

## 4Q cross-border banking demand growth rebounds moderately

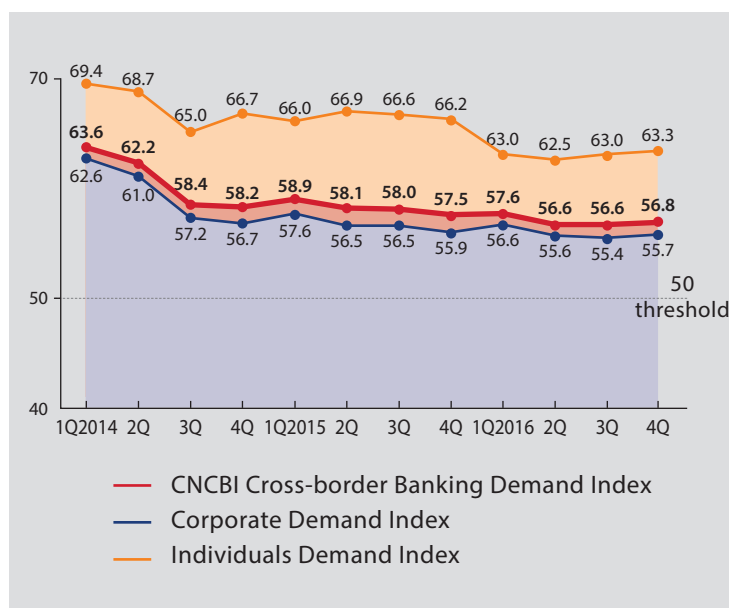
Corporate Demand Index bounces back on record low

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- Growth of mainland China's demand for cross-border banking in Hong Kong rebounds moderately in 4Q2016 from 3Q2016's low
- Corporate Demand Index bounces back on record low while Individuals Demand Index rises further, both with a 0.3 increase on the quarter
- On the corporate side, demand for services including settlement & cash management, asset management & financial consultancy and currency transactions, manifests strength, whereas demand for financing products shows divergence with demand growth of

loans and trade finance continuing to weaken as that of structured finance and bond issuance starting to gain steam

- As for growth of individuals' demand, significant increase is seen in financial investment, currency transactions and mortgage & personal loans with that in financial investment being particularly encouraging. Conversely, downward adjustment in insurance products demand growth is obvious while demand for credit cards and immigration & education services shows little change



### CNCBI Cross-border Banking Demand Index 56.8

#### Corporate Demand Index 55.7

Settlement & cash management	58.6
Asset management & financial consultancy	58.6
Currency transactions	57.9
Loans	56.8
Structured finance	54.9
Derivative products	53.6
Trade finance	53.4
Bond issuance	53.2

#### Individuals Demand Index 63.3

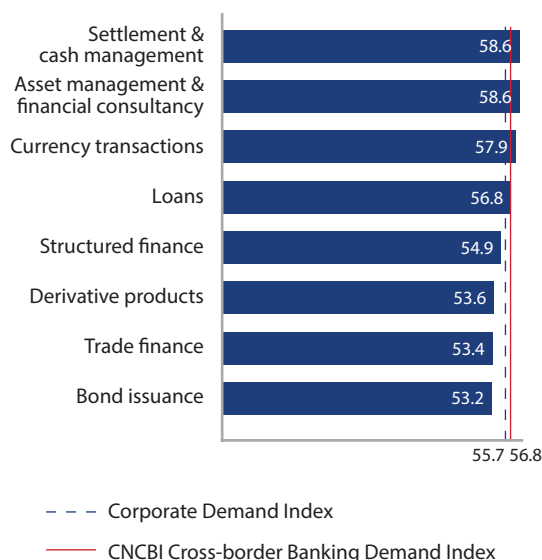
Credit cards	66.2
Financial investment	65.1
Currency transactions	64.2
Insurance products	63.7
Immigration & education services	61.2
Mortgage & personal loans	59.0

## 1. Overview

- 3Q2016 survey results show a moderate 0.2 quarterly increase in the 4Q2016 CNCBI Cross-border Banking Demand Index to 56.8, indicating that the rate of demand growth in cross-border banking services from mainland corporations and individuals is picking up pace from the 3Q2016 low.
- Corporate Demand Index and Individuals Demand Index hit 55.7 and 63.3 respectively with a mutual quarterly increase of 0.3, evident of rising strength in cross-border banking services demand from both corporations and individuals across the border.
- Among the Corporate Demand Sub-indices, services such as settlement & cash management, asset management & financial consultancy and currency transactions increase from last quarter's 57.3, 56.1 and 57.3 to 58.6, 58.6 and 57.9 respectively. Divergence is seen in financing demand. The loans and trade finance sub-indices fall further from 57.0 and 55.3 to 56.8 and 53.4 respectively whereas the structured finance and bond issuance sub-indices bounce back from 54.0 and 52.1 to 54.9 and 53.2 respectively. The sub-index of derivative products, meanwhile, drops 0.3 from 3Q2016 to 53.6. As for the sub-index rankings, settlement & cash management remains top while asset management & financial consultancy, structured finance and derivative products move up from 4th, 6th and 7th to 2nd, 5th and 6th respectively. Currency transactions, loans and trade finance fall from 2nd, 3rd and 5th to 3rd, 4th and 7th, with bond issuance remaining last.
- Of the 6 Individuals Demand Sub-indices, financial investment, currency transactions and mortgage & personal loans improve significantly from 63.9, 62.6 and 57.0 to 65.1, 64.2 and 59.0 respectively. Conversely, the sub-index of insurance products dips from 66.1 to 63.7 while the credit cards and immigration & education services sub-indices post little change with a moderate 0.4 decrease and 0.2 increase respectively from last quarter's 66.6 and 61.0. In terms of rankings, credit cards, immigration & education services and mortgage & personal loans remain 1st, 5th and 6th respectively, as insurance products drops 2 places to the 4th, while financial investment and currency transactions claim 2nd and 3rd places from 3rd and 4th respectively.
- 4Q2016 growth of corporate demand for cross-border banking services bounces back from a record low, benefitting from the strengthening of service demand as a whole as well as the rebound of demand for financing products of structured finance and bond issuance. The Chinese economy further stabilised. Mainland corporations' "going out" pace kept accelerating and expectations of RMB devaluation subsided in the third quarter, fuelling stronger demand for cross-border banking services. In particular, stronger demand for structured finance is evident of mainland corporations' increased pursuit of overseas M&A. Despite this, weaker demand growth for loans and trade finance indicates a longer lag time for demand for loans and trade finance to pick up pace, and possibly as a result of mainland China's sufficient liquidity. As the mainland's economic data improve with clearer RMB prospects in sight and the People's Bank of China begins to tighten control over liquidity, a full rebound of the Corporate Demand Index can be expected in the next quarter.
- 4Q2016 individuals cross-border demand strengthens on 3Q2016's rebound. Especially encouraging is that demand for financial investment services rises significantly beyond market expectations on the prospects of Shenzhen-Hong Kong Stock Connect and the stabilising signs of the stock markets on both sides of the border. Demand for currency transactions and mortgage & personal loans also shows noticeable increases attributable respectively to the weakening expectations of RMB devaluation and the warming property market in Hong Kong. Meanwhile, unanticipated softening demand for insurance products is possibly a result of adjustment of last quarter's vigorous rebound. The demand indices of credit cards and immigration & education services are stable and remain high, indicating corresponding demand continues to be strong. Overall, individuals' demand for cross-border banking services is expected to strengthen further.

## 2. Sub-index analysis

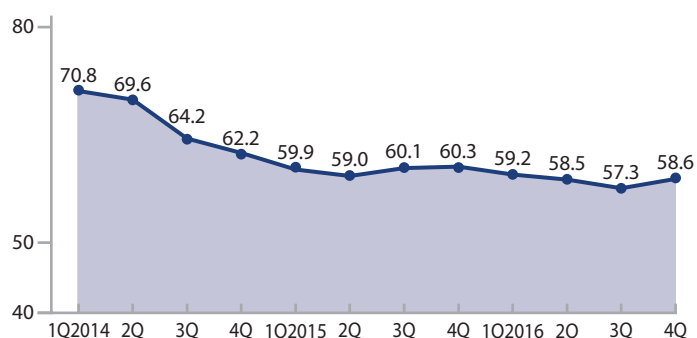
### 2.1 Corporate demand sub-indices



### Settlement & cash management (58.6)

4Q2016 settlement & cash management sub-index rises 1.3 on last quarter and remains 1st in the rankings. This implies that improvement in exports and the stabilising economy have led mainland corporations to increase demand for Hong Kong's cross-border settlement & cash management services. Of the sampled corporations, 22% predicted a demand "Increase" and 5% a "Decrease". While 55%, 55% and 41% chose respectively cash management, trade settlement and investment settlement, 62%, 60% and 55% cited confidence in future prospects of business, adequate capital for business expansion and confidence in settlement & cash management offered by banks in Hong Kong as the major reasons for the rising demand respectively.

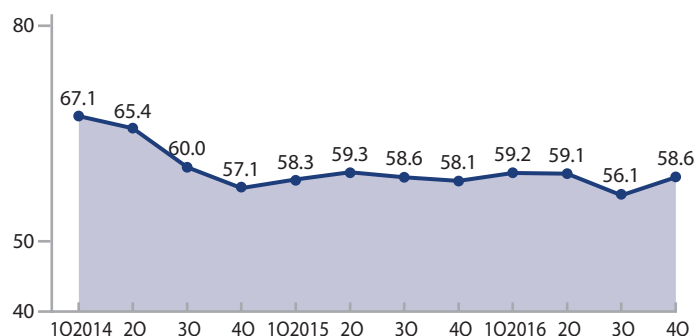
### Trend of sub-index



## Asset management & financial consultancy (58.6)

The asset management & financial consultancy demand sub-index increases substantially by 2.5 and rises 2 spots in the rankings to claim 2nd place, revealing that more corporations are willing to accept the highly value-added services provided by Hong Kong banks. Of the sampled corporations, 22% and 4% predicted demand would "Increase" and "Decrease" respectively, while financial consultancy and asset management were preferred by 61% of the survey samples. Meanwhile, 54%, 50% and 47% believed a need to increase asset amounts, confidence in asset management & financial consultancy services offered by banks in Hong Kong and confidence in future prospects of business are fuelling demand.

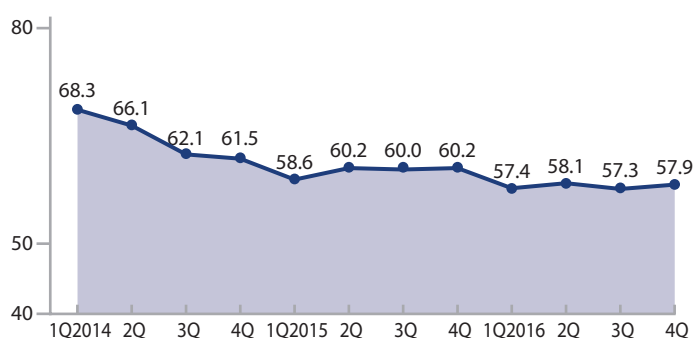
### Trend of sub-index



## Currency transactions (57.9)

Demand for cross-border currency transactions shows a mild increase with the corresponding sub-index up 0.6 on the quarter albeit a one-spot drop in the rankings to the 3rd place. The volume of RMB trade settlement in Hong Kong dropped continuously across 3Q, holding back improvement of mainland corporations' demand for currency transactions despite the softening expectation of RMB devaluation. Of the sampled corporations, 22% believed that demand would "Increase", while 6% predicted a "Decrease". Regarding currency choices, 58%, 41% and 26% opted for RMB, USD and HKD respectively. The ratio of choosing RMB rises, reflecting the market's weakening anticipation of RMB devaluation. Meanwhile, 59%, 58% and 52% cited confidence in future prospects of business, increase in cross-border business and confidence in currency transactions offered by banks in Hong Kong as the demand drivers.

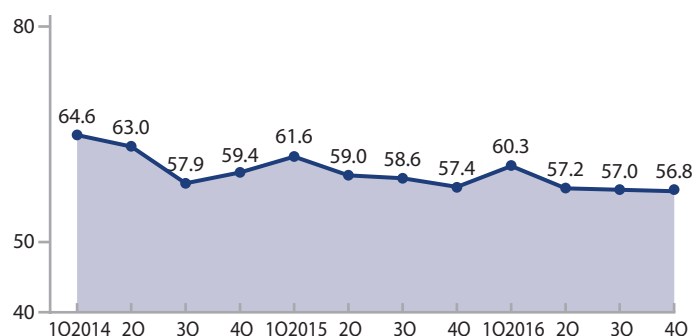
### Trend of sub-index



## Loans (56.8)

This sub-index slides slightly by 0.2 from the last quarter and moves down from 3rd to 4th in the rankings. Although the economy is showing signs of stabilisation, high liquidity in the mainland market curbs demand for cross-border loans. Of the sampled corporations, 20% and 7% anticipated demand to "Increase" and "Decrease" respectively. Regarding the loan usage, 63% and 49% chose investment and working capital respectively. As for the major reasons for the strengthening demand, 58%, 52% and 42% stated confidence in loans services offered by banks in Hong Kong, confidence in future prospects of business and a need for adequate capital for investments respectively.

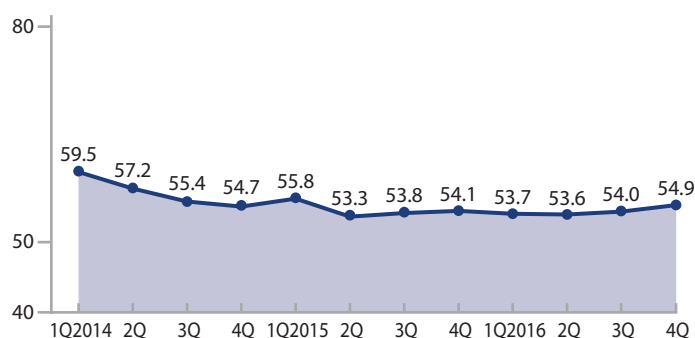
### Trend of sub-index



## Structured Finance (54.9)

Contrary to the falling demand for loans, stronger growth is seen in mainland corporations' demand for cross-border structured finance for 4Q2016, according to survey results, with the corresponding sub-index rising 0.9 and climbing from 6th to 5th in the rankings. Of the corporations surveyed, 15% expected demand to "Increase" and 5% did the opposite. The ratio of choosing syndicated loan, M&A financing and pre-IPO financing stand at 56%, 36% and 35% respectively. Meanwhile, 66%, 53% and 45% cited a need for adequate capital for business expansion, confidence in structured finance services offered by banks in Hong Kong and confidence in future prospects of business as the major demand drivers.

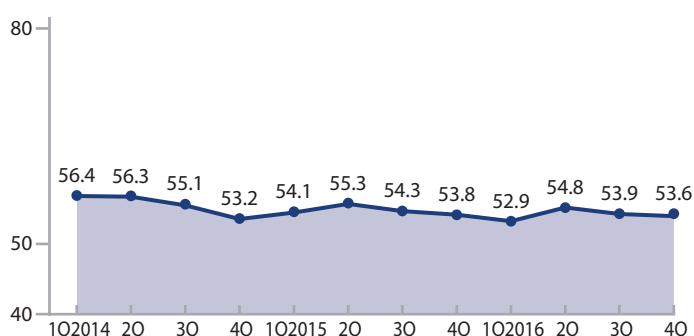
### Trend of sub-index



## Derivative Products (53.6)

This sub-index posts a moderate drop of 0.3 but a step up in the rankings to the 6th place. This shows that cross-border demand for derivative products remains weak amid high RMB uncertainty and stagnant stock market performance. Of the corporations surveyed, 13% and 6% expected the corresponding demand to “Increase” and “Decrease” respectively. Meanwhile, 47%, 46% and 32% chose IRS, NDF and Digital Forward respectively, and 48%, 44% and 34% said that confidence in future prospects of business, confidence in derivative products offered by banks in Hong Kong and increasing demand for risk aversion are the major reasons for the increase in demand respectively.

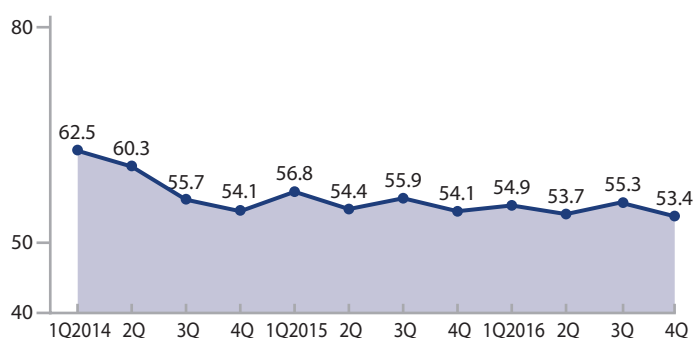
### Trend of sub-index



## Trade Finance (53.4)

The trade finance sub-index dips dramatically by 1.9 from 3Q2016 with a ranking falling also from 5th to 7th. Trade figures remain weak for both mainland China and Hong Kong while high liquidity, which also curbs loans demand, contributes to weakening demand for trade finance after last quarter’s rebound. Of the corporations sampled, 14% and 7% predicted demand to “Increase” and “Decrease” respectively, while 64% and 48% chose exports and imports respectively. Regarding the reasons for increasing demand, 54%, 53% and 51% cited respectively 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.

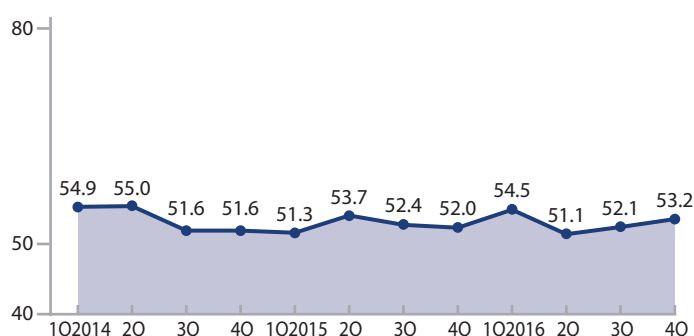
### Trend of sub-index



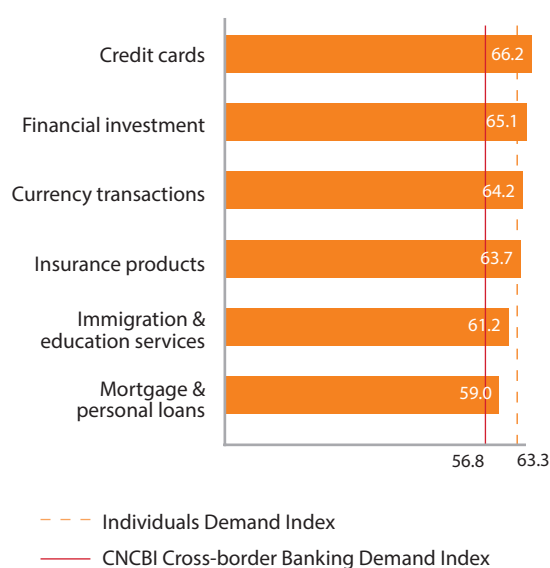
## Bond Issuance (53.2)

The bond issuance sub-index remains last in the rankings regardless of a 1.1 rise on 3Q2016 which posts an increase in RMB bond issuance in Hong Kong on the same trend projected by the sub-index. Of the sampled corporations, 12% and 6% predicted demand to “Increase” and “Decrease” respectively. As for the choices of currency in bond issuance, 67% and 44% of the respondents chose RMB and FX respectively. Meanwhile, 58% expressed confidence in future prospects of business, 45% chose a need for adequate capital for business expansion and 38% cited confidence in bond issuance offered by banks in Hong Kong as the major reasons for the rise of demand.

### Trend of sub-index



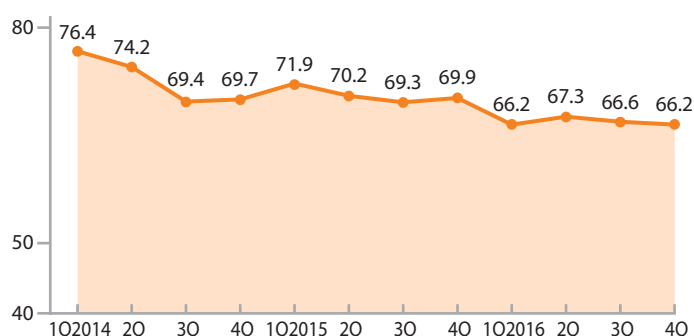
## 2.2 Individuals demand sub-indices



## Credit Cards (66.2)

The credit card sub-index continues to rank 1st regardless of a 0.4 drop from 3Q2016. Cross-border demand for credit cards drops further with the number of mainland tourists and their spending in Hong Kong falling. Among the sampled individuals, 36% expected an "Increase" in demand and 4% expected otherwise while 82% and 46% would have higher card usage and apply for new cards respectively. Meanwhile, 57%, 45% and 39% claimed that facilitating spending in Hong Kong, confidence in credit cards offered by banks in Hong Kong and attractive credit card offers are the major reasons for the increase in demand.

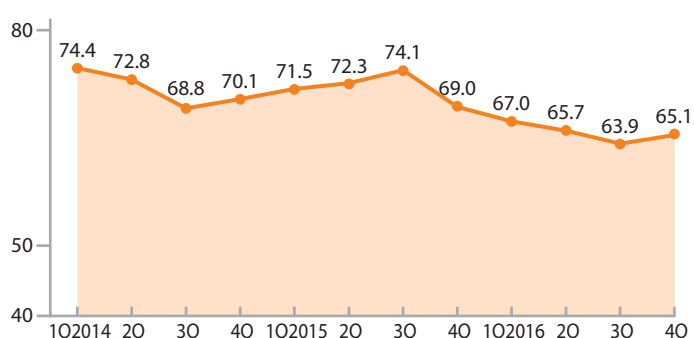
Trend of sub-index



## Financial Investment (65.1)

The significant rise in cross-border financial investment demand is the brightest spot of the 4Q CNCBI Cross-border Banking Demand Index. This sub-index scores 1.2 higher than last quarter to 65.1 with a ranking up from 3rd to 2nd. The Chinese government's 3Q announcement of the launch of SZ-HK Stock Connect within the year led the Hong Kong stock market to bounce back and motivated mainland individuals to seek financial investments in Hong Kong. Of the individuals surveyed, 36% and 6% predicted demand to "Increase" and "Decrease" respectively. As for investment products, 75%, 58%, 26% and 16% opted for stocks, funds, bonds and derivatives respectively. The increasing preference for stocks reflects the expectations of SZ-HK Stock Connect. Meanwhile, 57%, 51% and 34% cited confidence in future prospects of Hong Kong, confidence in financial investment offered by banks in Hong Kong and adequate capital for investment as the demand drivers.

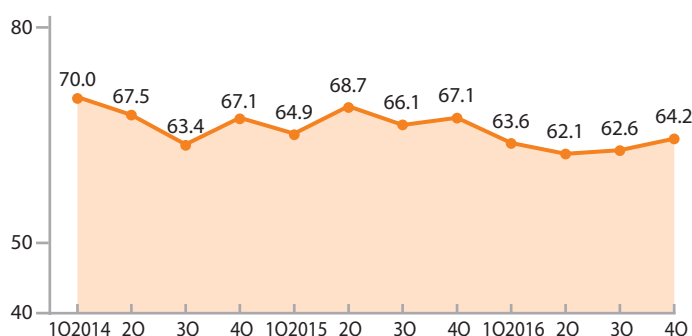
Trend of sub-index



## Currency transactions (64.2)

Survey results show that demand for cross-border currency transactions strengthens on 3Q2016, as does demand for currency transactions from corporations. The corresponding sub-index increases by 1.6 with a ranking rising to the 3rd. Of the sampled individuals, 31% expected an "Increase" in demand while 3% did the opposite. Regarding currency choices, 57%, 48% and 44% picked USD, HKD and RMB respectively. As for the main reasons for the demand increase, 49%, 46% and 45% stated respectively confidence in future prospects of Hong Kong, confidence in currency transactions offered by banks in Hong Kong and attractive exchange rates.

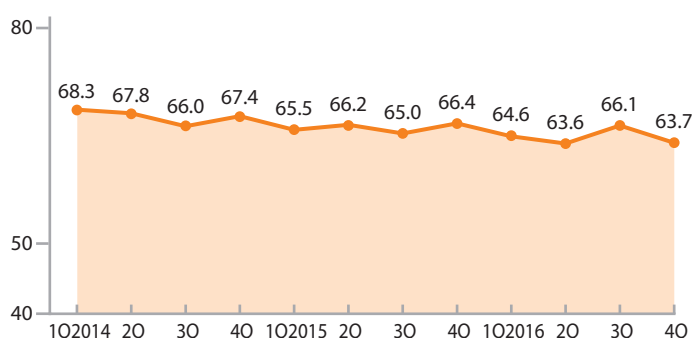
Trend of sub-index



## Insurance Products (63.7)

This sub-index plunges substantially by 2.4 and from 2nd to 4th in the rankings. A leap of 2.5 seen in 3Q2016 suggests to a large extent that the 4Q2016 decrease is the result of an adjustment. Among the sampled individuals, 30% and 2% anticipated an "Increase" and "Decrease" in demand respectively while 65% and 61% chose RMB and FX respectively. The increasing preference for RMB can be a result of weakening expectations of RMB devaluation. Meanwhile, 60%, 53% and 39% of the individuals surveyed claimed that 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 are the main demand drivers.

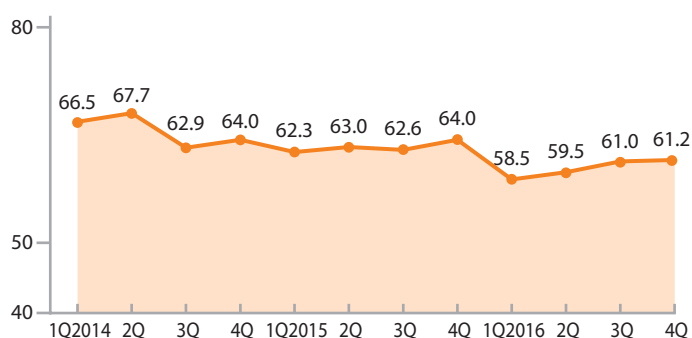
Trend of sub-index



## Immigration & education services (61.2)

Survey results show that 4Q2016 demand for cross-border immigration & education services strengthens slightly with the corresponding sub-index rising 0.2 and staying 5th in the rankings. Of the sampled individuals, 26% predicted demand to “Increase” while 4% did otherwise. Meanwhile, 80% and 46% chose educational services and immigrations services respectively. Confidence in immigration & education services offered by banks in Hong Kong (62%), confidence in future prospects of Hong Kong (53%) and adequate capital for supporting immigration & education services (45%) are the major considerations for the increase in demand.

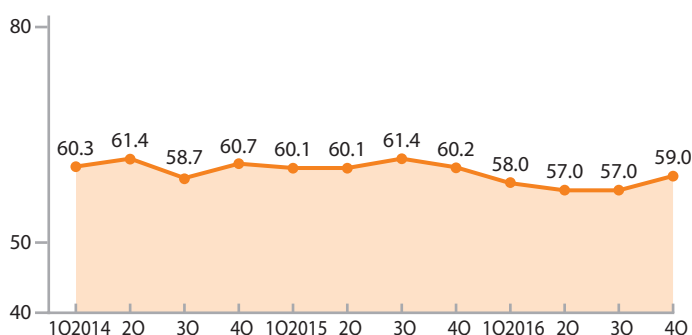
### Trend of sub-index



## Mortgage & Personal Loans (59.0)

Although remaining last in the rankings, this sub-index climbs significantly by 2.0, indicating that corresponding demand is set for a strong rebound attributable likely to the warming of Hong Kong's property market since March 2016. A number of mainland individuals buy properties or re-enter the market with the “spicy measures” still in effect, driving the expectations of a rise in cross-border mortgage & personal loans demand. Among the sampled individuals, 23% and 6% expected demand to “Increase” and “Decrease” respectively while 67% and 55% expressed interest in personal loans and mortgage loans respectively. Regarding the demand drivers, 50%, 47% and 38% said confidence in future prospects of Hong Kong, confidence in mortgage & personal loans offered by banks in Hong Kong and a need for adequate capital for investment 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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