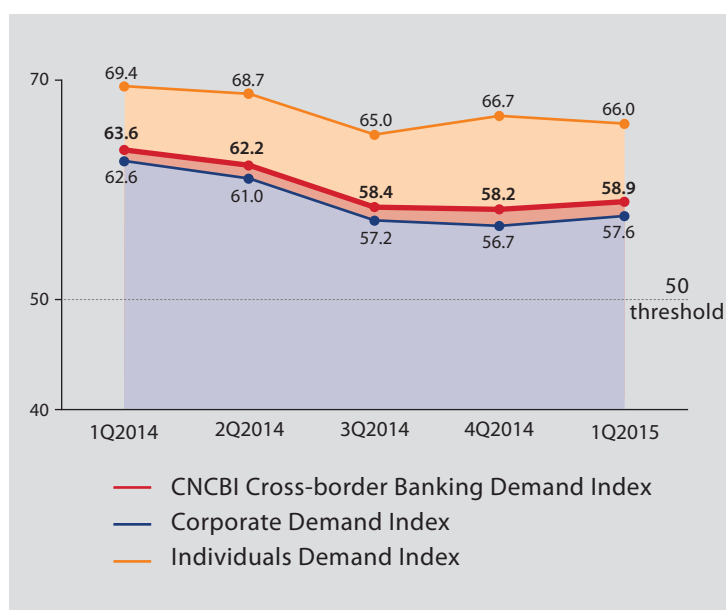


1Q2015 Cross-border Banking Demand Index rebounds to 58.9

Financing demand of corporations accelerates, individuals' investment demand continues to gain strength

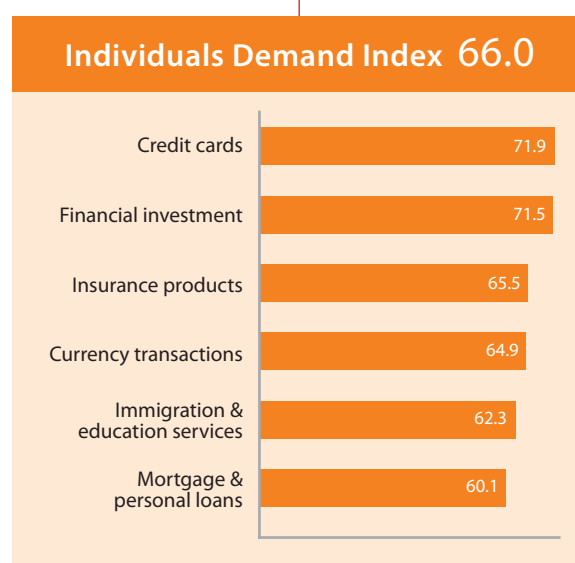
www.cncbinternational.com/cross-border-index



- Following 3 consecutive quarters of deceleration, mainland China's demand for cross-border banking services from Hong Kong bounces back moderately for 1Q2015
- Growth of corporate demand picks up pace, notably in financing services while demand for settlement & cash management and currency transactions slows down
- The accelerated growth in corporate demand is believed to be closely related to the speedier "going out" of mainland corporations and the central government's stronger determination to sustain growth

- Individuals demand growth falls but remains strong as demand for financial investment and credit cards continue to strengthen amid falling demand for insurance products, currency transactions and immigration & education services
- The fall of overall individuals demand is attributable to the two-way RMB fluctuation and public order situation in Hong Kong but continuous growth in financial investment demand demonstrates that the trading volume of "SH-HK Stock Connect" is set to expand

CNCBI Cross-border Banking Demand Index 58.9



1. Overview

- Data from a 4Q2014 survey shows that the 1Q2015 CNCBI Cross-border Banking Demand Index reaches 58.9, an increase of 0.7 over 4Q2014. Growth of 1Q2015 demand from mainland corporations and individuals for Hong Kong's cross-border banking services bounces back slightly after 3 consecutive quarters of softening.
- The rebound of corporate demand outperforms the individuals'. The Corporate Demand Index reaches 57.6, up 0.9 from 56.7 in 4Q2014, while the Individuals Demand Index drops 0.7 from a high of 66.7.
- All the 8 corporate sub-indices remain above the 50 threshold. Of these, the sub-index of loans demand shows a sharp increase of 2.2 to 61.6 and moves up the ranks to claim first place from its 4Q2014 third. In fact, this sub-index has been rising for 2 consecutive quarters, which indicates that demand from mainland corporations for cross-border loans continues to gain steam. Demand for trade finance services chalks up a marked increase of 2.7 to 56.8, while structured finance rises 1.1 to 55.8, suggesting that financing demand is strong overall. The demand sub-indices of asset management & financial consultancy and derivative products are up 1.2 and 0.9 respectively from 4Q2014 with upward strength in demand growth in spite of their stagnant rankings. Conversely, the settlement & cash management and currency transactions sub-indices drop 2.3 and 2.9 respectively, and fall one spot from last quarter's rankings to second and third places respectively.
- Despite a 0.7 drop, the Individuals Demand Index remains at a 66.0 high, indicating that growth of individuals' cross-border demand accelerates as a whole. Demand for credit cards rises 2.2 to 71.9, climbing one spot to the top whereas financial investment falls to the second place in spite of further growth from the 70.1 high to 71.5. The other 4 sub-indices, namely insurance products, currency transactions, immigration & education services and mortgage & personal loans, drop 1.9, 2.2, 1.7 and 0.6 respectively from 4Q2014 but remain above 60, staying put at third, fourth, fifth and sixth places in the rankings.
- The stronger momentum of corporate demand for cross-border banking services, especially cross-border financing, is attributable initially to mainland corporations' faster "going out" pace. A robust increase of 17.8% in outbound direct investment by China was observed during the first 10 months in 2014. Outbound investment requires the support of overseas financing, beefing up mainland corporations' demand for loans and structured finance from Hong Kong banks as a consequence. Stronger central government determination to sustain economic growth has also raised mainland corporations' anticipation of financing demand. Notable improvement to the financing difficulty faced by mainland corporations, especially SMEs, is unlikely for the short term. Demand for financing is therefore diverted to Hong Kong. The rebound of mainland exports since mid-2014 also gave a further boost to corporate demand for financing. In view of these, cross-border financing demand gains strength as a whole. Meanwhile, mainland corporations' demand for cross-border asset management & financial consultancy and derivative products continue to grow upon the diversification, modernisation and internationalisation of corporate banking demand. It is believed that as mainland corporations continue to "go out" and the mainland economy stabilises, in addition to a better understanding of Hong Kong's banking industry, cross-border banking demand especially that for cross-border financing, will continue to pick up speed in 2015.
- As regards individual sub-indices, the overall cross-border demand decline from high levels is likely to be a result of the more significant two-way fluctuation of RMB exchange rates in 4Q2014 and the recent public order situation in Hong Kong. These have taken a toll especially on the demand for immigration and education service, insurance products and currency transactions. Conversely, demand for credit cards accelerates. It looks like that the frequency of credit card usage has not deteriorated and the credit card spending trend has not been undermined despite a drop in per capita spending. Meanwhile, demand growth of financial investment continues to strengthen, suggesting that "SH-HK Stock Connect" may have a slow start but mainland individuals' passion for cross-border financial investment in Hong Kong has not subsided. The "SH-HK Stock Connect" trading volume is expected to expand in the future.

2. Sub-index analysis

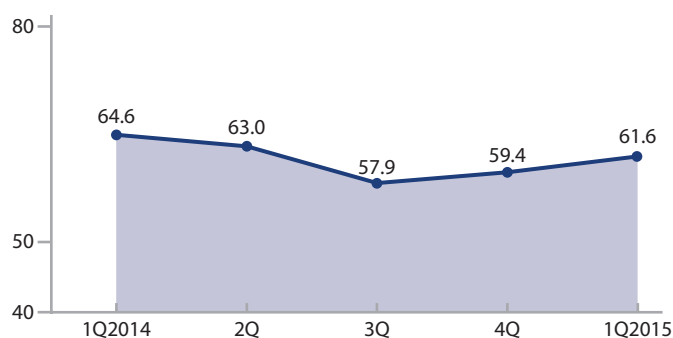
2.1 Corporate demand sub-indices



Loans (61.6)

With a sharp rise of 2.2 from 4Q2014 and a climb in the rankings from the third to the top, the sub-index of loans is the bright spot among not only other corporate sub-indices but also all cross-border banking demand indices. This is attributable to the accelerated "going out" of mainland corporations and the central government's stronger determination to sustain growth. Among the corporations polled, 30% predicted an "Increase" in the demand and 7% reported the opposite. As for loan uses, 61% reckoned that the loans will be for investment purposes and 52% as working capital. Meanwhile, 59%, 54% and 41% said that confidence in business prospects, confidence in the loan services from Hong Kong banks, and a need for investment capital are the main drivers of the demand growth.

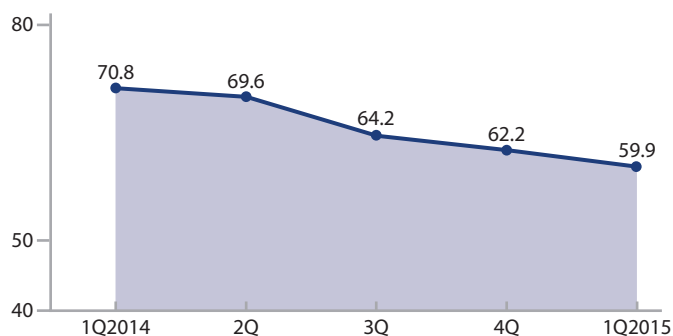
Trend of sub-index



Settlement & cash management (59.9)

Falling to the second place, this sub-index fell 2.3 from 4Q2014 but remains at a near-60 high. This indicates that demand is still strong as RMB settlement grows in volume. Of the sampled corporations, 26% expected an "Increase" in the demand while 6% did otherwise. Meanwhile, 56%, 48% and 28% chose trade settlement, cash management and investment settlement services respectively. As for the reasons for the demand growth, 66%, 65% and 65% cited confidence in the currency transaction services from banks in Hong Kong, having adequate capital for business expansion, and confidence in business prospects respectively.

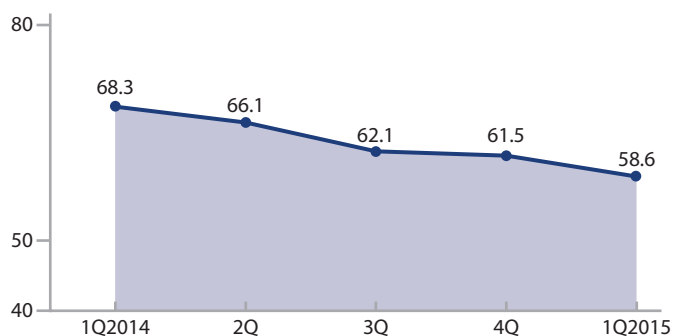
Trend of sub-index



Currency transactions (58.6)

Of the corporate sub-indices, currency transactions posts the sharpest drop of 2.9 with a fall in the rankings from the first to the third. This is believed to be a result of the more significant two-way fluctuation of RMB exchange rates in 4Q2014. Of the sampled corporations, 23% expected an "Increase" in the demand while 5% did the opposite. Turning to currency choices, 52%, 44% and 29% selected RMB, USD and HKD respectively. The number of corporations choosing RMB fell 16 pps on 4Q2014. This suggests that corporations are more uncertain about the prospect of RMB appreciation. Confidence in business prospects (66%), increased growth in cross-border business (66%) and confidence in the currency transaction services from banks in Hong Kong (61%) are the reasons for the increased demand.

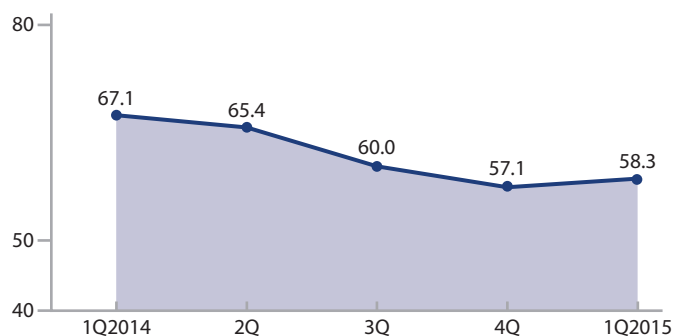
Trend of sub-index



Asset management & financial consultancy (58.3)

The demand growth of cross-border asset management & financial consultancy is expected to pick up pace in 1Q2015, the sampled corporations have said. This indicates a rising interest from mainland corporations in value-added financial services. This sub-index rises 1.2 from 4Q2014 and remains in the same spot in the rankings. Of the sampled corporations, 23% predicted that demand will "Increase" while 6% expected a "Decrease". The increased demand is largely directed towards financial consultancy and asset management as revealed by 62% and 52% of the respondents, while 67%, 65% and 60% reckoned that confidence in the related services from Hong Kong banks, an increase in asset size, and confidence in business prospects are driving up the demand.

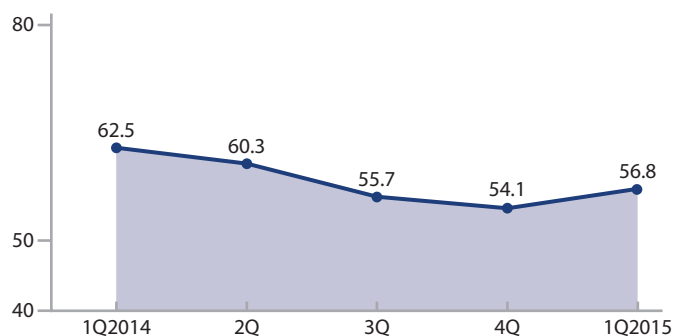
Trend of sub-index



Trade finance (56.8)

With the sharpest rise of 2.7, trade finance steps up one notch to the fifth. Mainland exports bounced back since mid-2014 and mainland corporations increased the use of trade finance services provided by Hong Kong banks, fuelling demand for cross-border trade finance. Of the sampled corporations, 19% expected a demand "Increase" and 5% did otherwise, while 65% and 46% opted for export and import financing respectively. Confidence in the trade prospects, a need for adequate capital for trade development and confidence in the services from banks in Hong Kong were said to be the drivers for the demand growth by 67%, 63% and 59% of the respondents respectively.

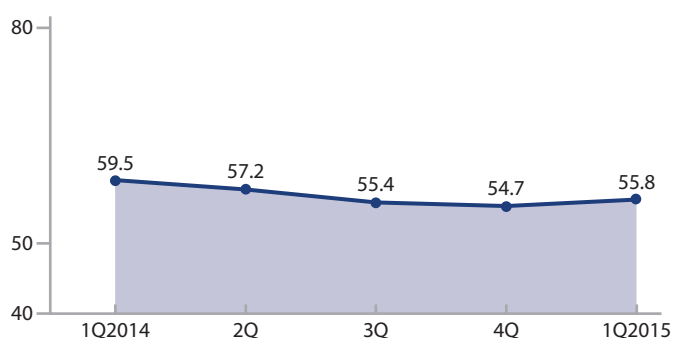
Trend of sub-index



Structured finance (55.8)

Outranked by trade finance and with one spot down to the sixth, this sub-index however increases 1.1 over 4Q2014 and is above 55, suggesting further growth in the demand. Similar to loans, this is chiefly benefited from the accelerated “going out” of mainland corporations. Of the respondents, 17% and 5% predicted a demand “Increase” and “Decrease” respectively whereas 67%, 25% and 23% opted for syndicated loans, M&A financing and pre-IPO financing. In the meantime, 69%, 67% and 57% cited confidence in business prospects, a need for adequate capital for business expansion, and confidence in the structured finance services from banks in Hong Kong as important demand drivers.

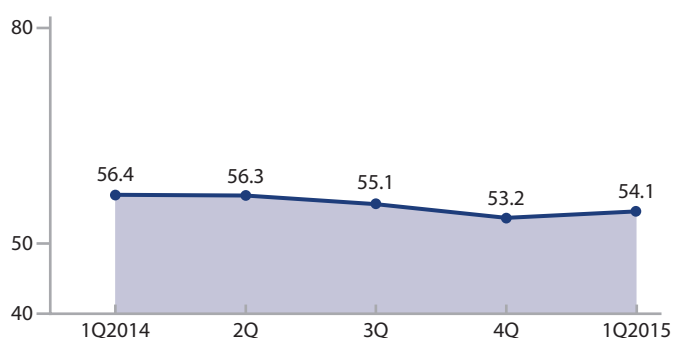
Trend of sub-index



Derivative products (54.1)

Staying put in the rankings, this sub-index rises 0.9, which indicates that mainland corporations are increasingly eyeing high value-added cross-border financial services. Of the surveyed corporations, 13% predicted an “Increase” in demand whereas 4% a “Decrease”. As for products, 51%, 49% and 24% would choose interest rate swap (IRS), non-deliverable forward (NDF) and digital forward respectively. The number of corporations in favour of NDF grows further by 5 pps over 4Q2014, which is proof of an increased interest in RMB for risk aversion and speculation. Meanwhile, confidence in derivative products from banks in Hong Kong, an increase in risk aversion needs and confidence in business prospects were cited by 68%, 65% and 65% of the respondents respectively as the 3 key reasons for the demand growth.

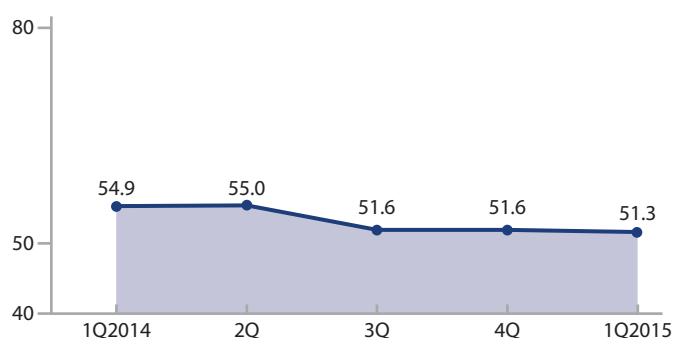
Trend of sub-index



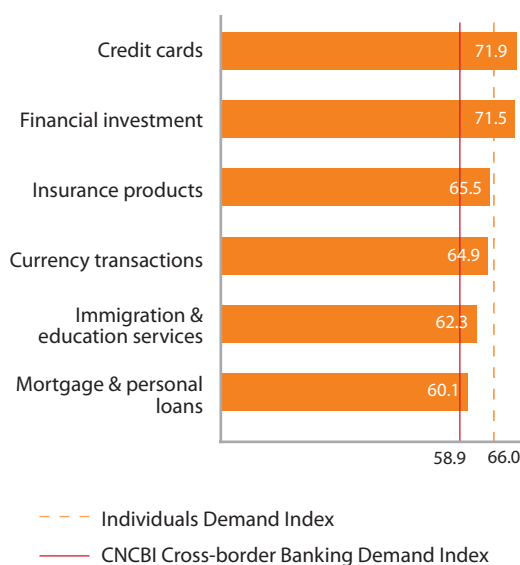
Bond issuance (51.3)

With a slight drop of 0.3, this sub-index remains last in the rankings, suggesting that most SMEs still lack the eligibility and plans to issue bonds in Hong Kong. Of the respondents, 9% expected the demand to “Increase” while 6% predicted a “Decrease”. As for currency choices, 58% chose FX while 52% RMB. In terms of the major growth drivers, 64%, 60% and 58% of the sampled corporations listed confidence in business prospects, a need for adequate capital for business expansion and confidence in bond issuance services from banks in Hong Kong respectively.

Trend of sub-index



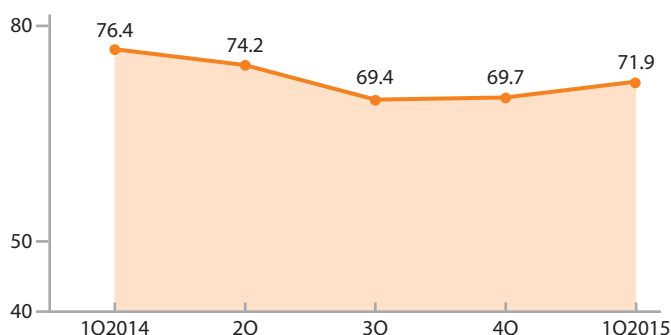
2.2 Individuals demand sub-indices



Credit cards (71.9)

The credit cards index records a significant 2.2 rise over 4Q2014, taking the top spot from financial investment. In recent days, per capita spending of mainland tourists fell dramatically despite a double-digit growth in tourist numbers. Tourists' spending frequency seems stable while the trend of using credit cards has not weakened. This has led to further growth in the demand for cross-border credit cards by mainland individuals. Of the sampled individuals, 48% expected an "Increase" in demand and a mere 4% did the opposite, while 85% expected increased usage of credit cards and 49% would apply for new credit cards. Meanwhile, 68%, 55% and 49% cited respectively that facilitating spending in Hong Kong, confidence in the credit cards offered by banks in Hong Kong, and confidence in the prospects for salary increments were the 3 major demand growth factors.

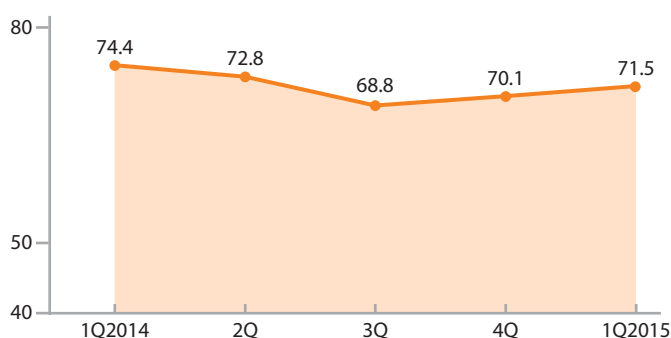
Trend of sub-index



Financial investment (71.5)

Outstripped by credit cards and ranked second, this sub-index posts a rise of 1.4 and is above 70. This shows that the "SH-HK Stock Connect" delay and unsatisfactory trading volume have not curbed mainlanders' passion for cross-border financial investment in Hong Kong and that the trading volume of "SH-HK Stock Connect" is expected to rise. Of the surveyed individuals, 48% predicted the demand to "Increase" and 5% did otherwise. Meanwhile, 80%, 63%, 37% and 24% expressed an interest in stocks, funds, bonds and derivatives investments respectively. Compared to 4Q2014, the number of individuals opting for stocks has gone up 8 pps under the obvious effect of the "SH-HK Stock Connect" launch. Confidence in the future prospects of Hong Kong (66%), confidence in the quality and quantity of services provided by banks in Hong Kong (57%) and having adequate capital (42%) were cited as the key demand drivers.

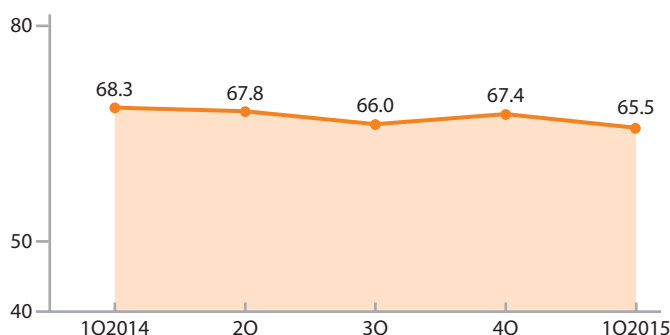
Trend of sub-index



Insurance product (65.5)

Mainland individuals' demand for cross-border insurance products will slow down in 1Q2015, as evidenced by a 1.9 drop in the sub-index from 4Q2014. This is believed to be associated with the public order situation in Hong Kong in 4Q2014. Of the sampled individuals, 34% expected the demand to "Increase" whereas 3% predicted a "Decrease". As for product currencies, 70%, 68% and 1% would opt for RMB, FX and HKD respectively. Meanwhile, 65%, 61% and 45% said that confidence in the insurance products from banks in Hong Kong, confidence in the prospects of Hong Kong's insurance sector and having adequate capital for insurance product purchases were driving up the demand.

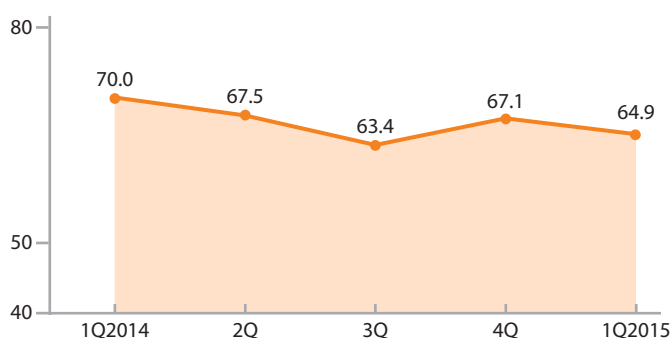
Trend of sub-index



Currency transactions (64.9)

With a drop of 2.2 on the previous quarter, this sub-index remains fourth in the rankings. Of the sampled individuals, 35% reported an "Increase" in demand and 5% said otherwise, while 65%, 63% and 55% opted for HKD, USD and RMB as the currencies for transactions respectively. Expected use of RMB dropped by 3 pps from 4Q2014, which should be related to a certain extent the more obvious two-way fluctuation of RMB exchange rates. In the meantime, confidence in the prospects of Hong Kong (63%), confidence in the services offered by Hong Kong banks (56%), and increases in the cross-border investment scope (49%) were cited as the major demand drivers.

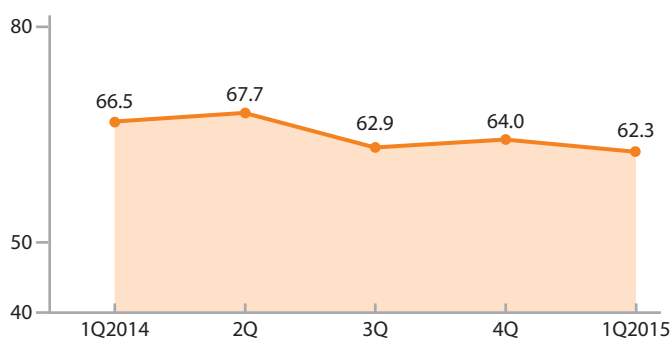
Trend of sub-index



Immigration & education services (62.3)

The ranking of the immigration & education services sub-index remains unchanged, despite a drop of 1.7 from 4Q2014. The public order situation in Hong Kong within the quarter has to a certain extent affected mainland individuals' intention of Hong Kong immigration and education or at the very least has led people to "wait and see". Of the sampled individuals, 30% predicted the demand to "Increase" whereas 6% expected a "Decrease". Meanwhile, 82% chose education and 49% immigration services. The 3 major drivers for the demand increase are confidence in the prospects of Hong Kong (63%), confidence in the related services provided by Hong Kong banks (61%), and having adequate capital for supporting immigration and education services (48%).

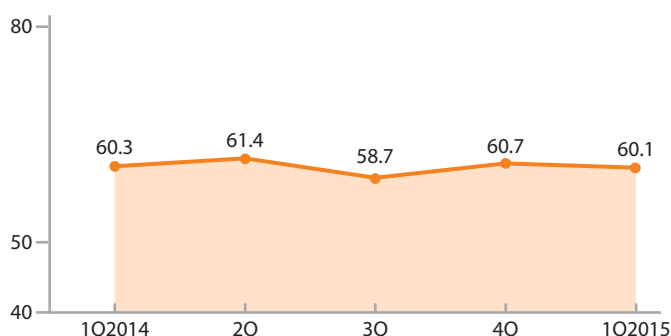
Trend of sub-index



Mortgage & personal loans (60.1)

The sampled individuals observed a continuously softened growth of demand for cross-border mortgage & personal loans as seen in the sub-index's drop of 0.6 from 4Q2014. The demand for mortgages is unlikely to bounce back since the HKSAR government has not relaxed its restriction on property purchases by mainland individuals. Of the sampled individuals, 26% reported an "Increase" in demand whereas 6% did otherwise, while 72% chose personal loans and 57% mortgage loans. Confidence in the prospects of Hong Kong (55%), a need for capital (54%), and confidence in the loan services provided by Hong Kong banks (50%) were thought to buoy the demand growth.

Trend of sub-index



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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