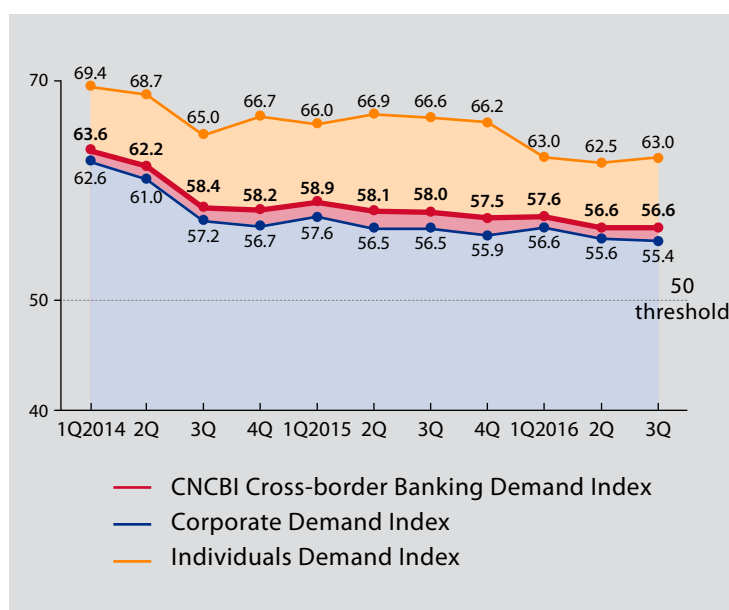


3Q Cross-border Banking Demand halts downtrend to hold steady

Corporate Demand Index shows slight slowdown as Individuals Demand Index picks up some steam

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- 3Q2016 growth of cross-border banking demand for Hong Kong's banking service holds onto 2Q2016 level after downward momentum
- Growth of corporate demand slows moderately as demand from individuals warms up
- On the corporate side, demand growth for services such as asset management & financial consultancy, settlement & cash management and currency transactions remains weak whereas demand growth

for financing products including trade finance, structured finance and bond issuance leads gains on the steadying economy and other improving market conditions

- As for individuals' demand, insurance products, currency transactions and immigration & education services gain steam while growth of mortgage & personal loans remain stable as credit cards and financial investment turns weak

CNCBI Cross-border Banking Demand Index 56.6

Corporate Demand Index 55.4

Settlement & cash management	57.3
Currency transactions	57.3
Loans	57.0
Asset management & financial consultancy	56.1
Trade finance	55.3
Structured finance	54.0
Derivative products	53.9
Bond issuance	52.1

Individuals Demand Index 63.0

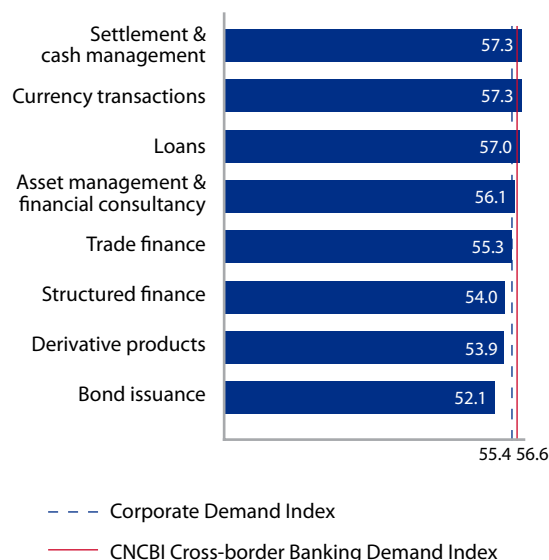
Credit cards	66.6
Insurance products	66.1
Financial investment	63.9
Currency transactions	62.6
Immigration & education services	61.0
Mortgage & personal loans	57.0

1. Overview

- 2Q2016 survey results reveal that 3Q2016 CNCBI Cross-border Banking Demand Index remains at 2Q2016's 56.6, indicating that growth of cross-border banking service demand from mainland corporations and individuals will in general remain on par with the previous quarter, halting the downward momentum.
- Corporate Demand Index hits a record low of 55.4, down 0.2 from 2Q2016, whereas Individuals Demand Index returns to the 1Q2016 level of 63.0 with a moderate rise of 0.5.
- Of the 8 Corporate Demand Sub-indices, services such as settlement & cash management, currency transactions, asset management & financial consultancy and derivative products drop to 57.3, 57.3, 56.1 and 53.9 from 2Q2016's 58.5, 58.1, 59.1, and 54.8 respectively. The decline is more significant in asset management & financial consultancy and settlement & cash management with a fall of 3.0 and 1.2 respectively. However the financing oriented trade finance, structured finance and bond issuance sub-indices rise to 55.3, 54.0 and 52.1 from 53.7, 53.6, and 51.1 respectively. The loans sub-index slips slightly to 57.0 from 57.2. In terms of ranking, asset management & financial consultancy and derivative products lose their 1st and 5th places to rank 4th and 7th respectively. Settlement & cash management, currency transactions, loans, trade finance, and structured finance move up to 1st, 2nd, 3rd, 5th, and 6th from 2nd, 3rd, 4th, 6th and 7th. Bond issuance remains bottom in the ranking.
- Of the Individuals Demand Sub-indices, insurance products, currency transactions and immigration & education services rise to 66.1, 62.6 and 61.0 from last quarter's 63.6, 62.1 and 59.5 respectively, with the insurance products sub-index showing the biggest leap. On the other hand, credit cards and financial investment fall to 66.6 and 63.9 from 67.3 and 65.7 respectively while mortgage & personal loans stays put at last quarter's 57.0. Turning to the rankings, the credit cards sub-index remains top while insurance products claims 2nd place as financial investment drops to the 3rd. Currency transactions, immigration & education services and mortgage & personal loans remain 4th, 5th and 6th respectively.
- Despite the moderate slowdown in the overall corporate demand for cross-border banking services for 3Q2016, stronger demand for cross-border financing sends a positive signal of an impending bounce back of the overall cross-border banking demand growth. During the second quarter, China's economic growth is showing signs of stabilising, with moderate RMB devaluation clearly in view, driving demand for financing and the rebound of cross-border demand for corporate finance services. With the stabilising economy and RMB fluctuations within grasp, growth in cross-border corporate finance demand is expected to gain momentum and add fuel to the lagging demand for other cross-border financing services. As such, it is predicted that the Corporate Demand Index will bounce back from the next quarter onward.
- 3Q2016 individuals' demand for cross-border banking services gathered impetus overall. Particularly, demand for insurance products rebounded significantly while demand for immigration & education services regained strength. Not only does this indicate a further increase in attractiveness of cross-border insurance products and immigration & education services to mainland individuals, but it also implies the subsiding impact of RMB devaluation, slowing Chinese economy and A Stock market crash on mainland individuals' eagerness of "going out". It is expected that demand for financial investments and credit cards will follow the rebound trend before long. Especially, the imminent launch of the Shenzhen and Hong Kong stock connect scheme will fuel mainland individuals' demand for cross-border financial investment directly. This means that individuals' cross-border demand will regain warmth in a comprehensive way.

2. Sub-index analysis

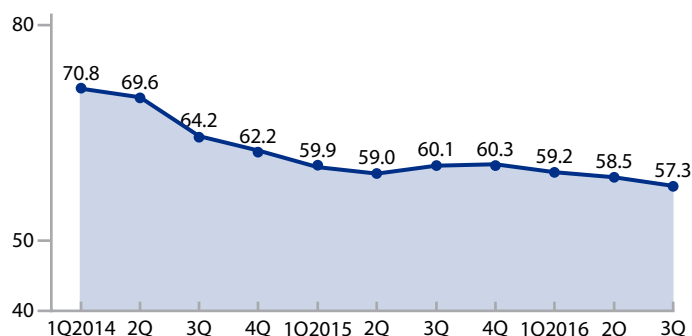
2.1 Corporate demand sub-indices



Settlement & cash management (57.3)

The 3Q2016 settlement & cash management sub-index drops by 1.2 but climbs 1 spot to top the ranking, outperforming asset management & financial consultancy. Amid uncertainty in foreign trade, economic climate and RMB fluctuations, demand for cross-border settlement & cash management services continues to weaken. Of the sampled corporations, 20% predicted a demand "Increase" and 5% a "Decrease". While 55%, 54% and 31% would choose cash management, trade settlement and investment settlement respectively, 56%, 50% and 50% cited confidence in future prospects of business, confidence in settlement & cash management offered by banks in Hong Kong, and wanting to maintain healthy capital liquidity respectively as the reasons for the demand increase.

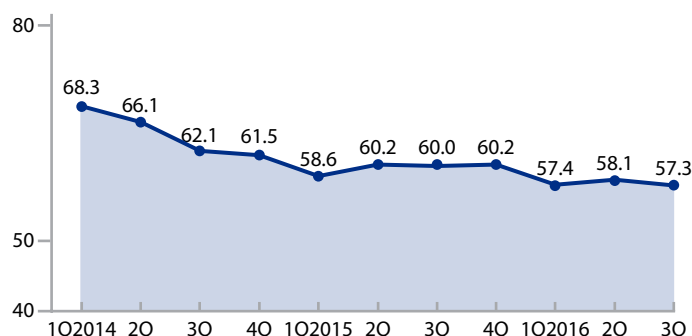
Trend of sub-index



Currency transactions (57.3)

Cross-border currency transactions and settlement & cash management follow the same trend with the former scoring 0.8 lower than last quarter, moving up from 3rd to 2nd in rankings however. Softening demand for trade and investment settlement and the anticipated continuation of RMB devaluation contributed to the decline of demand for cross-border currency transactions. Of the sampled corporations, 20% believed that the demand would "Increase" while 5% expected a "Decrease". Regarding currency choices, 59%, 48% and 22% of the corporations would opt for RMB, USD and HKD respectively. The ratio of choosing RMB sees a continuous drop, reflecting the market's anticipation of continuous RMB devaluation. Of the corporations polled, 56%, 56% and 56% regarded confidence in future prospects of business, increase in cross-border business and confidence in currency transactions offered by banks in Hong Kong as the main reasons for the demand growth.

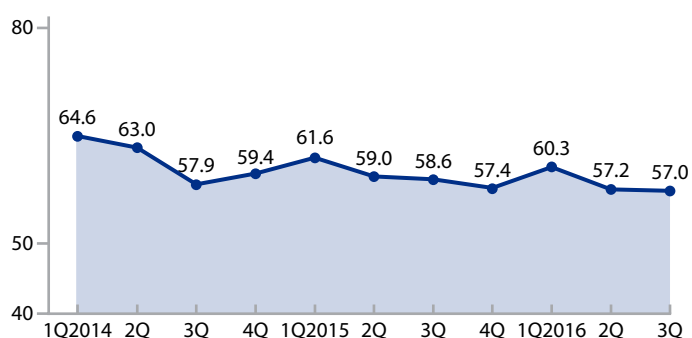
Trend of sub-index



Loans (57.0)

This sub-index falls merely 0.2 from last quarter but moves up 1 notch to be 3rd in rankings. The range of decrease is small compared to that in 2Q2016, implying that demand for cross-border loans follows the signs of China's stabilising economic growth. Among the corporate samples, 20% stated that demand would "Increase" and 6% believed otherwise, while 60% and 52% would choose investment and working capital respectively. At the same time, 56%, 50%, and 39% stated confidence in future prospects of business, confidence in loans services offered by banks in Hong Kong and a need for adequate capital for operation are the major reasons for the stronger demand.

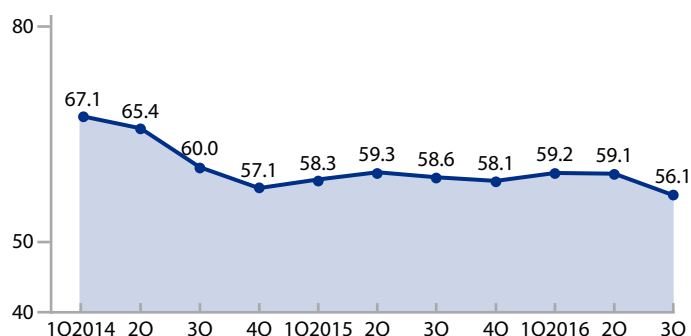
Trend of sub-index



Asset management & financial consultancy (56.1)

The asset management & financial consultancy demand sub-index tumbles from 1st to 4th in rankings with a substantial drop of 3.0, revealing lagging and slowing demand from mainland corporations for Hong Kong banks' highly value-added cross-border services. Of the sampled corporations, 17% predicted that demand would "Increase" and 5% predicted the opposite. Meanwhile, 68% and 61% would opt for financial consultancy and asset management respectively. As for growth drivers, 58%, 51% and 45% cited an increase in asset amount, confidence in asset management & financial consultancy offered by banks in Hong Kong and confidence in future prospects of business.

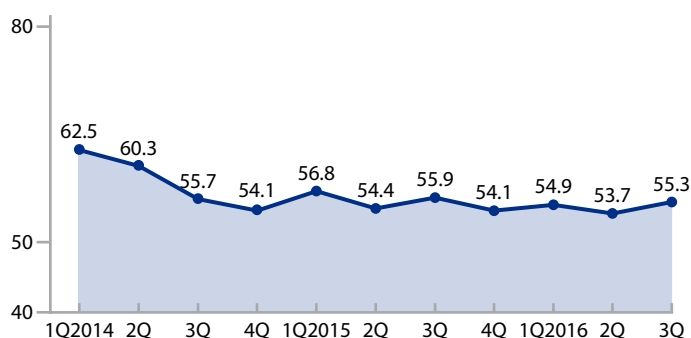
Trend of sub-index



Trade Finance (55.3)

Sample data reveal that cross-border trade finance demand in 3Q2016 will have a significant rebound as foreign trade data improve and the economy stabilises. The corresponding sub-index increases by 1.6 on 2Q2016, moving a notch up the ranks to the 5th. Of the polled corporations, 15% and 5% predicted demand would "Increase" and "Decrease" respectively, while 66% and 43% would choose exports and imports respectively. In the meantime, 52%, 51% and 43% claimed that confidence in trade finance services offered by banks in Hong Kong, a need for adequate capital for trading, and confidence in future prospects of trading are the major factors for increasing demand.

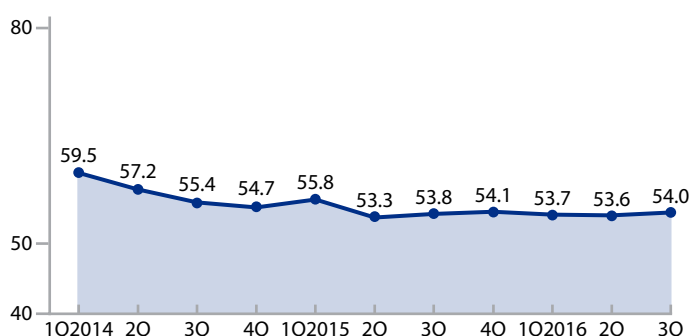
Trend of sub-index



Structured Finance (54.0)

Demand for cross-border structured finance is also expected to strengthen. The corresponding sub-index rises by 0.4 and makes a step up to the 6th spot in the ranks. About 12% of the sampled corporations expected demand to "Increase" whereas 4% expected the opposite. The percentages of choosing syndicated loans, M&A financing and Pre-IPO financing are 55%, 32% and 29% respectively. Regarding the demand growth drivers, 62%, 47% and 43% cited a need for adequate capital for business expansion, confidence in future prospects of business and confidence in structured finance services offered by banks in Hong Kong.

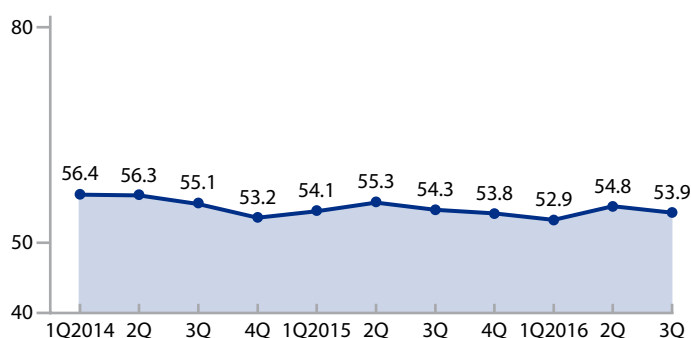
Trend of sub-index



Derivative Products (53.9)

The survey findings show that demand for derivative products will slide slightly from 2Q2016 but will remain higher than the 2 quarters before the last. This suggests that the adverse impact of RMB devaluation on RMB-denominated derivative products is diminishing. Among the samples, 11% and 3% expected that demand would "Increase" and "Decrease" respectively, while 59%, 49% and 21% would choose NDF, IRS and Digital Forward respectively. As for the reasons for demand growth, 53%, 45% and 44% stated confidence in future prospects of business, confidence in derivative products offered by banks in Hong Kong and an increase need for risk aversion.

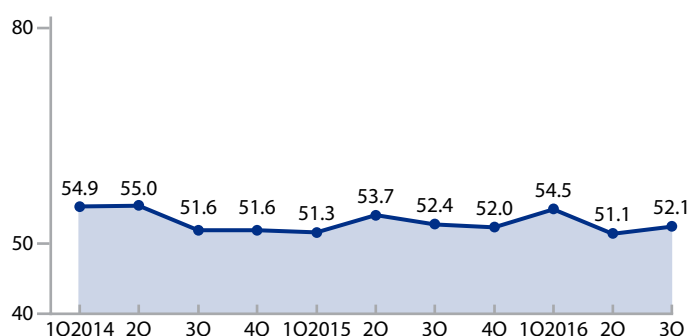
Trend of sub-index



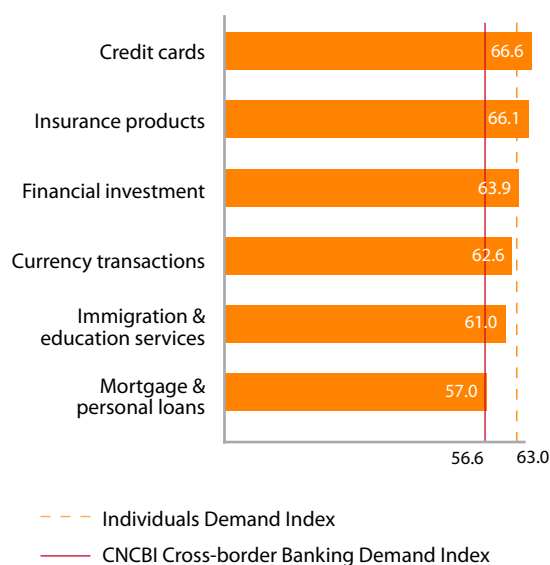
Bond issuance (52.1)

The bond issuance sub-index may be staying put at the bottom of the ranking, it posts an increase of 1.0 nevertheless. The situation is akin to that of trade finance and structured finance. Regardless of the lower financing cost in China and the relatively loose financing environment, a rebound in cross-border bond issuance demand is expected for 3Q2016. Stabilising growth of the Chinese economy and a more affirmative trend of mild RMB devaluation are the major reasons for the rebound. Of the corporations polled, 10% and 6% predicted respectively an "Increase" and "Decrease" in demand. As for currencies, 59% and 57% of the respondents would choose RMB and FX respectively, while 61%, 57% and 49% noted that a need for adequate capital for business expansion, confidence in bond issuance offered by banks in Hong Kong and confidence in future prospects of business are driving demand.

Trend of sub-index



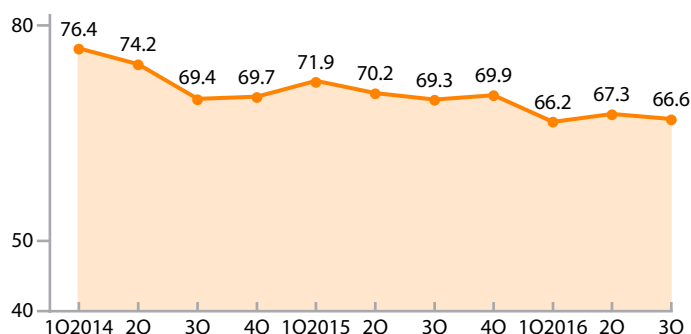
2.2 Individuals demand sub-indices



Credit cards (66.6)

The credit card sub-index drops 0.7 but clings to the top spot in the ranking. Demand for cross-border credit cards weakens further as mainland tourist numbers continue to plummet. Among the sampled individuals, 37% expected an "Increase" in demand and 4% expected a "Decrease". Meanwhile, 81% of the individuals polled would increase their card usage while 47% would apply for new cards. Regarding the major reasons for the demand rise, 57%, 45% and 45% claimed facilitating spending in Hong Kong, attractive credit card offers and confidence in credit cards offered by banks in Hong Kong.

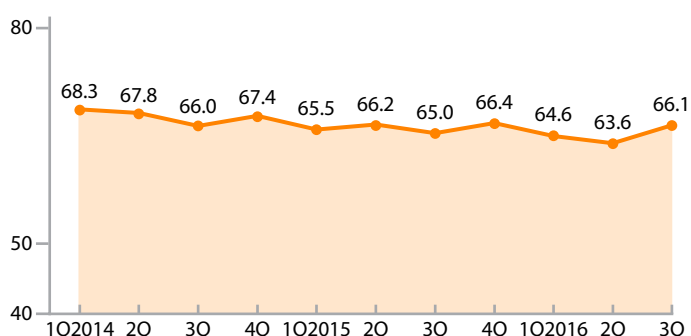
Trend of sub-index



Insurance products (66.1)

As indicated by the survey results, the number of visitors to Hong Kong may be on a continuous plunge, 3Q2016 demand for cross-border insurance products shows however a notable climb with a sub-index reading up 2.5 and a notch up the ranks to the 2nd. This suggests that more mainland individuals are eyeing insurance products amid pessimism over the A Stock market. It also underscores certain advantage of Hong Kong's insurance products over those in China. Of the sampled individuals, 35% predicted an "Increase" in demand while 2% predicted the opposite. Also, 77% and 52% would choose RMB and FX respectively, as 60%, 55% and 43% cited confidence in insurance products offered by banks in Hong Kong, confidence in future prospects of insurance market of Hong Kong and adequate capital for buying insurance products as the main drivers for the rise in demand.

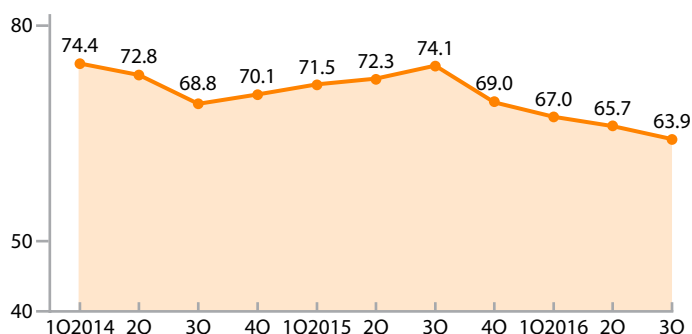
Trend of sub-index



Financial investment (63.9)

This sub-index drops 1.8 from the previous quarter and ranks 3rd from 2nd, indicating that demand for cross-border financial investment continues to lose steam under the influence of the A Stock and Hong Kong stock market gloom alongside the presence of other uncertainties. Sampled data shows that 33% and 5% predicted respectively an "Increase" and "Decrease" in demand. As for investment products, 78%, 58%, 32% and 25% would choose stocks, funds, bonds and derivatives respectively. The percentage of choosing stocks falls further, reflecting the adverse impact of the stock market downturn remains significant. As for the reasons for increases in demand, 57%, 55% and 51% stated confidence in financial investment offered by banks in Hong Kong, confidence in future prospects of Hong Kong and adequate capital for investment.

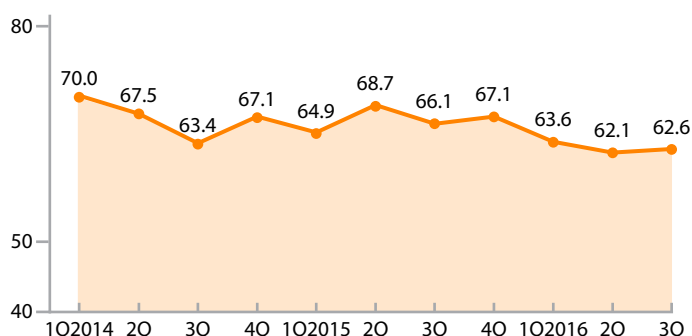
Trend of sub-index



Currency transactions (62.6)

Following the continuous decline in the previous quarters, according to the survey results, demand for cross-border currency transactions is expected to rise in 3Q2016 on the clearer indication of where the trend in RMB will go. The corresponding sub-index increases by 0.5, holding on to the 4th spot in the ranking. Of the sampled individuals, 29% expected demand to "Increase" while 4% expected the opposite. Regarding the currency choices, 56%, 54% and 51% would pick RMB, HKD and USD respectively. Meanwhile, 53%, 51% and 50% stated confidence in future prospects of Hong Kong, attractive exchange rate of currency and confidence in currency transactions offered by banks in Hong Kong as the main reasons for the demand increase.

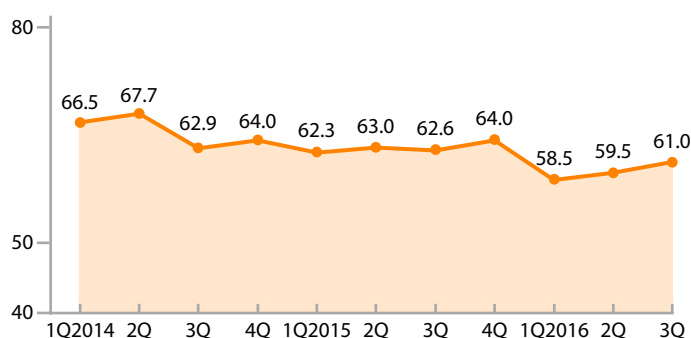
Trend of sub-index



Immigration & education services (61.0)

The immigration & education services sub-index posts a 1.5 rise while remaining 5th in rankings. Demand for these services bounced back for the second consecutive quarter, indicating a gradual recovery from the 1Q2016 plunge thanks to the clearer outlook for the economy, RMB and external environment. According to the survey results, 27% and 5% of the respondents predicted that demand would “Increase” and “Decrease” respectively. Meanwhile, 84% and 44% would choose educational services and immigrations services respectively. Confidence in future prospects of Hong Kong (65%), confidence in the immigration & education services offered by banks in Hong Kong (61%) and adequate capital for supporting immigration & education services (54%) are the major reasons for demand to grow.

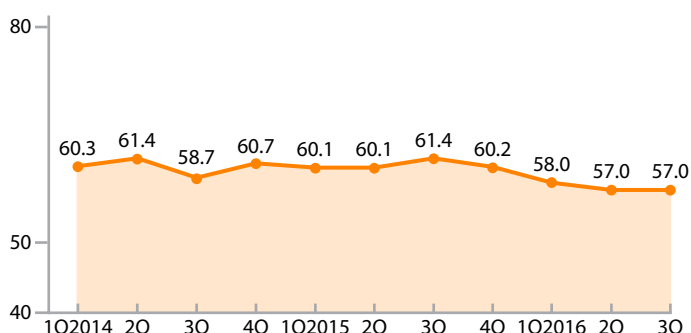
Trend of sub-index



Mortgage & personal loans (57.0)

The mortgage & personal loans sub-index remains unchanged at 57.0 and last in rankings. Although Hong Kong property prices have dropped around 13%, the Hong Kong government has yet to relax the “spicy” measures. In view of this, demand for mortgage loans remains tepid. Demand for personal loans also remains stagnant owing to the gloomy Hong Kong stock market. Of the survey respondents, 22% and 8% expected demand to “Increase” and “Decrease” respectively, while 75% and 42% expressed interest in taking out personal loans and mortgage loans respectively. As for the major growth drivers, 55%, 47% and 40% said these would be a need for adequate capital for investment, confidence in future prospects of Hong Kong and confidence in the mortgage and personal loan services offered by banks in Hong Kong.

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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