

China Merchants Bank Reports 2007 Annual Results

Net profit up 124.36% to RMB 15.243 billion

China's booming economy boosts core customer loan business

Improved revenue and customer mix enhances loan yields

Results Highlights

- Net profit rose by 124.36% to RMB15.234 billion (2006: RMB6.794 billion)
- Profit before tax rose 108.68% to RMB21.043 billion (2006: RMB10.084 billion)
- Basic earnings per share increased by 96.23% to RMB1.04 (2006: RMB 0.53)
- Net assets per share rose 23.20% to RMB4.62 (2006: RMB3.75)
- Total assets increased by 40.3% to about RMB1,310.552 billion (December 31, 2006: RMB934.102 billion)

(Notice: The 2007 annual results of China Merchants Bank Co., Ltd. as an H share were prepared in accordance with International Financial Reporting Standards (IFRS) and are audited. The Board of Directors and all the Directors of China Merchants Bank Co., Ltd. hereby confirm that the information contained in this report contains no false representations, misleading statements or material omissions. The Directors jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.)

Hong Kong, March 18, 2008 — China Merchants Bank Co., Ltd. (SSE: 600036; HKEx: 3968; “China Merchants Bank” or “the Company”) announced its annual results for the year ended December 31, 2007. Customer loans continued to grow rapidly during the period under review on the back of China's economic boom. This coupled with the increase in interest spread helped drive up profits. The Company also improved the revenue and customer mix, and developed the non-interest income businesses of both retail and corporate banking, enhancing loan yields and profits. Other factors which contributed to profit growth were: improved efficiency in cost management, good asset quality, and a decrease in the effective tax rate due to a higher proportion of profit derived from low-tax-rate areas.

For the year ended December 31, 2007, net profit increased 124.36% to RMB15.234 billion. Total assets were RMB1,310.552 billion, a 40.3% increase from RMB934.102 billion as of December 31, 2006. Total deposits were RMB943.534 billion as of December 31, 2007, up 21.94% from the end of 2006. Total loans were RMB673.167 billion, up 19% from the end of 2006. Average customer loan yield was 5.8%, up 0.69 percentage points from the 5.11% in 2006. Basic earnings per share grew by 96.23% to RMB1.04. The Board of Directors has resolved that a final dividend of RMB0.28 per share will be paid.

Dr. Qin Xiao, Chairman of China Merchants Bank, said, “During the period under review, despite the government’s on-going macroeconomic control measures to cool overheating sectors, China Merchants Bank was able to capitalize on China’s continuing economic boom. The bank improved its business structure and corporate governance. It also raised standards of risk management. All these measures enhanced the bank’s profitability and led to good results.”

As of December 31, 2007, corporate loans totaled RMB445.865 billion, 23.89% more than at the end of 2006, and accounted for 66.23% of total loans. In 2007, the Company was more selective in lending --- it lent more to sectors with good performance and prospect such as transportation, power generation, urban infrastructure and new high technology, and at the same time restrained loans to industries targeted by the government’s macroeconomic control measures, namely high consumers of energy and resources as well as polluting industries. The move improved the industry mix of its loan portfolio. Meanwhile, the Company increased efforts to develop and expand banking business for small and medium-sized enterprises. Small and medium-sized corporate customers increased to 8,162, an increase of 2,319 from the number in 2006, and accounted for 78.9% of the total number of customers, up 4.3 percentage points compared with 2006. Loans to small and medium-sized enterprises grew 35.07% to RMB189.5 billion.

As of December 31, 2007, retail loans were RMB175.027 billion, a 71.62% increase compared to the end of 2006. The growth in retail loans was mainly attributable to fast growth in residential mortgage loans and in credit cards. Residential mortgage loans grew 61.14%, while accounts receivable at the credit card business increased 110.17%. Retail loans accounted for 26.00% of total loans, up 7.97 percentage points from the end of last year. The growth was due to product innovation and sales efforts.

Interest income rose 51.77% to RMB51.585 billion in 2007. The increase was primarily due to an increase in the size of and the average return on loans to customers, bond investments and deposits at other banks and financial institutions. Loans and advances to customers remained the largest source of interest income.

Net interest income was RMB33.902 billion, up 57.62% over 2006, higher than the 37.72% growth rate of interest-earning assets. The growth was primarily due to an expansion of interest-earning assets and their improved average yield.

Net interest spread was 2.96%, or 27 basis points higher than in 2006. The average yield of interest-earning assets rose by 43 basis points to 4.73% in 2007 from 4.30% in 2006. Meanwhile, the average rate paid on liabilities only rose by 16 basis points to 1.77% in 2007 from 1.61% in 2006.

Net interest margin was 3.11% for 2007, which was 39 basis points higher than that in all of 2006. The increase was primarily due to five factors: 1) the People's Bank of China raising the prime rate six times; 2) the interest rate of demand deposits remaining more or less the same; 3) the higher proportion of corporate demand deposits relative to total deposits in a buoyant capital market, 4) wider net interest margin, and 5) net interest income growing faster than interest-earning assets.

The Company continued to improve risk management while expanding its business. Both non-performing loans balance and the non-performing loan ratio declined in the 2007. Non-performing loans totaled RMB10.394 billion, a decrease of RMB1.612 billion or 13.43% from 2006. The non-performing loan ratio decreased by 0.58 percentage points to 1.54% in 2007.

Dr. Ma Weihua, President and CEO of China Merchants Bank said, "In 2007, China Merchants Bank scrutinized sector- and conglomerate-oriented lending as well as risk-alarm mechanisms. The Company adopted timely measures to restrict loans to the property sector and industries that were high consumers of energy and natural resources, or which caused serious pollution. This led to improvements in our loan portfolio. We improved asset quality with a trial run of a two-signature loan approval system, and by collecting and maintaining data on customer credit ratings."

During the period under review, the Company was named “the Best Bank in China”, “the Best Retail Bank in China”, “China's Best Local Cash Management Bank”, one of “China's Most Respected Enterprises” and the “Enterprise with Greatest Development Potential”. It also won six awards from IR Magazine, including “Best Corporate Governance”, “Grand Prix for Best Overall Investor Relations”, “Best Investor Relations by a CEO” and “Best Annual Report and other Corporate Literature”. The awards demonstrated that the achievements of the Company have been widely recognized and helped promote the brand of the Company.

Of the prospects for 2008, Dr. Qin Xiao, Chairman of China Merchants Bank, said, “The economy and financial markets at home and abroad are becoming complicated and volatile. The government is likely to maintain macro-economic control measures. At the same time, competition in the banking sector will intensify. In the long run, the macro-economic controls support a policy of economic restructuring and are conducive to the healthy development of the commercial banking sector. Nevertheless, the risks faced by banks will be greater as macro-economic measures gain momentum. China Merchants Bank will exercise flexibility in coping with the challenges and competition. The bank will continue to enhance its profitability by improving business structure and customer base, turning out innovative products and actively developing intermediary services. Meanwhile, it will strengthen risk management and take a prudent approach in operations. The bank will strive to maintain its edge in a highly competitive market with the aim of bringing good returns to its shareholders.”

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Consolidated Income Statement (Audited)

(Expressed in millions of RMB unless otherwise stated)

	For the year ended 31 Dec 2007	For the year ended 31 Dec 2006
Interest income	51,585	33,990
Interest expense	<u>(17,683)</u>	<u>(12,481)</u>
Net interest income	33,902	21,509

Fee and commission income	7,258	2,988
Fee and commission expense	<u>(819)</u>	<u>(474)</u>
Net fee and commission income	6,439	2,514

Other net income	707	843

Operating income	41,048	24,866
Operating expenses	<u>(16,738)</u>	<u>(11,091)</u>
Operating profit before impairment losses	24,310	13,775
Impairment losses	(3,305)	(3,691)
Share of profits of an associate	<u>38</u>	<u>-</u>

Profit before tax	21,043	10,084
Income tax	<u>(5,800)</u>	<u>(3,290)</u>
Net profit attributable to equity holders of the Bank	15,243	6,794
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Dividends		
Declared and paid	1,764	3,193
Proposed in respect of current year	<u>4,117</u>	<u>1,764</u>
	5,881	4,957
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	RMB	RMB
Earnings per share		
Basic	1.04	0.53
Diluted	1.04	0.53
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Consolidated Balance Sheet (Audited)
 (Expressed in millions of RMB unless otherwise stated)

	As at 31 Dec 2007	As at 31 Dec 2006 (restated)
Assets		
Cash and balances with banks and other financial institutions	20,276	20,861
Balances with central bank	146,266	82,372
Placements with banks and other financial institutions	225,669	88,171
Loans and advances to customers	654,417	549,420
Investments	244,123	178,885
Interest in an associate	225	-
Fixed assets	8,722	7,006
Deferred tax assets	2,162	2,260
Other assets	<u>8,692</u>	<u>5,127</u>
Total assets	<u>1,310,552</u>	<u>934,102</u>
Liabilities		
Deposits from banks and other financial Institutions	218,520	68,854
Placements from banks and other financial institutions	46,603	7,749
Deposits from customers	943,534	773,757
Financial liabilities at fair value through profit or loss	2,945	106
Certificates of deposit issued	1,095	1,170
Convertible bonds issued	13	22
Other debts issued	9,992	9,987
Current taxation	2,588	2,652
Other liabilities	13,778	11,145
Subordinated notes issued	<u>3,500</u>	<u>3,500</u>
Total liabilities	<u>1,242,568</u>	<u>878,942</u>

Shareholders' equity

Share capital	29	14,705	14,703
Capital reserve	30	27,545	27,536
Surplus reserve	31	3,088	2,377
Investment revaluation reserve	32	(471)	195
Regulatory general reserve	33	9,500	6,500
Retained profits		7,976	1,374
Proposed profit appropriations	34(b)	<u>5,641</u>	<u>2,475</u>
Total shareholders' equity		<u>67,984</u>	<u>55,160</u>
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Total shareholders' equity and liabilities		<u>1,310,552</u>	<u>934,102</u>
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