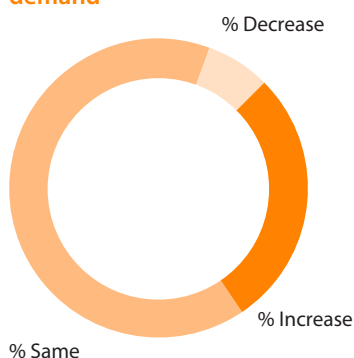
### Type of services



## Mortgage & personal loans (60.3)

Although it is the lowest among the individuals demand sub-indices, the sub-index for mortgage & personal loans is still well above the 50 threshold and indicates a respectably higher level of demand, as 28% of the respondents reported an increase while 7% registered a decrease in the demand. Among them, 70% chose personal loans and 61% selected mortgage loans. The percentage numbers for those who considered confidence in Hong Kong's banking services and the future prospects of Hong Kong as the main demand drivers were 59% and 48% respectively.

### Expected changes in service demand



### Type of loans



## 3. Methodology and data

### 3.1 Definition and calculation

The CNCBI Cross-border Banking Demand Index captures the trends of cross-border demand from mainland companies and individuals for banking services provided by banks in Hong Kong in the next quarter, based on the results of a quarterly survey over mainland companies and individuals conducted by international market research firm Ipsos.

The CNCBI Cross-border Banking Demand Index is a weighted average of the Corporate Demand Index and the Individuals Demand Index, while the Corporate Demand Index and the Individuals Demand Index are in turn weighted averages of eight service-specific corporate demand sub-indices and six service-specific individuals demand sub-indices respectively.

Each of the sub-indices is a diffusion index and is calculated from the replies of survey respondents to the question: "Do you expect your/your company's demand for the cross-border banking service (as specified) will increase, decrease or remain the same in the next quarter as compared to the current quarter?" The value of the diffusion index is the sum of the responses of "Increase" plus half of those responding "Same" in percentage terms.

Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall strengthening, and below 50 an overall weakening.

### 3.2 Sample data

The CNCBI Cross-border Banking Demand survey spans 15 cities across the Pearl River Delta, Yangtze River Delta, Pan-Bohai and Central & Western areas of China. This quarterly survey covers 500 companies and 500 affluent mainlanders who are currently using cross-border banking services or indicated an intention to do so. Data is collected mainly through telephone interviews.

The corporate sample represents a wide spectrum of industries including import/export trade, manufacturing, real estate, construction, power & energy, etc, with quotas on small, medium and large enterprises based on their annual turnover. Finance managers or directors of qualified companies are interviewed. The individuals sample consists of high-net-worth (>US\$1 million liquid assets) and upper affluent (>HK\$1 million liquid assets) individuals.

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