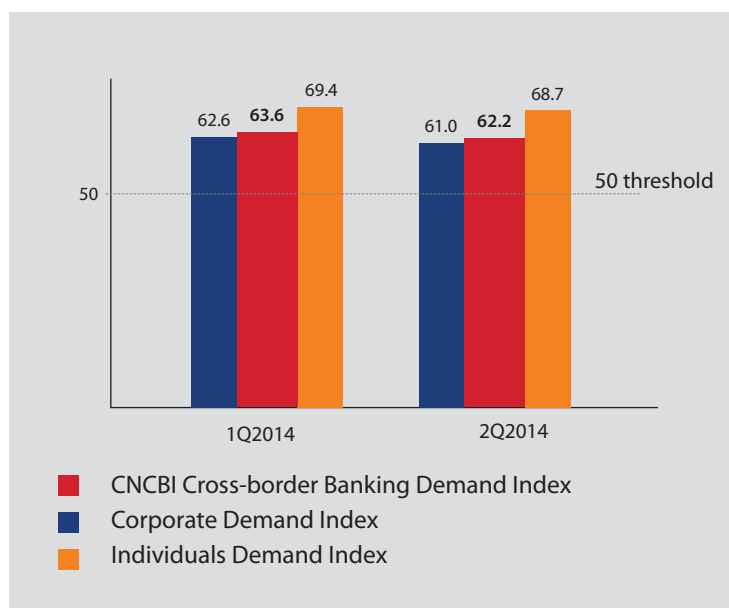


## Q2 Cross-border Banking Demand Index remains high at 62.2

Cross-border banking demand continues to rise strongly albeit at a slightly slower pace

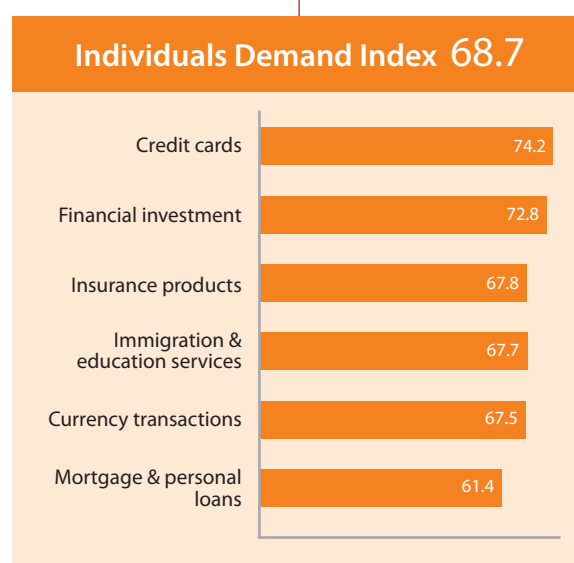
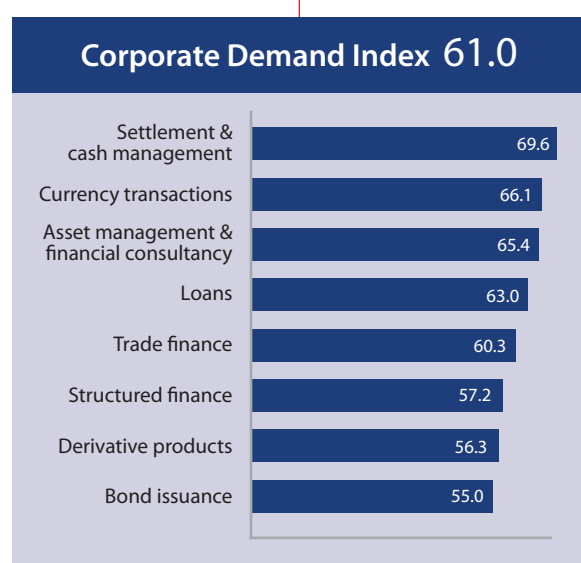
[www.cncbinternational.com/cross-border-index](http://www.cncbinternational.com/cross-border-index)



- Cross-border demand for Hong Kong's banking service continues to rise strongly in 2Q2014, albeit at a modestly slower pace
- Corporate demand for settlement & cash management, currency transactions, asset management & financial consultancy and loans remain top-four while demand for bond issuance gains steam

- Individuals' demand for credit cards and financial investment claims top spots while insurance products replace currency transactions in the third place, and demand grows at a faster rate for immigration & education services and mortgage & personal loans

### CNCBI Cross-border Banking Demand Index 62.2

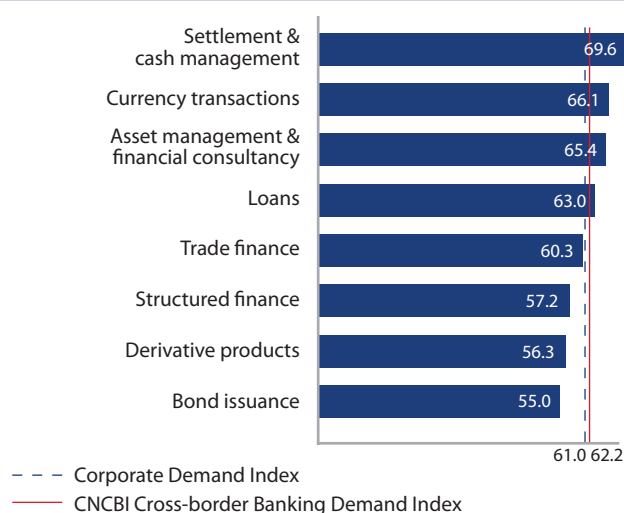


## 1. Overview

- The 2Q2014 CNCBI Cross-border Banking Demand Index compiled from 1Q2014 data stands at 62.2 as Corporate Demand Index and Individuals Demand Index reach 61.0 and 68.7 respectively, a mild decline from 1Q2014 figures but well above the 50 threshold. This indicates a continuous increase in cross-border demand from mainland companies and individuals for Hong Kong's banking services albeit at a slower pace.
- Of the eight corporate demand sub-indices, seven log a modest decrease. However, settlement & cash management, currency transactions, asset management & financial consultancy and loans remain in high demand at 69.6, 66.1, 65.4 and 63.0 respectively, ranking tops whereas bond issuance posts a 0.1 higher reading which indicates a slightly increased pace.
- Two-thirds of the individuals sub-indices decrease slightly as the rest goes the opposite direction. Demand for credit cards and financial investment are particularly pronounced, scoring 74.2 and 72.8 respectively and remaining in the top two spots. Insurance products and immigration & education services register 67.8 and 67.7 respectively, moving up a notch to third and fourth places. Demand for currency transactions drops from the third spot to the fifth while immigration & education services and mortgage & personal loans pick up pace.
- The survey result suggests that confidence in business prospects and in Hong Kong's banking services continue to be the two main contributors to the rise in service demand.
- The slightly slowing cross-border demand in 2Q2014 is believed to be a result of mainland's weaker economic and trade data, RMB depreciation from its uptrend and narrowing interest margins between the two regions in 1Q2014.

## 2. Sub-index analysis

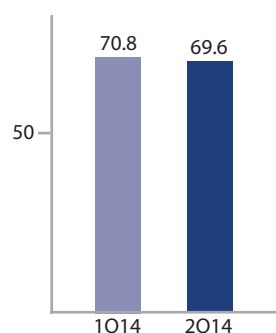
### 2.1 Corporate demand sub-indices



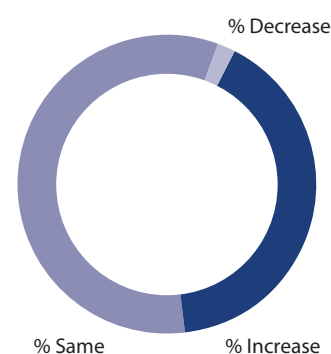
### Settlement & cash management (69.6)

The settlement & cash management sub-index drops by 1.2 in 2Q2014 but retains the highest reading among corporate demand sub-indices. This signals a considerable strengthening of demand for related services in 2Q2014. Of the survey respondents, 41% answered "Increase" while 2% "Decrease" regarding the service demand. Meanwhile, 58%, 56% and 22% attributed the demand to cash management, trade settlement and investment settlement respectively, and 68%, 63% and 59% of those who answered "Increase" cited confidence in business prospects, confidence in the services provided by banks in Hong Kong and having adequate capital for business expansion as the top reasons. The drop of the sub-index is believed to be driven mainly by RMB depreciation and the slowing of trade between the mainland and Hong Kong.

#### Trend of sub-index



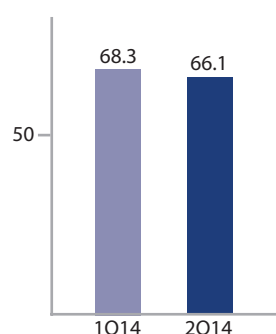
#### Expected changes in service demand



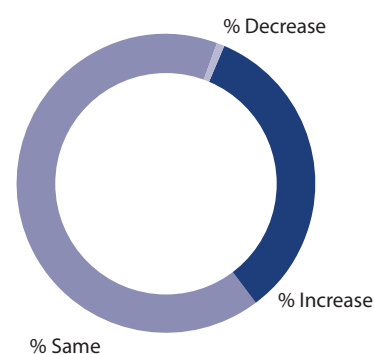
### Currency transactions (66.1)

This sub-index declines by 2.2 on the previous quarter but remains in second place with 33% of the respondents reporting an "Increase" in the demand and a mere 1% registering a "Decrease". Of the corporations surveyed, 57%, 46% and 30% prefer RMB, USD and HKD as the transaction currencies while 67%, 61% and 58% of those who reported an "Increase" considered confidence in business prospects and the services offered by banks in Hong Kong, and an increase in cross-border business as the three major demand drivers, respectively. The decline is believed to be caused by RMB depreciation since the dawn of the year.

#### Trend of sub-index



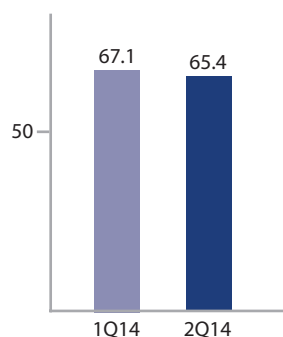
#### Expected changes in service demand



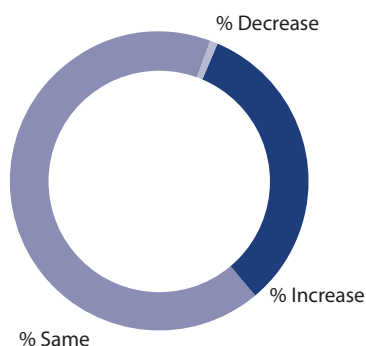
## Asset management & financial consultancy (65.4)

Demand for asset management & financial consultancy services continues to strengthen among mainland corporations in 2Q2014 as 32% of the respondents expected a demand increase whereas only 1% believed otherwise. The demand was 66% directed to financial consultancy and 56% to asset management services. Meanwhile, 63%, 61% and 56% of those who responded an "Increase" cited confidence in the banking services in Hong Kong, confidence in business prospects and increases in asset size as the major driving forces of the strengthening demand respectively.

Trend of sub-index



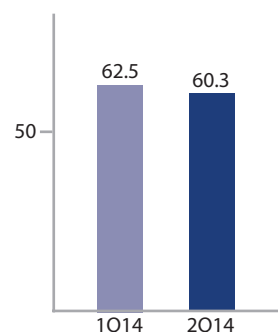
Expected changes in service demand



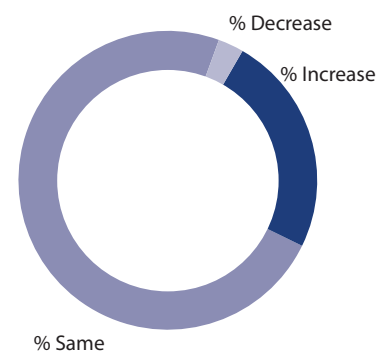
## Trade finance (60.3)

The trade finance sub-index decreases by 2.2 but remains at a level of above 60, indicating that the demand from mainland companies is expected to gain speed. Of the respondents, 24% expected an increase and 3% a decrease. Meanwhile, 67% and 49% of the respondents claimed the demand coming from export financing and import financing respectively. At the same time, 69%, 61% and 58% of those who expected an increase stated that the need for adequate capital for trading, confidence in the trade finance services from banks in Hong Kong and confidence in the prospects of business were underpinning the increased demand.

Trend of sub-index



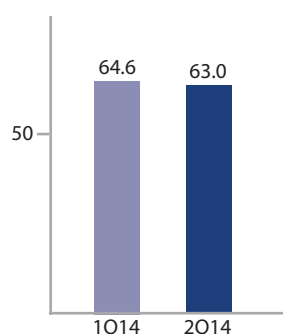
Expected changes in service demand



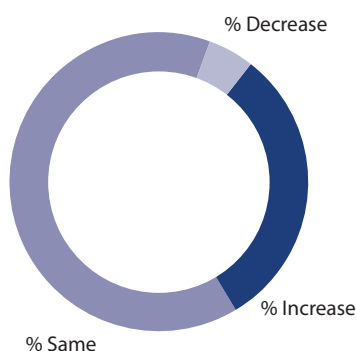
## Loans (63.0)

Data shows a continuous step-up in the demand for loans offered by banks in Hong Kong. This figure drops slightly on 1Q2014 but scores high at 63.0. Of the respondents, 31% reported an increase in demand while 5% claimed the opposite. Meanwhile, 55% would take out loans as working capital and 57% would use them for investment purposes. As regards the reasons for the higher demand, they are confidence in the loan services provided by Hong Kong banks (64%), confidence in the future prospects of business (61%) and a need for working capital (40%).

Trend of sub-index



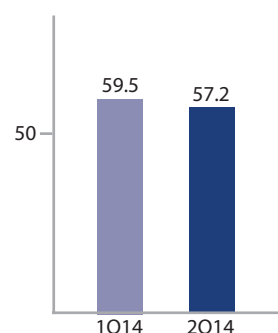
Expected changes in service demand



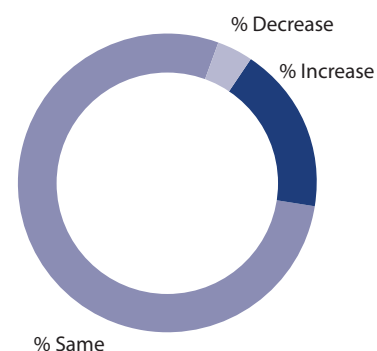
## Structured finance (57.2)

The survey reveals a continuous strengthening demand for structured finance as 18% of the respondents reported a demand increase while 4% claimed the opposite. Also, 64% and 38% expressed intention to use M&A financing and pre-IPO financing facilities respectively. As for the reasons for the rising demand, while the top one is the need for adequate capital for business expansion as reckoned by as high as 77% of the respondents, confidence in the structured finance services being offered by banks in Hong Kong and future prospects of business were also chosen by 71% and 68% of the respondents respectively.

Trend of sub-index



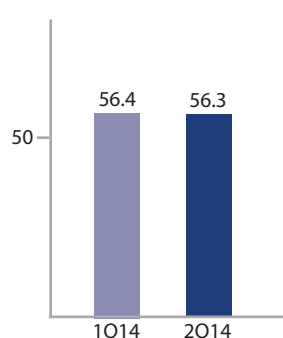
Expected changes in service demand



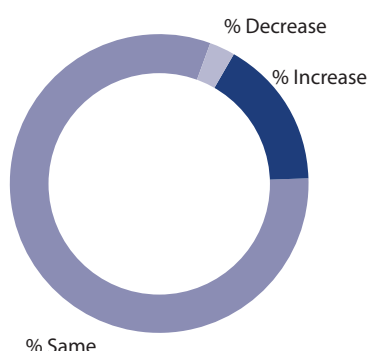
## Derivative products (56.3)

Derivative product demand continues to rise at a moderate pace as 16% and 3% of the respondents expected an increase and a decrease respectively. The demand is expected 49% on Non-Deliverable Forward (NDF), 47% on Interest Rate Swap (IRS) and 21% on Digital Forward. Meanwhile, 67%, 61% and 52% of those who expected an increase claimed the demand rise stem from confidence in derivative products offered by banks in Hong Kong, confidence in future prospects of business and an increase in risk aversion respectively.

Trend of sub-index



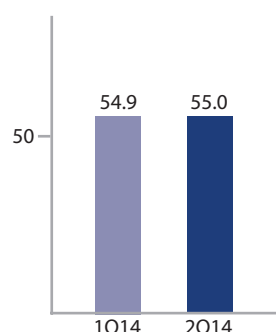
Expected changes in service demand



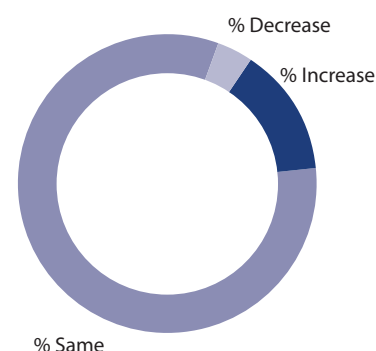
## Bond issuance (55.0)

The bond issuance sub-index remains last among the corporate demand sub-indices, despite a 0.1 increase from last quarter which signals a more pronounced increase in this service demand in 2Q2014 over 1Q2014. As regards the demand, 14% of the respondents foresaw an increase while 4% predicted a decrease. At the same time, 73%, 61% and 54% of those who expected an increase cited that the need for adequate capital for business expansion, confidence in bond issuance services offered by banks in Hong Kong and business prospects contributed to the higher demand respectively.

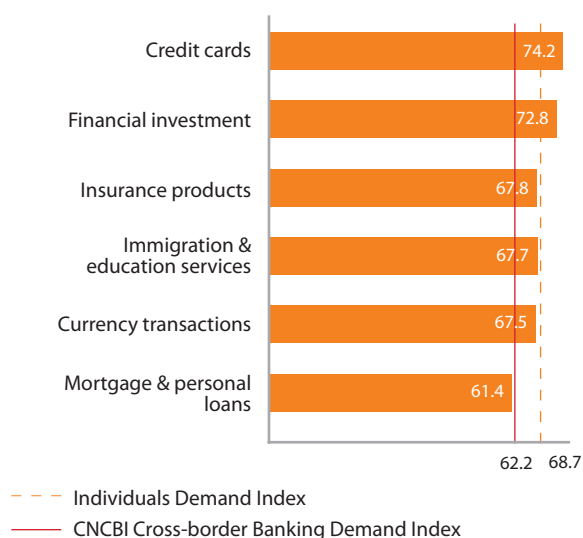
Trend of sub-index



Expected changes in service demand



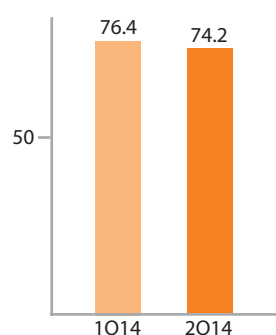
## 2.2 Individuals demand sub-indices



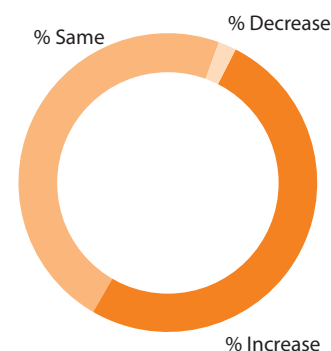
## Credit cards (74.2)

The credit cards sub-index records a decline of 2.2 but continues to register the highest score across the individuals demand sub-indices, indicating a considerably higher level of demand from mainland individuals in 2Q2014 over 1Q2014. As high as 51% of the surveyed individuals responded "Increase" while a mere 2% replied with "Decrease". Among them, 81% signalled a higher usage of credit cards and 49% expressed an intention on new credit cards. Explaining the robust demand increase, 75% said it would be to facilitate higher spending in Hong Kong while 49% and 41% attributed the increase to confidence in the credit card services offered by banks in Hong Kong and confidence in future prospects of income respectively.

Trend of sub-index



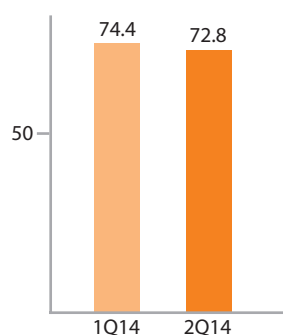
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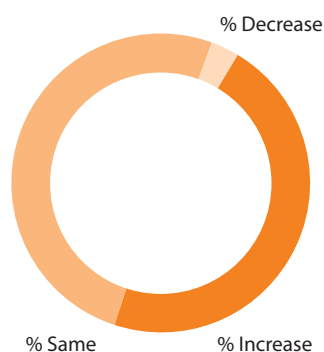
## Financial investment (72.8)

This sub-index indicates that demand for financial investment services is rising significantly. As high as 49% of the respondents reported an increase in the demand against 3% who claimed the opposite. While 72%, 64%, 42% and 24% of the respondents would pick stock, fund, bond and derivative products as their investment tools, 62%, 58% and 46% of the individuals who reported an increase stated that confidence in the related services provided by Hong Kong banks, confidence in the future prospects of Hong Kong and possessing adequate investment capital underpinned the stronger demand respectively.

Trend of sub-index



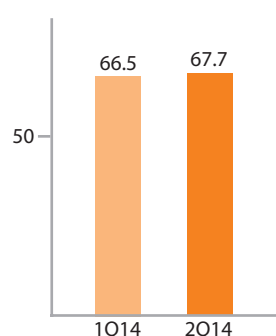
Expected changes in service demand



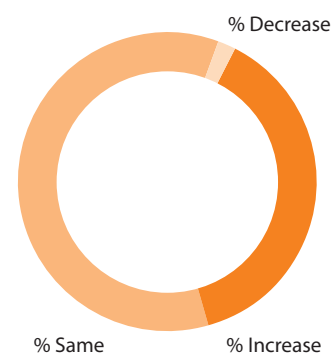
## Immigration & education services (67.7)

The immigration & education services sub-index signals a further rise in the demand with an increment of 1.2 over 1Q2014. The demand is enhanced in a marked way as evidenced by 38% and 2% of the respondents replying with "Increase" and "Decrease" respectively. Of the former, 78% showed interest in educational services and 53% in immigration services. Confidence in related services provided by Hong Kong banks, confidence in the prospects of Hong Kong, and possessing adequate capital for supporting immigration and education services were named major reasons for the demand rise by 61% and 56% and 55% of the individuals respectively.

Trend of sub-index



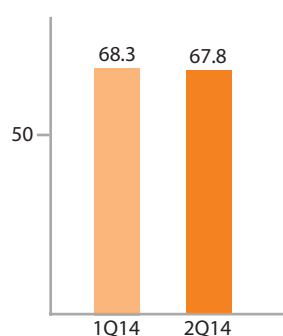
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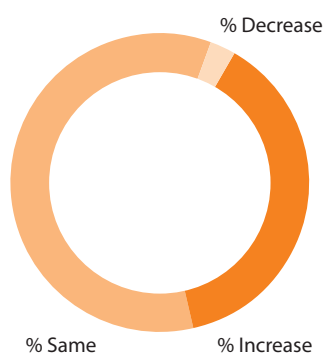
## Insurance products (67.8)

The increasing demand for insurance products from mainland individuals persists. The sub-index is merely 0.5 lower than the 1Q2014 high whereas 38% and 3% of the individuals reported an increase and a decrease in the demand respectively. Insurance products denominated in RMB and in FX are on high demand as claimed by 71% and 63% of the respondents respectively. The top two reasons for the demand increase are again confidence in insurance products provided by banks in Hong Kong (69%) and confidence in the future prospects of Hong Kong's insurance sector (57%), while the third being adequate capital for buying insurance products (48%).

Trend of sub-index



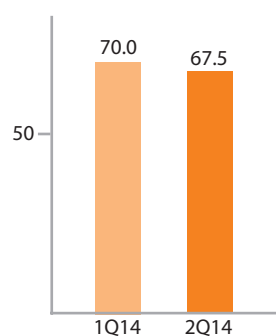
Expected changes in service demand



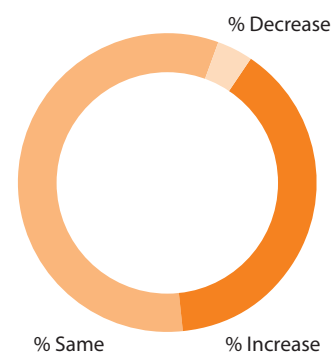
## Currency transactions (67.5)

This sub-index drops 2.5 and slides from the third position in 1Q2014 to the fifth but remains high at 67.5, showing an upsurge in currency transaction demand as 39% of the respondents expected an increase while 4% a decrease in the demand. In the meantime, 65%, 63% and 52% selected USD, HKD and RMB as the currencies for transactions respectively, against 56%, 60% and 62% in 1Q2014. The decline in expected use of RMB and in the sub-index is believed to be a result of RMB depreciation in 1Q2014. Confidence in the currency transaction services offered by Hong Kong banks (59%), confidence in the future prospects of Hong Kong (55%) and increase in cross-border investment (54%) were cited as the major drivers for the demand rise.

Trend of sub-index



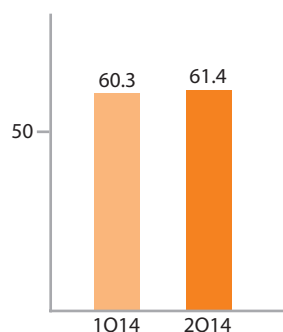
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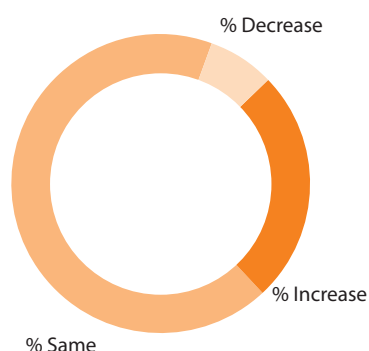
## Mortgage & personal loans (61.4)

Although it remains as the lowest among individuals demand sub-indices, this sub-index goes up by 1.1 on 1Q2014, indicating a faster pace of demand increase. Meanwhile, 29% of the respondents reported an increase while 7% a decrease in the demand whereas 63% chose personal loans and 62% mortgage loans. The percentage of respondents who considered the need for adequate capital for investment, confidence in related services provided by Hong Kong banks, and future prospects of Hong Kong as the main demand rise factors were 55%, 55% and 47% respectively.

Trend of sub-index



Expected changes in service demand



## Appendix: Methodology and data

### 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.

### 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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