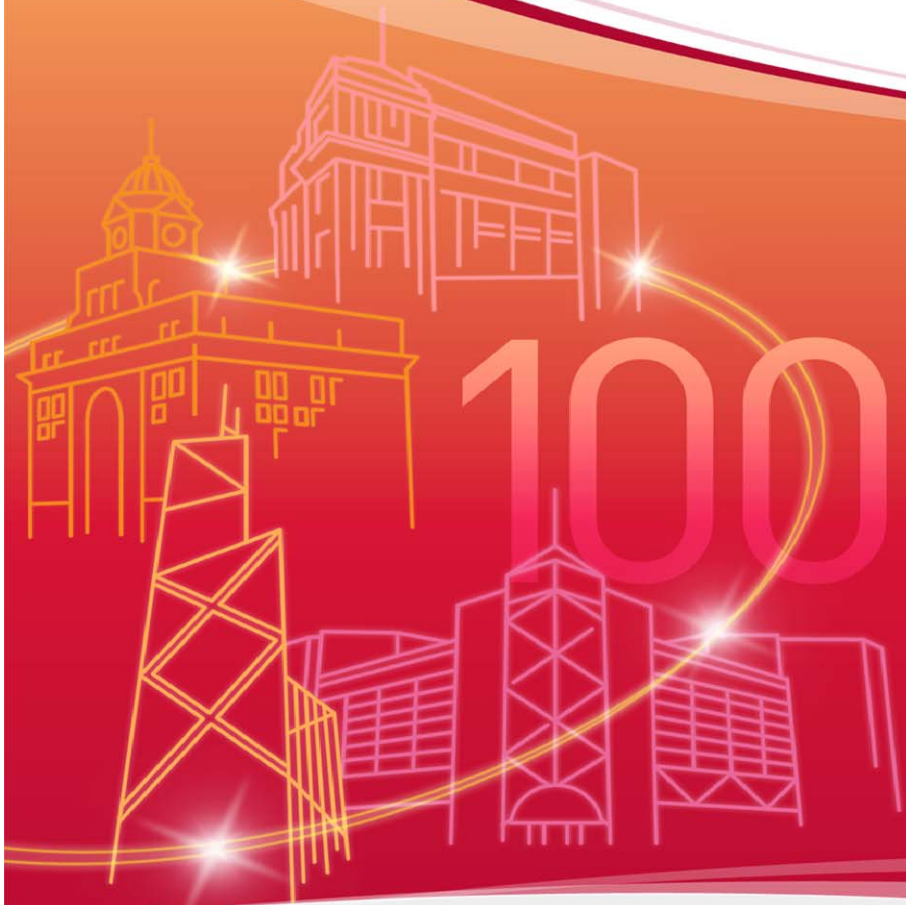




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Prospects for RMB Business Development

Bank of China (Hong Kong)

February 2012

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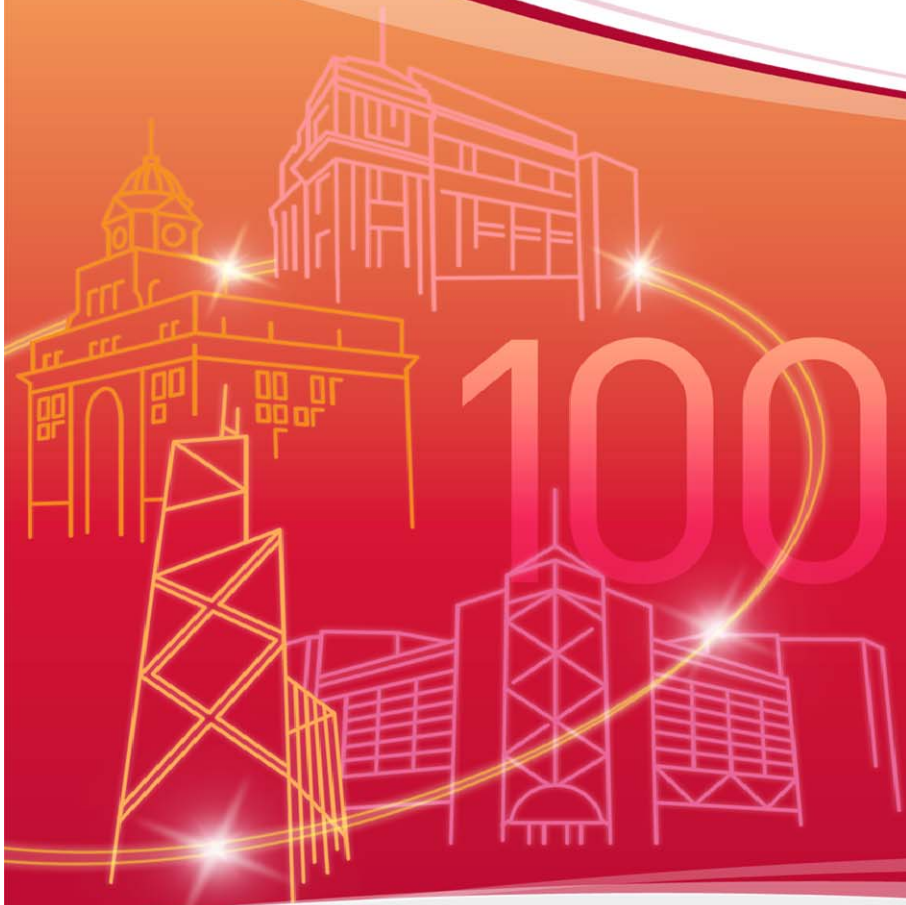
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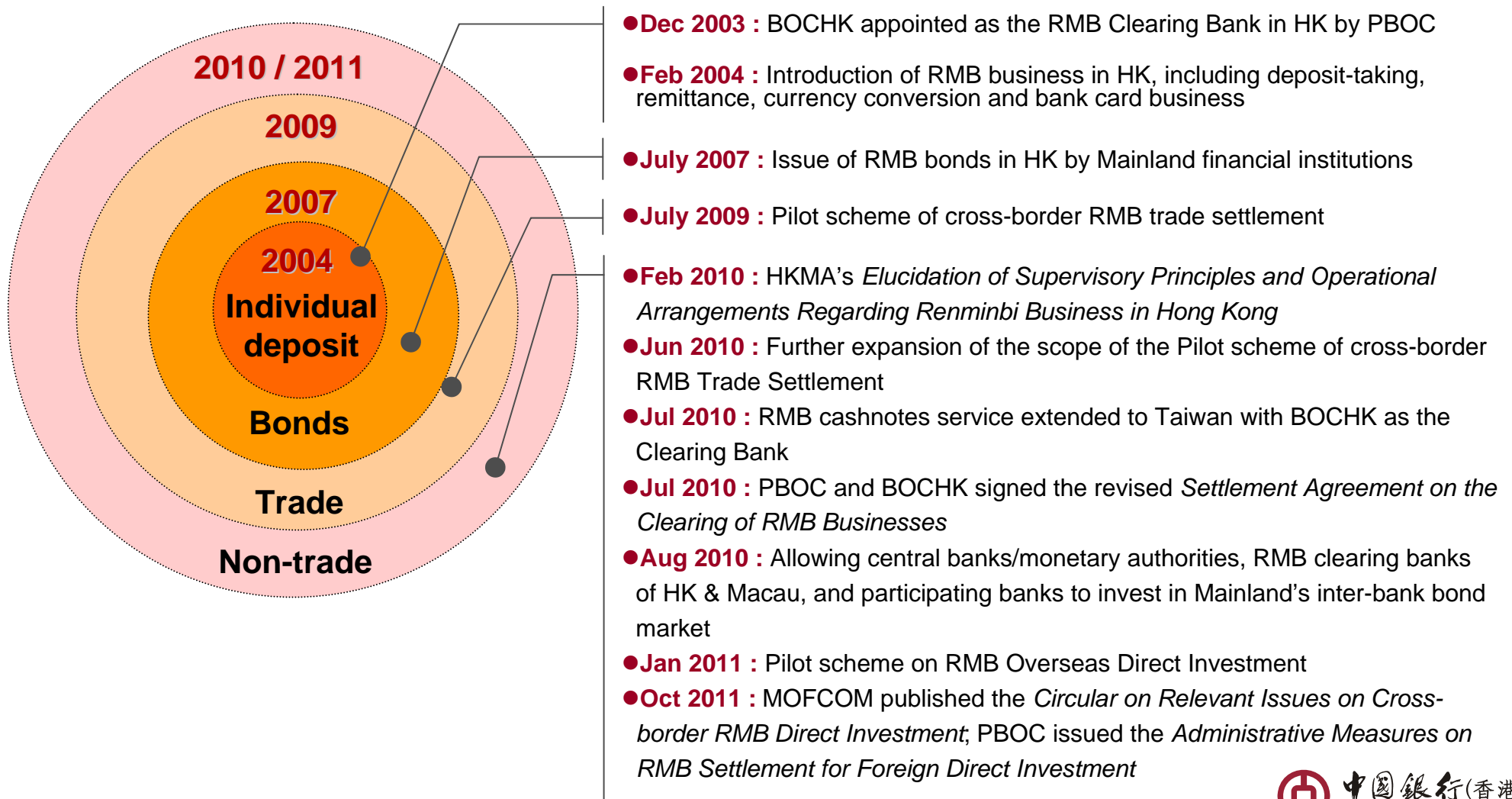
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Review: RMB as an Emerging Global Currency

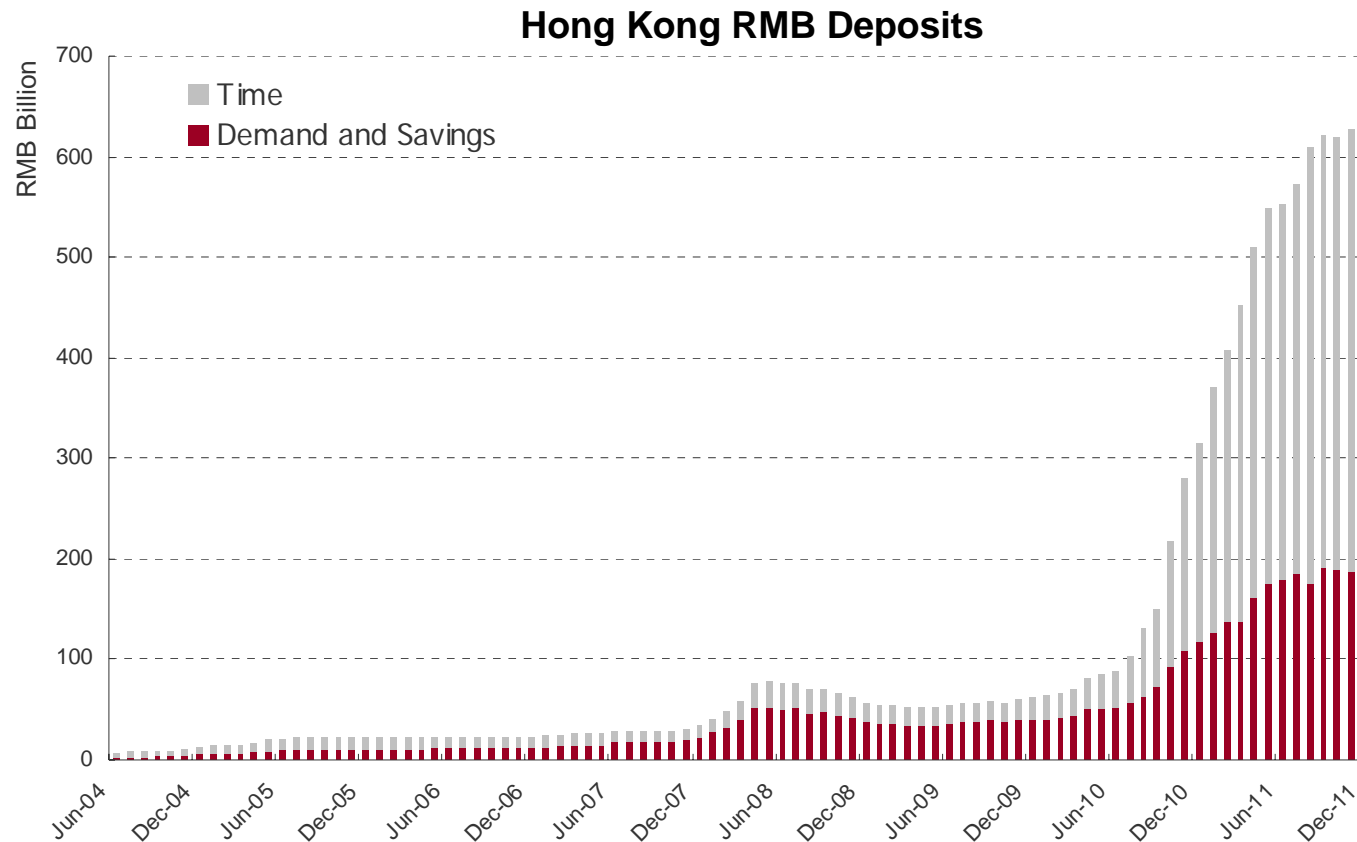
Offshore RMB Market Evolution

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



Hong Kong RMB Deposits

As at end-Dec 2011, the total offshore RMB deposit in Hong Kong already exceeded RMB588 billion, which lays a solid foundation for RMB business development.



Source: HKMA

- **Phase 1:** from December 2003 - the appointment of BOCHK as the RMB Clearing Bank
 - Retail RMB businesses including deposit-taking, remittance, currency conversion and bank cards were introduced , leading RMB deposits to increase.
- **Phase 2:** from July 2010 - the revised *Settlement Agreement on the Clearing of RMB Businesses*
 - A broader range of RMB businesses in Hong Kong were enabled. The RMB deposit has experienced more rapid increase.



Cross-Border RMB Trade Settlement and Clearing System

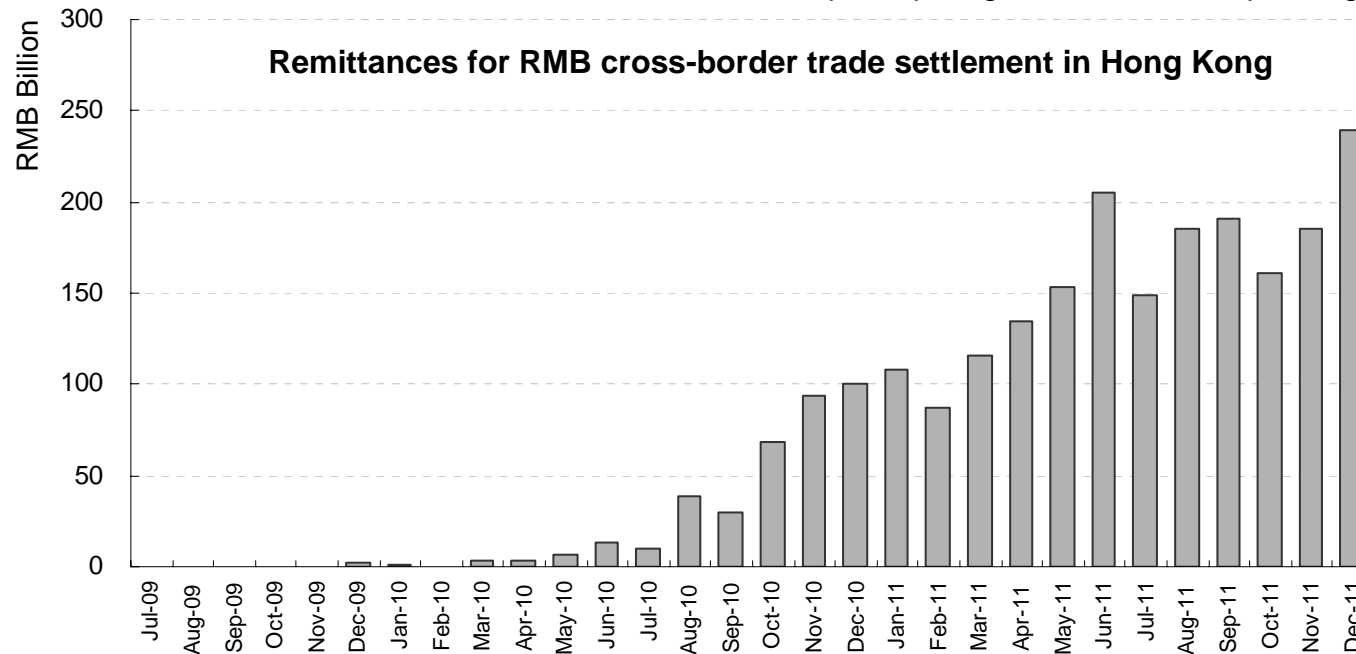
The scale of RMB cross-border trade settlement has expanded rapidly. A global RMB clearing system with the centre in Hong Kong has begun to take shape.

- **RMB cross-border trade settlement developed rapidly**

- In 2011, RMB cross-border trade settlement reached RMB2,080 billion, which is more than six folds of the amount recorded in 2010. (Source: PBOC)
- RMB cross-border trade settlement has expanded from Hong Kong and Macau to the world.
- BOCHK takes a pioneer role in providing RMB cross-border trade settlement services.

- **A global RMB clearing system with the center in Hong Kong has begun to take shape**

- Under the clearing system with BOCHK as RMB Clearing Bank, there are 186 directly participating banks as end of 2011.
- Overseas banks can also conduct interbank business with the participating banks, further expanding the global clearing network.



Source:
HKMA and public media release

Development of the CNH Market

The CNH market has developed substantially with a wide range of products.

CNH Spot

- CNH spot trading debut in Hong Kong in August 2010. BOCHK completed the 1st transaction.
- Daily trading volume has increased substantially.

CNH DF & NDF

- The CNH Deliverable Forward Market is an over-the-counter market for RMB forward or futures.
- BOCHK completed the 1st CNH DF transaction in August 2010.

CNH IRS, ND IRS & CCS

- CNH IRS is still at a very preliminary stage with limited liquidity and small market volume.
- ND IRS is a relatively more mature market and can be liquid up to 10-year tenor.
- CCS is at a preliminary stage with limited daily trading volume.

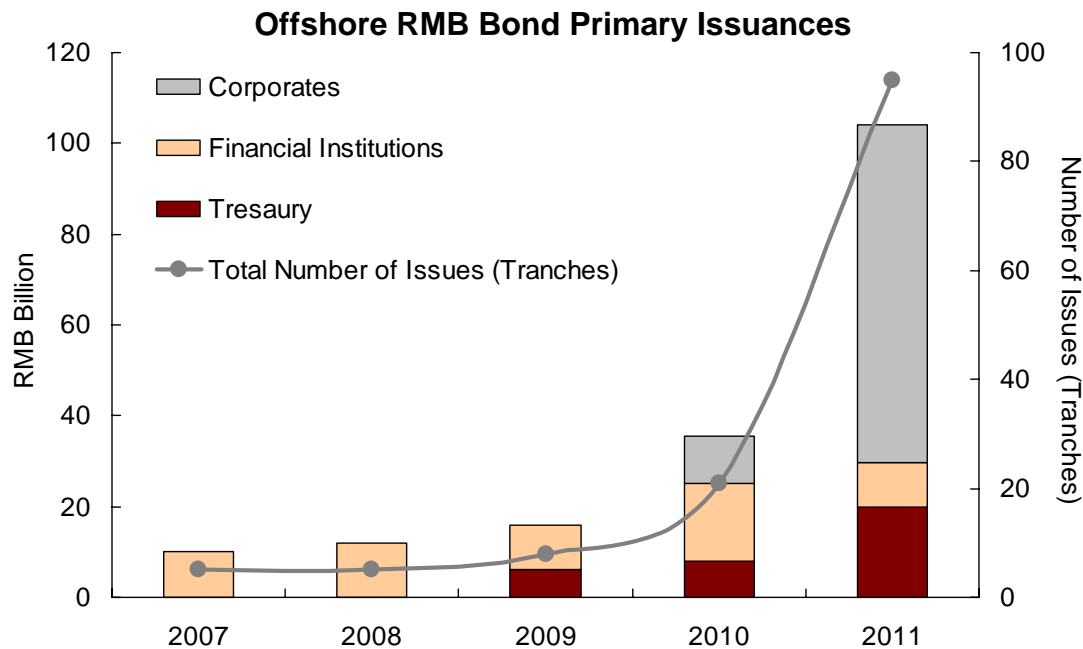
CNH Currency Option & Other Structured Products

- The CNH option market started in 2011. Products include CNH/USD Call/Put, CNH Digital Option, CNH Currency Option Strip, etc.
- The CNH option market is growing and there is still room for liquidity to improve.

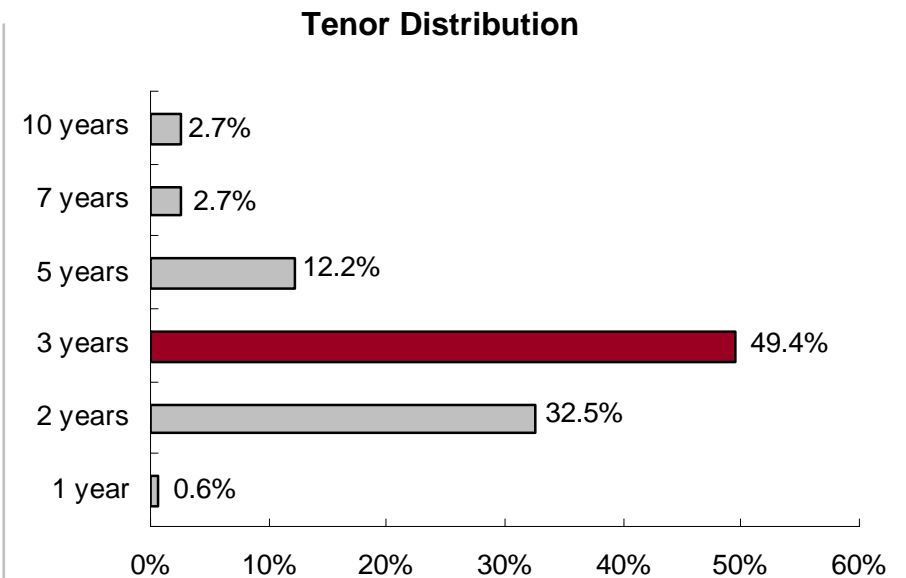
BOCHK is a pioneer in market innovation and can provide 24-hour services to clients.

Development of Offshore RMB Bond Market

The offshore RMB bond market has expanded rapidly since the first bond issuance in 2007.



Source: Bloomberg, as of December 31, 2011



Source: Bloomberg, as of December 31, 2011

- From 2007 to the end of 2011, the total number of offshore RMB bond issues is 135, with total issue size of RMB 177.6 billion. The average issue size per tranche is RMB 1.32 billion. Total outstanding size is RMB 143.2 billion.
- In 2010, BOCHK lead-arranged the first corporate bond deal for Hopewell Highway Infrastructure Ltd., which marked the take-off of offshore RMB corporate bond. Corporate issuances have since then grown exponentially with many of the firsts come to the market. The depth and width of the market also continue to develop substantially.
- 2 and 3 year remain the most common tenor for offshore RMB bonds, while demand for 5 year or above is growing for investment grade credits.
- The **BOCHK Offshore RMB Bond Index Series** give good snapshots of the secondary market.

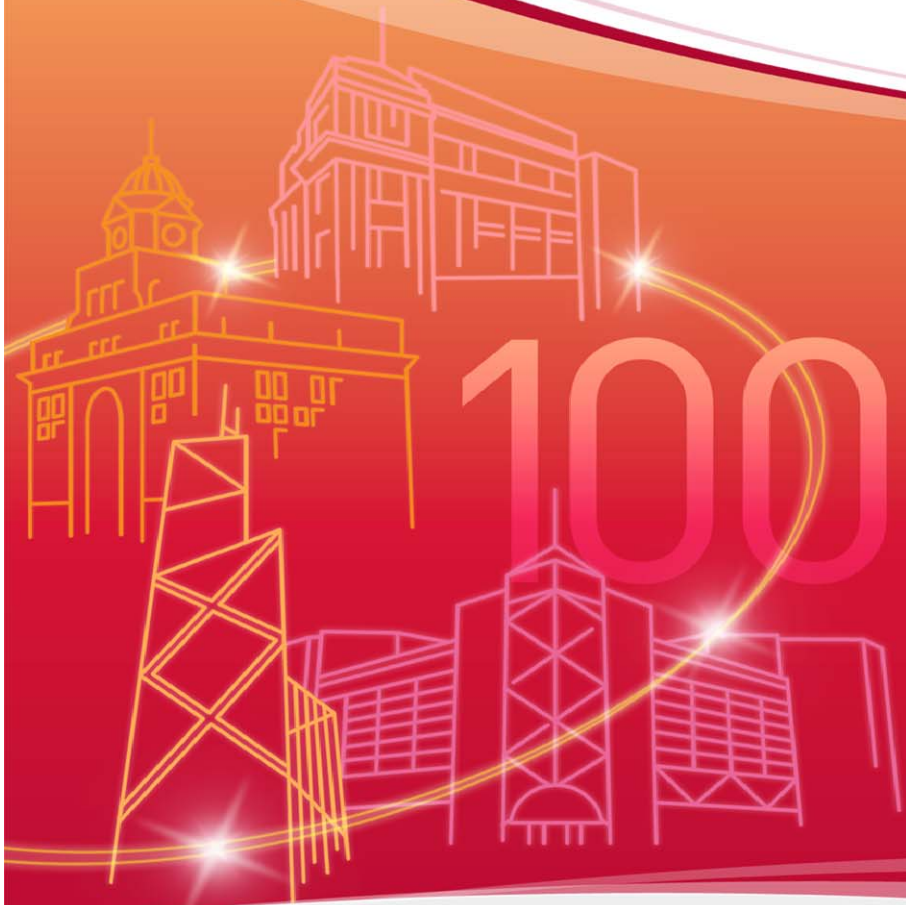
RMB's Gaining Importance as a Reserve Currency

Since 2008, China has signed bilateral currency swap agreements with 15 countries and regions. A number of countries' central banks have also shown interest in including RMB in their reserve portfolios.

- **China's bilateral currency swap agreements with other countries and regions have expanded the use of RMB in international trade and investment.**
 - Since 2008, China's central bank has signed bilateral currency swap agreements with 15 countries and regions, including Hong Kong, Singapore, Korea, Belorussia, etc.
 - These bilateral currency swap agreements have expanded the use of RMB and reduced the participants' risks in exchange rate fluctuations in bilateral trades.
- **A number of countries' central banks have shown interest in including RMB in their reserve portfolios.**
 - As China's economic importance grows, RMB becomes more widely used. More countries have shown interest in including it in their reserve portfolios.
 - The ongoing sovereign crisis and slowdown of US economic recovery further drive the central banks' interests.
 - Nigeria, Chile, Thailand and Venezuela are among the first countries whose central banks have shown interest or taken efforts in using RMB as a reserve currency.
 - In December 2011, Japan announced that the Japanese authorities will invest in Chinese government bonds. As the world's second largest foreign exchange reserves, Japan was the first G-7 country to show interest in the RMB assets.



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2012:

A Key Year for RMB Business Development

2012: A Key Year for RMB Business Development

Given its solid fundamentals, the offshore RMB business will be further expanded going forward.

- **The good progress of offshore RMB business so far lays a solid foundation for the long-term development RMB business**
 - Hong Kong's RMB deposit base creates great demand for RMB denominated assets.
 - As at end-Dec 2011, Hong Kong RMB loan balance has increased to RMB30.8 billion. The offshore RMB loan business will be further developed with growing demand and wider client base.
 - BOCHK started to provide RMB repurchase (or “repo”) facilities in 2011. The RMB repos will enhance the liquidity of Hong Kong's RMB market, facilitate efficient RMB settlements and enable the launch of new RMB products and services in the future.
 - The Spot USD/CNY(HK) Fixing was launched on June 27, 2011. This serves as a benchmark for the market exchange rates of USD against CNY(HK) and provides a reference rate for the pricing of RMB products in the offshore market.
 - The offshore RMB bond market has undergone rapid development since 2007. The secondary trading is also getting more active.
- **The Mainland government supports Hong Kong's development as the offshore RMB business centre. New measures announced by Vice Premier Li Keqiang during his last visit to Hong Kong include:**
 - Extension of the Pilot Scheme for Cross-border Trade Settlements in RMB to cover the whole country
 - Launching of pilot projects for foreign-funded banks to replenish capital with RMB
 - Encouraging the use of RMB by Hong Kong enterprises in making direct investment in Mainland
 - Allowing Investments in Mainland equity market by means of the RMB Qualified Foreign Institutional Investors (RQFII) with an initial size of RMB20 billion
 - Expand the sale of RMB-denominated bonds in Hong Kong and allow more Mainland firms to issue bonds in Hong Kong
 - Making the issuance of RMB sovereign bonds in Hong Kong a long-term and institutional arrangement and gradually expanding the scale of issuance

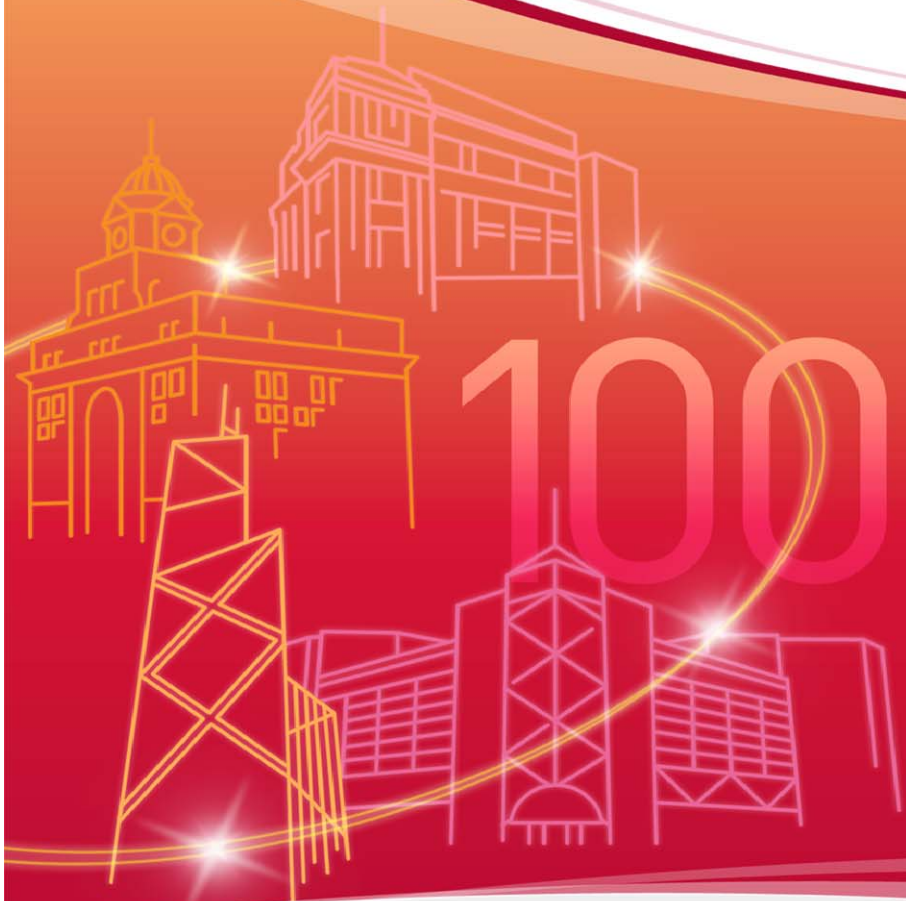
Offshore RMB Bond Market Development in 2012

The depth and width of the offshore RMB bond market will continue to develop in 2012. The market will become more mature with the participation of more high-quality issuers and investors.

- **More high-quality Mainland issuers will tap the market**
 - Following Baosteel's landmark offshore RMB bond issuance, more high-quality Mainland issuers will tap into the international capital market by issuing offshore RMB bonds.
- **High-rated bonds will see greater demand**
 - Rating has become increasingly important in the execution and pricing process as compared to early stage. With more supply of offshore RMB bonds, investors will become more selective about quality.
 - Because of the relatively lower funding cost, more international issuers with high ratings will tap the market for fund raising.
- **Experienced offshore RMB bond issuers will further contribute to the market development**
 - Frequent issuers will leverage their experience and refer to secondary pricing in their future bond issuances, which will establish benchmarks for other issuers.
 - Chinese issuers will take into consideration the onshore and offshore funding gap in bond issuance.
- **More high-quality investors will eye on the market**
 - With expectation of RMB appreciation in the long term and increasing interest in RMB assets, more high-quality investors will invest in offshore RMB bonds.



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Looking forward: RMB Going Global

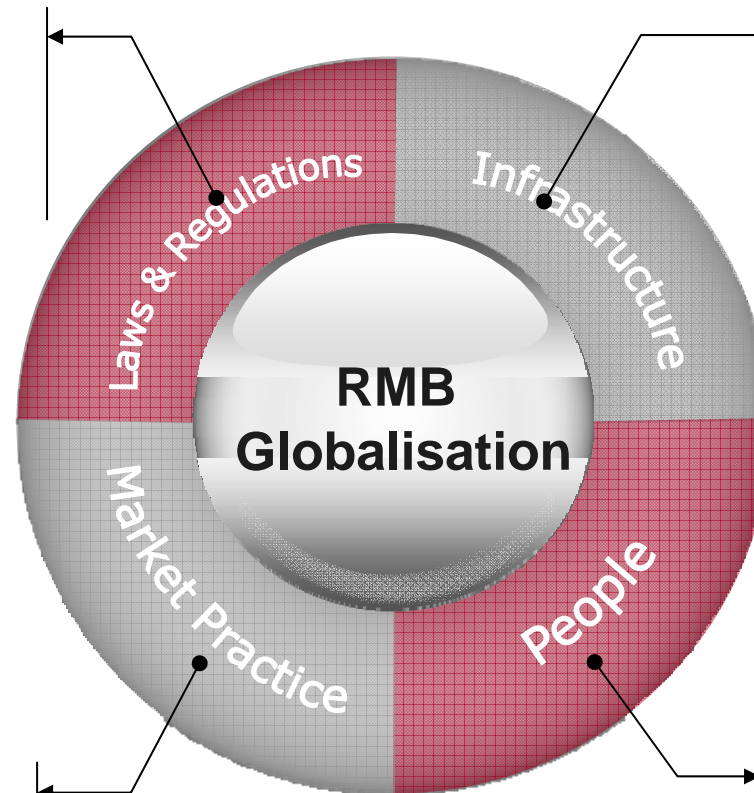
Looking forward : RMB Going Global

With China's consistent economic growth and increasing use of RMB in international trade and investment, the regionalisation and internationalisation of RMB will be further developed.

- **China: The second largest economy in the world and major player in international trade**
 - One of the world's fastest-growing major economies with consistent growth rate of around 10% in the past 30 years.
 - Become the world's second largest economy since 2010.
 - The world's No. 1 merchandise exporter and No. 2 merchandise importer in 2010, share in world total merchandise exports and imports reached 10.4% and 9.1%, respectively. (Source: World Bank)
 - Compared with the size of the Chinese economy, the current scale of the use of RMB is still small.
- **China plays an increasingly important role in global financial system**
 - As at end 2011, China's foreign exchange reserves had reached US\$3.18 trillion, ranking No. 1 in the world.
 - Chinese banks (BOC, CCB, ICBC, etc.) are among the world's top banks and leverage their global franchises to provide full range of banking services.
 - Bank of China is one of the systemically important financial institutions (or "SIFI") named by the Financial Stability Board.
- **China's economic growth and increasing demand for RMB cross-border trade settlement and RMB-denominated assets are key building blocks for RMB regionalisation and globalisation**
 - China's economic growth provides primary impetus to the regionalisation and globalisation of the RMB currency.
 - The increasing demand for RMB cross-border trade settlement and RMB-denominated assets also paves the way for the development of RMB business.
 - The evolving debt crisis in Europe and the reform of international financial system further provides opportunities for RMB globalisation.
- **In the long run, RMB will gradually develop into an important regional and global currency.**

Key Factors in RMB Business Development

- Government regulations
- International supervisory guidance
- Tax laws
- Accounting rules



- Account opening
- Clearing & settlement systems
- Trading system
- Linkage of systems

- Industry protocol & market practice
- Understanding & recognition of standards between China and international markets

- Issuers
- Investors
- Intermediaries

Looking forward : Future Development of RMB Business

The globalisation of RMB will advance gradually and steadily alongside with China's consistent economic growth and reform in the financial system.

- **The globalisation of RMB will advance gradually and steadily**
 - China's consistent growth and corporations' global asset allocation need will continue to drive the gradual development of RMB business going forward.
 - The offshore RMB market is still in its early stage of development. There is still room for the liquidity and market depth to improve.
 - The globalisation of RMB also requires reform and enhancement of China's financial system.
- **As policies become more open, offshore RMB market will have increasing interaction with the onshore market**
 - It may take time for further policy relaxation on the capital accounts.
 - The interaction of offshore and onshore RMB market will increase, which paves the way for RMB globalisation.
- **International cooperation will facilitate the future development of RMB business**
 - China's cooperation with other economies will increase the use of RMB in international trade and investment.
 - The cooperation of Hong Kong as offshore RMB centre and other financial hubs will facilitate the development of RMB business around the world.

BOCHK's Dedication to the RMB Business Development

BOCHK plays a key role in RMB market innovation and maintains leading position in offshore RMB businesses.

Well-positioned to capture business opportunities



- Strong RMB franchises
- Extensive cross-border service network with close cooperation with BOC
- Strong customer base involving cross-border activities

Pioneer in market innovation



- First to conduct RMB ODI remittance into Hong Kong and RMB FDI remittance into the Mainland
- First RMB insurance products with settlement made in RMB
- First to launch CNY HIBOR, CNH spot and CNH DF
- Sole bookrunner and lead manager of the first Offshore RMB Corporate Bond
- First to launch the Offshore RMB Bond Index

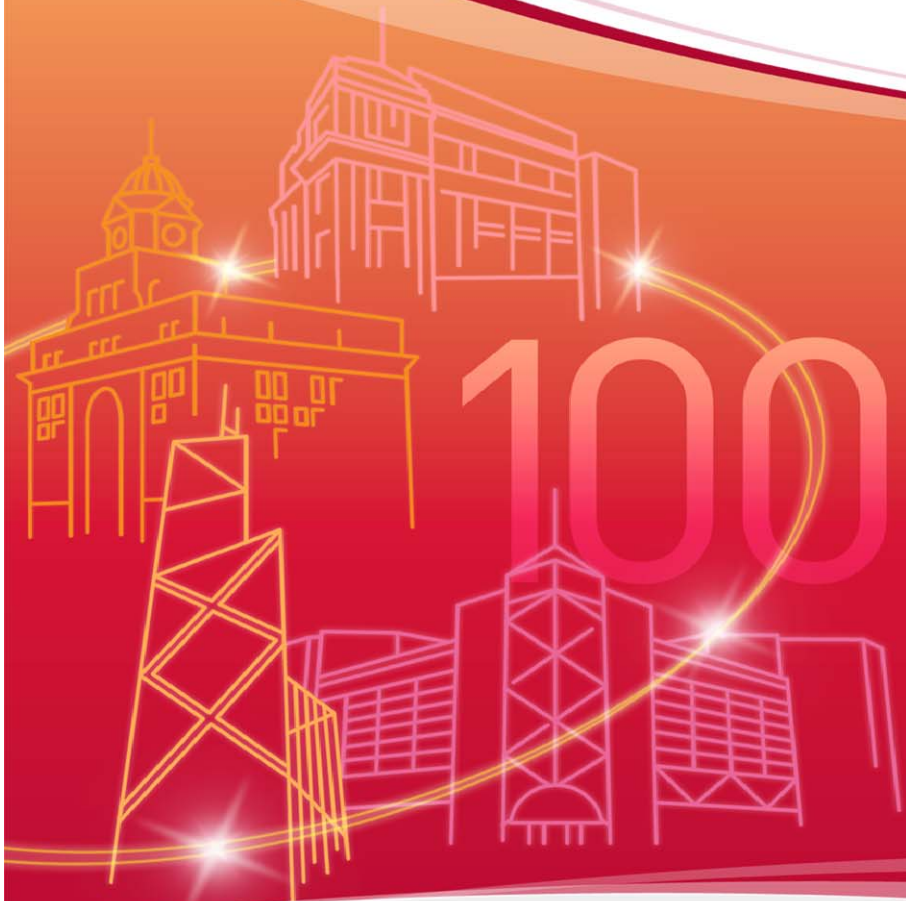
Leading position in offshore RMB businesses



- Dominant position in RMB banking businesses including deposits, remittance, trade settlement, credit cards, etc.
- Market leader in RMB insurance products
- Leading underwriter and distributor of major offshore RMB bonds
- Pioneered the distribution of RMB funds in Hong Kong



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Thank You

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