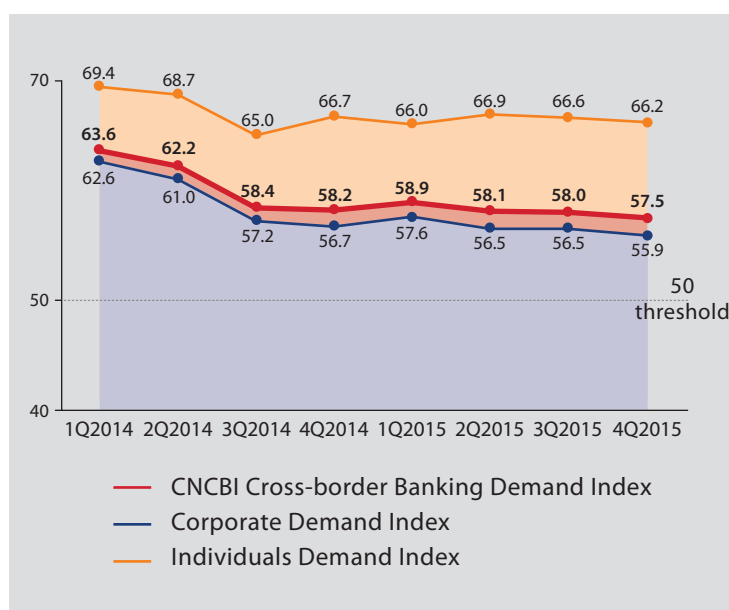


## 4Q2015 Cross-border Banking Demand Index shows marked slowdown

Demand growth for corporate finance and individuals' financial investment softens more significantly

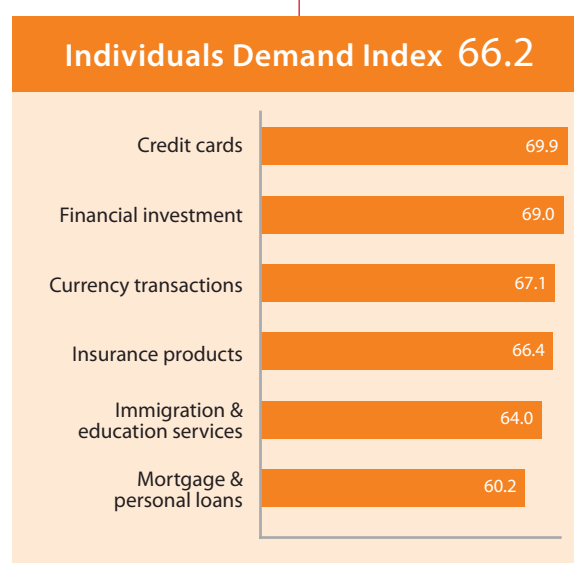
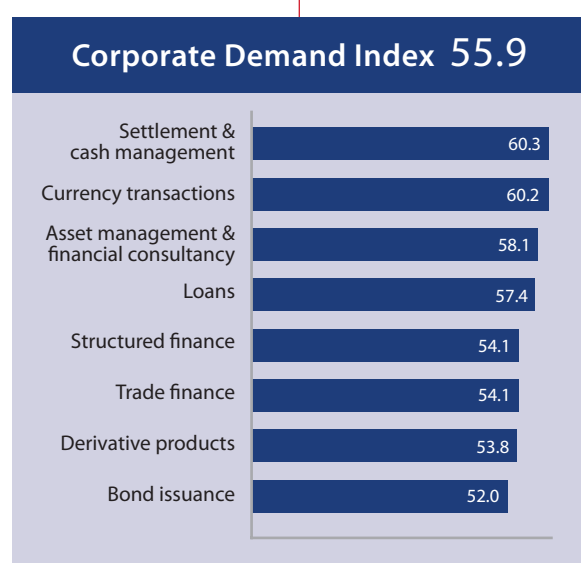
[www.cncbinternational.com/cross-border-index](http://www.cncbinternational.com/cross-border-index)



- Growth of cross-border banking demand for Hong Kong's banking services exhibits a marked decline in 4Q2015
- Demand growth from both corporations and individuals weakens

- Demand growth for corporate loans and trade finance softens significantly whereas settlement & cash management, structured finance and currency transactions remains on an uptrend
- Demand growth among individuals falls the sharpest in financial investment, followed by a further slowdown in mortgage & personal loans, while other sub-indices show steady increase

### CNCBI Cross-border Banking Demand Index 57.5

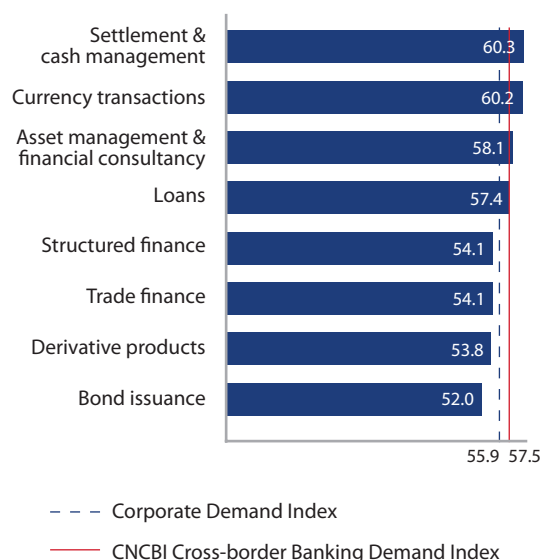


## 1. Overview

- The 3Q2015 survey results reveal that the 4Q2015 CNCBI Cross-border Banking Demand Index slips 0.5 from the previous quarter to 57.5. Growth of 4Q demand from mainland corporations and individuals for Hong Kong's cross-border banking services shows marked slowdown
- Demand growth for mainland corporations and individuals turns weak with the respective demand indices down 0.6 to 55.9 and 0.4 to 66.2
- Of the corporate sub-indices, loans and trade finance fall the sharpest from last quarter's 58.6 and 55.9 to 57.4 and 54.1 respectively. Asset management & financial consultancy, derivative products and bond issuance also drop from 58.6, 54.3 and 52.4 to 58.1, 53.8 and 52.0 respectively. In contrast, settlement & cash management, structured finance and currency transactions record mild increases from 60.1, 53.8 and 60.0 to 60.3, 54.1 and 60.2 respectively. In terms of rankings, settlement & cash management and currency transactions remain tops, while Asset management & financial consultancy outstrips loans to the third as structured finance outruns trade finance and derivative products to the fifth
- Of the individuals sub-indices, financial investment posts the most dramatic drop to 69.0 from last quarter's 74.1, moving down to the second spot in the rankings as mortgage & personal loans slides further from 61.4 to 60.2 and remains last on the rise of credit cards, currency transactions, insurance products and immigration & education services from 69.3, 66.1, 65.0 and 62.6 to 69.9, 67.1, 66.4 and 64.0 respectively, with credit cards coming out tops while the others stay third, fourth and fifth
- The softening growth of corporate cross-border loans and trade finance demand may have been a result of the narrowing or even inversion of RMB interest margins between mainland China and Hong Kong as well as instablised economic growth of the former which has since November last year cut the RMB interest rate five times whereas the latter's offshore RMB interest rate rose on mounting RMB demand entailed by SH-HK Stock Connect, curbing mainland corporations' desire for loans as demand growth for corporate financing also softens on a lack of clear signs of economic improvement and for trade finance on the decreasing trade volume
- However, demand growth for settlement & cash management, structured finance and currency transactions strengthens, reflecting that mainland enterprises' "going out" continues to gain speed and that robust cross-border investment is driving related demand for financial services
- In a reversal of a year's fortune, demand growth for personal financial investment posts a significant slowdown which is related closely to a series of incidents such as the A-shares stock market crash across June to August, severe adjustments to the Hong Kong stock market and the devaluation of the RMB as a consequence of the fixing mechanism reform. The sudden tumble of A-shares and Hong Kong stocks undermined the confidence of mainland investors in stock and other financial investments including cross-border investments. RMB devaluation only rubbed salt in the open wound, weakening investor confidence further. These may have also been the factors to the weakened demand growth for mortgage & personal loans
- The steady rise of the other 4 individuals sub-indices implies in general a continuous uptrend as regards mainland individuals' demand for cross-border banking services. Increase of credit cards sub-index comes unexpected. Increased usage of credit cards looks likely to offset the impact of the decline in spending for mainland tourists in Hong Kong

## 2. Sub-index analysis

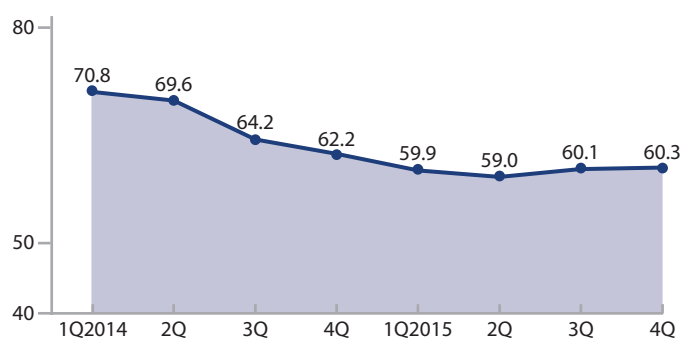
### 2.1 Corporate demand sub-indices



### Settlement & cash management (60.3)

Although the overall corporate demand growth slides, the 4Q2015 Settlement & cash management sub-index increases slightly by 0.2 to 60.3 and retains its top rankings. Growth in investment settlement and related cash management should be the major reasons and this reflects that mainland enterprises are accelerating their pace of "going out", fuelling growth of direct investment. Of the sampled corporations, 25% expected an "Increase" in settlement & cash management demand while 4% did otherwise. Meanwhile, 55%, 52% and 34% chose cash management, trade settlement and investment settlement respectively. As for the reasons for the demand growth, 66%, 63% and 61% cited confidence in business prospects, a need for adequate capital for business development and confidence in the settlement & cash management services from banks in Hong Kong respectively.

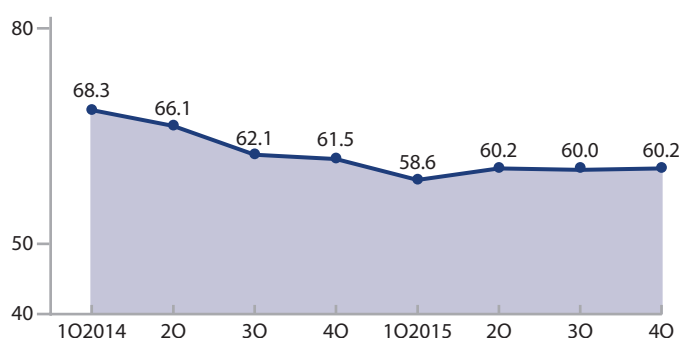
#### Trend of sub-index



## Currency transactions (60.2)

With a slight increase of 0.2 in the value on 3Q2015, the currency transactions sub-index remains second in rankings. This reflects that related demand growth continues to gain steam under robust cross-border investment activities. Among the sampled corporations, 25% and 4% expected an "Increase" and "Decrease" in demand respectively. Regarding currency choices, 58%, 35% and 29% would opt for RMB, USD and HKD respectively. The number of corporations choosing RMB remains the same as last quarter, reflecting that the devaluation of RMB has in fact increased the transactions of RMB/HKD conversion. The reasons for higher demand are increased cross-border business (67%), confidence in business prospects (63%), and confidence in the currency transaction services from banks in Hong Kong (58%).

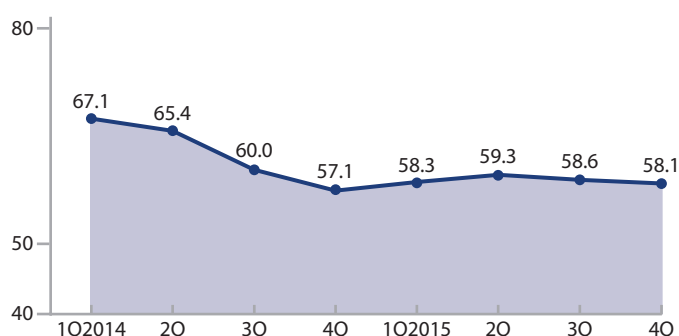
Trend of sub-index



## Asset management & financial consultancy (58.1)

The sub-index of asset management & financial consultancy falls 0.5, but it overtakes loans to claim third place in rankings. In all, mainland corporations' demand growth for cross-border asset management & financial consultancy services stays strong, with 21% of the polled corporations predicted an "Increase" while 5% did the opposite. Meanwhile, 59% and 51% of the sample would choose financial consultancy and asset management respectively, while 60%, 57% and 55% reckoned respectively that confidence in business prospects, increase in asset amount and confidence in the related services from Hong Kong banks are driving demand.

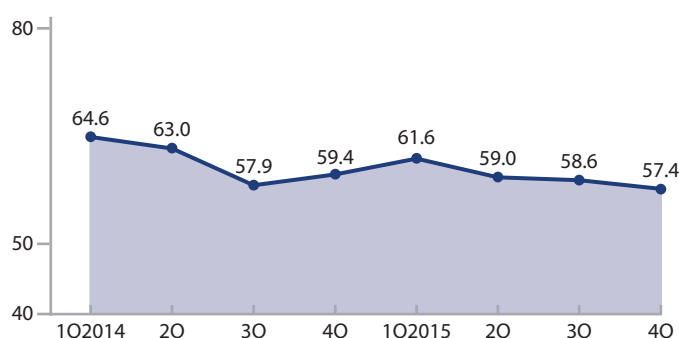
Trend of sub-index



## Loans (57.4)

The loans sub-index drops considerably by 1.2 from last quarter's 58.6, reflecting 4Q2015's demand growth of cross-border loans for China's enterprises will weaken notably. The decrease in interest rates followed by the narrowing of interest margins between China and Hong Kong in addition to instablis economic growth in mainland China may account for the demand growth decline. Of the corporations polled, 23% expected a demand "Increase" and 8% a "Decrease"; while 68% and 51% would take out loans for investment and liquid capital respectively. As regards the demand growth drivers, 58%, 50% 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 investment capital.

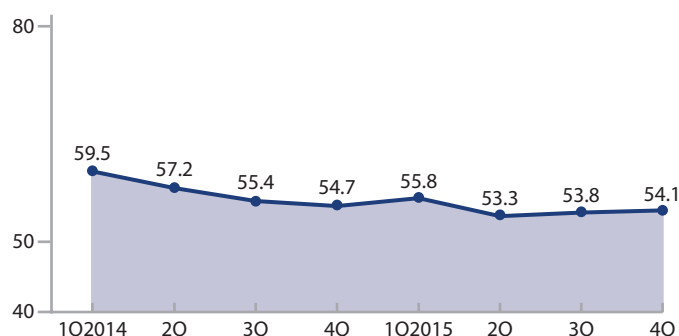
Trend of sub-index



## Structured finance (54.1)

Sampled data shows that 4Q2015 demand growth for structured finance is to speed up slightly. The sub-index rises by 0.3 from last quarter and claims fifth place from the seventh in rankings, indicating that mainland enterprises' pace of "going out" has been accelerated. Of the sampled corporations, 15% predicted a demand "Increase" while 7% predicted the opposite. Meanwhile, 67%, 28% and 21% of the sample chose syndicated loans, pre-IPO financing and M&A financing respectively. As for the important demand drivers, 57%, 56% and 47% cited a need for adequate capital for business expansion, confidence in business prospects and confidence in the structured finance services from banks in Hong Kong respectively.

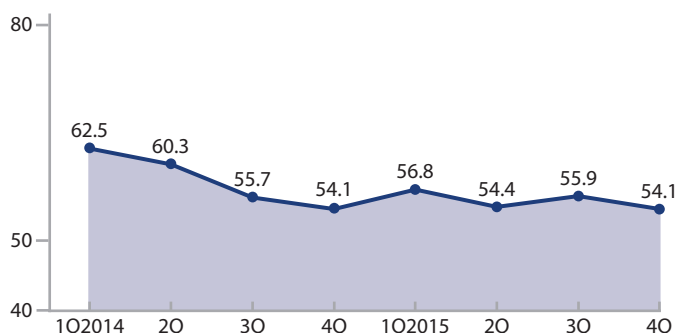
Trend of sub-index



## Trade finance (54.1)

Demand growth for trade finance for 4Q2015 is set to weaken, survey results show. The sub-index drops by 1.8 from the last quarter, indicating that fewer mainland enterprises would be using cross-border trade finance as a result of the influence of falling trade and interest margins between mainland China and Hong Kong. Of the respondents, 13% expected an "Increase" and 5% a "Decrease", while 73% and 34% claimed that the demand stems from needs for export financing and import financing respectively. Meanwhile, 67%, 52%, and 51% of those who expected an "Increase" stated confidence in the prospects of business, a need for adequate capital for trading and confidence in the trade finance services from banks in Hong Kong as the respective demand drives.

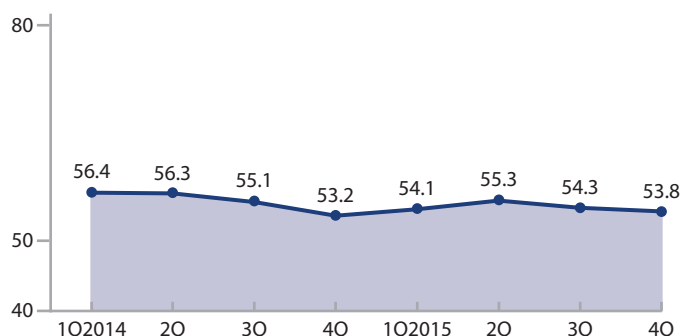
### Trend of sub-index



## Derivative products (53.8)

The sub-index of derivative products drops by 0.5, and falls one spot to the seventh in the rankings. The devaluation of RMB has caused loss for a lot of mainland enterprises investing in relevant products, creating fears of such products to some extent. Of the sampled corporations, 11% expected an "Increase" whereas 3% expected the opposite. As regards relevant product demand, 51%, 43% and 24% chose Interest Rate Swap (IRS), Non-deliverable Forward (NDF) and Digital Forward respectively. As for the reasons for demand growth, 65%, 55% and 51% claimed confidence in future prospects of business, confidence in derivative products from banks in Hong Kong and an increase in risk aversion needs respectively.

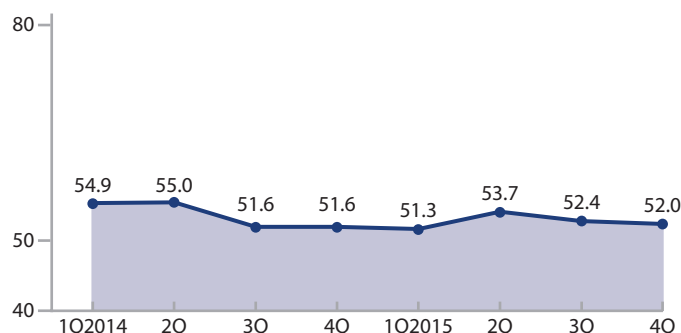
### Trend of sub-index



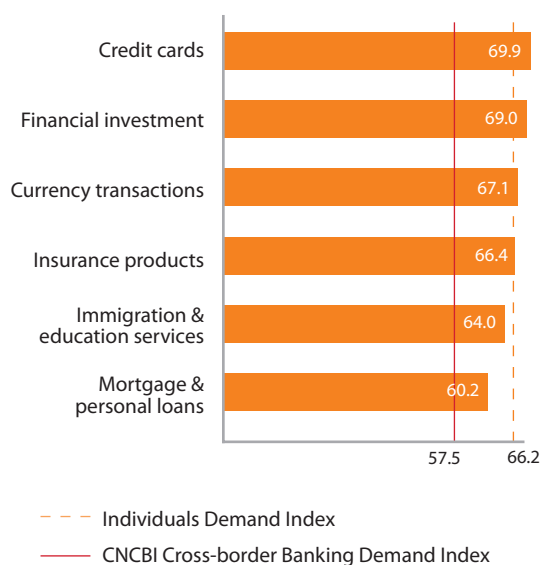
## Bond issuance (52.0)

The sub-index falls by 0.4 from last quarter and continues to rank last. China's economic growth is still unhinged and the expected devaluation of RMB will dampen mainland enterprises' willingness of issuing bonds in Hong Kong. Of the survey respondents, 11% and 7% predicted respectively an "Increase" and "Decrease" in demand. As regards currency choices, 58% and 49% chose RMB and FX, while the former posts a drop of 10 pps from the last quarter. Meanwhile, 65%, 56 % and 47% 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



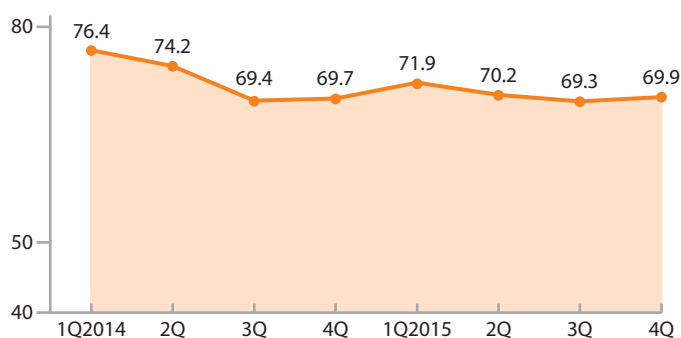
## 2.2 Individuals demand sub-indices



## Credit cards (69.9)

Contrary to the overall trend of the Individuals Demand Index, the sub-index of credit cards in 4Q2015 increases 0.6 from the last quarter and ranks top, overtaking financial investment, as 3Q2015 mainland tourists' spending in Hong Kong plunged. This indicates a growing preference of credit cards to cash among mainland individuals in Hong Kong. As regards service demand, 46% of the surveyed individuals responded with an "Increase" while 6% replied with a "Decrease". Meanwhile, 86% signalled higher credit card usage and 41% expressed an intention on new credit cards. As for the reasons for demand increase, 63% and 55% said it would be to facilitate spending in Hong Kong and to have increased in confidence in the credit card services offered by banks in Hong Kong respectively, while 46% attributed it to both confidence in future prospects of income and attractive credit card offers.

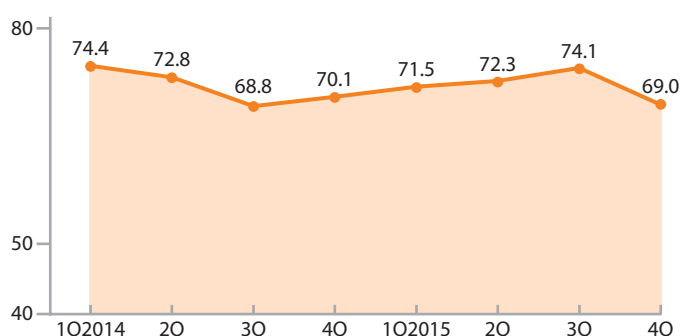
### Trend of sub-index



## Financial investment (69.0)

This sub-index has the sharpest decline of 5.1 in 4Q2015 among all the others. It also drops to the second place in the rankings, reflecting the year-long strong demand is losing steam with the reasons closely linked to events such as the A-shares stock market crash from June to August, acute adjustments to the Hong Kong stock market and the devaluation of RMB. Of the survey respondents, 45% expected demand will "Increases" whereas 7% expected the opposite. Turning to investment tools, 82%, 55%, 31% and 19% would choose stocks, funds, bonds and derivative products respectively. The number of respondents opting for stocks and derivative products reduce by 1 pp and 3 pps respectively. This underscores variables such as the market crash and RMB devaluation. Meanwhile, 65%, 63% and 43% stated that confidence in the related services provided by Hong Kong banks, confidence in the future prospects of Hong Kong and possessing adequate investment capital underpinned the stronger demand respectively.

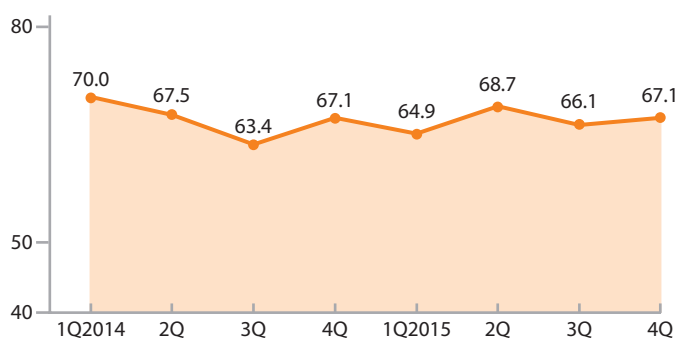
### Trend of sub-index



## Currency transactions (67.1)

The sub-index of currency transactions increases 1.0 on 3Q2015. RMB devaluation may have led more people to exchange RMB for HKD. Of the people polled, 37% expected an "Increase" in demand while merely 3% a "Decrease". In the meantime, 63%, 59% and 52% selected RMB, HKD and USD as the currencies for transactions respectively. The expected use of RMB has increased by 5 pps, whereas the expected use of USD drops 4 pps, underscoring the impact of RMB devaluation. Confidence in the currency transaction services offered by Hong Kong banks (60%), confidence in the future prospects of Hong Kong (57%) and increases in cross-border investment (45%) were cited as the major drivers for the demand rise.

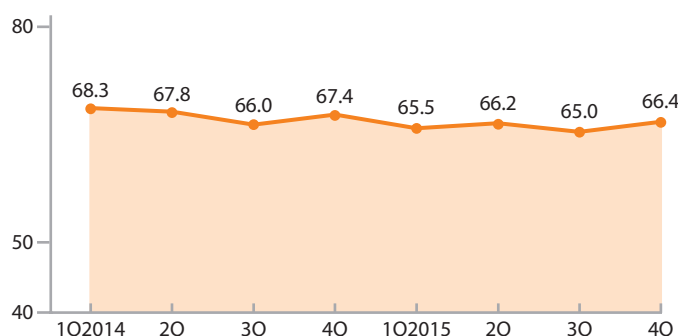
### Trend of sub-index



## Insurance products (66.4)

Sample data shows that the insurance products index has a 1.4 increase from the last-quarter value. Weaker demand for financial investment naturally leads to an increase in insurance product demand. Of the individuals polled, 36% and 3% reported an "Increase" and "Decrease" in demand respectively. At the same time, insurance products denominated in RMB and in FX are preferred by 71% and 69% of the respondents respectively. Compared to 3Q2015, insurance products denominated in RMB are 1 pp less favoured as a result of prospects of RMB devaluation. Confidence in the insurance products provided by banks in Hong Kong (74%), confidence in the future prospects of Hong Kong's insurance sector (60%), and having adequate capital for buying insurance products (49%) were cited as the 3 main demand drivers.

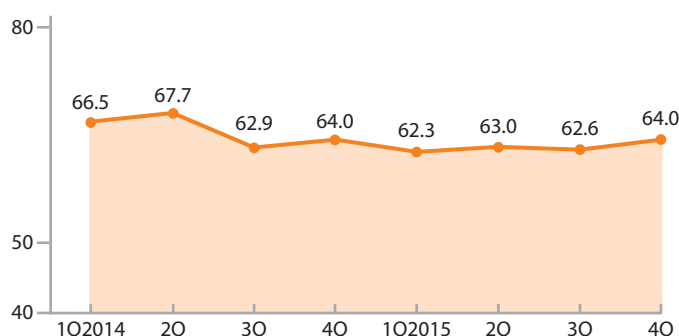
### Trend of sub-index



## Immigration & education services (64.0)

From the surveyed respondents, the immigration & education services sub-index strengthens with a rise of 1.4 over last quarter whereas 32% and 4% of the individuals reported an increase and a decrease in the demand respectively. 80% showed interest in educational services and 45% in immigration services. Regarding main reasons for demand, 79%, 67% and 49% 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.

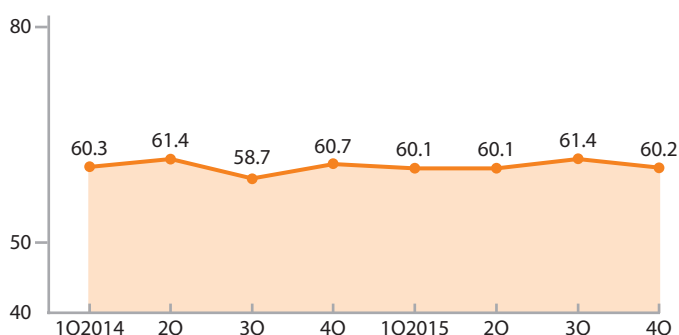
### Trend of sub-index



## Mortgage & personal loans (60.2)

Last in the rankings, this sub-index continues its drop in 4Q2015, down 1.2 on the quarter, indicating weak and decreasing 4Q2015 demand for mortgage & personal loans resulting from the continuous restrictions on property purchases by mainlanders and an obvious decline in borrowing for stock speculation which is in turn a consequence of the acute adjustments of Hong Kong stocks. Meanwhile, 28% of the respondents reported a demand "Increase" while 8% a "Decrease". Personal loans are chosen by 76% whereas 42% would take out 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 59%, 56% and 47% 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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