

**Bank of China (Hong Kong)**

**Offshore RMB Business**

**2011.05.27**

**BNPP Offshore RMB Corporate Day**



**中銀香港(控股)有限公司**  
BOC HONG KONG (HOLDINGS) LIMITED

## ► Forward-Looking Statement Disclaimer

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This presentation and subsequent discussions may contain forward-looking statements that involve risks and uncertainties. These statements are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will or may be expressed to be results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements, which reflect our belief only as of the date of this presentation. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Our actual results may be materially less favorable than those expressed or implied by these forward-looking statements which could depress the market price of our Level 1 ADSs and local shares.

## ► Agenda

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- Overview of Offshore RMB Market
- Business Opportunities
- Treasury Products and HK RMB Bond Market

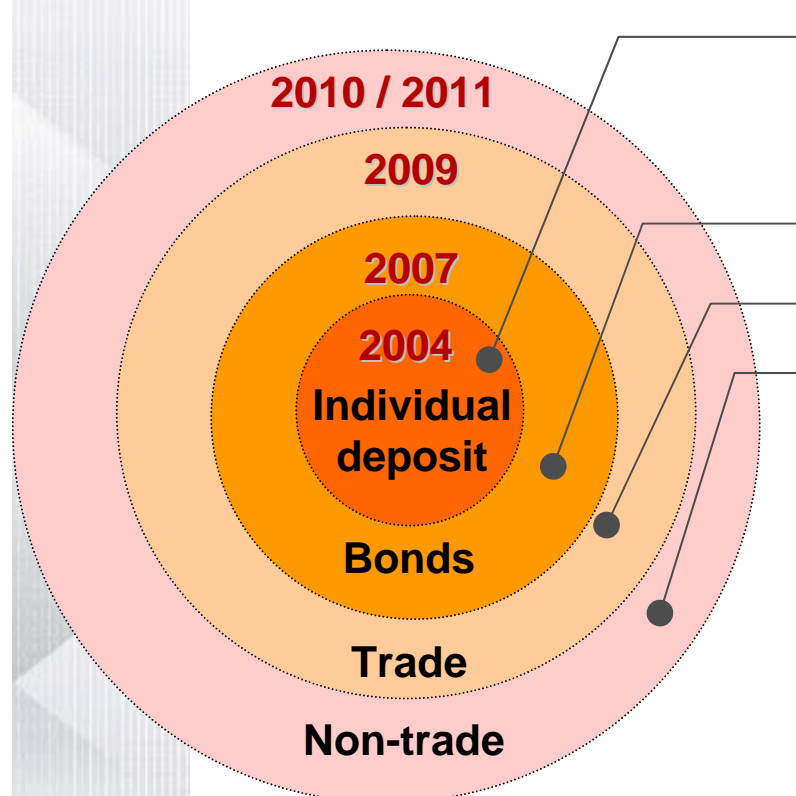
# Overview of Offshore RMB Market



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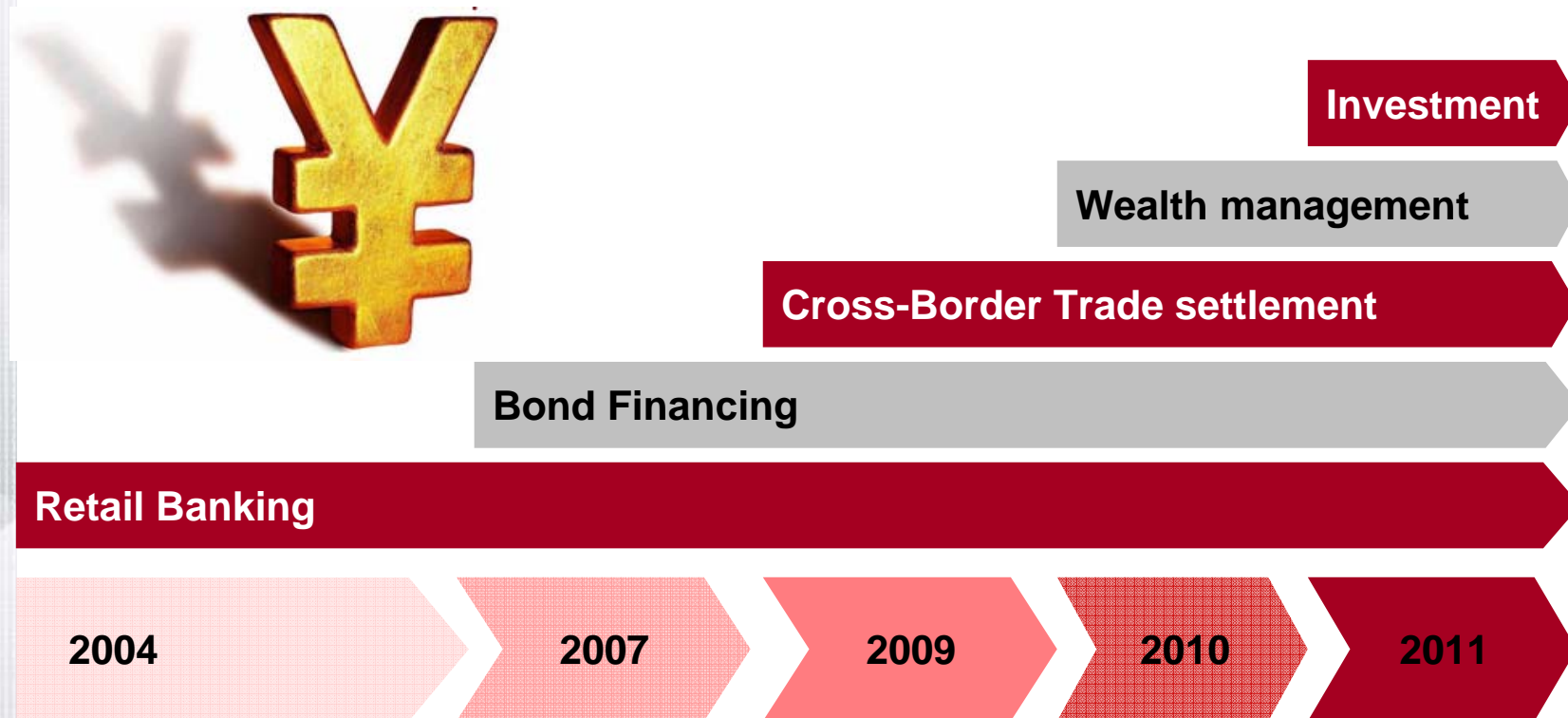
# Offshore RMB Market Development

Offshore RMB business scope has been expanding in an incremental and orderly manner



- **Dec 2003** : BOCHK appointed as the RMB Clearing Bank in HK by PBOC
- **Feb 2004** : Introduction of RMB business in HK, including deposit-taking, remittance, currency conversion and bank card business
- **July 2007** : Issue of RMB bonds in HK by Mainland financial institutions
- **July 2009** : Pilot scheme of cross-border RMB Trade Settlement
- **Feb 2010** : HKMA's elucidation of Supervisory Principles and Operational Arrangements Regarding RMB Business in HK
- **Jun 2010** : Further expansion of the scope of the Pilot scheme of cross-border RMB Trade Settlement
- **Jul 2010** : RMB cashnotes service extended to Taiwan with BOCHK as the Clearing Bank
- **Jul 2010** : PBOC and BOCHK signed the revised 'Settlement Agreement on the Clearing of RMB Businesses'
- **Aug 2010** : Allowing central banks/monetary authorities, RMB clearing banks of HK & Macau, and participating banks to invest in Mainland's inter-bank bond market
- **Jan 2011** : Pilot scheme on RMB Overseas Direct Investment

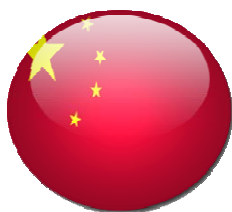
## ► RMB Offshore Market Timeline & Development



## ► RMB Trade Settlement Scheme

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### Expanded Scope in China and Worldwide



#### 20 Pilot cities and provinces in China:

Beijing, Tianjin, Inner Mongolia, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Yunnan, Jilin, Heilongjiang, Tibet and Xinjiang



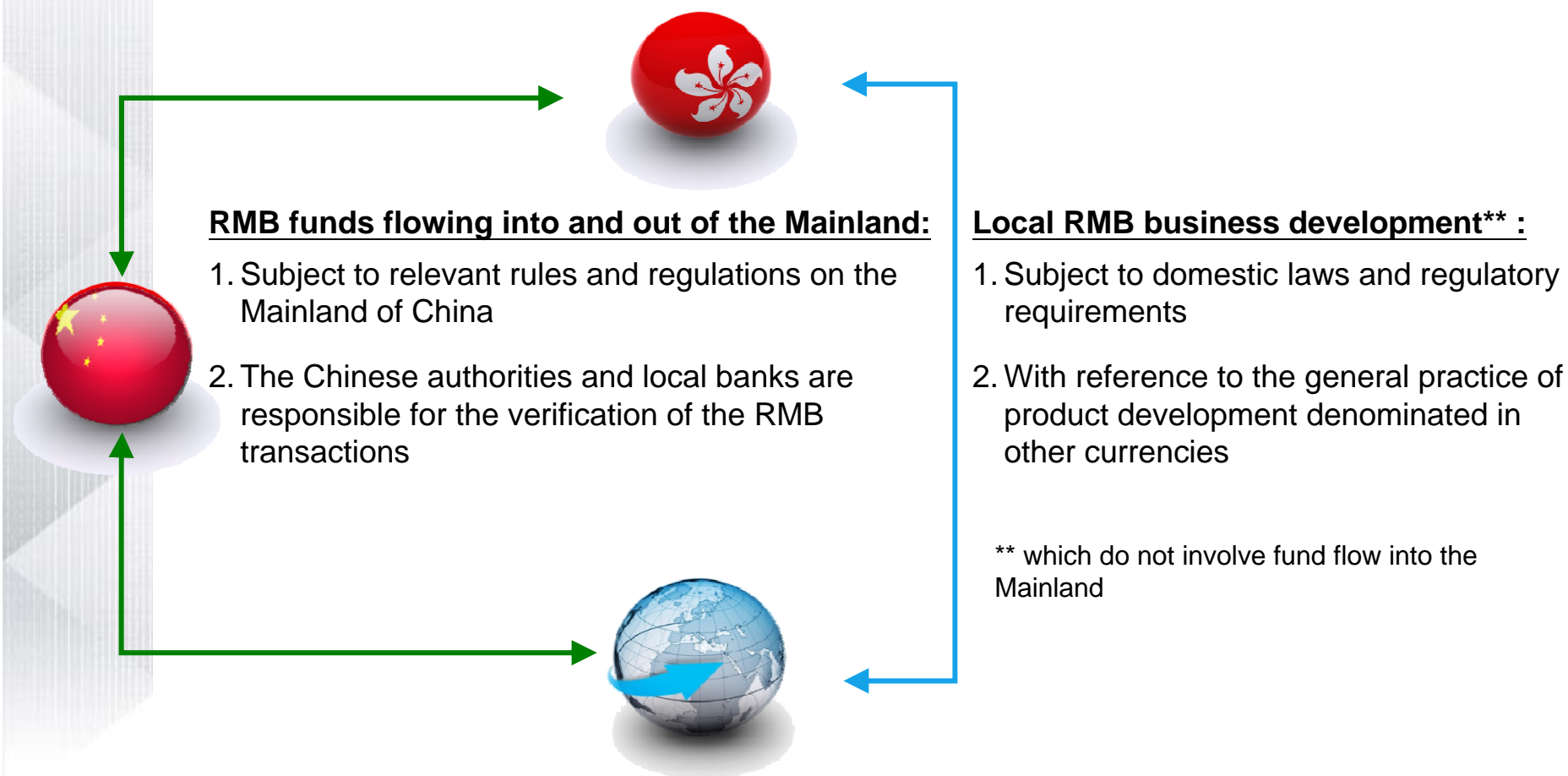
#### Worldwide:

Corporations all over the world are eligible to choose RMB as trade settlement currency with their trading partners in China



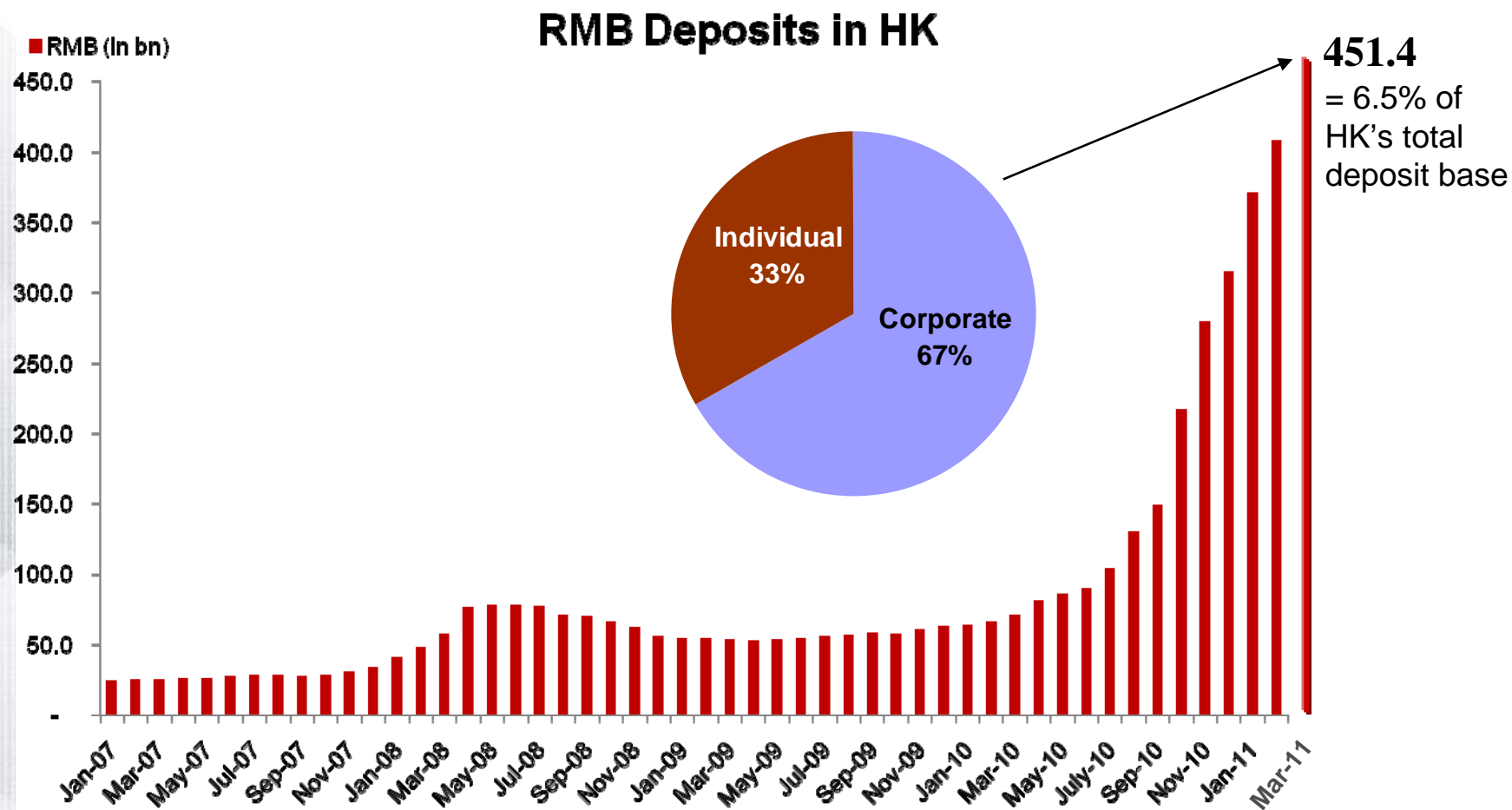
# ► Supervisory Principles in Hong Kong

Two major guidelines\* for cross-border flows of RMB Funds



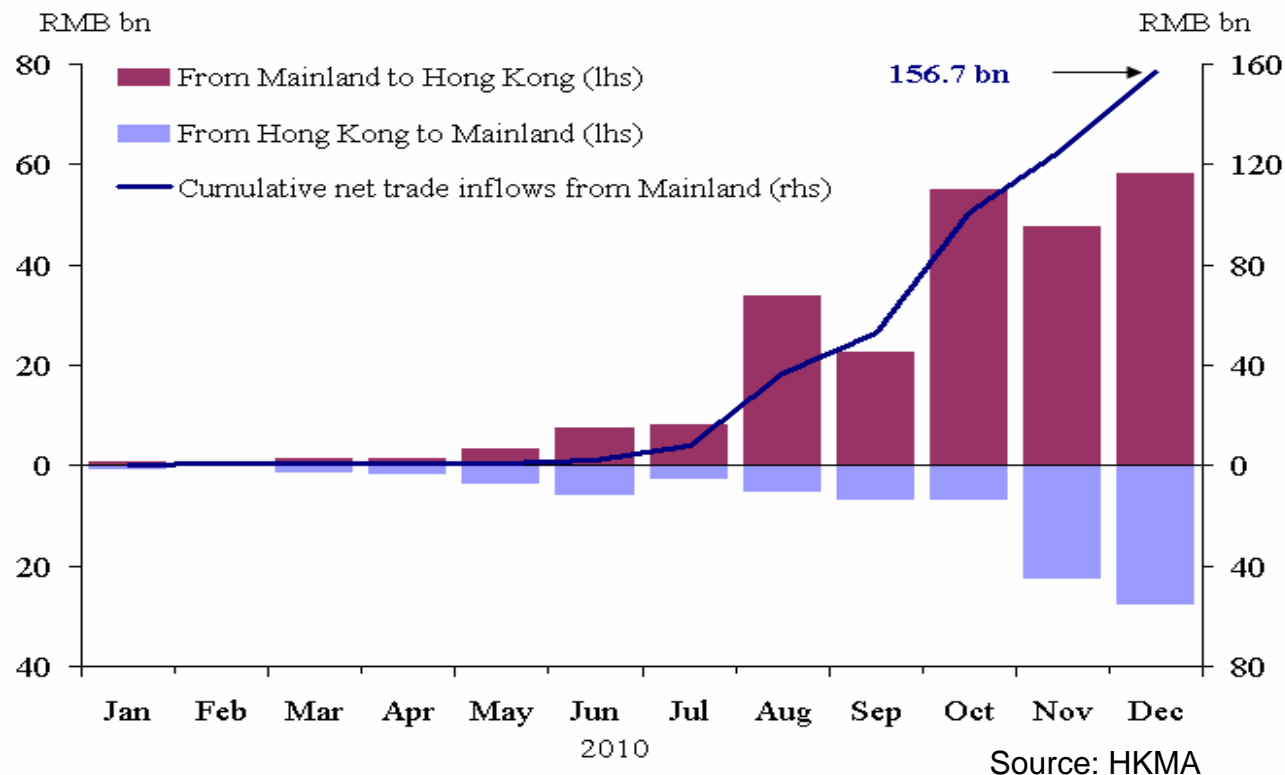


## ► Sizable RMB Deposits in Hong Kong



Source: HKMA

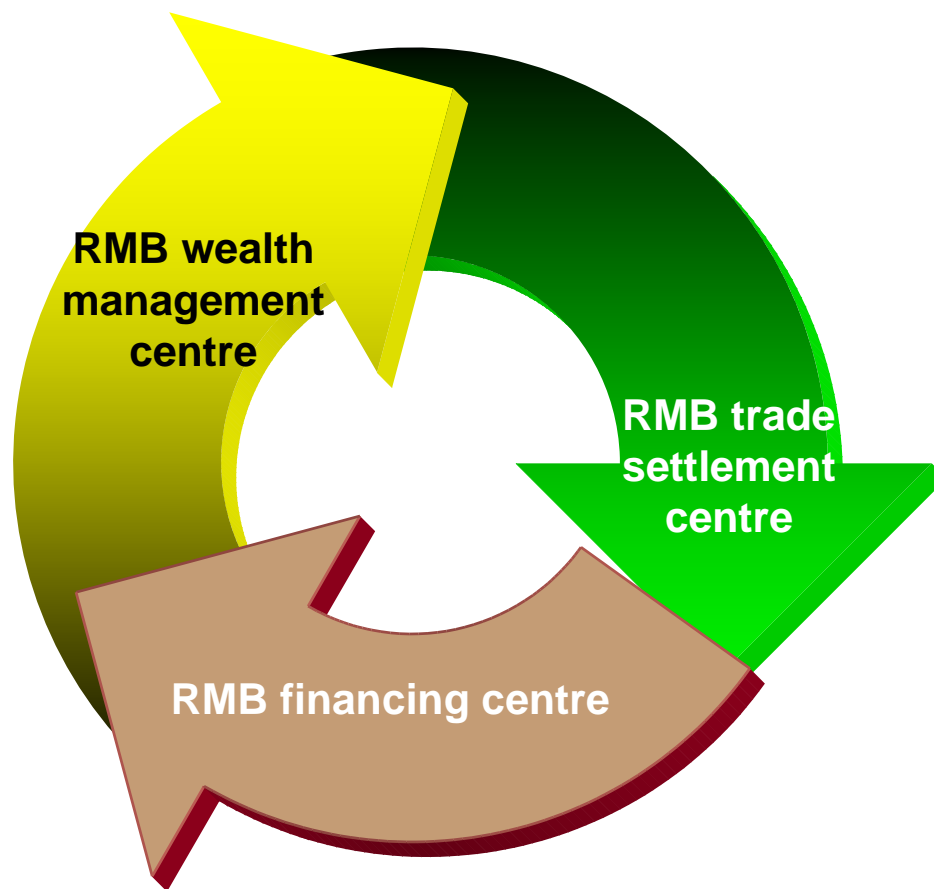
## RMB Cross-Border Settlement



- In 2010, total RMB trade settlement conducted through Hong Kong amounted to RMB 369.2 billion. (1Q11 : RMB 310.8bn)
- Most of them were payments from Mainland importers to Hong Kong, with a net payment of RMB 156.7 billion to Hong Kong for trade settlement.

## ► Hong Kong as the Offshore RMB Centre

Three key components mutually reinforcing





**BOCHK is well positioned to capture these rising business opportunities**



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## ► Expansion of Business Scope

### Enhanced customer and geographical coverage

- Expansion of customer coverage
  - ✓ Personal customers
  - ✓ Corporate customers (for trade and non-trade accounts)
  - ✓ Non-bank financial institutions
  - ✓ Banks and other financial institutions
- Extension of our services coverage outside Hong Kong
- Expansion of RMB product offering

## ► RMB Products Offered

Increased flexibility in the provision of  
RMB-denominated financial services

### RMB Banking

- Accounts
- Deposits
- Banknotes
- CDs / currency-linked
- Remittance
- Trade Financing
- Bank cards

### RMB Capital market

- Debt origination
- Bonds  
Commodity-linked products
- Equity financing
- Structured products
- Derivatives
- RMB IPO / Equity

### RMB FX market

- Spot FX
- FX deliverable forward
- FX non-deliverable forward
- FX option
- Position squaring

### RMB Money market

- Interbank loans market
- Currency swap
- Intraday repo
- Short-term papers

## ► BOCHK's Competitive Edges

**BOCHK is well-positioned  
to capture the rising RMB business opportunities**

- Strong RMB franchise
- Leading position in existing RMB businesses
- Extensive cross-border service network with close cooperation with BOC
- Strong customer base involving cross-border activities



## ► Leading Market Position in RMB Businesses

### Maintain leading position in offshore RMB banking businesses

- Dominant position in RMB banking businesses in Hong Kong including deposits, remittance, trade settlement, credit cards, etc.
- Market leader in RMB insurance products, including the first RMB insurance products with settlement being made in RMB
- 1st to introduce the RMB deliverable forwards
- 1st to conduct RMB ODI remittance into Hong Kong and RMB FDI remittance into the Mainland
- Sole bookrunner & lead manager of first RMB Corporate Bond
- Underwriter and distributor of major RMB bonds issued in Hong Kong
- Published the 'BOCHK Offshore RMB Bond Index', the first offshore RMB bond index of its kind in Hong Kong
- Pioneered the distribution of RMB funds in Hong Kong

## ► Strategy and Opportunities

**Enhance our Total Solution Services  
capitalising on RMB business opportunities**

- Considerable opportunities arising from the increasing use of RMB globally
- Acquisition of new customers and enhancement of customer wallet share
- Close collaboration with BOC to enhance our global RMB service capability and to extend our presence outside Hong Kong
- Capitalise on the RMB business opportunities to promote other services and business development

# Treasury products and HK RMB Bond Market



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# ► Integrated Value Added Services Solution

## Treasury Products

### ➤ Money Exchange

### ➤ RMB value-added treasury services

- ◆ Non-deliverable forwards
- ◆ Deliverable forwards

### ➤ RMB bonds

### ➤ Capital guaranteed structure deposit

- ◆ Flexible deposit period and amount

### ➤ Banknotes

### ➤ IRS

### ➤ Custody

### ➤ Cash Management



## ► Offshore RMB Deliverable Forward (DF)



BOCHK completed the 1st offshore RMB DF on 2 Aug 2010.

- The offshore RMB Deliverable Forward Market is an over-the-counter market for RMB forward or futures.
- The offshore RMB DF is priced using interest parity, but like other currency forward contracts, the price of RMB DF also depends on the market demand and supply and bank's own position.
- RMB DF can:
  - ✓ hedge exchange risk
  - ✓ fix future exchange cost
  - ✓ satisfy the currency needs

## ► RMB Non-deliverable Forward (NDF)

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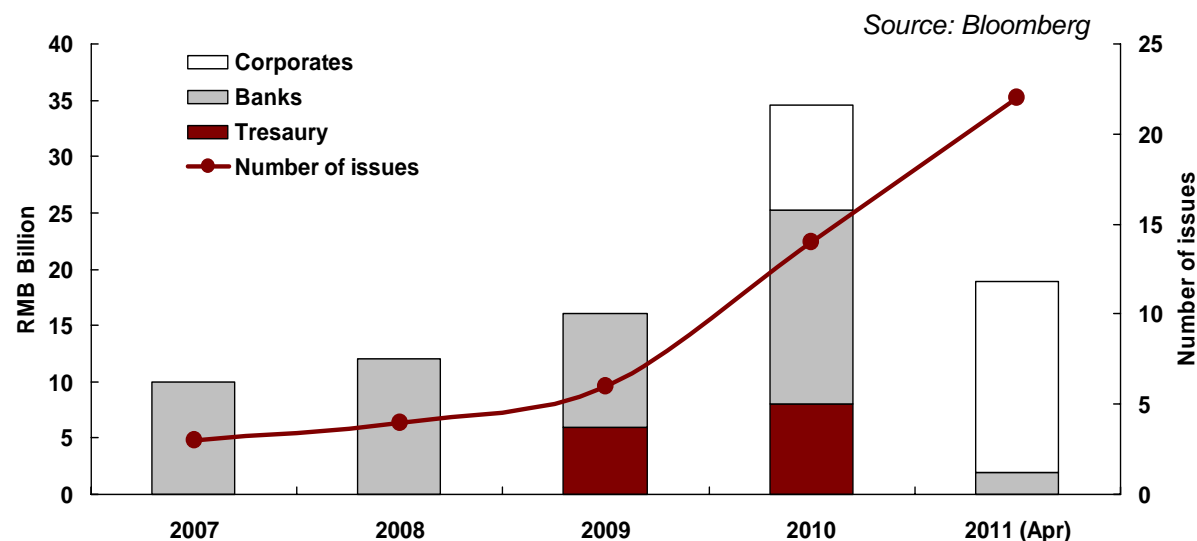
- NDF is an outright forward or futures contract in which counterparties settle the difference between the contracted NDF price or rate and the prevailing spot price or rate on an agreed notional amount.
- The fixing price for RMB NDF is the CNY SAEC published at 9:15am Beijing Time everyday.
- NDF price is mainly affected by the market supply and demand while the expectation for RMB appreciation plays a significant part.

# Development of Hong Kong RMB Bond Market

## BOCHK Offshore RMB Bond Index

- First offshore RMB bond index of its kind in Hong Kong
- Launched on 31 Dec 2010
- A total return index to track daily interest & price changes of constituent RMB bonds
- Key criteria:
  - ✓ Minimum outstanding face value of RMB 500 million
  - ✓ Minimum six months of remaining maturity as of an index rebalancing day

## Hong Kong RMB Bond Volume & Issue No.

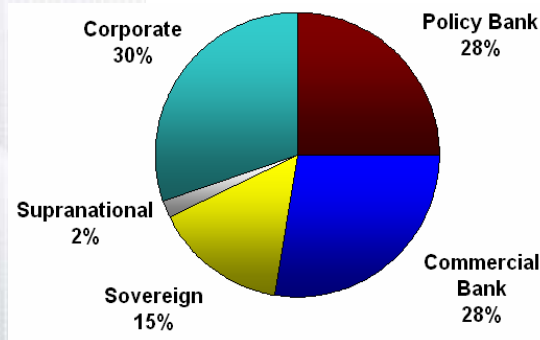


- 2007** The State Council granted permission to Mainland Financial Institutions to issue RMB bonds in Hong Kong.
- 2008** Further relaxation to allow Hong Kong financial institutions' mainland subsidiaries to issue RMB bonds in Hong Kong.
- 2010** HKMA released Elucidation of Supervisory Principles and Operational Arrangements Regarding RMB business in Hong Kong. Scope of RMB bond issuance was further extended beyond financial institutions to all corporates.



# Current Status of Hong Kong RMB Bond Market

## Issuer Distribution



- **Market Practice:** Hong Kong RMB Bond market is an offshore market, the market practice is similar to Euro-dollar.
- **Format:** Hong Kong RMB Bond can be issued in various formats, such as Bullet Bonds, EMTN, CD, CP, etc.
- **Size:** For corporate with good rating, a 0.5 -2 billion is the most common size. Financial institutions can issue to 5-10 billion more easily. As at end April 2011, the total issue size of Hong Kong RMB Bonds is over RMB90 billion.
- **Tenor:** 2 to 3 years is still the most popular tenor for Hong Kong RMB Bonds, 5 years or above is emerging with growing demand.
- **Rating:** Not mandatory but a good credit rating is helpful in the execution and pricing process.
- **Governmental Approval:** for public issues, i.e. bonds offered to Hong Kong public, are subject to Hong Kong SFC approval. For private placement, such as bonds offered to professional investors/institutional investors or one-on-one private placement by international issuers, no governmental approval is needed.
- **Secondary Market:** The secondary trading of Hong Kong RMB Bonds is getting more active with broker offering prices everyday and the bid/ask spread is getting tighter.

# ► Benefits of Issuing RMB Bond in Hong Kong

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## **Strong Demand:**

The total RMB deposit balance in Hong Kong stood at RMB 451 billion as at end March 2011. On the other hand, RMB assets supply are limited, hence RMB bonds issued in Hong Kong are warmly welcomed by investors.

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## **Relatively Low Cost of Funding:**

Because of the huge demand of RMB assets from investors in Hong Kong, RMB bonds issued in Hong Kong have a relatively lower funding cost on average than those issued in the mainland China market, and is substantially lower than the lending rate in China.

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## **Good Publicity:**

Most of the RMB bonds issued in Hong Kong so far have attracted huge public attention, enabling the issuers to build up a good image.

## ► Policy Implication on RMB Bond Issue in Hong Kong

### No Restriction on Overseas Issuer

Hong Kong RMB Bond market is regulated according to Hong Kong Securities and Futures Ordinance. Only the Mainland issuers are subject to Mainland authority's approval.

### No Restriction on Investors

The amended Clearing Bank Agreement broadened the investor base from participating bank to all overseas investor.

### No Restriction on Purchasing/Borrowing

The overseas investors can purchase or borrow RMB from any overseas financial institution which has available RMB for sale or to lend.

### Capital Repatriation back to Mainland

Subject to Mainland authority's approval.

Any entities registered overseas can issue RMB bonds in Hong Kong. The feasibility depends on investors' acceptance of the issuer. Generally the issuer has to have substantial operating activities, constant income level, healthy debt ratio, and reasonable asset size.

# ► Capital Repatriation

## Under Current Account

### Categorised as Trade

- Export / Import
- Trade Service
- Shareholder's Dividend

### Notes

- Follow the standard approval procedures set by SAFE
- Company has to be from those pilot areas under the trade settlement scheme

## Under Capital Account

### Forms of Capital Repatriation

- Capital Injection
- Shareholder's Loan

### Notes

- New projects or companies have to get approval from NDRC / MoC
- Company needs to have enough FDI quota or Foreign Debt Quota
- The approval for repatriation under capital account is on a case-by-case basis



**Thank You**

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