

27 May 2011

## **RMB Internationalisation**

**BNP Offshore RMB Corporate Day**

**Mark McCombe** Chief Executive Officer Hong Kong  
The Hongkong and Shanghai Banking Corporation Limited

**HSBC** 

# Forward-looking statements

**This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report and Accounts 2010. Past performance cannot be relied on as a guide to future performance.**

**This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP are provided in the 'Reconciliations of reported and underlying profit before tax' supplement available at [www.hsbc.com](http://www.hsbc.com).**

# Agenda

- Scene Setting
- What does it all mean?
- Who dares wins

# Scene Setting

# RMB internationalisation: A three-stage process

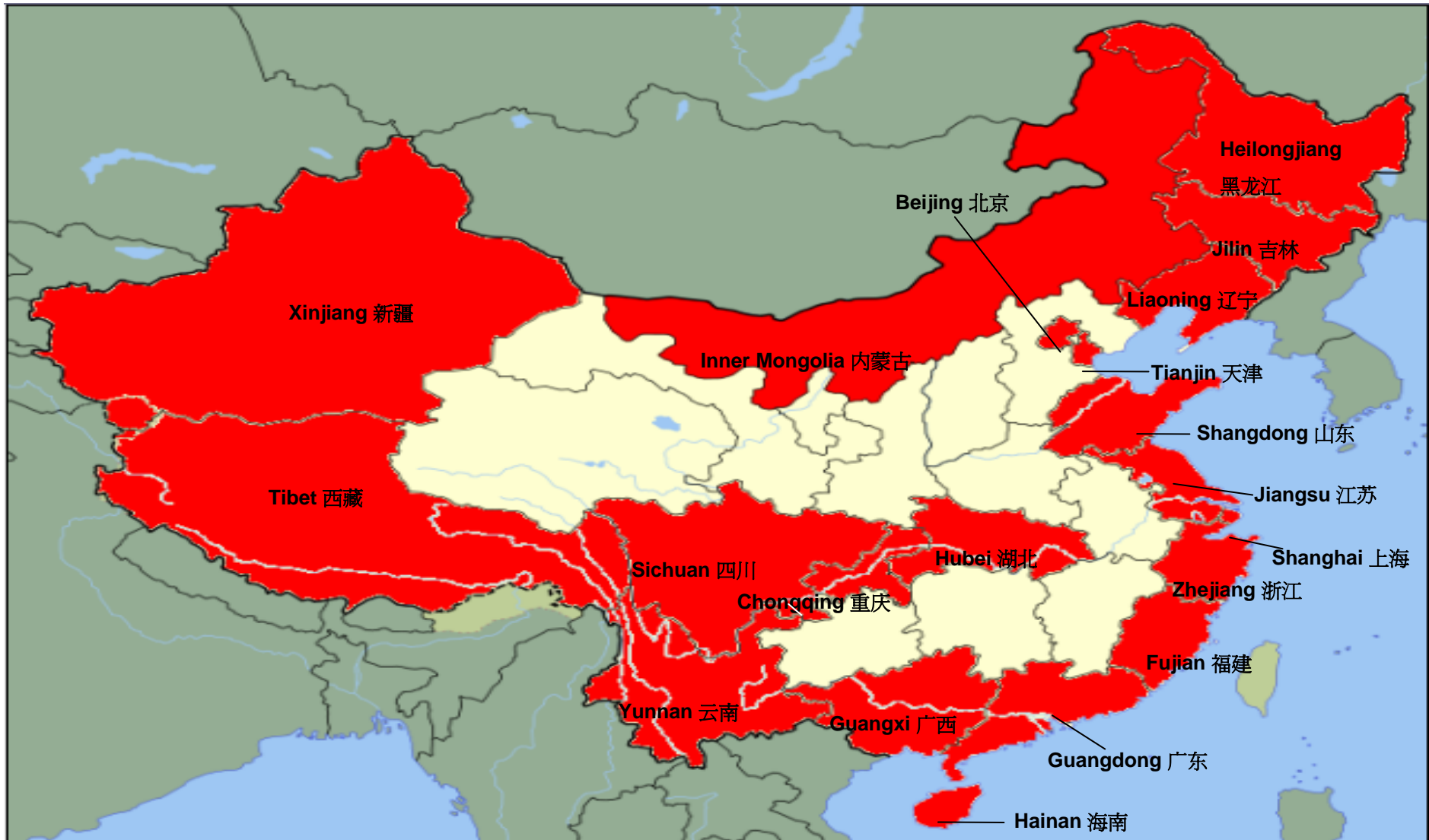


- Started June 2009
- Potential lies in emerging not developed markets
- EM share: 55% of China trade
- Political and economic incentives

- Started July 2010
- Other side of coin to trade settlement
- 80-90% China importer demand
- Closes on/offshore RMB circle

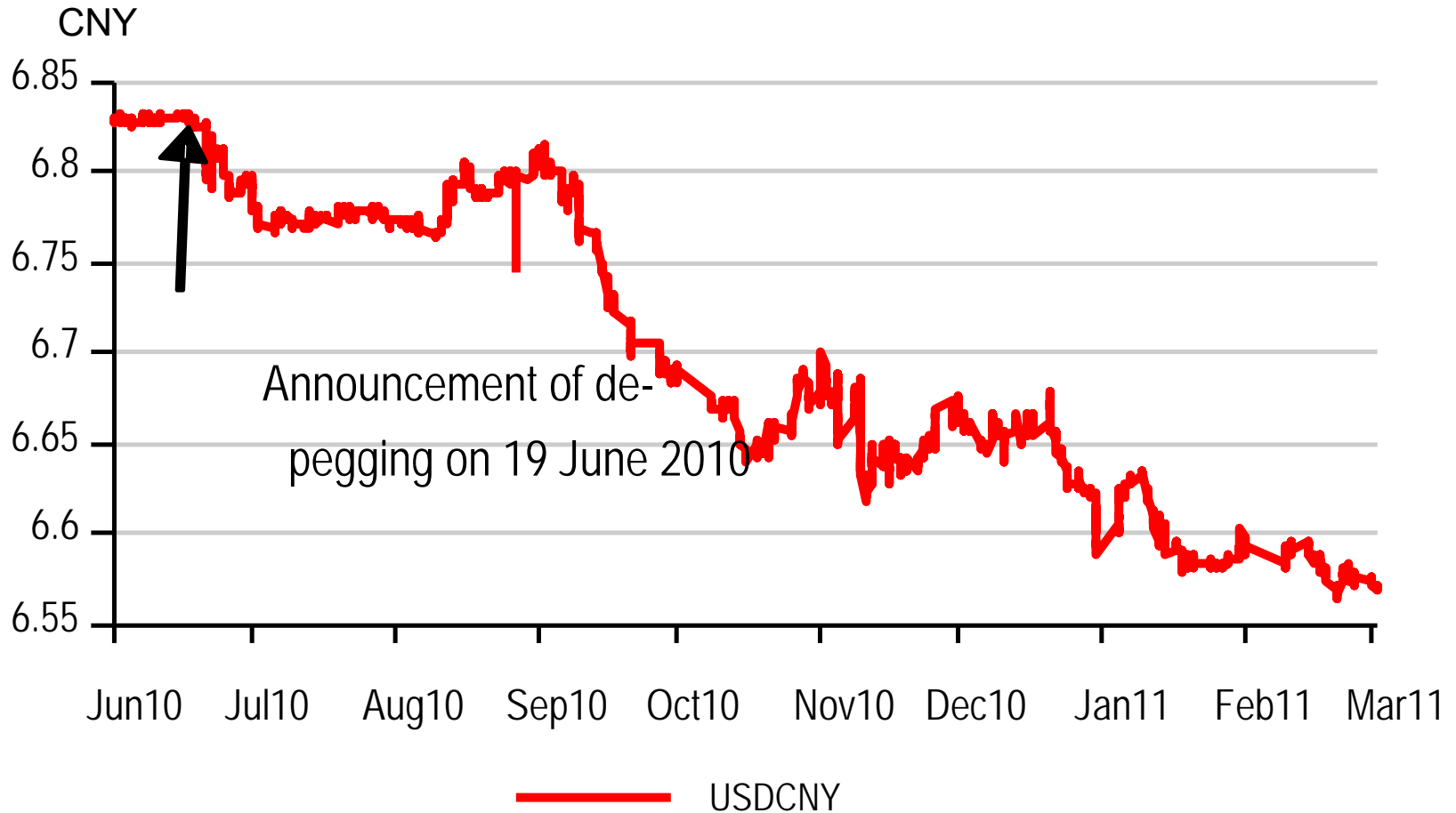
- More symbolic than material
- Accepted across the world:  
1) for investment, financing and payment purposes  
2) as a reserve, intervention and anchor currency

# 21 approved provinces and around 70,000 entities in China



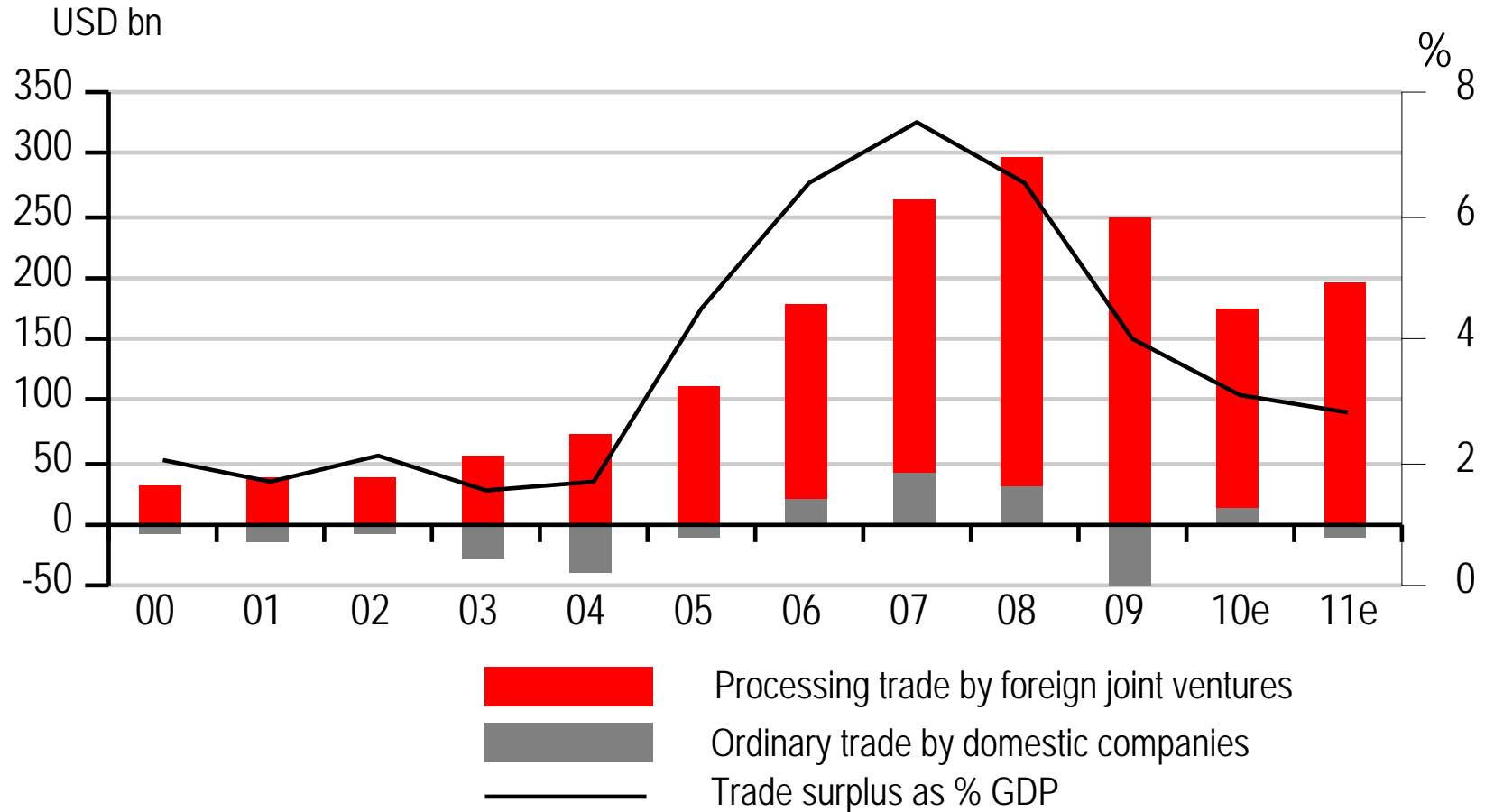
Red : Approved provinces for cross border RMB trade settlement

# Volatility rather than appreciation will be the focus



Source: Reuters, HSBC

# Pace of appreciation to average 3-5% annually

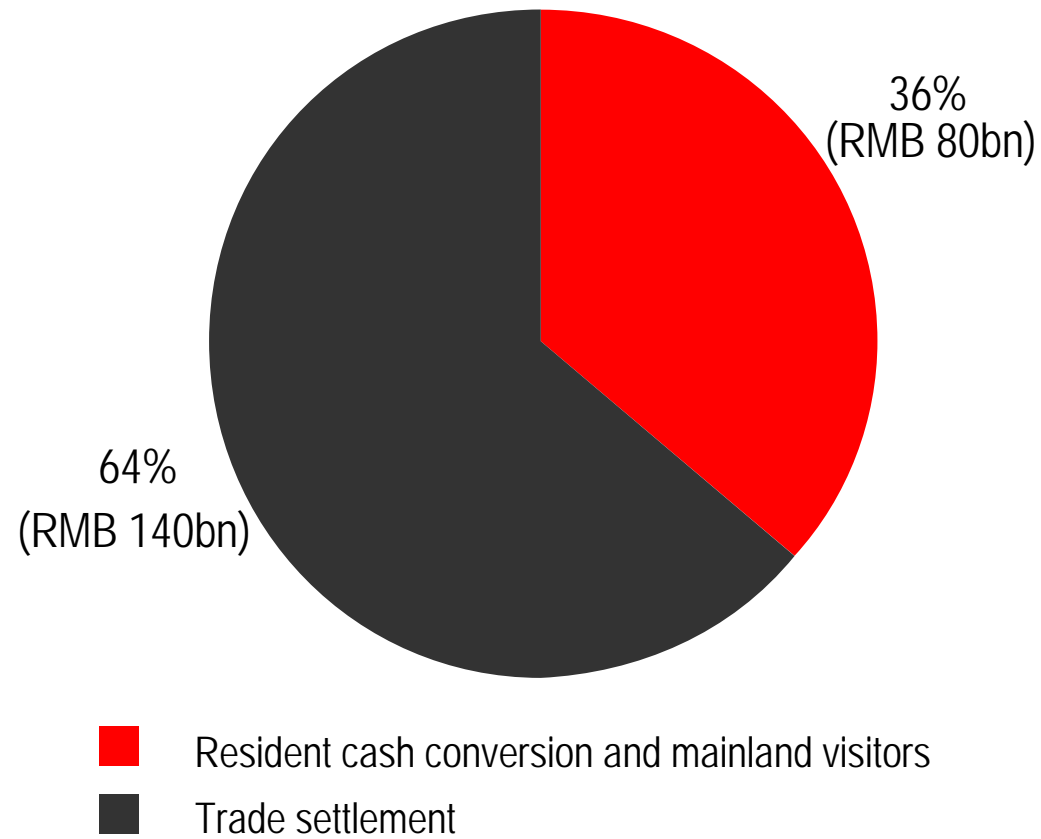


Source: CEIC, HSBC estimates



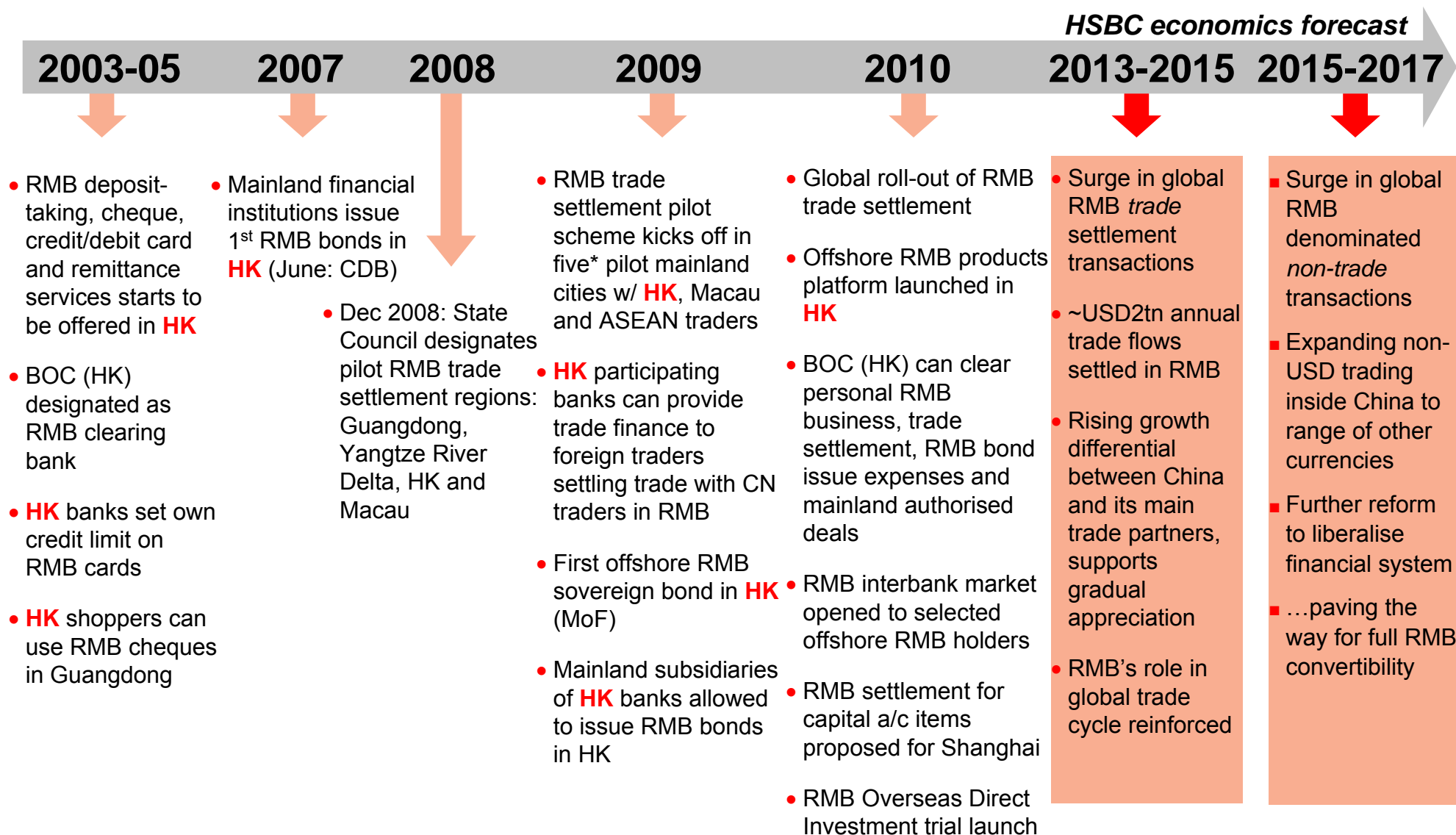
# Channels for onshore RMB ('CNY') outflows into Hong Kong's CNH market to expand and multiply

HK's RMB deposit growth (Jan-Nov 2010)



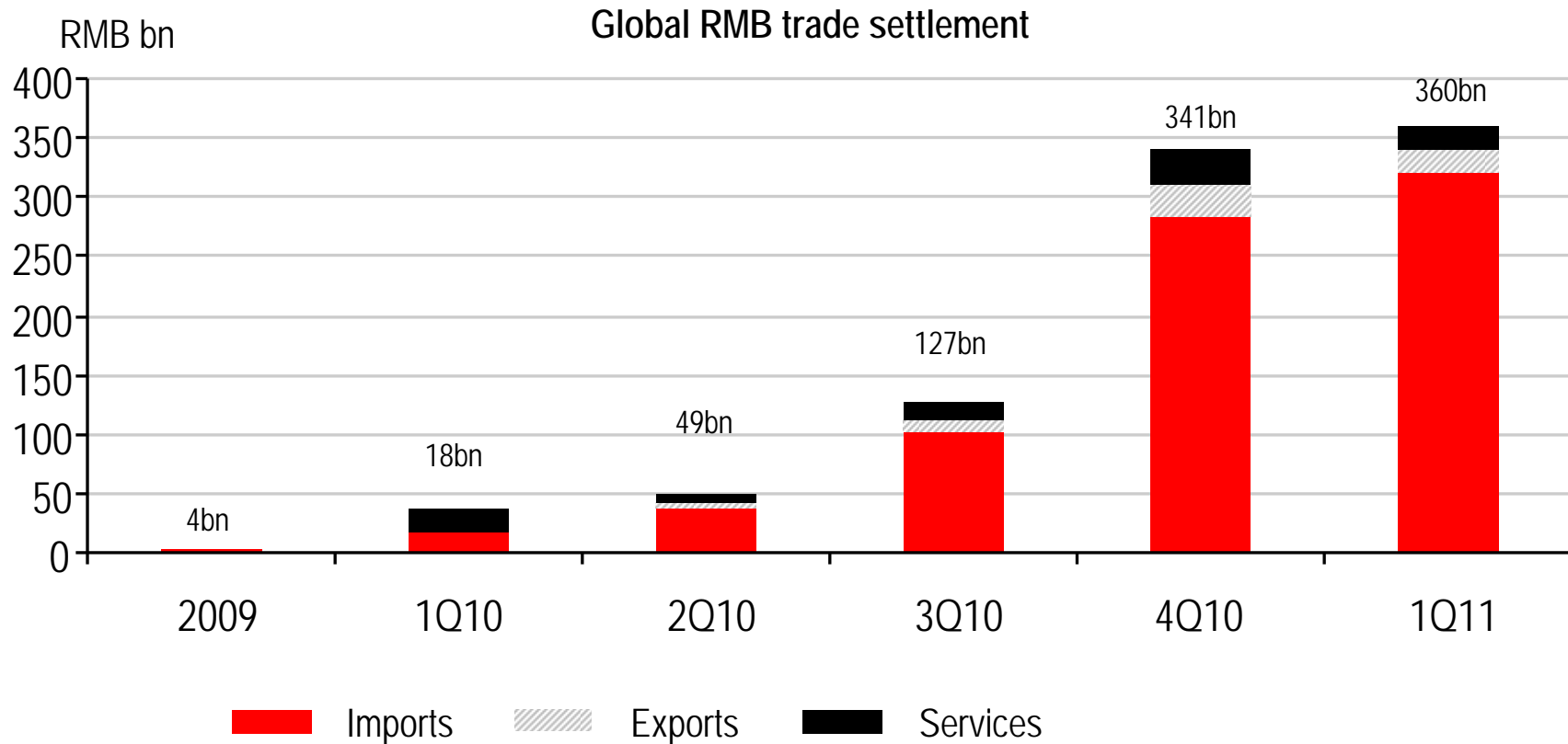
Source: CEIC, HSBC estimates

# Rise of the redback: Timeline unfolding rapidly



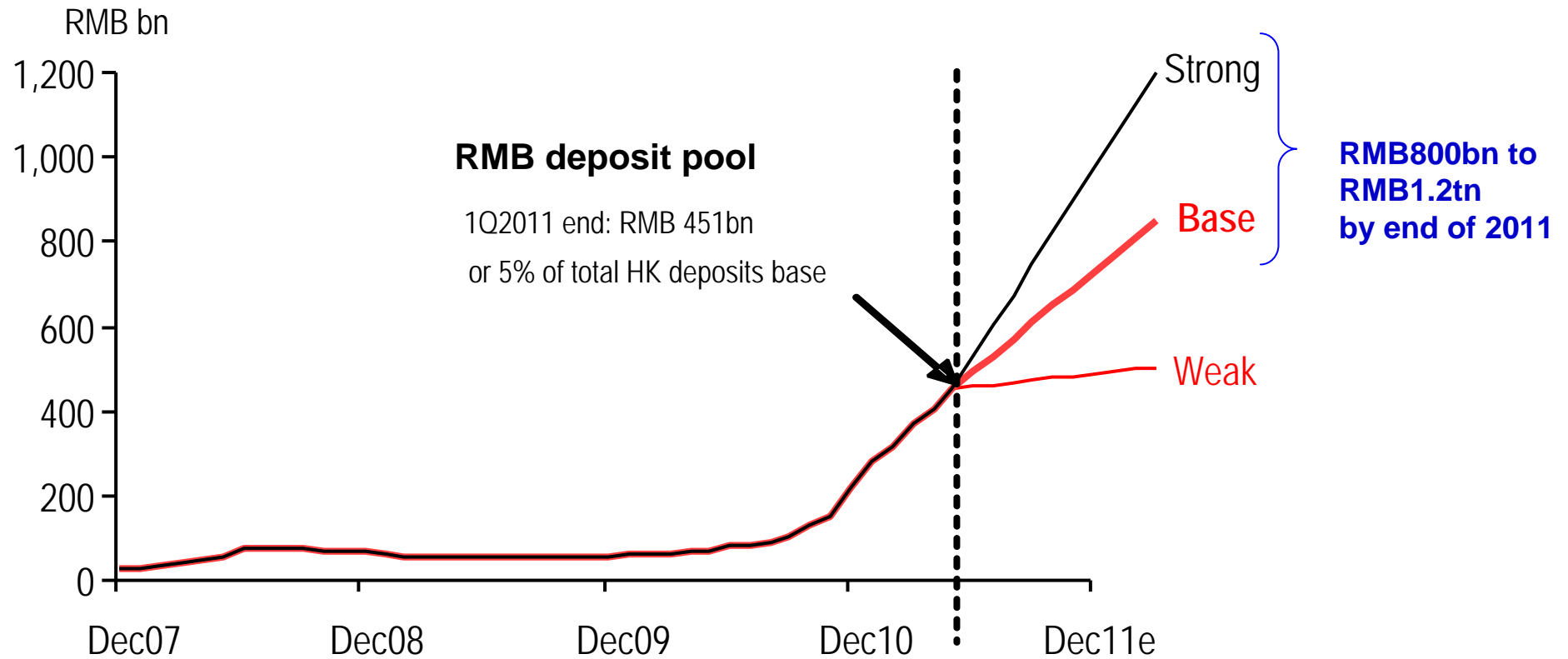
**What does it all mean?**

# RMB cross-border trade settlement taking off



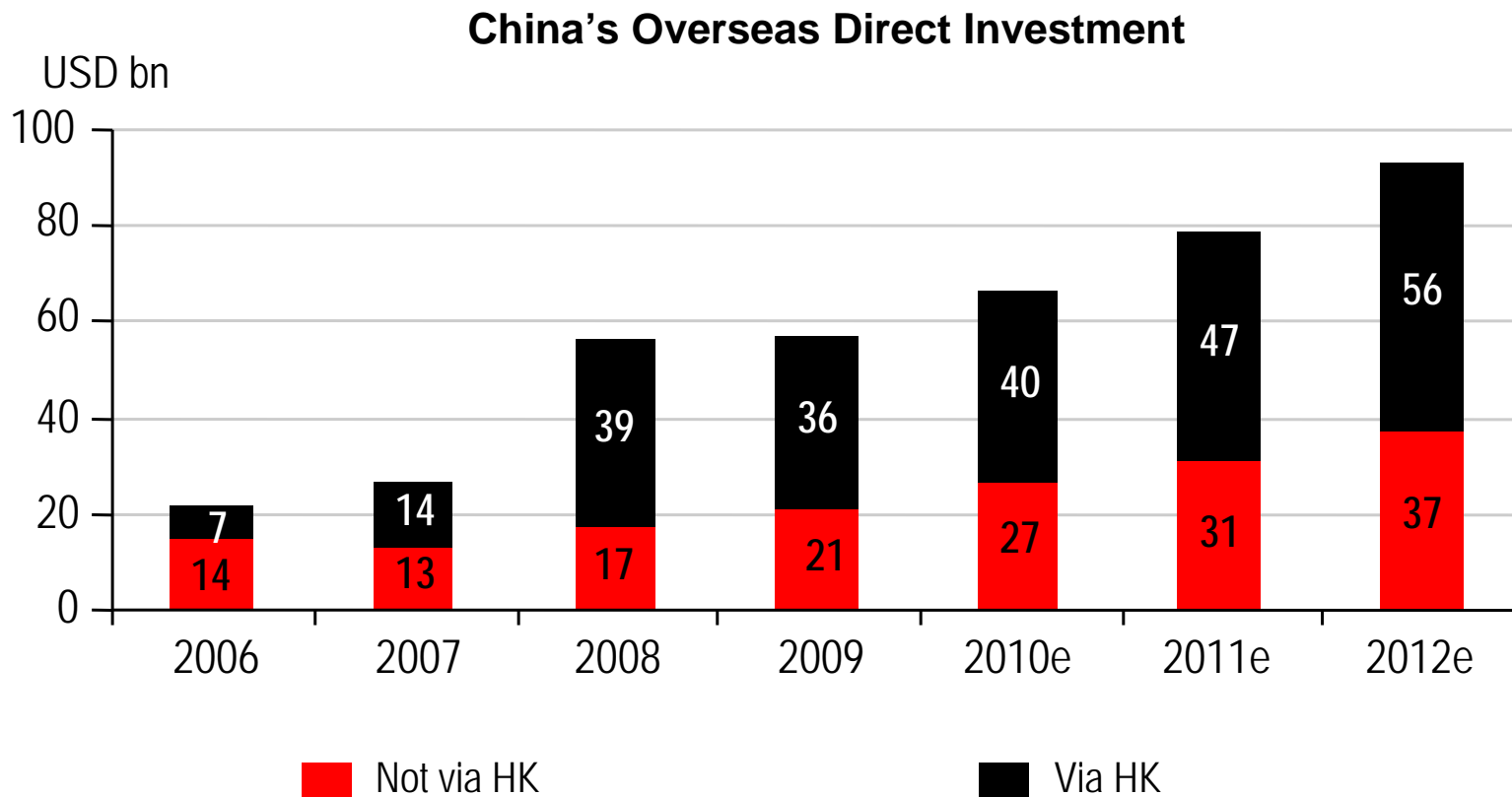
Source: PBoC, HKMA, HSBC

# RMB liquidity in HK to rise at least threefold in 2011

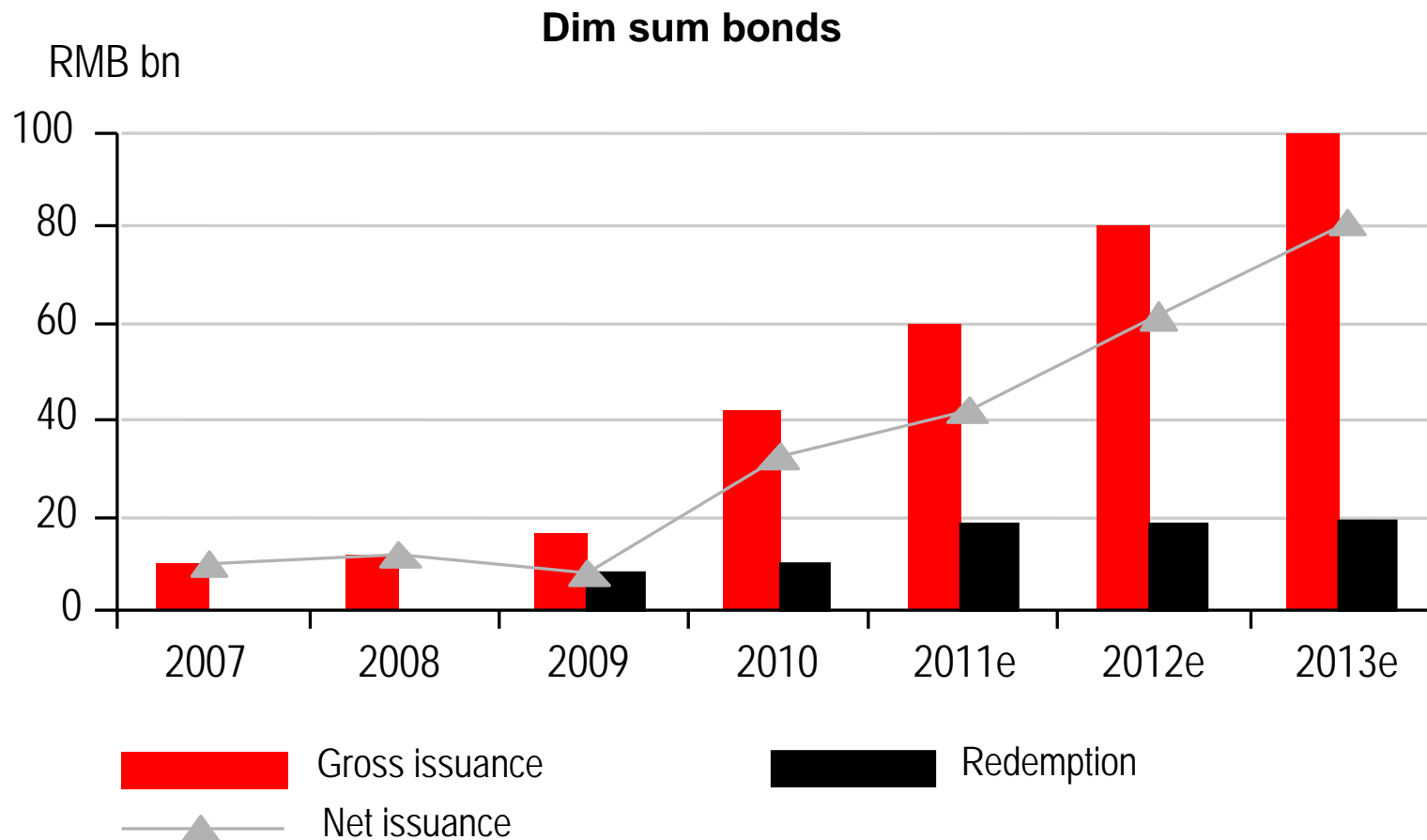


Source: CEIC, HSBC

# New source of RMB liquidity for HK in 2011



# Dim sum bonds to top RMB 100bn by year-end



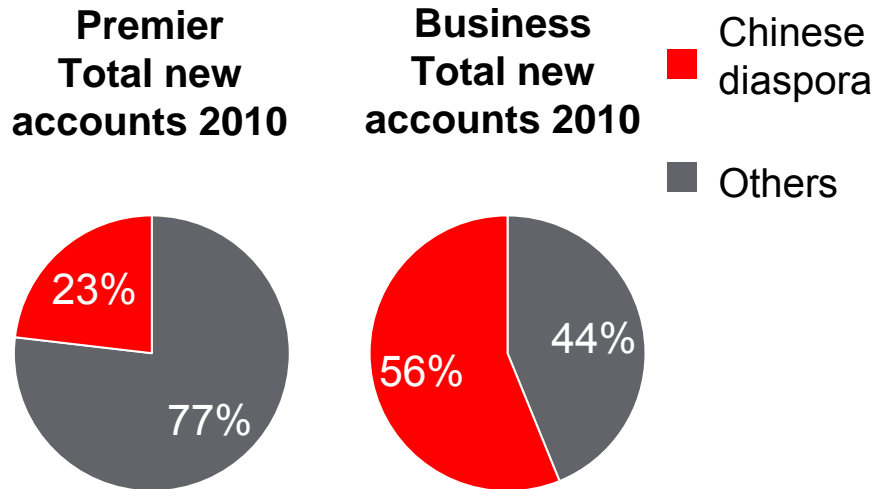
Source: Bloomberg, HSBC

**Who dares wins**

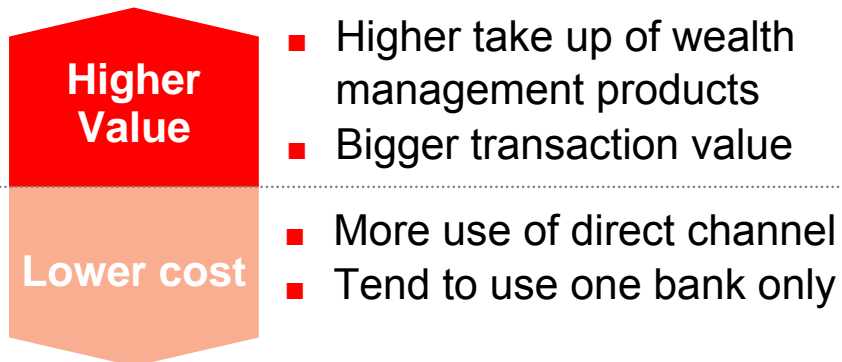


# Ideally positioned to capture cross-border opportunities

## Chinese diaspora: a major source of new customers<sup>1</sup>



## Chinese diaspora key behaviours



## Key actions<sup>3</sup>

Leveraging on cross-border connectivity to capture commercial clients

- 35% of new locally incorporated companies in HK bank with HSBC
- Commercial Banking referrals
  - HK to mainland: +25%;
  - mainland to HK: +70%

Strengthening sales force to capture retail clients

- Recruited 1,500 frontline staff (70% Mandarin speaking)
- 112% YoY growth in new Chinese diaspora Premier accounts<sup>2</sup>
- Premier referrals
  - HK to mainland: +332%;
  - Mainland to HK: +150%

<sup>1</sup> Companies Registry, HKSAR / HSBC in-house figures, all excluding Hang Seng Bank

<sup>2</sup> FY 2010

<sup>3</sup> HSBC excluding Hang Seng Bank

# HSBC - The leading international RMB Bank

## Creative advertising

Regional advertisement on RMB products



The renminbi is taking off internationally.  
Capture its full potential with HSBC.

Hong Kong Airport advertising – The world’s local bank



## Key actions

Leveraging on first mover advantage

- Joint-Listing Agent on HK’s first RMB IPO
- First RMB structured deposits. Launched RMB insurance, RMB Bond Fund
- Pioneered Offshore RMB (CNH) Bond Index

Capitalising on international connectivity to further increase market share<sup>1</sup>

- HK’s RMB deposits estimated to rise threefold in 2011
- RMB bond issuance: #1 Rank YTD 2011. Issuance includes World Bank, Unilever, etc.
- RMB trade services in 45 markets on all 6 continents, settlement volume reaches RMB45bn FY2010

# HSBC leading in Offshore RMB bond issuance<sup>1</sup>

## Q1 2011 offshore RMB bonds issued <sup>2</sup>

Red: Deals led by HSBC

Pricing Date	Issuer	Issuer Rating		Format	Tenor	Amount (RMB mn)	Coupon (%)	Synthetic (Y/N)
		Moody's	S&P					
31-Mar-11	Towngas	A1	A+	Sr. Unsec.	5yr	1,000	1.400	N
29-Mar-11	China Wind Power	-	-	Sr. Unsec.	3yr	750	6.375	N
25-Mar-11	Unilever NV	A1	A+	Sr. Unsec.	3yr	300	1.150	N
24-Mar-11	Bank of Communications	A3	BBB+	Cert. of Depo.	3yr	1,100	1.350	N
21-Mar-11	OCBC	Aa1	A+	Cert. of Depo.	3yr	200	1.100	N
15-Mar-11	Orix Corp	-	A-	Sr. Unsec.	3yr	400	2.000	N
14-Mar-11	TPV	-	-	Sr. Unsec.	3yr	500	4.250	N
10-Mar-11	Morgan Stanley	A2	A	Sr. Unsec.	5yr	400	Step Up	Y
9-Mar-11	UBS AG Jersey Branch	Aa3	A+	Sr. Unsec.	5yr	50	0.750	Y
8-Mar-11	Powerlong Real Estate	B1*	B+*	Sr. Unsec.	3yr	750	11.500	Y
1-Mar-11	Barclays Bank PLC HK	Aa3	-	Cert. of Depo.	1yr	250	1.150	N
28-Feb-11	Bank of Communications	A3	BBB+	Cert. of Depo.	2yr	1,000	1.000	N
21-Feb-11	Road King Infrastructure	Ba3*	BB-*	Sr. Unsec.	3yr	1,300	6.000	N
20-Feb-11	ICBC (Asia)	A2	A-	Cert. of Depo.	2yr	3,000	1.150	N
18-Feb-11	LDK Solar Co Ltd	-	-	Sr. Unsec.	3yr	1,200	10.000	Y
15-Feb-11	UBS AG Jersey Branch	Aa3	A+	Sr. Unsec.	5yr	100	0.750	Y
16-Feb-11	Svenska	Aa2	AA-	Sr. Unsec.	2yr	170	1.400	N
14-Feb-11	BECL Investment HLDG	-	-	Sr. Unsec.	3yr	1,150	4.750	N
28-Jan-11	ICBC (Macau)	A3	-	Cert. of Depo.	1yr	1,000	1.450	N
28-Jan-11	ICBC (Macau)	A3	-	Cert. of Depo.	2yr	1,000	1.550	N
27-Jan-11	YFY Cayman	-	-	Sr. Unsec.	3yr	300	3.100	N
25-Jan-11	IFC	Aaa	AAA	Sr. Unsec.	5yr	150	1.800	N
25-Jan-11	PCD Store	-	-	Sr. Unsec.	3yr	750	5.250	N
25-Jan-11	HSBC Bank Plc	Aa2	AA	Sr. Unsec.	5yr	36	0.500	Y
25-Jan-11	Morgan Stanley	A2	A	Sr. Unsec.	5yr	400	Step Up	Y
19-Jan-11	Shui On Land	-	-	Sr. Unsec.	4yr	3,500	7.625	Y
13-Jan-11	Evergrande	B2	BB-	Sr. Unsec.	3yr	5,500	7.500	Y
13-Jan-11	Evergrande	B2	BB-	Sr. Unsec.	5yr	3,700	9.250	Y
11-Jan-11	Sinochem Hong Kong	Baa1	BBB+	Sr. Unsec.	3yr	3,500	1.800	N
7-Jan-11	China SCE Property Holdings	B2	B	Sr. Unsec.	5yr	2,000	10.500	Y
4-Jan-11	World Bank	Aaa	AAA	Sr. Unsec.	2yr	500	0.950	N
3-Jan-11	Bank of Communications	A3	BBB+	Cert. of Depo.	2yr	500	1.400	N

1. Bloomberg Standard League Table. As of YTD end April 2011

3. Issue ratings

2. HSBC in-house records

# HK launched the first offshore RMB equity IPO

- ▶ Launched on 19 April 2011, the first RMB equity IPO outside mainland China
- ▶ HSBC as Joint-Lead Arranger and Receiving Bank
- ▶ Paved way for more issues in the future, expanded RMB product suite

April 2011



**HUI XIAN** REIT  
匯賢產業信託

Hui Xian REIT  
**RMB10.5 billion**

First Offshore RMB-denominated  
Initial Public Offering  
**Joint Bookrunner, Joint Lead Manager  
and Joint Listing Agent**

# Appendix

# Offshore RMB products available in Hong Kong

Type		Date of first deal	Example	Comments
Certificates of deposit		Jul-10	Citic Bank. Coupon: 2.68%. p.a. Maturity: 1 year	Banks that are AIs in Hong Kong can issue CNH debt in CD formats. At present, CNH CD market issuers tend to be the Hong Kong branches of mainland banks. Documentation is relatively less complicated versus MTN Cash Notes/Bonds
Bonds	Corporate – FIs incorporated in mainland China	Jul-07	China Development Bank Corporation. Coupon: 3.0% p.a. Maturity: 2 years	Relevant rules currently only exist for financial institution (FI) issuers incorporated in mainland China issuing in the CNH market. Issuance of this instrument dominated by Chinese state-linked banks and foreign banks incorporated in the mainland. The number of issuance remains low primarily due to the extended approvals process required by PBoC/NDRC before any issuance in the CNH market. However, relatively cheaper funding costs in Hong Kong's offshore market still provides an incentive for onshore FI issuers to issue in the CNH market
	Corporate – foreign issuer	Jul-10	(1) Hopewell Infrastructure issued RMB1.38bn. coupon: 2.98%. Maturity: 2 years. (2) McDonalds issued RMB200m. Coupon: 3.0% p.a. Maturity: 3 years	No approval needed from either Hong Kong or China regulators for issuing CNH bonds in Hong Kong, unless repatriation of proceeds into China is desired by foreign corporate issuers. In the latter case, permission to repatriate funds must be applied via one of two channels: (1) foreign debt: PBoC; SAFE (or local SAFE); and (2) registered capital: PBoC, Ministry of Commerce (or local bureau of MoC), SAFE (or local SAFE). Again, the relatively cheap funding cost in the offshore market still provides an incentive for issuers to issue in the CNH market instead of the onshore equivalent
	Sovereign	Oct-09	Ministry of Finance issued a total RMB 6bn in 3 tranches on 2, 3, and 5yrs and coupon 2.25%, 2.7% and 3.3% respectively	Symbolically significant as it signalled the priority the Beijing government is giving to the offshore development of RMB bonds. The MOF issuance also established the first RMB sovereign yield curve outside China
Structured deposits		Jul-10	BOC (HK) RMB leveraged structured deposit; HSBC equity linked note. Various maturities and coupons.	Typically linked to an underlying index that ranges from currency, to interest rate, to equity, to gold. Deposits referencing the RMB have been around for some time, whereas those denominated in RMB only from July 2010 onwards
Insurance products		Late 2009	RMB insurance policies from Bank of China Group (BOCG) Life and China Life Insurance (Overseas). Maturity: mostly 5-10 years, some for life. Premium payments for RMB-denominated savings insurance plans could be settled in RMB as of July 2010	Full potential has thus far been limited because insurers are restricted in their ability to locate assets with long-enough tenors to match those of the policies they are offering. The ADB RMB bond's 10-year tenor helps to alleviate this by setting the first long term benchmark yield for future. Industry players forecast that 25% to 30% of new insurance policies issued will be denominated in RMB within five years
Investment funds		Aug-10	Hai Tong Asset Management's launched the "Haitong Global RMB Fund" with a RMB 5bn ceiling, to be sunk into overseas fixed income RMB products including notes and bonds. Actual sales to date have yet to reach the limit	Limited by the channels for re-investment into the mainland. The introduction of rules allowing "RMB denominated mini QFII", possibly by year-end, could help catalyze the speed and depth of development for such funds
Equity products		April-11	Hui Xian real estate investment trust raised c.RMB 10.5bn in an IPO in Hong Kong	First ever RMB-denominated equity offering outside mainland China

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