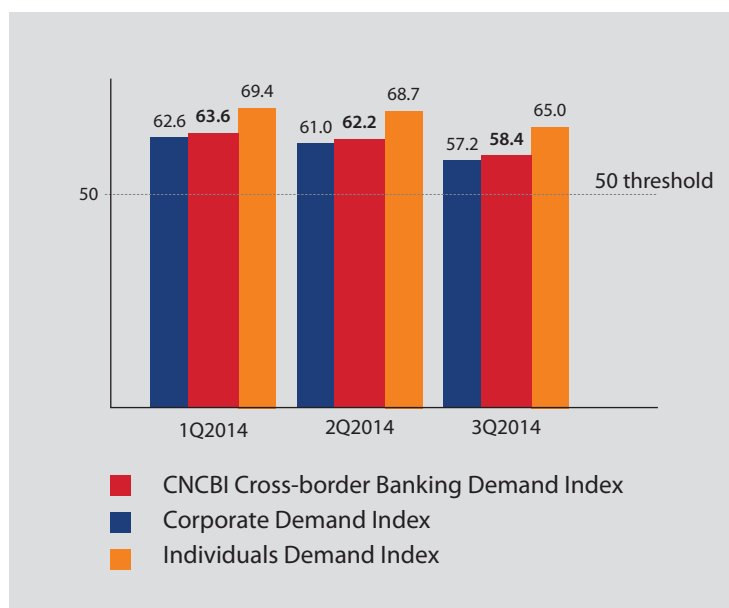


Q3 Cross-border Banking Demand Index reaches 58.4

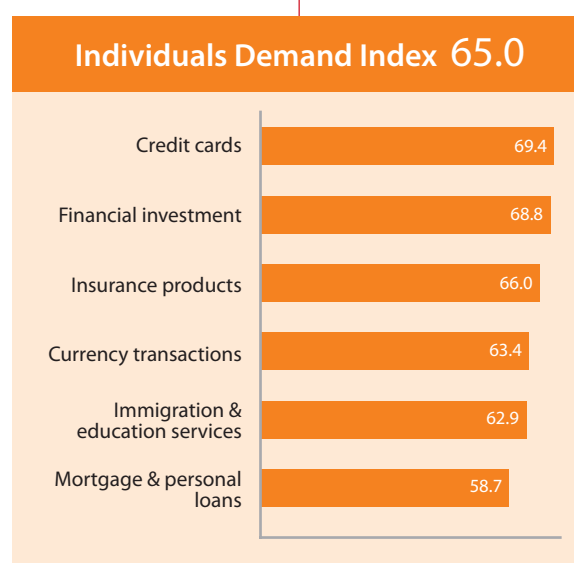
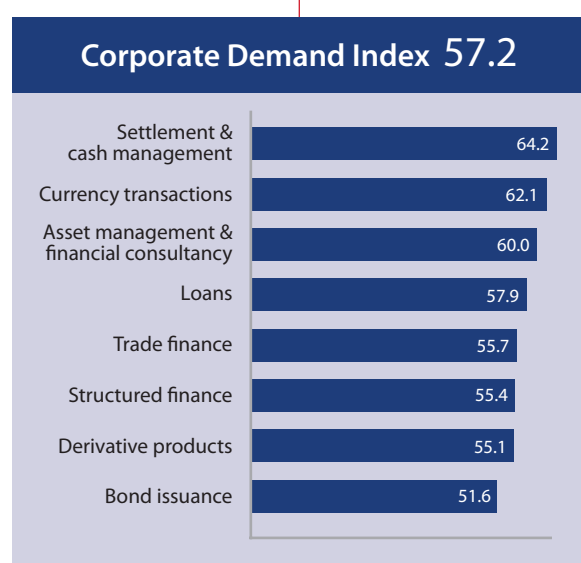
Demand growth slows down but remains strong

www.cncbinternational.com/cross-border-index



- 3Q2014 demand growth of Hong Kong's cross-border banking service slows down but remains strong.
- As regards corporate demand, settlement & cash management, currency transactions, asset management & financial consultancy, loans and trade finance show relatively sharper growth slowdown but remain at top-5, whereas demand for structured finance and derivative products stay 6th and 7th with a slightly slower pace of growth.
- Slowdown of individuals' demand growth is consistent across the board as demand for credit cards, financial investment and insurance products remain strong at top-3 positions.
- Uncertainty of economic and trade prospects, improved liquidity and RMB depreciation in the mainland market are believed to be the main reasons for the slowing growth of cross-border banking demand.

CNCBI Cross-border Banking Demand Index 58.4

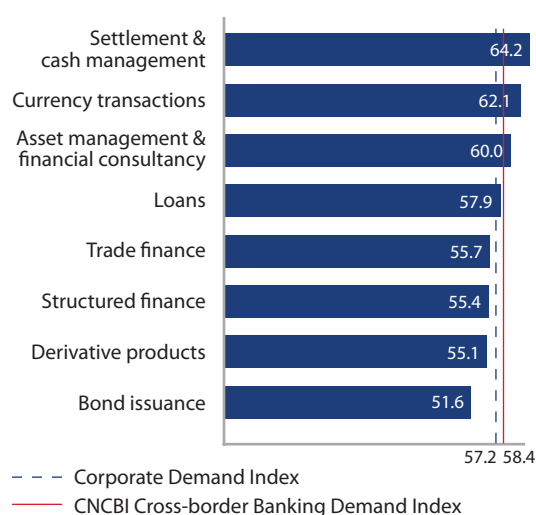


1. Overview

- Based on the 2Q2014 survey results, the 3Q2014 CNCBI Cross-border Banking Demand Index reaches 58.4, which is 3.8 behind 2Q but stays well above the 50 threshold. This indicates that the growth of demand from mainland corporations and individuals for Hong Kong's cross-border banking services has slowed down but remains strong overall.
- Corporate Demand Index is 3.8 behind 2Q at 57.2. All the 8 sub-indices log decreases of different degrees. Settlement & cash management, currency transactions, asset management & financial consultancy, loans and trade finance are at 64.2, 62.1, 60.0, 57.9 and 55.7 respectively, sliding more than 4.0 over 2Q figures. This shows that the growth of relevant service demand has slowed down distinctively. On the other hand, these sub-indices continue to stay well above 55 and remain top-5 of the category, meaning that the growth of demand is still climbing relatively quickly. Demand for structured finance and derivative products stay at 6th and 7th places with a slight decline of less than 2.0 on 2Q figures, suggesting that demand growth is staying considerably strong. Bond issuance slides 3.4 and remains last.
- Individuals Demand Index registers a 65.0 high despite a 3.7 drop. All 6 sub-indices record a comparatively consistent decrease. Except for a decrease of 1.8 and 2.7 for insurance products and mortgage & personal loans, the other 4 sub-indices fall by about 4.0. However, all 6 sub-indices are all above 58, indicating that demand for individual cross-border banking services is growing quickly across the board. In particular, the demand growth of credit cards, financial investment and insurance products is particularly pronounced at above 65, showing a higher degree of strength.
- The slowing of the 3Q growth of cross-border banking demand is believed to be the result of unresolved concerns in 2Q over the prospects of mainland's economic and trade growth as well as RMB movements, along with mainland market liquidity improvement under the influence of the Central Government's "mini-stimulus".

2. Sub-index analysis

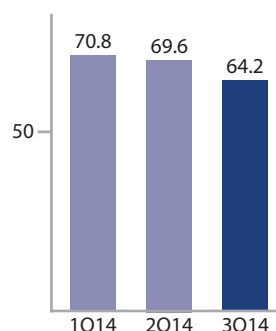
2.1 Corporate demand sub-indices



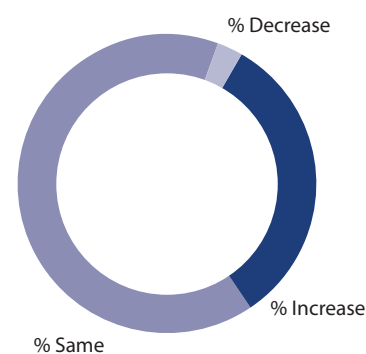
Settlement & cash management (64.2)

The settlement & cash management sub-index is still highest at 64.2 among 3Q corporate demand sub-indices, despite a 5.4 drop from 2Q. This indicates that the growth of cross-border demand from mainland corporations for settlement and cash management remains strong. Of the sampled corporations, 32% predicted an "Increase" and 3% a "Decrease" in service demand. Meanwhile, 55% and 52% of the sampled corporations said demand for cash management and trade settlement will increase respectively. Confidence in business prospects (63%), confidence in the settlement and cash management services from banks in Hong Kong (63%), and the need for adequate capital for business expansion (51%) are cited as the top 3 reasons for the rise in demand. The 5.4 decrease is believed to be a result of 2Q uncertainty of China and Hong Kong's trade prospects and RMB's continuous depreciation.

Trend of sub-index



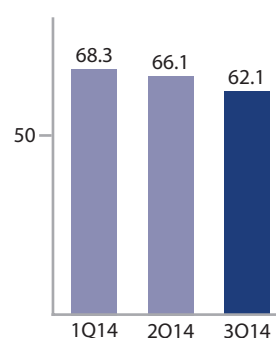
Expected changes in service demand



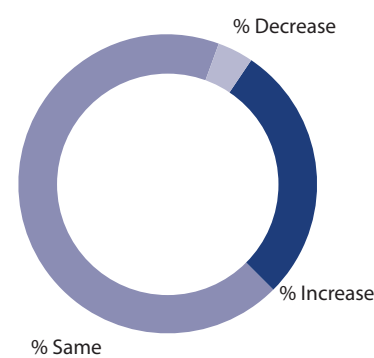
Currency transactions (62.1)

Regardless of a 4.0 decline on 2Q, this sub-index stays well above 60.0 and remains in 2nd place. As regards the degree of demand changes, 28% of the sampled corporations reported an "Increase" and 4% a "Decrease". Meanwhile, 53%, 40% and 28% prefer RMB, USD and HKD as the transaction currencies, while 62%, 58% and 56% cited increasing cross-border business, confidence in business prospects, and confidence in the currency transaction services from banks in Hong Kong as the major reasons for the rise in service demand respectively. The decline of this index is believed to be caused to a large extent by the weakening RMB and economic and trade data in 2Q.

Trend of sub-index



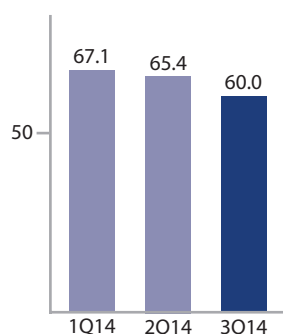
Expected changes in service demand



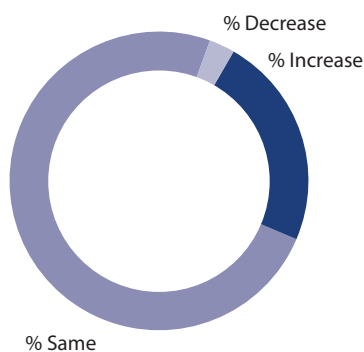
Asset management & financial consultancy (60.0)

The survey results reveal a considerable but slowing growth of demand from mainland corporations for cross-border asset management & financial consultancy, at a high of 60.0 despite a drop of 5.4 over 2Q. Of the corporation samples, 23% expected a demand "Increase" whereas 3% believed otherwise. Meanwhile, 63% and 55% of the respondents reported a growth of demand for financial consultancy and asset management respectively. Confidence in the related services in Hong Kong, increases in asset size and confidence in business prospects are said to be the key drivers for the demand growth by 68%, 63% and 55% respectively.

Trend of sub-index



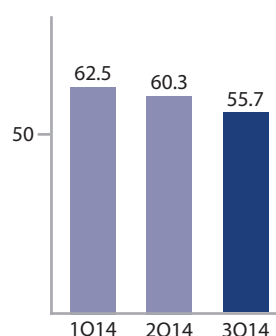
Expected changes in service demand



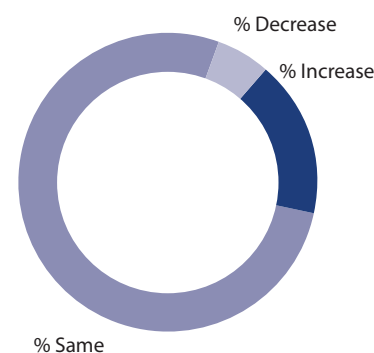
Trade finance (55.7)

This sub-index drops by 4.6 but remains above 55.0, indicating that the demand growth of trade finance retains a certain level of strength despite the weakening. Of the sampled corporations, 17% expected an "Increase" and 6% a "Decrease" in the demand. Meanwhile, 62% and 47% revealed that they needed export financing and import financing respectively. As for the reasons for the demand growth, 65%, 64% and 52% of the responding corporations cited the need for adequate capital for trade development, confidence in the prospects of business and confidence in the trade finance services from banks in Hong Kong respectively. Continuous, weak trade data has to a certain extent curbed the growth of demand for cross-border trade finance.

Trend of sub-index



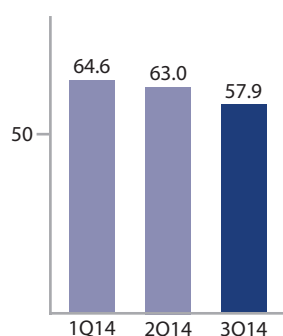
Expected changes in service demand



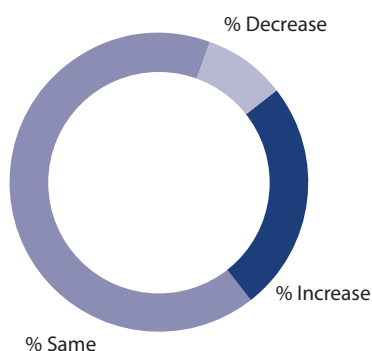
Loans (57.9)

Corporation samples said demand for loans is continuously increasing but has lost some steam. Of these, 25% predicted a demand "Increase" while 9% did otherwise. Meanwhile, 57% and 56% claimed that the loans will be utilised as working capital and for investment purposes respectively. Confidence in the loan services provided by Hong Kong banks, confidence in the future prospects of business, and a need for working capital are listed as the major demand growth drivers by 55%, 52% and 40% of the respondents respectively. The weakened strength of the demand growth is believed to be a result of improved liquidity on the mainland.

Trend of sub-index



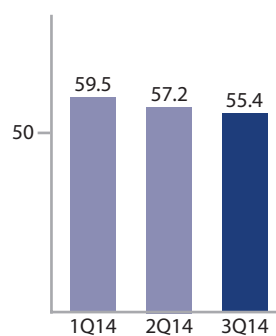
Expected changes in service demand



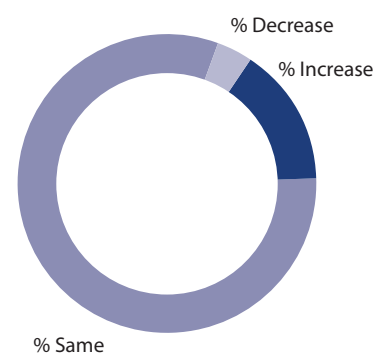
Structured finance (55.4)

This sub-index shows a mere decrease of 1.8 on 2Q, indicating a stable cross-border demand growth for structured finance. Of the sampled corporations, 15% expected an "Increase" in demand and 4% a "Decrease", while 74%, 24% and 19% expressed intention to use syndicated loans, M&A financing and pre-IPO financing respectively. In the meantime, 67%, 59% and 56% reckoned that the need for adequate capital for business expansion, confidence in future prospects of business and confidence in the structured finance services from banks in Hong Kong are the reasons for the rising demand respectively.

Trend of sub-index



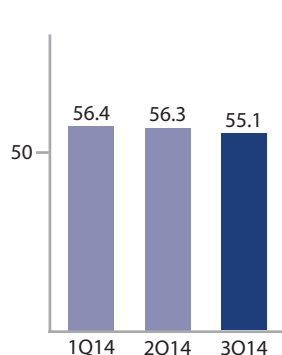
Expected changes in service demand



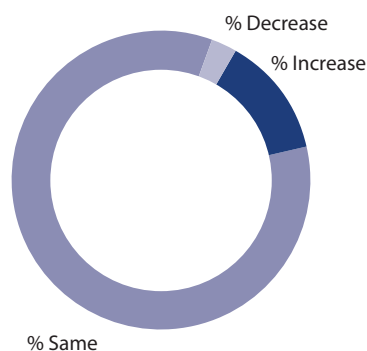
Derivative products (55.1)

This sub-index also declines moderately by 1.2 as 13% of the sampled corporations expected an "Increase" and 3% a "Decrease". As regards relevant product demand, 57% is on Interest Rate Swap (IRS), 42% on Non-deliverable Forward (NDF), and 20% on Digital Forward. As the RMB continues to depreciate, more corporations choose IRS while fewer opt for NDF as compared to 2Q figures. As for the reasons for the demand growth, 63%, 61% and 46% claimed confidence in future prospects of business, confidence in derivative products from banks in Hong Kong and an increase in risk aversion needs respectively.

Trend of sub-index



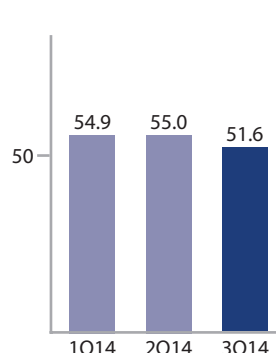
Expected changes in service demand



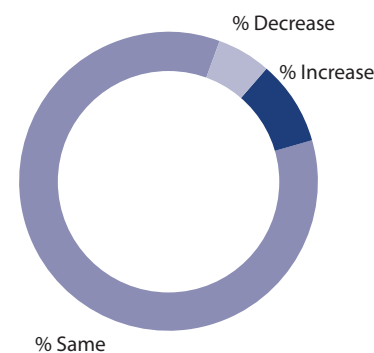
Bond issuance (51.6)

The bond issuance sub-index remains last in 3Q with a 3.4 decrease over the 2Q figure. Of the sampled corporations, 9% expected a demand "Increase" and 6% a "Decrease". As for currency choices, 58% and 53% chose RMB and FX respectively. The need for adequate capital for business expansion, confidence in bond issuance services from banks in Hong Kong and confidence in business prospects are said to be the major drivers for the demand growth by 70%, 62% and 60% of the sampled corporations respectively.

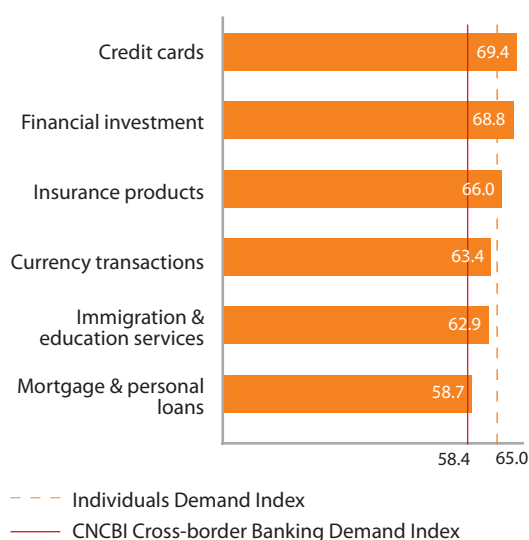
Trend of sub-index



Expected changes in service demand



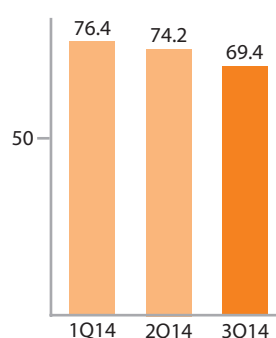
2.2 Individuals demand sub-indices



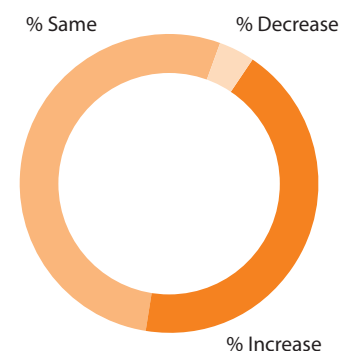
Credit cards (69.4)

This sub-index continues to claim first place in 3Q across all the individuals demand sub-indices despite a drop of 4.8 on 2Q. This shows that demand from mainland individuals for credit card services offered by Hong Kong banks increases considerably although at a moderately slower speed. Of the sampled individuals, 43% expected an "Increase" in demand while a mere 4% a "Decrease". Meanwhile, 86% revealed higher credit card utilisation and 41% expressed intention on new credit card applications. As for the reasons for the demand increase, 62% said it would be to facilitate spending in Hong Kong, while 48% and 41% attributed the increase to confidence in the credit card services offered by banks in Hong Kong, and confidence in increment prospects respectively. The decline of this sub-index corresponds with 2Q's decrease in per capita spending of mainland tourists in Hong Kong.

Trend of sub-index



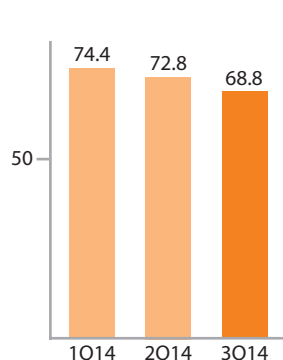
Expected changes in service demand



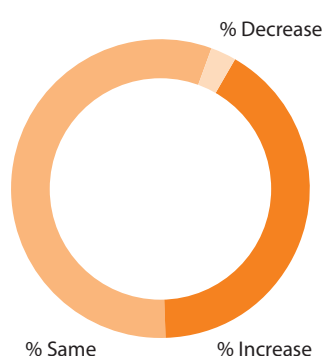
Financial investment (68.8)

This sub-index ranks 2nd despite a decline of 4.0. As high as 41% of the sampled individuals reported an "Increase" in demand against 3% who claimed the opposite. Among these, 73%, 66%, 37% and 24% choose stocks, funds, bonds and derivative products as their investment tools respectively. Meanwhile, 59%, 59% and 45% stated that confidence in the future prospects of Hong Kong, confidence in the related services provided by Hong Kong banks and possessing adequate investment capital underpinned the stronger demand respectively. The downhill demand growth of financial investment has to do with the slowing of personal income growth on the mainland and RMB depreciation to a certain degree.

Trend of sub-index



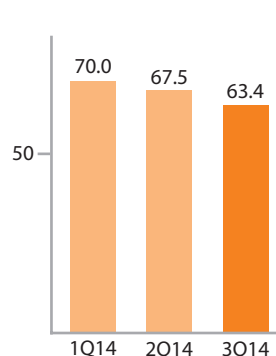
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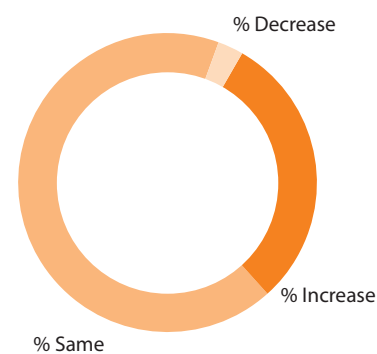
Currency transactions (63.4)

The currency transactions sub-index drops 4.1 on the 2Q figure but leaps to the 4th place in 3Q from 2Q's 5th. Of the sampled individuals, 30% expected an "Increase" in demand while 3% claimed otherwise. Regarding the currencies for transactions, 69%, 61% and 49% choose HKD, USD, and RMB respectively. The decline in RMB use is believed to be a result of the continuous RMB depreciation in 2Q. Confidence in the future prospects of Hong Kong (60%), attractive exchange rates (56%) and increases in cross-border investment (55%) were cited as the top 3 drivers for the demand rise, followed by confidence in the currency transaction services offered by Hong Kong banks (49%).

Trend of sub-index



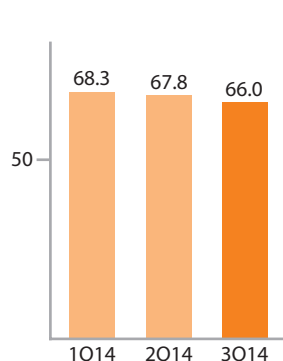
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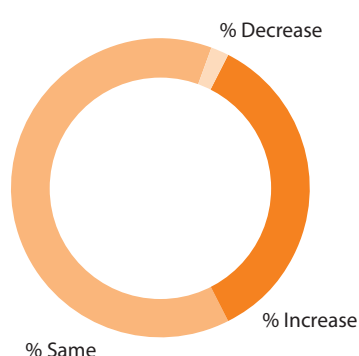
Insurance products (66.0)

Demand for insurance products from mainland individuals remains strong with a mere 1.8 decline of the relevant sub-index. Of the sampled individuals, 35% and 2% reported an "Increase" and the opposite in the demand respectively. At the same time, insurance products denominated in FX and in RMB are preferred by 69% and 66% of the respondents respectively. Compared to 2Q, insurance products denominated in RMB are less favoured in 3Q, indicating that RMB depreciation has contributed to the decreased demand for RMB insurance products to a certain extent. As for the demand drivers, the top 3 are confidence in insurance products provided by banks in Hong Kong (60%), confidence in the future prospects of Hong Kong's insurance sector (55%), and having adequate capital for buying insurance products (47%).

Trend of sub-index



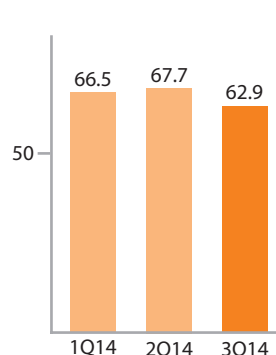
Expected changes in service demand



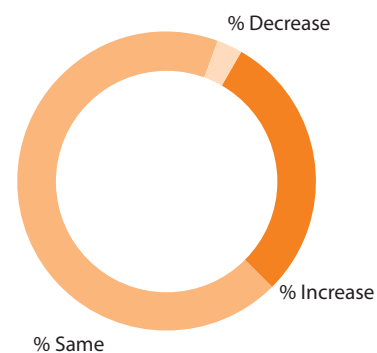
Immigration & education services (62.9)

This sub-index decreases by 4.8 in 3Q after a 2Q increase of 1.2, and slides to the 5th place from 2Q's 4th. Of the sampled individuals, 29% predicted the demand to "Increase" while 3% predicted a "Decrease". Meanwhile, 81% chose educational services and 48% immigration services. Confidence in the 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 thought to be the major reasons for the rising demand by 57%, 54% and 50% of the sampled individuals respectively.

Trend of sub-index



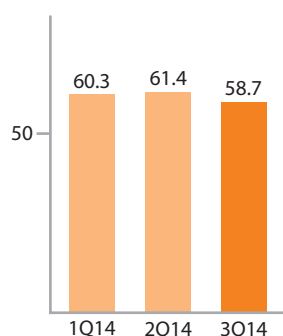
Expected changes in service demand



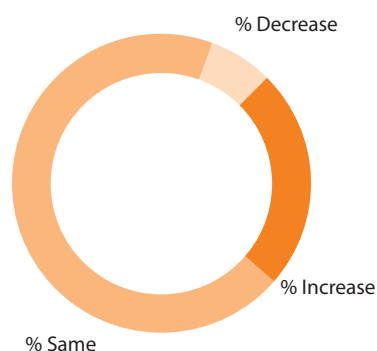
Mortgage & personal loans (58.7)

As a result of HKSAR government's restrictions on property purchase and mortgage application by mainland residents, the sub-index of mortgage & personal loans remains last in 3Q with a decrease of 2.7 from 2Q. Of the sampled individuals, 24% expected the demand to "Increase" against 7% who stated otherwise. Among these, 75% and 52% chose personal loans and mortgage loans respectively. Having adequate capital for investment (57%), confidence in related services provided by Hong Kong banks (57%), and confidence in the future prospects of Hong Kong (47%) are thought to sustain the demand growth.

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 of above 50 indicates a strengthening of demand, and below 50 a 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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