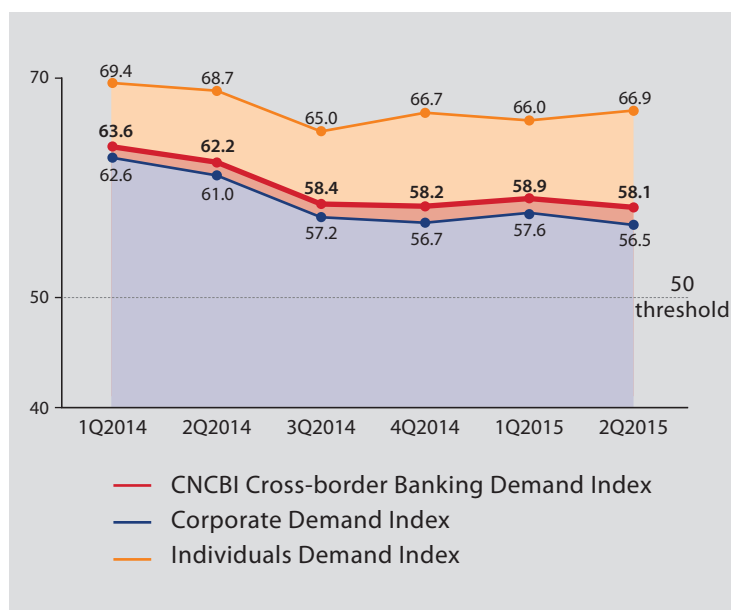


2Q2015 Cross-border Banking Demand Index slides slightly

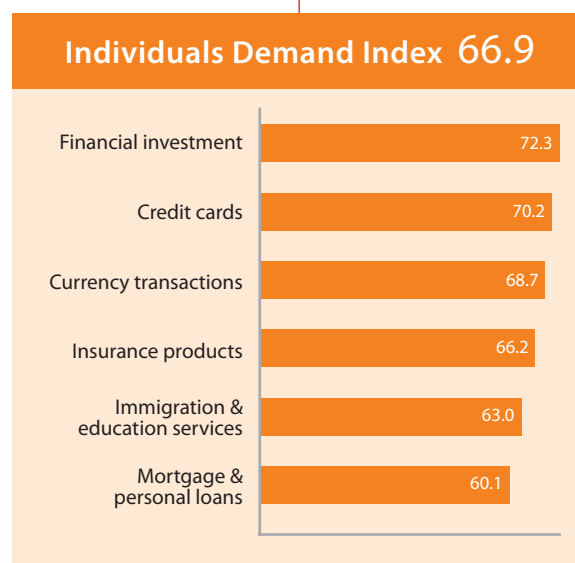
Financing demand down on weakening economy
Enhanced "SH-HK Stock Connect" trade accelerates individuals' investment demand

www.cncbinternational.com/cross-border-index



- 2Q2015 growth of mainland China's demand for cross-border banking services from Hong Kong falls moderately short of 1Q's pace
- Growth of corporate demand slows down overall
- Demand for financing softens on weaker economic growth in Q1, but progressive "going out" of Chinese enterprises strengthens services demand
- Growth of individuals' demand picks up pace after last quarter's fall except for credit cards demand and demand for mortgage & personal loans
- In particular, individuals' demand for financial investment gains strength with the increasing "SH-HK Stock Connect" trading volume, indicating Hong Kong's growing standing as wealth management centre for mainland individuals

CNCBI Cross-border Banking Demand Index 58.1

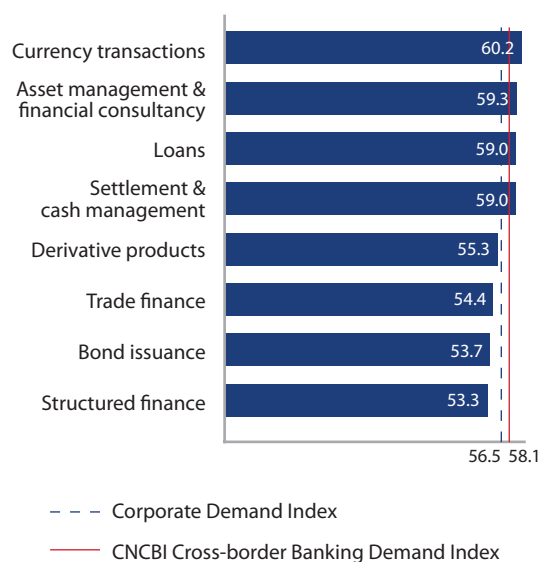


1. Overview

- 1Q2015 survey data shows a drop of 0.8 to 58.1 in the 2Q2015 CNCBI Cross-border Banking Demand Index over 1Q2015. Growth of 2Q demand from mainland corporations and individuals for Hong Kong's cross-border banking services slides slightly following last quarter's rebound.
- Contrary to 1Q2015, growth of individuals' demand in 2Q accelerates while that of corporations sluggish. Corporate Demand Index down to 56.5 from 57.6, while Individuals Demand Index reaches 66.9 from a 66.0 high.
- Among corporate demand sub-indices, financing demand sub-indices experience an overall drop. Loans, trade finance, and structured finance drop by 2.6, 2.4 and 2.5 to 59.0, 54.4 and 53.3 with respective rankings falling from top to third, fifth to sixth, and sixth to eighth. On the other hand, most of the service demand sub-indices go up including increases of 1.6, 1.0 and 1.2 in currency transactions, asset management & financial consultancy and derivative products while the respective rankings go up from third to top, fourth to second, and seventh to fifth.
- Individuals Demand Index increase as cross-border demand shows resilience. Of the 6 sub-indices, the values of financial investment, currency transactions, insurance products, and immigration & education services increase. Particularly, the financial investment sub-index rises 0.8 to 72.3 and one spot to top of the ranks. Credit cards sub-index drops 1.7 and to second in the rankings although staying above the 70 threshold. Mortgage & personal loans remains stagnant and in the bottom rank.
- 2Q2015 growth of corporations' financing demand slows down as a result of the January and February failure in stabilizing growth in the mainland economy despite improvement in Purchasing Managers Index (PMI), Consumer Price Index (CPI) and export data whereas economic indicators including industry value added, total retail sales and fixed asset investment also turned weak again and underscored economic instability. This affects the financing (including overseas financing) demand of corporations. On the other hand, expediting enterprise "going out" buoys demand for cross-border banking services from Hong Kong, leading to an overall increase in the service sub-indices.
- Growth of individuals' demand for financial investment, currency transactions, insurance products, and immigration & education services gain steam, demonstrating a trend of more mainland residents using Hong Kong as a wealth management centre. Growth of demand for financial investment and currency transactions was stimulated by the increased "SH-HK Stock Connect" trading volume in January and February alongside market expectation on "SZ-HK Stock Connect", and is expected to grow continuously. Owing possibly to mainland tourists' spending decline in Hong Kong recently, the credit card sub-index drops slightly in value and rankings but remains at a high. Related demand stands tall. Demand for mortgage & personal loans remains stable with no drastic changes on the horizons should Hong Kong's restrictions on property purchases by mainlanders remain in place.

2. Sub-index analysis

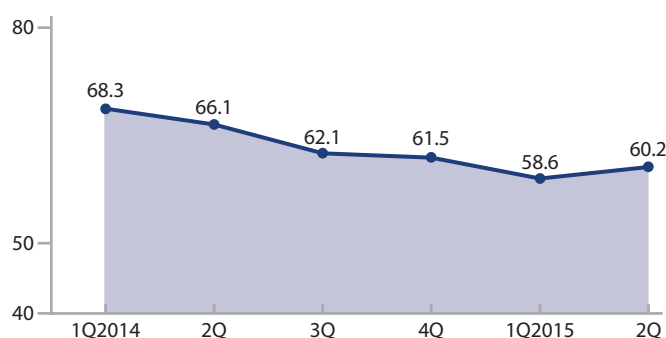
2.1 Corporate demand sub-indices



Currency transactions (60.2)

With a rise of 1.6 on the last-quarter value, the currency transactions sub-index notches up in rankings from the third place to the top, reflecting that the intensified two-way floating and expected devaluation of RMB have not curbed mainland corporations' enthusiasm for cross-border currency transactions. Of the sampled corporations, 24% expected an "increase" in demand while 3% expected the opposite. Regarding currency choices, 60%, 40% and 27% would opt for RMB, USD and HKD respectively. The number of corporations choosing RMB increased 8 pps on 1Q2015, suggesting that corporations have continuous and increasing demand and confidence for RMB. The key reasons for the higher demand are increased cross-border business (69%), confidence in business prospects (64%), and confidence in the currency transaction services from banks in Hong Kong (56%).

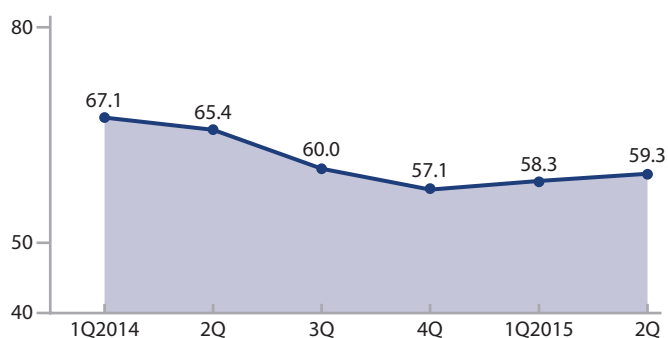
Trend of sub-index



Asset management & financial consultancy (59.3)

This sub-index rose 1.0 in value on 1Q and from the fourth to the second in rankings, indicating an increase in the attractiveness of Hong Kong's value-added financial services to mainland corporations. Of the corporations polled, 24% predicted a demand "increase" while 5% did the opposite. The demand would be largely directed towards financial consultancy and asset management as revealed by 65% and 52% of the sample respectively. As regards the reasons for the demand growth, 58%, 57% and 57% reckoned that they are confidence in the related services from Hong Kong banks, confidence in business prospects, and a wish for securing healthy capital liquidity.

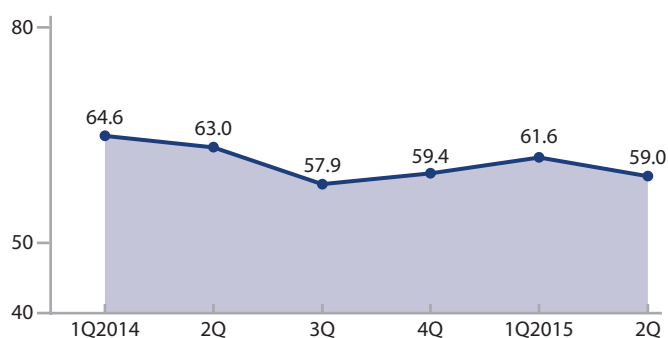
Trend of sub-index



Loans (59.0)

With the biggest plunge of 2.6 in value from 1Q, this sub-index falls in rankings from the top to the third place. Demand for loans declines as mainland economy weakened in 1Q2015 and corporations were uncertain of the economy's future. Of the corporations polled, 25% predicted a demand "increase" and 7% reported a "decrease". Loans would be required for investment purposes (67%) and kept as liquid capital (52%). Regarding the demand growth drivers, 71%, 58% and 40% of the survey respondents stated confidence in business prospects, confidence in the loan services from Hong Kong banks, and a need for more operational capital.

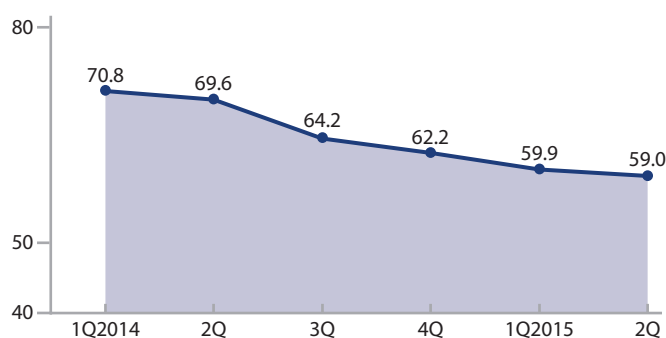
Trend of sub-index



Settlement & cash management (59.0)

Sample data shows that mainland corporations' demand for settlement & cash management is cooling. Despite a two-notch fall to the fourth place in rankings and a 0.9 decrease in value from 1Q, this sub-index stays high at 59.0, indicating that demand remains strong on the back of the sustained development of RMB business in Hong Kong. Of the sampled corporations, 23% expected an "increase" in the demand while 5% expected a "decrease". Meanwhile, 58%, 50% and 33% of the respondents would choose cash management, trade settlement, and investment settlement services respectively. As for the reasons for the demand growth, 70%, 64% and 55% cited a need for adequate capital for business development, confidence in business prospects, and securing healthy capital liquidity respectively.

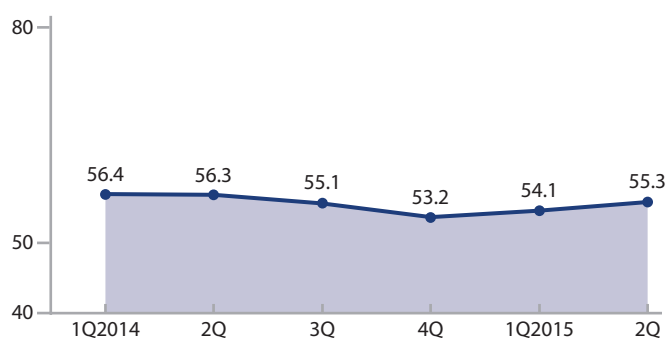
Trend of sub-index



Derivative products (55.3)

Mainland corporations' demand for cross-border derivative products increases as evidenced by a 1.2 rise in this sub-index's value and a bottom-to-fifth climb in the rankings, which also shows an increase in mainland corporations' interest in high value-added banking services. Of the surveyed corporations, 14% predicted an "increase" in demand whereas 3% predicted a "decrease", while 59%, 47% and 25% would choose non-deliverable forward (NDF), interest rate swap (IRS), and digital forward respectively. The number of corporations in favour of NDF marks a dramatic 10-pps growth over 1Q, which is proof of mainland corporations' interest in RMB risk aversion and speculation despite the intensified two-way floating and expected devaluation of RMB. Confidence in business prospects, confidence in derivative products from banks in Hong Kong, and an increased need for risk aversion were cited by 68%, 65% and 52% of the sample as the key reasons for the demand growth.

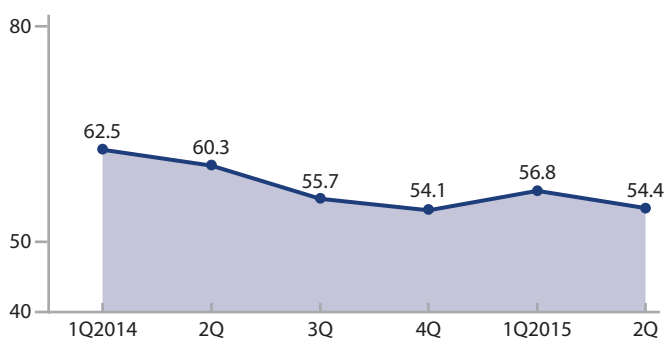
Trend of sub-index



Trade finance (54.4)

With a drop of 2.4 in value, the trade finance sub-index fell one notch to the sixth in rankings. Mainland corporations have found cross-border trade finance services less desirable due to uncertainty in the global economy recovery and mainland import/export trade prospects. Of the sampled corporations, 14% expected demand to increase and 5% expected the opposite. Meanwhile, 60% and 52% would go for export and import financing respectively. Confidence in the trade finance services from banks in Hong Kong (61%), confidence in trade prospects (59%), and a need for adequate capital for trade development (52%) are said to be the drivers for the demand growth.

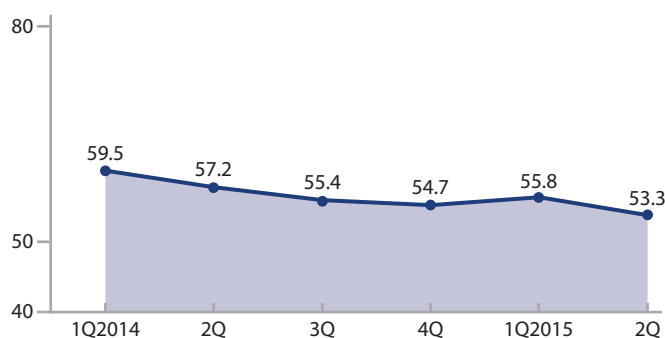
Trend of sub-index



Structured finance (53.3)

The structured finance sub-index posts a sharp drop of 2.5 in value and from the sixth to the bottom in rankings. It looks like that mainland corporations are getting more cautious of cross-border structured finance because of the uncertainty in economic growth prospects. Among the sampled corporations, 13% and 6% predicted a demand "increase" and "decrease" respectively. In the meantime, 60%, 43% and 24% opted for syndicated loans, M&A financing and pre-IPO financing. Confidence in business prospects (73%), a need for adequate capital for business expansion (73%), and confidence in structured finance products from banks in Hong Kong (60%) are important drivers for the demand growth.

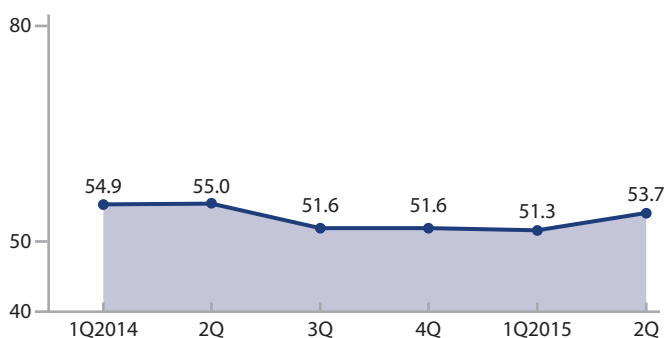
Trend of sub-index



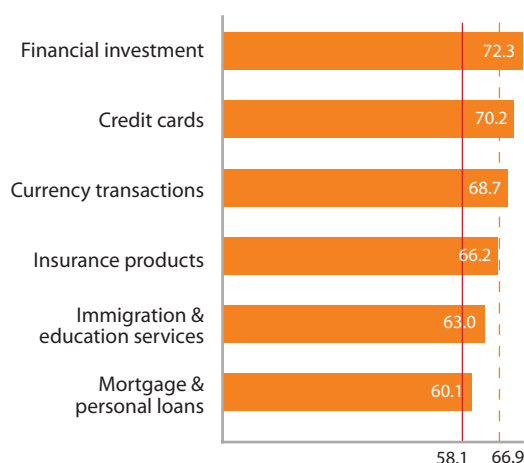
Bond issuance (53.7)

The bond issuance sub-index increases 2.4 in value over 1Q and climbs from the bottom to the seventh in rankings, suggesting that mainland corporations have a stronger tendency to issue bonds in Hong Kong. Of the sample corporations, 12% expected the demand to "increase" while 5% expected a "decrease". As regards the choice of currency, more would choose RMB (60%) as fewer would FX (48%). Meanwhile, 65%, 58% and 52% of the sampled corporations attributed the demand growth to a need for adequate capital for business expansion, confidence in business prospects, and confidence in bond issuance services from banks in Hong Kong respectively.

Trend of sub-index



2.2 Individuals demand sub-indices

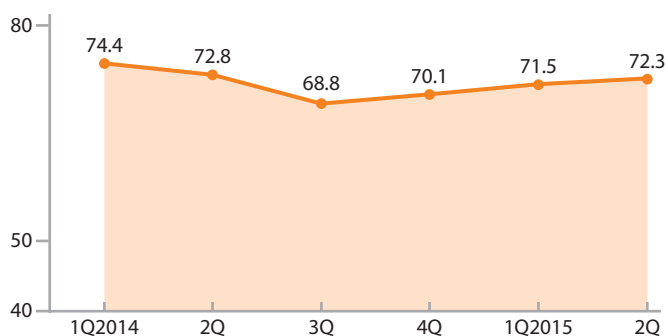


--- Individuals Demand Index
 — CNCBI Cross-border Banking Demand Index

Financial investment (72.3)

Surpassing credit cards for the top spot in rankings, the financial investment sub-index posts another rise of 0.8 on 1Q2015, showing that the increased “SH-HK Stock Connect” trading volume and market expectation on “SZ-HK Stock Connect” have further stimulated mainlanders’ demand for cross-border financial investment from Hong Kong. Of the surveyed individuals, 48% predicted the demand to “increase” and merely 3% said otherwise whereas 76%, 66%, 39% and 19% expressed investment interest in stocks, funds, bonds and derivatives products respectively. Confidence in the future prospects of Hong Kong (68%), confidence in the investment products provided by banks in Hong Kong (56%) and having adequate investment capital (43%) would motivate demand growth.

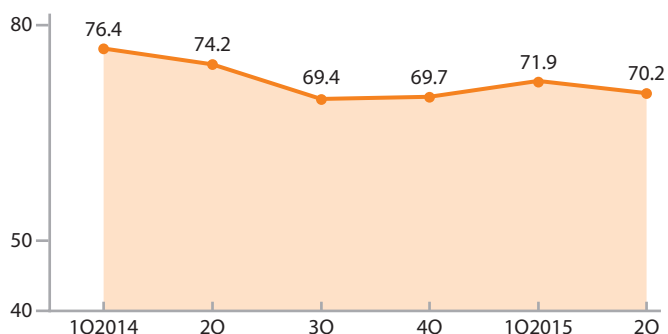
Trend of sub-index



Credit cards (70.2)

This index records a value drop of 1.7 from 1Q and a fall in the rankings to the second place with the reason believed to be related to the plunge of per capita spending of mainland tourists in recent months. However, the sub-index stays above 70, indicating demand for cross-border credit cards by mainland individuals remains strong. Of the sampled individuals, 45% expected an “increase” in demand and 4% did the opposite, whereas 86% would increase credit cards usage and 47% would apply for new credit cards. Meanwhile, 62%, 53% and 45% of the respondents 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 income increment as the major demand growth factors.

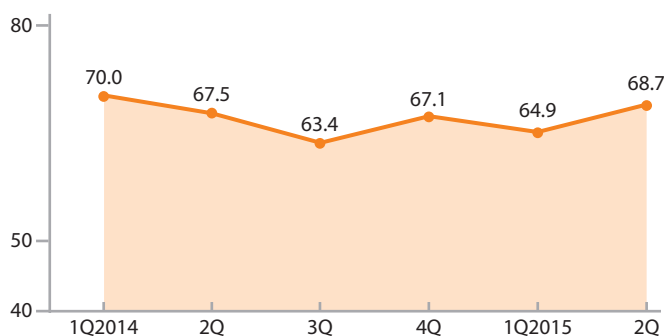
Trend of sub-index



Currency transactions (68.7)

With a sharp increase of 3.8 in the sub-index value from 1Q and a rise in the rankings from the fourth place to the third, demand for currency transactions is robust as a result of the overall strength of mainland individuals’ demand for cross-border banking needs regardless of the intensifying RMB two-way floating and anticipation on RMB devaluation. Among the sample, 40% reported an “increase” in demand and 3% said otherwise, while 62%, 60% and 53% selected HKD, RMB and USD as the currencies for transactions respectively. The number of individuals selecting RMB has gone up 5 pps from 1Q, showing that the need for RMB transactions continues to pick up speed. The main drivers for the increasing demand are confidence in the prospects of Hong Kong (61%), confidence in related services offered by Hong Kong banks (55%), and an increase in cross-border investment scope (47%).

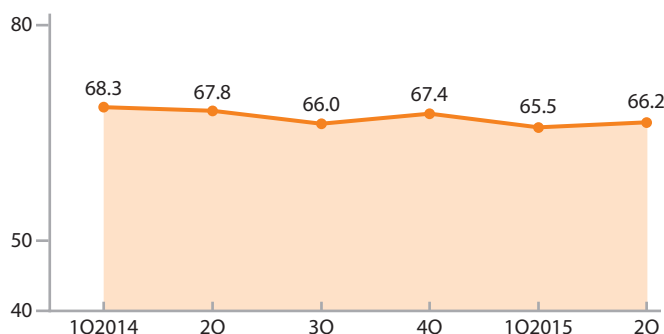
Trend of sub-index



Insurance products (66.2)

Data shows that mainland individuals’ demand for cross-border insurance products is also on the rise, as evidenced by a 0.7 rise in the sub-index value from the previous quarter albeit a drop in rankings from the third place to the fourth. Of the sampled individuals, 36% expected the demand to “increase” while 3% predicted a “decrease”. As for product currencies, 73% and 65% would opt for RMB and FX respectively. Meanwhile, 67%, 64% and 52% of the people polled claimed 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 to purchase insurance products are the factors vital to the demand growth.

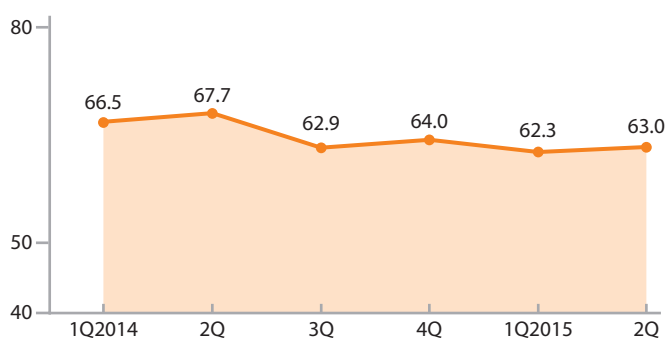
Trend of sub-index



Immigration & education services (63.0)

Cross-border demand from mainland individuals for immigration & education services remains fifth in the rankings although demand has continued to grow as proved by a sub-index value increase of 0.7 over 1Q2015. Of the sampled individuals, 29% predicted the demand to “increase” whereas only 3% expected a “decrease”. Akin to 1Q, 81% chose education and 45% immigration services. The major factors for the demand increase are confidence in the related services provided by Hong Kong banks (68%), confidence in the prospects of Hong Kong (67%), and capability for cross-border immigration and education (53%).

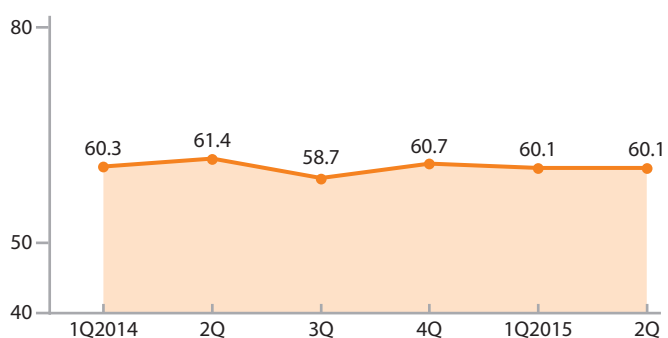
Trend of sub-index



Mortgage & personal loans (60.1)

The value and ranking of this sub-index remain unchanged, indicating that growth has been steady in the corresponding cross-border demand and that major changes will be unlikely before the Hong Kong Government lifts the restrictions on property purchases by mainlanders. Among the sampled individuals, 27% and 7% predicted an “increase” and a “decrease” in demand respectively, while 71% would opt for personal loans and 52% mortgage loans. Confidence in the prospects of Hong Kong (69%), confidence in the loan services provided by Hong Kong banks (48%), and a need for investment capital (45%) were said to be the reasons for 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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