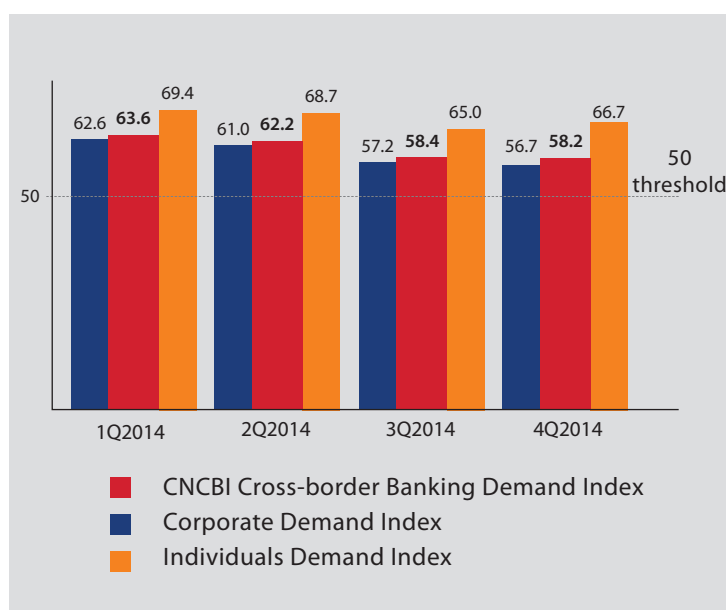


Q4 Cross-border Banking Demand Index steady at 58.2

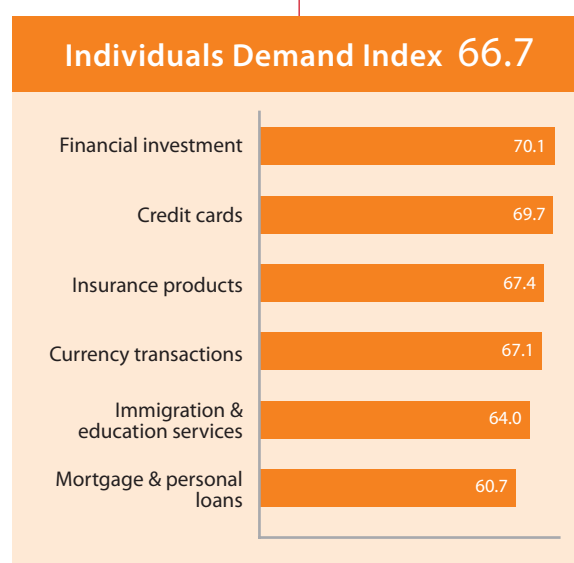
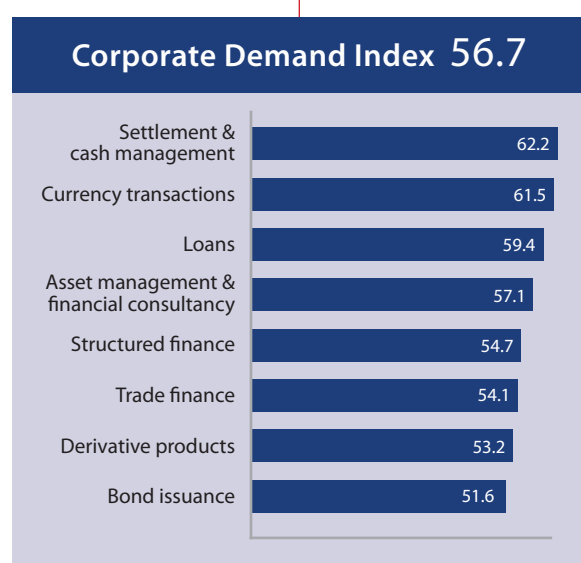
“SH-HK Stock Connect” stimulates individuals’ demand

www.cncbiinternational.com/cross-border-index



- 4Q2014 growth of cross-border demand for Hong Kong’s banking service stands steady and strong overall.
- Increase in corporate demand softens as demand growth of asset management & financial consultancy and settlement & cash management weakens considerably while rise of demand for loans gains steam.
- Growth of individuals’ demand picks up pace as demand rises in financial investment, credit cards, and insurance products remain strong in top-3 positions among sub-indices while demand for currency transactions shows the sharpest increase.
- The further strengthening of individuals’ demand is believed to be an upshot of “SH-HK Stock Connect” prospects and resumed RMB appreciation whereas the softening corporate demand growth is a result of economic and RMB uncertainty.

CNCBI Cross-border Banking Demand Index 58.2

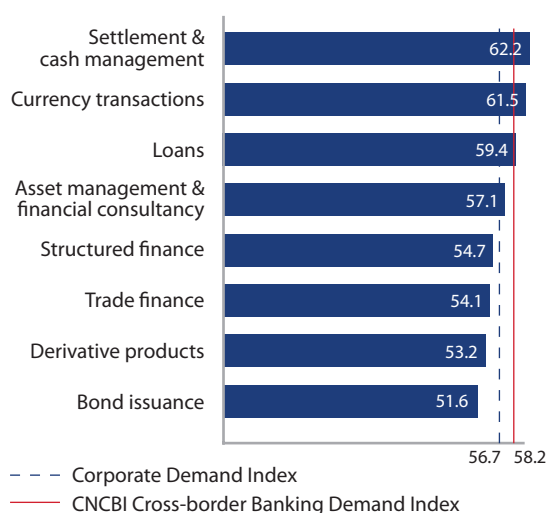


1. Overview

- 4Q2014 CNCBI Cross-border Banking Demand Index from 3Q2014 data drops 0.2 on 3Q to 58.2 but stays well above the 50 threshold. Growth in 4Q demand from mainland corporations and individuals for Hong Kong's cross-border banking services is steady and strong overall.
- Individuals express stronger demand than corporations. The Individuals Demand Index reaches 66.7, up by 1.7 on 3Q while the Corporate Demand Index drops by 0.5 to 56.7.
- All the 6 individuals demand sub-indices reach above 60, indicating that demand is strong as a whole. In terms of absolute value, financial investment, credit cards and insurance products remain top-3 at 70.1, 69.7 and 67.4. Financial investment swaps 3Q places with credit cards and claims top spot. In terms of growth, currency transactions and mortgage & personal loans show the highest of 3.7 and 2.0 respectively.
- On the corporate side, all the 8 sub-indices are above 51 but the gaps appear wide between them. Settlement & cash management, currency transactions, loans, asset management & financial consultancy remain top-4 at above 55. Loans outruns asset management & financial consultancy to claim third place as structured finance overtakes trade finance and ranks fifth. Loans is the only sub-index that rises on 3Q with an increment reaching 1.5 whereas bond issuance remains last. Asset management & financial consultancy and settlement & cash management record the biggest drop of 2.9 and 2.1.
- 3Q forecast of mainland's macro-economy turned optimistic in July as boosted by 2Q's positive economic growth data but caution returned as July and August economic data weakened again. The RMB rebound ceased its one-way climb and exhibited both-way fluctuations. Many surveyed corporations therefore stayed on the sidelines of the Chinese economy and RMB trend and remained conservative on cross-border business development. This appears to be the culprit of the slight drop in cross-border demand. As the mainland government's "mini-stimulus" gathers pace, the foundation for mainland China's economic recovery is expected to strengthen and RMB's upward trend become more prominent. The Corporate Demand Index may reverse its downward trend in the next quarter.
- The individuals polled seem more upbeat especially over prospects of the October rollout of "SH-HK Stock Connect" on the robust re-emergence of RMB appreciation which fuels demand for cross-border financial investment. New highs of the currency transactions and financial investment sub-indices are evidence of this. The demand growth of mortgage & personal loans, especially the tremendous increase of the latter, should also be closely linked to it. With the launch of "SH-HK Stock Connect", a further increase of the Individuals Demand Index is anticipated in the next quarter.

2. Sub-index analysis

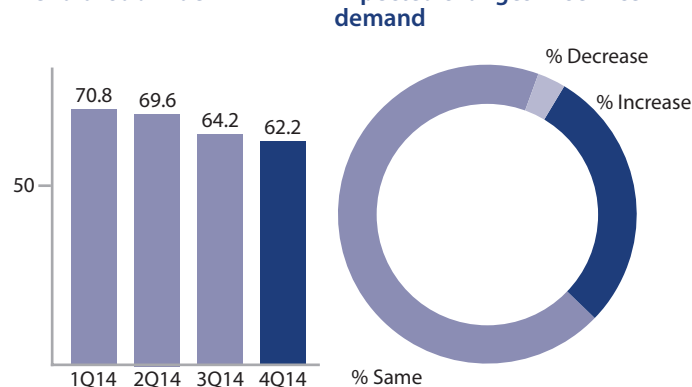
2.1 Corporate demand sub-indices



Settlement & cash management (62.2)

Settlement & cash management is still the highest at above 60 among the 8 corporate demand sub-indices despite its 2.1 quarter-on-quarter drop attributable presumably to uncertainty in export growth and RMB trends. This indicates conversely that demand continues to accelerate. Of the sampled corporations, 27% expected an "Increase" in the demand and 3% expected a "Decrease". Meanwhile, 55%, 53% and 30% said the increased demand is largely directed towards trade settlement, cash management and investment settlement respectively. Confidence in business prospects (65%), a need for adequate capital for business expansion (62%), and confidence in the settlement and cash management services from banks in Hong Kong (51%) were cited as the major reasons for the rise in demand.

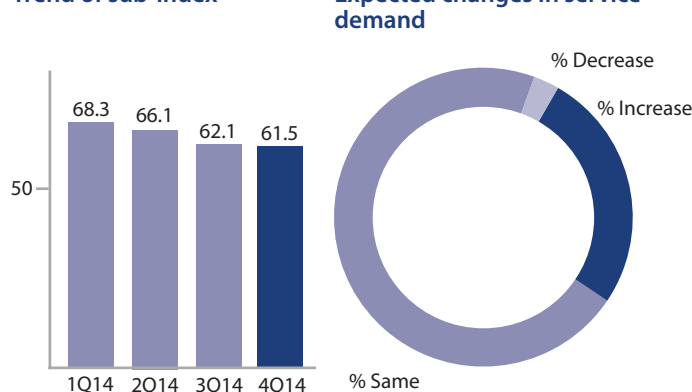
Trend of sub-index



Currency transactions (61.5)

Regardless of a mild decline of 0.6 on 3Q, this sub-index remains in second place as 26% and 3% of the sampled corporations expected an "Increase" and "Decrease" respectively. As for transaction currencies, 35% and 31% opted for USD and HKD while use of RMB increased to 68% from Q3's 53%, indicating further optimism in RMB settlement business. Turning to the major reasons for the demand growth, 61%, 59% and 54% of the corporations polled cited confidence in business prospects, increased growth in cross-border business and confidence in the currency transaction services from banks in Hong Kong respectively.

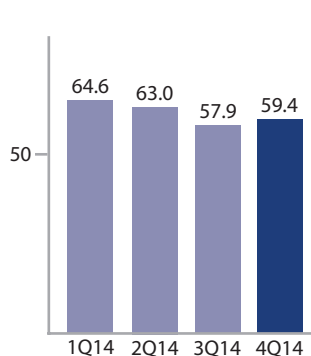
Trend of sub-index



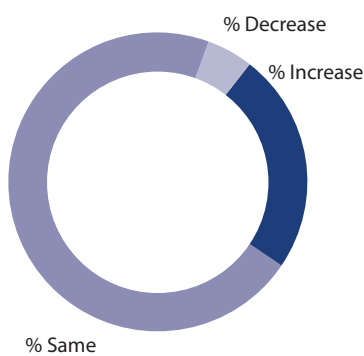
Loans (59.4)

With an increment of 1.5, loans is the only corporate sub-index up over 3Q, indicating an obvious increase in the demand growth of cross-border loans in 4Q. This also suggests that mainland SMEs and micro enterprises continue to face financing difficulty and that cross-border financing channels have been widened. Of the respondents, 24% predicted a demand "Increase" while 5% did otherwise. Meanwhile, 53% and 52% said that the loans will be utilised as working capital and for investment purposes respectively. Confidence in the business prospects, confidence in the loan services from Hong Kong banks, and a need for investment capital were listed as the major demand growth drivers by 55%, 52% and 42% of the respondents respectively.

Trend of sub-index



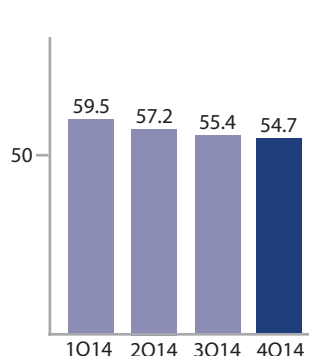
Expected changes in service demand



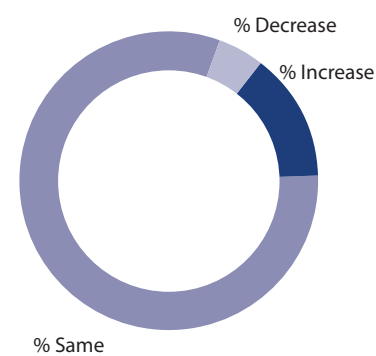
Structured finance (54.7)

With a mere decrease of 0.7 on 3Q, this sub-index takes trade finance's place at the fifth from the sixth in 3Q, indicating a relatively strong demand growth of cross-border structured financing. Of the surveyed corporations, 14% expected an "Increase" in the demand while 5% a "Decrease". As for loan uses, 73%, 24% and 20% opted respectively for syndicated loans, M&A financing and pre-IPO financing. In the meantime, 68%, 55% and 54% reckoned that the need for adequate capital for business expansion, confidence in business prospects and confidence in the structured finance services from banks in Hong Kong are the major demand growth drivers respectively.

Trend of sub-index



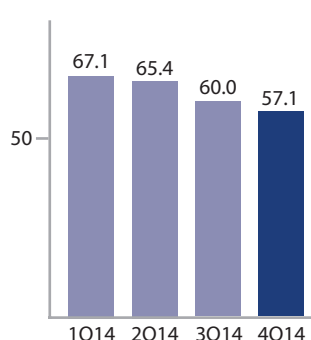
Expected changes in service demand



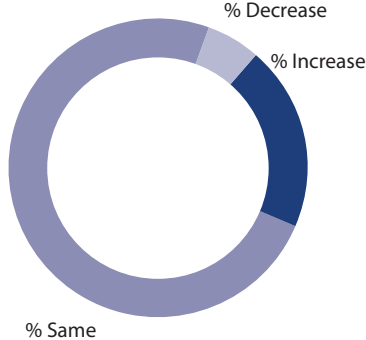
Asset management & financial consultancy (57.1)

Growth of demand from mainland corporations for cross-border asset management & financial consultancy services from Hong Kong continues to cool. The sub-index declines by 2.9 on 3Q and records the sharpest fall among all corporate demand sub-indices. Despite its 57.1 high which implies that related demand remains strong, the 2.9 drop indicates that some corporations may set aside their needs for asset management & financial consultancy service owing to economic uncertainty. Of the surveyed corporations, 20% expected a demand "Increase" whereas 6% believed otherwise. Meanwhile, 62% and 57% would choose financial consultancy services and asset management services respectively. Confidence in the related services from Hong Kong, confidence in business prospects and an increase in asset size were to be the key drivers for the demand growth as acknowledged by 65%, 64% and 62% of the respondents.

Trend of sub-index



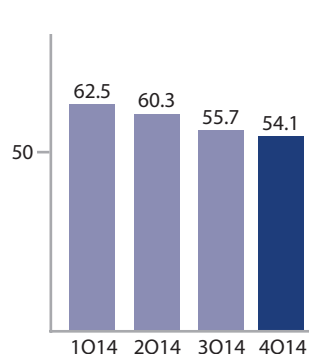
Expected changes in service demand



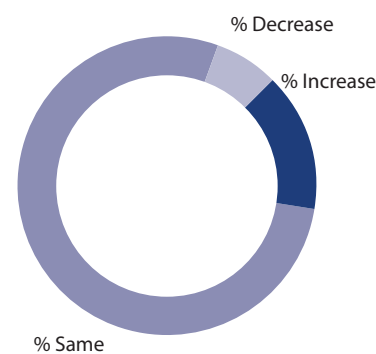
Trade finance (54.1)

Sampled corporations have stated weakening demand for cross-border trade finance service in 4Q. The trade finance sub-index falls one place to the sixth in the corporate demand sub-index ranking for its 1.6 drop. In spite of the 3Q mainland export rebound, weak 1H exports and global economic uncertainty impacted the demand expectation. Of the surveyed corporations, 15% expected an "Increase" in the demand while 7% expected the opposite. Meanwhile, 61% and 50% revealed a need for export financing and import financing respectively. As for the reasons for the demand growth, 69%, 67% and 64% of the responding corporations cited confidence in the trade prospects, a need for adequate capital for trade development and confidence in the services from banks in Hong Kong respectively.

Trend of sub-index



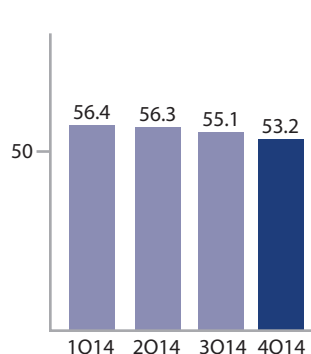
Expected changes in service demand



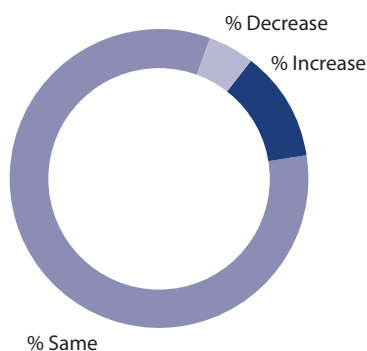
Derivative products (53.2)

This sub-index declines rather significantly with a drop of as much as 1.9, indicating that the growth of demand softens as the global economy remains cloudy. Of the sampled corporations, 12% expected an "Increase" in the demand while 5% a "Decrease". As regards products, 50%, 44% and 23% of the corporations opted for Interest Rate Swap (IRS), Non-deliverable Forward (NDF), and Digital Forward. Demand for NDF increased by 2pps on 3Q, which demonstrates a corporations' interest in NDF grew as RMB returned to its appreciation track. As for the demand growth drivers, 67%, 66% and 48% claimed confidence in derivative products from banks in Hong Kong, confidence in business prospects and an increase in risk aversion needs respectively.

Trend of sub-index



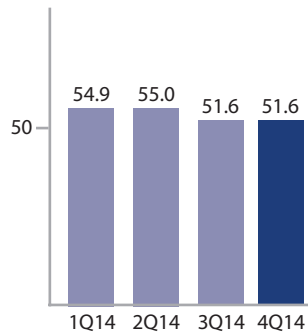
Expected changes in service demand



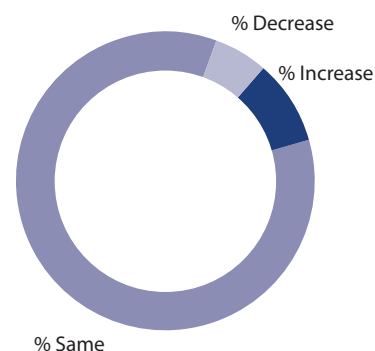
Bond issuance (51.6)

This sub-index remains the same as 3Q and continues to rank last in 4Q. Of the sampled corporations, 10% expected a demand "Increase" and 6% expected a "Decrease". As for currency choices, 68% and 44% chose RMB and FX respectively, representing an increase by 10pps for the former and a drop of 9pps for the latter. This signifies that the RMB is becoming the main currency for mainland corporations in bond issuance. A need for adequate capital for business expansion, confidence in business prospects and confidence in bond issuance services from banks in Hong Kong were said to be the major drivers for the demand growth by 69%, 65% and 65% of the sampled corporations respectively.

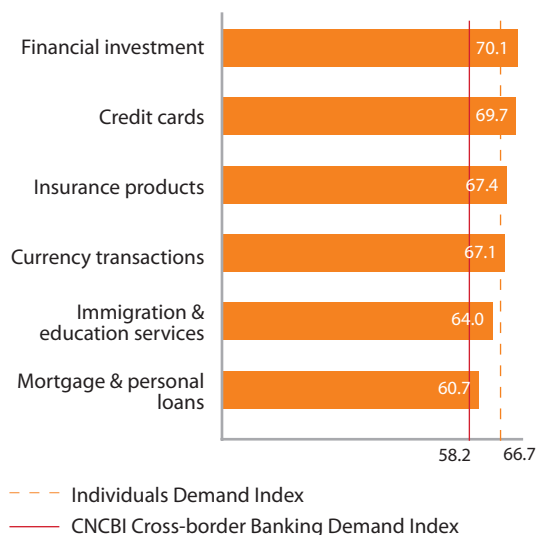
Trend of sub-index



Expected changes in service demand



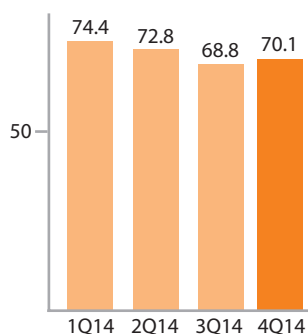
2.2 Individuals demand sub-indices



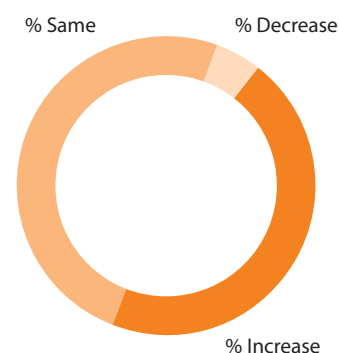
Financial investment (70.1)

The financial investment index records a 1.3 rise on 3Q, stripping credit cards off its top spot in 4Q. This indicates that mainlanders' intention for financial investment on the Hong Kong market grows rapidly. It should have a direct connection with the October launch of "SH-HK Stock Connect", which opens up a new channel for mainland individuals to invest in Hong Kong stocks, and fuels their interest in making financial investment on the Hong Kong market. The resumed RMB appreciation strengthens this interest. Of the sampled individuals, 45% expected an "Increase" in the demand while 5% claimed otherwise, while 72%, 61%, 41% and 26% would opt for stocks, funds, bonds and derivatives investments. Confidence in the future prospects of Hong Kong (68%), confidence in the quality and quantity of services provided by banks in Hong Kong (62%) and having adequate capital (55%) were cited as the key drivers for the demand rise.

Trend of sub-index



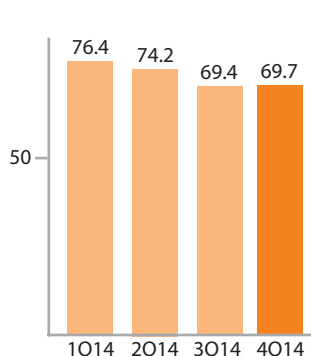
Expected changes in service demand



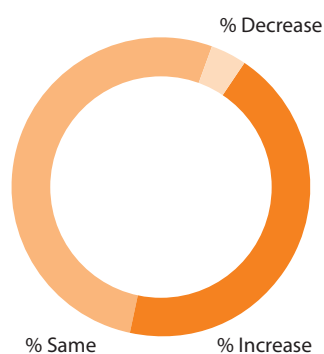
Credit cards (69.7)

This sub-index fell to the second place in 4Q regardless of a 0.3 increase on 3Q to the near-70 mark. This shows that the relative demand growth remains strong. Hong Kong recorded in 3Q a double-digit growth in mainland tourists but a drop in expenditure per capita. However, the demand for credit card use in Hong Kong from mainland individuals rose further. Of the sampled individuals, 44% expected an "Increase" in the demand and 4% a "Decrease" whereas 84% revealed higher credit card use and 46% expressed intention for new credit card applications. As for the reasons for the demand increase, 76% said it would be to facilitate spending in Hong Kong, while 65% and 56% attributed the increase to confidence in the credit cards offered by banks in Hong Kong, and confidence in prospects for salary increments respectively.

Trend of sub-index



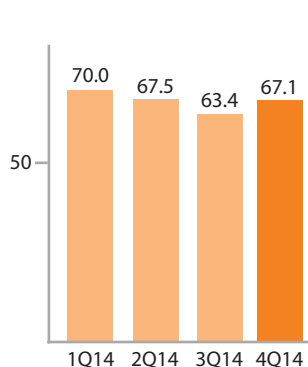
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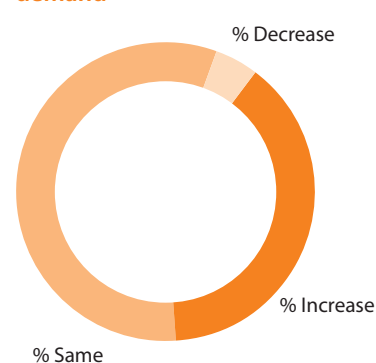
Currency transactions (67.1)

Demand for currency transactions in 4Q is expected to increase significantly as shown by the 4Q sub-index increase of 3.7, the largest growth among the 6 sub-indices, and in tandem with the growth of interest in financial investment driven by the "SH-HK Stock Connect" launch. Of the respondents, 39% expected an "Increase" and 5% a "Decrease" in the demand whereas 70%, 58% and 55% opted for HKD, RMB and USD respectively as the currencies for transactions. Expected use of RMB increased by 9pps over 3Q while that of USD dropped by 6pps. This indicates that RMB appreciation increases the intention for RMB exchange. Confidence in the services offered by Hong Kong banks (65%), confidence in the prospects of Hong Kong (61%) and increases in cross-border investment scope (57%) were cited as the major demand drivers.

Trend of sub-index



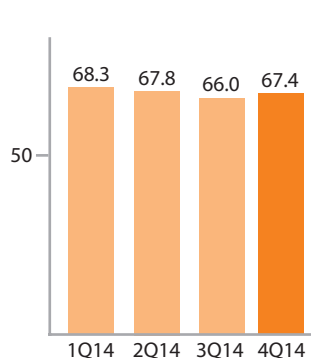
Expected changes in service demand



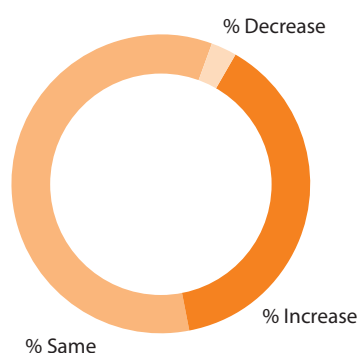
Insurance products (67.4)

Demand for cross-border insurance products from mainland individuals ranks third with a further growth of 1.4 in the relevant sub-index over 3Q. Of the individuals polled, 38% reported an "Increase" and a mere 3% reported a "Decrease" in the demand. In the meantime, 72% and 66% opted for insurance policies denominated in FX and in RMB respectively. The 3 major reasons for the demand increase are confidence in the insurance products from banks in Hong Kong (71%), confidence in the prospects of Hong Kong's insurance sector (70%) and having adequate capital for insurance product purchases (59%).

Trend of sub-index



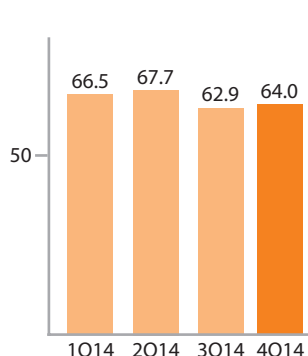
Expected changes in service demand



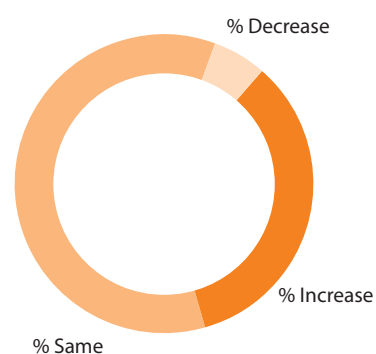
Immigration & education services (64.0)

Sampled data show a sustained, rapid growth in cross-border demand from mainland individuals for immigration and education services provided by banks in Hong Kong. The relevant index rose 1.1 on 3Q. Of the sampled individuals, 34% and 6% predicted the demand as "Increase" and "Decrease" respectively. As for the service category, 83% chose educational services and 47% immigration services. Confidence in the related services provided by Hong Kong banks (70%), confidence in the prospects of Hong Kong (62%) and having adequate capital for supporting immigration and education services (58%) were said to be the major factors of the demand rise.

Trend of sub-index



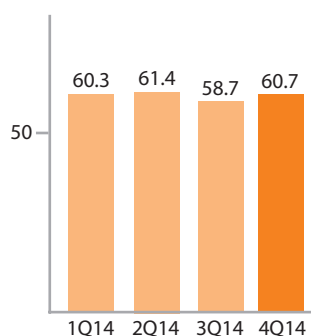
Expected changes in service demand



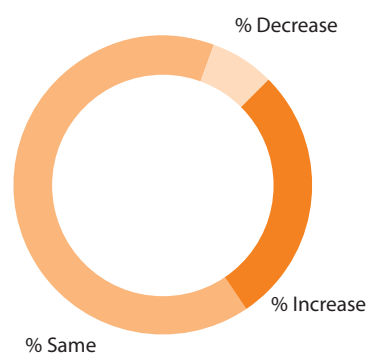
Mortgage & personal loans (60.7)

The sub-index continues to rank last in 4Q albeit an increment of 2.0 and a leap to above 60 on 3Q. This indicates a quicker pace of growth in the demand from mainland individuals for cross-border mortgage & personal loan services provided by banks in Hong Kong. The HKSAR government relaxed slightly its property cooling measures, giving rise to expectations in some mainland individuals of further relaxation on property purchase restrictions and subsequently a lift in their demand for mortgage loans. Of the respondents, 28% reported an "Increase" in the demand and 7% the opposite whereas 76% selected personal loans and 53% mortgage loans. A need for capital (66%), confidence in the prospects of Hong Kong (64%) and confidence in the loan services provided by Hong Kong banks (56%) were thought to spur 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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