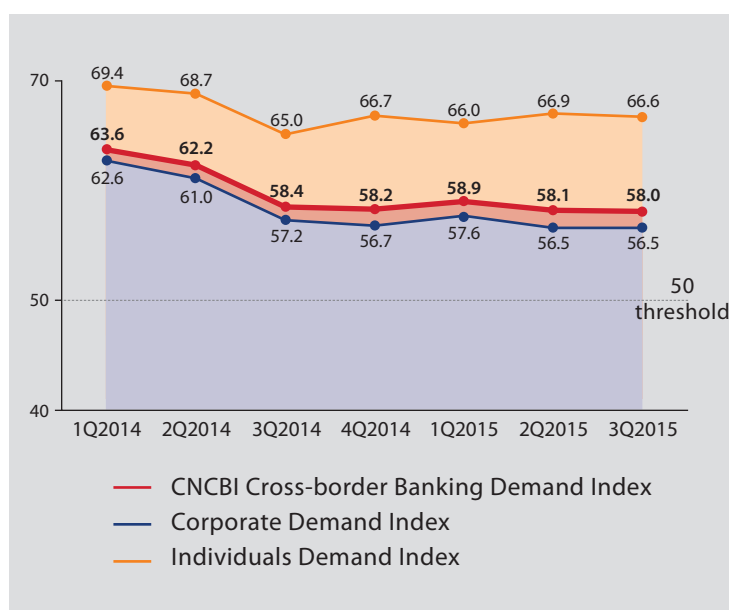


## 3Q2015 Cross-border Banking Demand Index stands steady overall

Financing demand of corporations continues to soften

Individuals' investment demand strengthens further

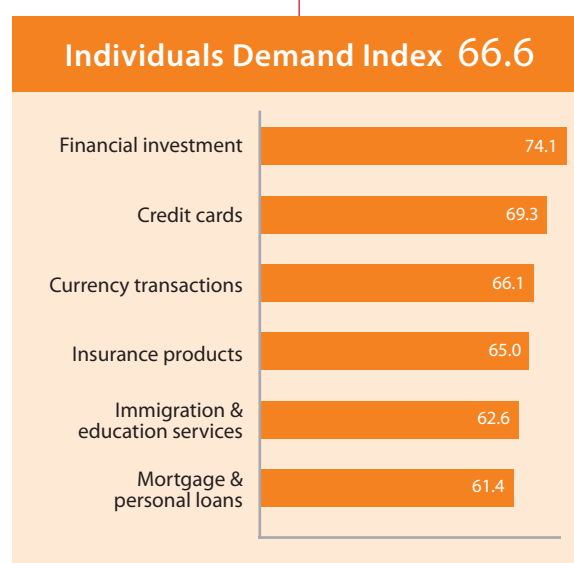
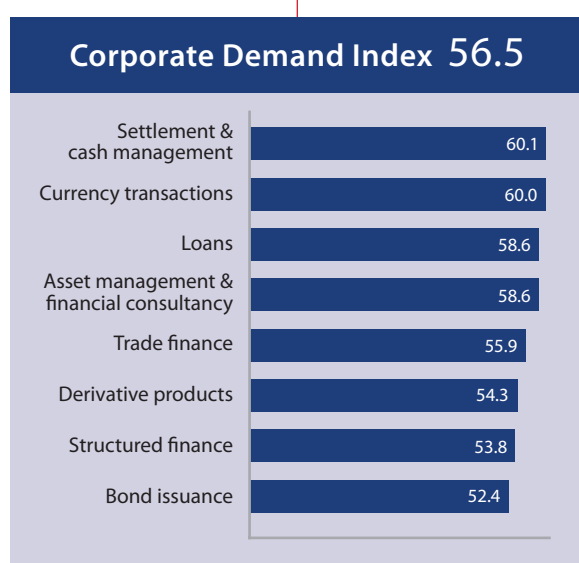
[www.cncbinternational.com/cross-border-index](http://www.cncbinternational.com/cross-border-index)



- Following moderate fall of 2Q, growth of cross-border demand for Hong Kong's banking service stands steady overall for 3Q2015
- Growth of corporate demand remains stable
- Loans demand weakens with increased liquidity in the mainland market
- Demand of settlement & cash management, trade finance and structured finance grow continuously, stimulated by corporate's increasing cross-border activities.

- Growth of individuals' demand slides slightly
- Demand for financial investment enhances markedly upon buoyant stock markets and particularly expectations on Shenzhen-HK Connect
- Mortgage & personal loans demand also shows distinctive rise

### CNCBI Cross-border Banking Demand Index 58.0

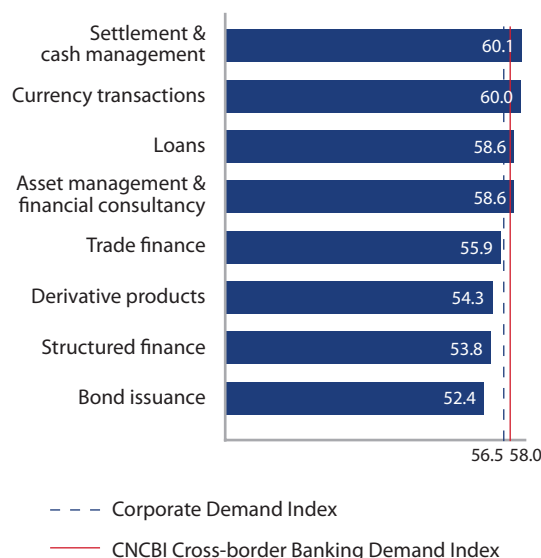


## 1. Overview

- Based on the 2Q2015 survey results, the 3Q2015 CNCBI Cross-border Banking Demand Index scores 58.0, a slight drop over 2Q2015. 3Q2015 demand growth of Hong Kong's cross-border banking services is steady after mild decline from last quarter.
- When looking into corporate and individual separately, growth of corporate demand remains stable while that of individuals drops slightly. Corporate Demand Index remains unchanged from last quarter, standing at 56.5. Individuals Demand Index slightly down to 66.6 from a high level of 66.9 in 2Q2015.
- Among the 8 corporate sub-indices, currency transactions, loans, asset management & financial consultancy, bond issuance and derivative products drop by 0.2, 0.4, 0.7, 1.3 and 1.0 to 60.0, 58.6, 58.6, 52.4 and 54.3 respectively. On the other hand, sub-indices of settlement & cash management, trade finance and structured finance increase by 1.1, 1.5 and 0.5 and reach 60.1, 55.9 and 53.8. Significant changes in ranking are also observed. Settlement & cash management, trade finance and structured finance move up from fourth to top, sixth to fifth, and eight to seventh place respectively. Rankings of currency transactions, asset management & financial consultancy, derivative products and bond issuance fall from top to second, second to fourth, fifth to sixth, and seventh to eighth respectively whereas demand for loans remains the third.
- Financial investment is the highlight of Individuals Demand Index, which moves up further to 74.1 from the basis of a high 72.3 and remains the top. Despite the last in ranking, sub-index of mortgage & personal loans shows a sharp rise from 60.1 to 61.4. Sub-indices of credit cards, currency transactions, insurance products and immigration & education services drop 0.9, 2.6, 1.2 and 0.4 respectively with ranking unchanged.
- 3Q2015 growth of corporations' demand for cross-border loans and other related services slows down as a result of increased liquidity in the mainland market and sharp decrease in cost for loans. In response to the sluggish economic growth, the People's Bank Of China has continuously lowered the interest rates and reserve requirement ratio since November last year which helps improve the environment for loans and therefore decrease demand for cross-border loans. Narrower interest margins between China and Hong Kong further demotivates the need for cross-border loans. Softening demand for loans, as a result, reduces demand for currency transactions and other related cross-border services.
- On the other hand, increasing cross-border trade and investment activities accelerate demand for settlement & cash management, trade finance and structured finance, in particular the faster pace of mainland enterprises "going out" stimulates demand related to finance and settlement services. It is believed that with the "One Belt And One Road" strategy of Chinese government, more mainland enterprises will be "going out" through Hong Kong and demand will further be strengthened.
- The drop of Individuals Demand Index from high level should be regarded as a natural retracement, indicating no change in the continuous uptrend of demand for individual cross-border banking services. The strengthening demand for financial investment reflects the emerging of the trend of individual "going out", in parallel to the trend of enterprises "going out" in the mainland. The boost in stock markets across China and Hong Kong, the introduction of Mutual Fund Connect and market prospects towards "Shenzhen-HK Stock Connect" accelerates the trend.
- Growth of demand for mortgage & personal loans is mainly attributable to the increasing volume of individual loans from banks in Hong Kong for stock trading. Weakening demand for credit cards is expected to be affected by declining spending of mainland tourists in Hong Kong, which is to be seen.
- Softening demand for currency transaction, insurance products and immigration & education services is considered as a periodic phenomenon and is expected to rebound gradually.

## 2. Sub-index analysis

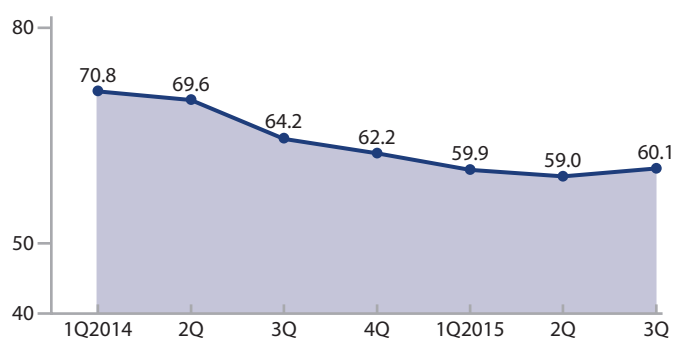
### 2.1 Corporate demand sub-indices



### Settlement & cash management (60.1)

Performance of settlement & cash management sub-index is outstanding in 3Q2015 among the 8 corporate sub-indices, with a rise of 1.1 on the last-quarter value and moves up to the top from the fourth, reflecting a slowdown of economic growth has not curbed mainland corporations' increasing activities on cross-border trade and investment, which in turn strengthens demand for settlement & cash management. Of the sampled corporations, 25% expected an "Increase" in the demand while 4% did otherwise. Meanwhile, 55%, 47% and 28% chose trade settlement, cash management, and investment settlement services respectively. For the reasons for the demand growth, 69%, 56% and 52% cited confidence in business prospects, confidence in the currency transaction services from banks in Hong Kong, and a need for adequate capital for business development respectively.

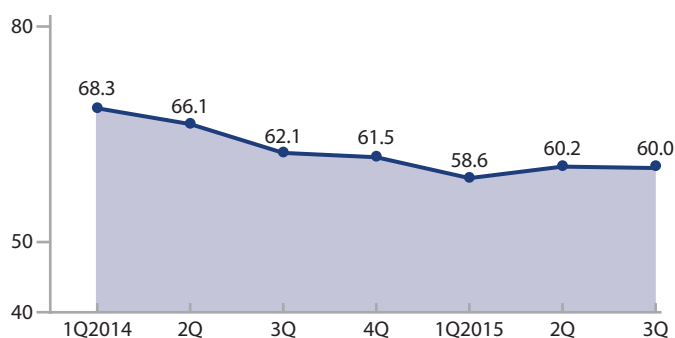
### Trend of sub-index



## Currency transactions (60.0)

With a slight drop of 0.2 in value from 2Q, currency transactions sub-index falls from the top to second in ranking, as a result of the more obvious two-way RMB fluctuations. But index remaining above 60 indicates the strength of demand for related services contributed by increasing activities on cross-border trade and investment. Of the corporations polled, 24% expected an "increase" in demand while 4% expected the opposite. Regarding currency choices, 58%, 44% and 25% would opt for RMB, USD and HKD respectively. The number of corporations choosing RMB decreased 2 pps while USD increased 4 pps on last quarter, reflecting the impact of two-way RMB fluctuations. The reasons for higher demand are increased cross-border business (70%), confidence in business prospects (61%), and confidence in the currency transaction services from banks in Hong Kong (54%).

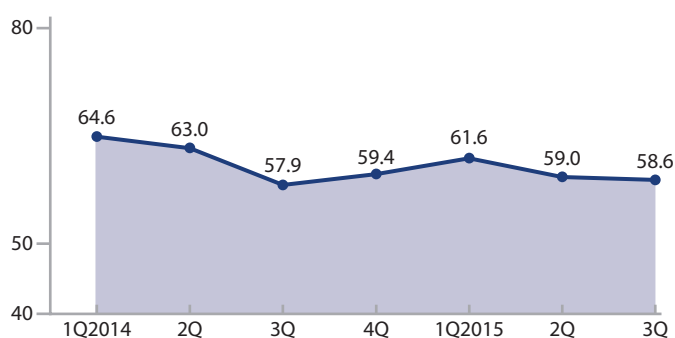
### Trend of sub-index



## Loans (58.6)

Despite a slight drop of 0.4 in last-quarter value, this sub-index shows stable ranking. With the cut in interest rates and the reserve requirement ratio by the People's Bank of China, financing cost of mainland corporations decrease accordingly. Of the sampled corporations, 23% predicted a demand "increase" whereas 6% reported an opposite. Loans would be required for investment purposes (64%) and kept as liquid capital (51%). Regarding the demand growth drivers, 64%, 48% and 39% 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.

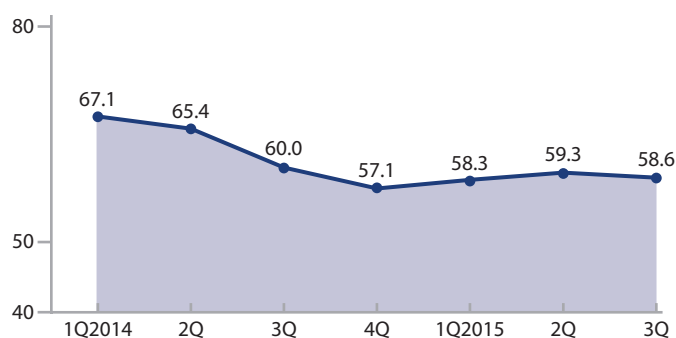
### Trend of sub-index



## Asset management & financial consultancy (58.6)

Sample data shows that demand for asset management & financial consultancy is cooling, with a fall of 0.7 in value on last quarter. However, the index in 3Q2015 is still higher than that of 4Q2014 and 1Q2015, implying mainland's corporate demand for cross-border value-added financial services remain strong. Of the corporations polled, 22% predicted a demand "increase" while 5% did the opposite. Meanwhile, 64% and 57% of the sample would chose financial consultancy and asset management respectively. As regards the drivers for the demand growth, 57%, 56% and 53% reckoned respectively that they have confidence in business prospects, increase in asset amount and confidence in the related services from Hong Kong banks.

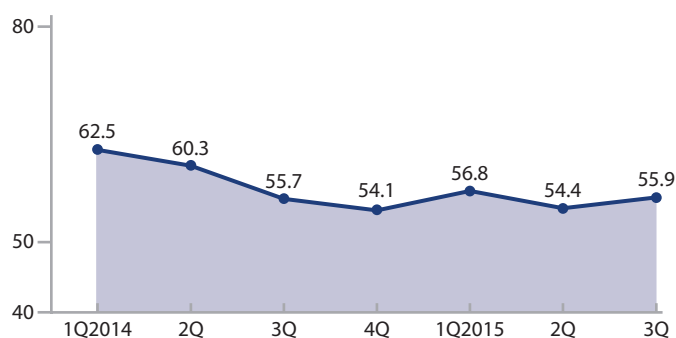
### Trend of sub-index



## Trade finance (55.9)

Trade finance sub-index rises one place to the fifth in the corporate demand sub-index ranking for its 1.5 increment over last quarter, indicating that more mainland enterprises are using cross-border trade finance. Of the respondents, 16% expected an increase and 5% a decrease. Meanwhile, 68% and 41% claimed the demand coming from export financing and import financing respectively. 59%, 56% and 52% of those who expected an increase stated 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 respectively.

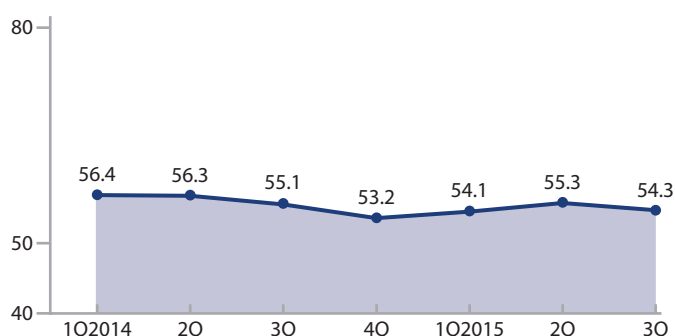
### Trend of sub-index



## Derivative products (54.3)

Regarding derivative products, responses from sampled corporations show the same result as that of asset management & financial consultancy. Both show decrease in demand from last quarter but still higher than 4Q2014 and 1Q2015. This sub-index drops 1.0 from last quarter with one spot down to the sixth. 13% and 4% of the respondents expected an increase and a decrease respectively. As regards relevant product demand, 54%, 42% and 33% choose Non-deliverable Forward (NDF), Interest Rate Swap (IRS) and Digital Forward respectively. Fewer corporations opt for NDF as compared to 2Q figures with a 5 pps drop, probably attributable to the two-way RMB fluctuation. As for the reasons for the demand growth, 62%, 57% and 49% claimed confidence in future prospects of business, confidence in derivative products from banks in Hong Kong and an increase in risk aversion needs respectively.

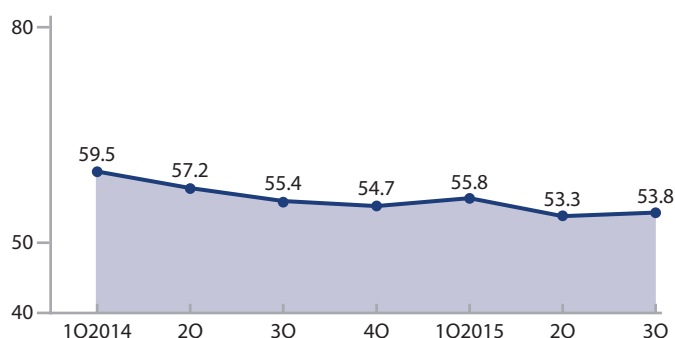
### Trend of sub-index



## Structured finance (53.8)

With a rise of 0.5 on the last-quarter value, the structured finance sub-index experiences one-notch rise to the seventh place, indicating that the strategic "One Belt And One Road" accelerates mainland enterprises' pace of "going out". Of the corporations polled, 12% predicted an "Increase" while 5% for "Decrease". Meanwhile, 65%, 30% and 27% opted for syndicated loans, pre-IPO financing and M&A financing respectively. For important demand drivers, 70%, 59% and 51% cited a need for adequate capital for business expansion, confidence in the structured finance services from banks in Hong Kong and confidence in business prospects respectively.

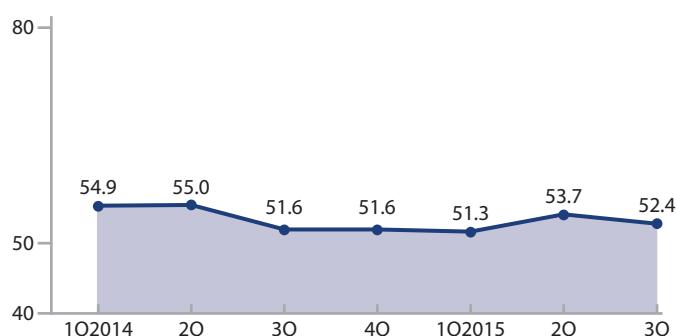
### Trend of sub-index



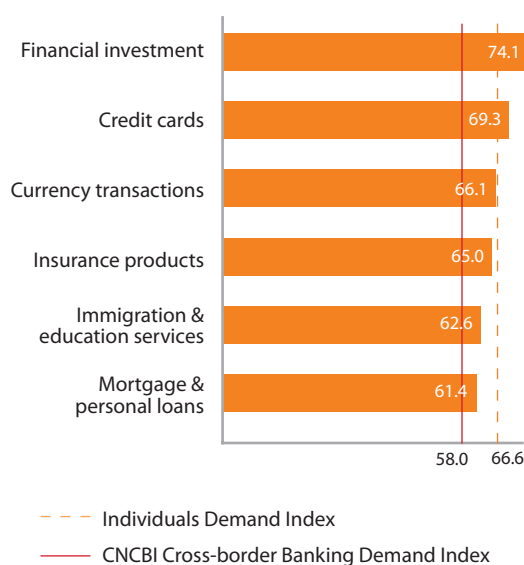
## Bonds issuance (52.4)

After a 2.4 bounce back in last quarter, the bond issuance sub-index drops 1.3 again and returns to last rank, suggesting still limited chance for mainland SMEs to issue bonds in Hong Kong. Of the sample corporations, 12% expected the demand to "increase" while 7% expected a "decrease". As regards the choice of currency, 68% would choose RMB while 40% for FX, which is 8 pps increase and decrease respectively, indicating that more enterprises are choosing RMB for bond issuance. 66%, 57% and 40% of the sampled corporations attributed the demand growth to 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



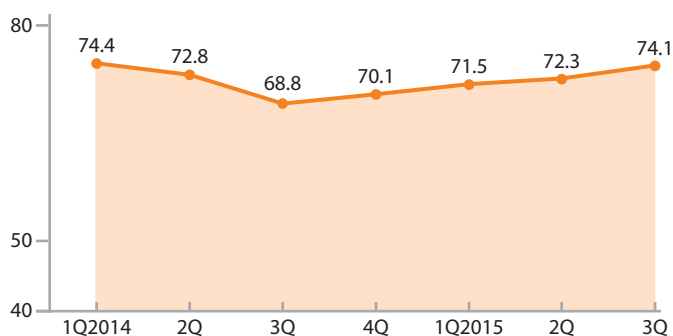
## 2.2 Individuals demand sub-indices



## Financial investment (74.1)

Highlight of cross-border individual's demand in 3Q2015 is the significant increase in demand for financial investment. This index records a rise of 1.8 from a high level of 72.3 last quarter, and continues to claim the first place in 3Q across all the individuals demand sub-indices. The boost in stock markets across China and Hong Kong, the introduction of Mutual Fund Connect and market prospects towards "Shenzhen-HK Stock Connect" stimulate individuals' cross-border demand for stock trading and other financial services. 51% of the sampled individuals reported an "Increase" in demand against 3% who claimed the opposite. Among these, 83%, 52%, 33% and 22% choose stocks, funds, bonds and derivative products as their investment tools respectively. The proportion of those who would choose stocks grows by 7 pps, indicating increasing attractiveness of stock trading contributed by boost in stock markets and prospects towards "Shenzhen-HK Stock Connect". Meanwhile, 75%, 57% and 46% 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.

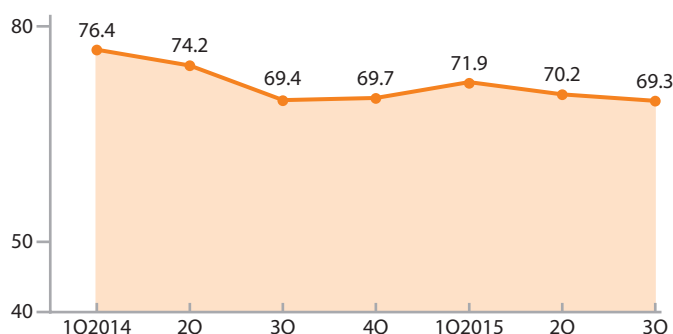
### Trend of sub-index



## Credit cards (69.3)

This sub-index falls 0.9 from 2Q value, probably driven by decreasing spending of mainland tourists in Hong Kong. But its above 69 value continues to register the second spot in ranking, implying the strength of potential demand for cross-border credit cards usage, which is to be seen. 42% of the surveyed individuals responded "Increase" while 4% replied with "Decrease". Meanwhile, 83% signaled a higher usage of credit cards and 44% expressed an intention on new credit cards. Explaining the robust demand increase, 70% said it would be to facilitate spending in Hong Kong while 59% and 53% attributed the increase to confidence in the credit card services offered by banks in Hong Kong and confidence in future prospects of income respectively.

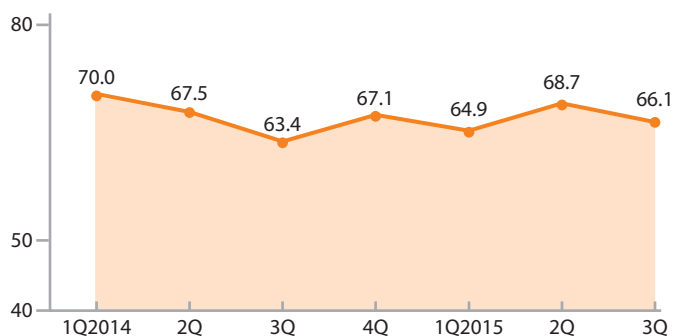
### Trend of sub-index



## Currency transactions (66.1)

This sub-index drops 2.6 in 3Q after a sharp increase of 3.8 last quarter. This is believed to be driven by the two-way RMB fluctuations which enhance the uncertainty on the RMB and weakens the intention of currency transaction. 34% of the respondents expected an increase while mere 2% a decrease in demand. In the meantime, 63%, 58% and 56% selected HKD, RMB and USD as the currencies for transactions respectively. The 2 pps decline in expected use of RMB is believed to be a result of two-way RMB fluctuation. Confidence in the currency transaction services offered by Hong Kong banks (62%), confidence in the future prospects of Hong Kong (60%) and increase in cross-border investment (56%) were cited as the major drivers for the demand rise.

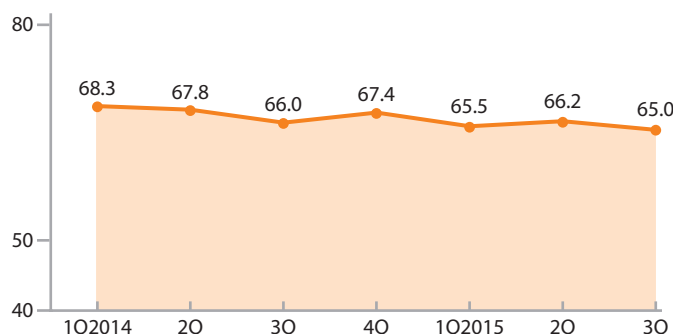
### Trend of sub-index



## Insurance products (65.0)

Two-way RMB fluctuations also affect the insurance products index which shows 1.2 drop from last-quarter value. 33% and 3% of the individuals reported an increase and a decrease in the demand respectively. At the same time, insurance products denominated in RMB and in FX are preferred by 72% and 70% of the respondents respectively. Compared to 2Q, insurance products denominated in RMB are 1 pps less favoured in 3Q. As for the demand drivers, the top 3 are confidence in insurance products provided by banks in Hong Kong (70%), confidence in the future prospects of Hong Kong's insurance sector (68%), and having adequate capital for buying insurance products (52%).

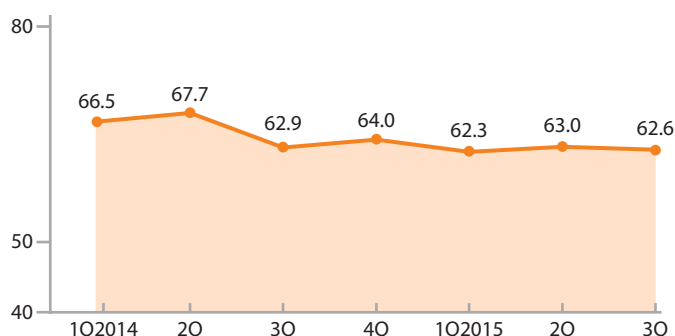
### Trend of sub-index



## Immigration & education services (62.6)

From the surveyed respondents, the immigration & education services sub-index softens with a decline of 0.4 over last quarter whereas 29% and 4% of the individuals reported an increase and a decrease in the demand respectively. 81% showed interest in educational services and 49% in immigration services. Regarding main reasons for demand, 69%, 62% and 54% are driven by 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 respectively.

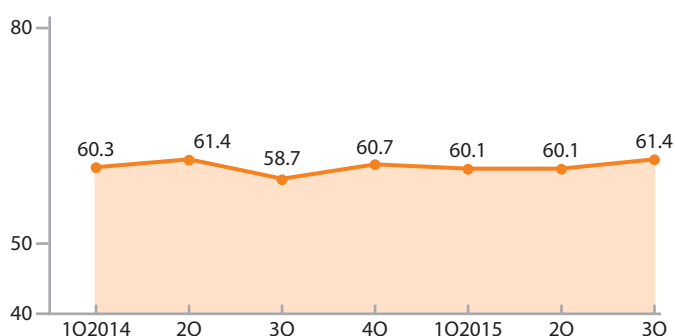
### Trend of sub-index



## Mortgage & personal loans (61.4)

Although it remains as the lowest among individuals demand sub-indices, this sub-index goes up by 1.3 from 2Q2015, indicating a faster pace of increasing demand for mortgage & personal loans in 3Q. It is believed that the increase is stimulated by loans for stock trading as mainland residents are still restricted by HKSAR government on property purchase and mortgage application. Meanwhile, 28% of the respondents reported an increase while 5% a decrease in the demand. With a rise of 5 pps over last quarter, personal loans are chosen by 76% of individuals whereas 51% on mortgage loans. The percentage of respondents who considered confidence in future prospects of Hong Kong, confidence in related services provided by Hong Kong banks, the need for adequate capital for investment as the main demand rise factors were 64%, 59% and 58% respectively.

### 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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