

1Q2019 CNCBI Cross-border Banking Demand Index drops to 55.5

Cross-border demand to drop for third quarter as trade war reality sets in

(Hong Kong: 10 January 2019) China CITIC Bank International Limited (the “Bank” or “CNCBI”) today releases the latest CNCBI Cross-border Banking Demand Index. The 1Q2019 CNCBI Cross-border Banking Demand Index falls 0.5 further to 55.5. Corporate Demand Index takes another 0.4 dip to 53.8, which signifies the lingering impact of the China-US trade war while Individuals Demand Index suffers a trade war spillover and drops a steep 1.0 to 62.1 following a mild recovery in the previous quarter.

Dr Liao Qun, Chief Economist, CNCBI, says that five of the nine corporate demand sub-indices fall, while three rise and one stays put. Settlement & cash management, currency transactions, derivative products and asset management & financial consultancy plunge by 3.4, 2.5, 2.0 and 1.8 respectively. Trade finance slides slightly by 0.2 whereas structured finance and bond issuance rise by 1.5 and 0.2 as loans remains unchanged.

Dr Liao points out that the weakening of financing-oriented demand was rather significant in the last few quarters, while that of service-oriented demand was relatively mild. This trend is changing in 1Q2019 primarily as a result of the reversal of service-oriented demand’s continuous climb and the rebound of financing-oriented demand. Meanwhile, demand for currency transactions weakens markedly following the continuous depreciation of the RMB which will continue to face downward pressure against the USD until another US rate hike. As such, demand for currency transactions in 2019 is likely to continue its weakening trend.

China-US trade uncertainty is expected to drive down demand for corporate cross-border services to an extent depending on the trade war development. Rising trade tensions will cost both China and the US, deal a heavy blow to global economic outlooks and hamper global economic growth, causing corporate demand for cross-border services to shrink rapidly.

Regarding individuals’ cross-border demand, four of the individual demand sub-indices fall and three rise. Currency transactions, credit cards and financial investment plunge by 4.4, 2.4 and 2.1 respectively. Immigration & education services falls merely 0.5, while mortgage & personal loans and insurance products pick up 1.1 and 0.6 respectively.

Dr Liao notes that individuals’ demand for cross-border banking services takes a plunge after last quarter’s slight recovery, indicating a continuous downward trend overall. Compared to corporate demand, individuals’ demand is more sensitive to the external environment. China-US trade uncertainty is causing many mainland individuals to put their “going out” plans on hold and stay on the side-lines. In addition, the impact of RMB depreciation also contributes to the weakening demand, particularly that for

cross-border financial investment, credit cards, and currency transactions which is also the most vulnerable among all the others and compared with the same demand from corporations. Demand for insurance products continues to pick up steam. Whether mainland individuals are using Hong Kong's insurance products to hedge against the worsening economic and investment climate shall remain a question. In the meantime, demand for mortgage & personal loans rises surprisingly, in view of the recent adjustment in Hong Kong's property market. This may be a correction to last quarter's marked weakening. Also possible is that some mainland residents eye the opportunity to purchase properties in anticipation of a recovery.

Both corporations and individuals expect regulatory looseness sub-indices to rebound

The 1Q2019 expectation of regulatory looseness from both corporations and individuals rise 0.4 and 1.4 to 48.1 and 48.9 respectively. Dr Liao notes that this may be due to a correction to the continuous drop in the previous quarters and a consequence of the Chinese government's tighter capital controls on the one hand and liberal economic policies launched in response to the trade war on the other.

To view the detailed *CNCBI Cross-border Banking Demand Index Report*, please log on to: www.cncbinternational.com/cross-border-index.

Editor's notes:CNCBI Cross-border Banking Demand Index

The CNCBI Cross-border Banking Demand Index, launched in the first quarter in 2014, is the first quarterly leading index in Hong Kong to reveal changes in cross-border demand for Hong Kong banking services. The findings are based on the results of a quarterly survey over mainland corporate and individuals.

The Index is a weighted average of the Corporate Demand Index and the Individuals Demand Index. While the former is a weighted average of 9 service-specific corporate demand sub-indices, the latter is of 7 service-specific individuals demand sub-indices.

Each of the sub-indices is a diffusion index and is calculated from the replies of survey respondents to the question: Do you expect the cross-border demand of your/your company's demand for cross-border banking service (as specified) to increase, decrease or be unchanged in the next quarter as compared to the current quarter? For the sub-index of expectation of regulatory looseness, respondents answer the question: "Do you expect the regulatory environment to be looser, the same or tighter in the next quarter as regards your/your company's demand for cross-border banking service?" The value of the diffusion index is the sum of the responses of "Increase/looser" plus a half of those responding "Unchanged" in percentage terms.

The survey for the Index was conducted by international market research firm Ipsos and it covered 15 cities across the Pearl River Delta, Yangtze River Delta, Pan-Bohai and Central & Western areas of China. The quarterly survey involved 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.

China CITIC Bank International Limited

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By providing value-creating financial solutions to define and exceed both wealth management and international business objectives of Greater China and overseas customers, CNCBI aspires to be "the best overseas integrated financial services institution", with the highest international standards and capabilities.

CNCBI's footprint in Greater China includes 31 branches in Hong Kong, as well as branches and presence in Beijing, Shanghai, Shenzhen and Macau. CNCBI also has overseas branches in New York, Los Angeles and Singapore. More information about CNCBI can be found on its website at www.cncbinternational.com.

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