

China Merchants Bank Reports 2009 Interim Results

**Focusing on retail banking, SME lending and fee-based businesses
Integration with Wing Lung Bank a success**

Results Highlights

- Net operating income decreased 13.88% to RMB24.821 billion (2008 1H: RMB 28.820 billion)
- Profit before tax rose decreased 40.56% to RMB10.178 billion (2008 1H: RMB17.122 billion)
- Net profit attributable to the Bank's shareholders decreased 37.62% to RMB8.262 billion (2008 1H: RMB13.245 billion)
- Basic earnings per share attributable to the Bank's shareholders decreased 37.78% to RMB0.56 (2008 1H: RMB 0.90)
- Return on average equity (after tax) attributable to the Bank's shareholders was 20.19%, down 16.23 percentage points when compared with 2008 1H
- Return on average assets (after tax) attributable to the Bank's shareholders was 0.93%, down 1.03 percentage points when compared with 2008 1H
- Total assets grew by 25.51% to RMB1,972.768 billion
- Capital adequacy ratio decreased by 0.71 percentage point to 10.63%
- Core capital adequacy ratio decreased by 0.06 percentage points to 6.50%
- Non-performing loan ratio decreased by 0.25 percentage point to 0.86%
- Allowances for impairment losses to non-performing loans ratio rose by 18.10 percentage points to 241.39%
- The Board of Directors has passed a resolution to revise the basis of the earlier proposed rights issue and the size of the fund to be raised. The proposed fund raising size will be revised up to a range of between RMB18,000,000,000 and RMB22,000,000,000. The basis of the rights issue will be revised up to two and a half rights shares for every ten existing shares

(Notice: The 2009 interim results of China Merchants Bank Co., Ltd. as an H share were prepared in accordance with International Financial Reporting Standards (IFRS). Unless stated otherwise, all of the above data belong to the Group)

August 28, 2009 — China Merchants Bank Co., Ltd. (SSE: 600036; HKEx: 3968; "China Merchants Bank" or "the Company" or "the Bank") and its subsidiaries together ("the Group") tonight announced unaudited interim results for the six months ended June 30, 2009.

In the first half of 2009, both the global and Chinese economies were affected by a financial crisis. In response, China adopted a moderately loose monetary policy, which narrowed the interest spread. To cope with the challenges posed by the dramatic changes to the operating environment, China Merchants Bank took such measures as continuing strategic transformation and optimizing the structure of its customer base and that of its assets and liabilities. In the first half of 2009, the Company maintained and improved the quality of its assets while its scale of operation expanded rapidly. Its overall business had a sound and steady development, paving the way for a brighter future.

As at the end of June 2009, the Group's total assets amounted to RMB1,972.768 billion, representing an increase of RMB400.971 billion or 25.51% as compared with the beginning of the year. Loans and advances amounted to RMB1,152.167 billion, representing an increase of RMB277.805 billion or 31.77% as compared with the beginning of the year. Deposits from customers amounted to RMB1,540.682 billion, representing an increase of RMB290.034 billion or 23.19% as compared with the beginning of the year. Excluding the impact from the merger with Wing Lung Bank and other subsidiaries, the Company had total loans and advances of RMB1,106.181 billion as at the end of June 2009, representing an increase of RMB272.633 billion or 32.71% as compared with the beginning of the year. In particular, medium to long-term loans accounted for 34.94% of its total corporate loans within the Mainland China, up 3.03 percentage points as compared to that at the beginning of the year. Total deposits from customers amounted to RMB1,460.690 billion, representing an increase of RMB282.450 billion or 23.97% as compared with the beginning of the year.

During the period under review, the Group realized a net profit of RMB8.262 billion, representing a decrease of RMB4.983 billion or 37.62% compared to the corresponding period of the previous year. Net interest income decreased by RMB5.502 billion or 22.81% year on year to RMB18.623 billion. Net non-interest income increased by RMB1.503 billion or 32.01% year on year to RMB6.198 billion. Return on average assets (after tax) attributable to the Bank's shareholders was 0.93%, down 1.03 percentage points year on year. Return on average equity (after tax) attributable to the Bank's shareholders was 20.19%, down 16.23 percentage points year on year. Basic earnings per share attributable to the Bank's shareholders decreased by 37.78% year on year to RMB0.56.

Dr. Ma Weihua, President and CEO of China Merchants Bank said, "We coped with the challenges posed by the dramatic changes in the operating environment by pushing ahead with strategic transformation. We focused on the retail banking, lending to small and medium enterprises (SME) and fee-based businesses which have low capital consumption. Meanwhile, we continued to optimize the assets-liabilities structure by raising the proportion



of quality long-term loans in total corporate loans. Against the backdrop of rapid loan growth in the banking sector, we took a prudent and selective approach to lending to control risk effectively. The move has ensured that quality of the loans remained good while the assets were growing steadily. In the period under review, although the net interest margin declined sharply when compared to that in 2008, the decrease brought the net interest margin back to a normal level. We seized the opportunity to optimize the customer base and the asset structure, laying a solid foundation for sustainable and healthy development of our business.”

As at the end of June 2009, the Group had non-performing loans of RMB9.924 billion, an increase of RMB247 million as compared with the beginning of the year. The non-performing loan ratio was 0.86%, a decrease of 0.25 percentage point as compared with the beginning of the year. The allowance coverage ratio was 241.39%, an increase of 18.10 percentage points as compared with the beginning of the year.

The Company took a prudent and selective approach to cost control and made good progress. During the six-month period ended 30 June 2009, operating expenses of the Group were RMB11.880 billion, representing an increase of 15.27% as compared to the corresponding period of 2008. Depreciation and rental expenses increased by 58.97%, which was primarily due to the Group shortening the depreciable life of fixed assets since the second half of 2008 and setting up new branches and offices during the reporting period.

Taking into account that the latest changes to the policy of the relevant mainland China regulatory authorities may raise the requirements on the capital adequacy level of the country's commercial banks, the board of directors proposes to revise the proposal of the rights issue of both A shares and H shares which was passed on 13 August 2009. The board proposed to revise up the size of the fund to be raised through the rights issue from the original range of between RMB15 billion and RMB18 billion to the range of between RMB18 billion and RMB22 billion. The basis of the rights issue will be revised up from the originally proposed scheme of up to two rights shares for every ten existing shares to the newly proposed scheme of up to two and a half rights shares for every ten existing shares. Apart from these two changes, the other terms of the revised proposal will remain the same as those of the original proposal. The fund-raising exercise will increase the Group's capital adequacy ratio to support the continuing development and growth of its businesses as well as to enhance the Group's enterprise value. The move is in the shareholders' interest.

Strong growth in retail banking

Steady development in corporate banking

For the first half of 2009, in view of the relatively loose macro economic policies and the gradual recovery of the economy, the rebound of the real estate market throughout the

country and increasing transaction volume of real estates, the Company seized the market opportunities by actively promoting personal consumption loans and personal automobile loans while stepping up efforts to develop the residential mortgage loan business. The move sharpened our edge in retail banking and diversified our personal financing businesses. As at 30 June 2009, total retail loans amounted to RMB276.436 billion, representing an increase of 26.03% as compared with that at the end of the previous year and accounting for 24.99% of total loans. As at 30 June 2009, total retail customer deposits amounted to RMB550.374 billion, increasing by 15.40% as compared to the end of the previous year. Retail customer deposits accounted for 37.68% of total deposits. In the first half of 2009, net non-interest income from retail banking was RMB2.668 billion, decreasing by RMB4 million or 0.15% year on year. In particular, handling charge income from bank cards (including credit cards) increased by 5.79% year on year to RMB1.351 billion.

In corporate lending, the Group continued to actively implement a customer strategy that equally emphasized small, medium and large sized customers. The Company extended its support to prime industries such as railway, transportation, electricity, telecommunications, urban infrastructure, wholesale and retail, public utilities management and commercial services. Meanwhile, it was strict with lending to industries which are subject to the state's intensive macro-economic control such as the "high pollution, high energy consumption and resources dependent" industries and other industries which had overcapacity. As a result, the Group optimized the structure of its corporate loans in terms of the borrowers' industries. As at 30 June 2009, the corporate loans of the Company totaled RMB621,864 million, accounting for 56.22% of the total customer loans. The discounted bills totaled RMB207,881 million, accounting for 18.79% of the total customer loans. As at 30 June 2009, total corporate customer deposits increased by RMB209.019 billion or 29.80% to RMB910.316 billion, as compared to those at the end of previous year, accounting for 62.32% of total customer deposits. The net non-interest income of the Group's corporate banking for the first half of 2009 decreased by 4.70% year on year to RMB1.884 billion.

SME lending business

In the first half of 2009, the Company's business of lending to SME developed steadily, with the proportion of its SME loans increasing to 44.7% of total corporate loans. The total number of the SME customers increased by approximately 10.53% to 10,402 while the total amount of the SME loans surged by 24.25% to RMB274.02 billion as compared to that at the end of the previous year. The non-performing loan ratio of domestic SME corporate loans was 2.06%, a decrease of 0.62 percentage point as compared to that at the beginning of the year.

On 18 June 2008, the Company established a credit center for small-sized enterprises in Suzhou, which is directly subordinated to the head office. The credit center obtained a

financial license from the China Banking Regulatory Commission on 8 December 2008, and started operation on 22 December 2008. Its business extends over the entire nation and specializes in serving small-sized enterprises by providing various kinds of financing facilities with credit limit below RMB10 million, including credit services, guarantees, secured loans and pledge loans. As at 30 June 2009, the credit center had granted loans with a cumulative amount of RMB1.744 billion and had a loan balance of RMB1.323 billion. The average interest rate of our loans was about 20% above the benchmark interest rate, showing our improved strength in business expansion and pricing power. As at 30 June 2009, the credit center had 253 SME customers, who are mainly located in Suzhou, Nantong and other regions.

Non-interest income

In the first half of 2009, the Group's net non-interest income increased by RMB1.503 billion or 32.01% year on year to RMB6.198 billion. In particular, net fee and commission income decreased by 1.27% year on year to 4.042 billion. Such decrease was primarily attributable to the decrease in commissions from custody and other trustee businesses. The fee income from agency services of the Group increased by 21.07% year on year, while commissions from credit commitment and loan business increased by 23.39% year on year. Other net income of the Group increased by 241.37% year on year. The growth was primarily due to the increase in net foreign exchange gain, net investment gain and net gain arising from change in fair value. Other net income accounted for 7.81% of the net operating income.

Pressing ahead with internationalization

Integration with Wing Lung Bank a success

The Group continued to actively expand overseas markets and made steady progress with internationalization. Our New York branch has put its US dollar clearing system and trade finance system on-line successfully in the first half of 2009. Our London representative office opened on 16 July 2009, using the global financial hub as a springboard to the European market.

The implementation of the Group's plan for integrating Wing Lung Bank was in full steam in 2009 with good progress. Synergy between China Merchants Bank and Wing Lung Bank has emerged. The two banks already started the pilot service of Renminbi clearance for cross-border trade. After the acquisition by China Merchants Bank, Wing Lung Bank not only receives strong support from the Group, but also expands its horizon for future development as Hong Kong is actively developing Renminbi-related financial services.

For the six months ended 30 June 2009, Wing Lung Group recorded an unaudited consolidated profit after tax of HK\$458 million, representing an increase of 30.7% over the

corresponding period of the previous year. Overall loan quality remained sound with a non-performing loan ratio of 0.72%.

Prospects

Of the prospects for the second half of 2009, Dr. Qin Xiao, Chairman of China Merchants Bank, said, "In the second half of the year, the Company will face tough challenges posed by numerous uncertainties in the global and domestic economy, but will also be blessed with many favourable conditions. In order to effectively cope with the challenges and capitalize on the opportunities, we will focus on the following aspects in the second half of the year. First, we will ensure a stable and sound development of our assets business by making more room, modifying structure, focusing on key sectors and controlling pricing. Second, we will expand sources of low-cost debts and actively achieve a stable and effective growth of our debt business. Third, we will concentrate more efforts in product innovation and increase the income from fee-based business through various channels. Fourth, we will observe closely market changes and enhance the overall risk management. Fifth, we will strengthen such supporting services such as finance planning, human resources, information technology, process management and service management, so as to provide strong supports for business growth. Sixth, we will make steady progress with the integration with Wing Lung Bank and the development of our New York branch as well as the internationalization of our business."

END

Unaudited consolidated income statement

(Expressed in millions of Renminbi unless otherwise stated)

	<i>Six months ended 30 June</i>	
	<i>2009</i>	<i>2008</i>
Interest income	31,502	35,778
Interest expense	(12,879)	(11,653)
Net interest income	18,623	24,125
Fee and commission income	4,588	4,534
Fee and commission expense	(546)	(440)
Net fee and commission income	4,042	4,094
Other net income	1,939	568
Insurance operating income	187	-
Operating income	24,791	28,787
Operating expenses	(11,880)	(10,306)
Charge for insurance claims	(160)	-
Operating profit before impairment losses	12,751	18,481
Impairment losses	(2,603)	(1,392)
Share of profit of associates	23	33
Share of profit of jointly controlled entities	7	-
Profit before tax	10,178	17,122
Income tax	(1,916)	(3,877)
Profit for the period	8,262	13,245

Unaudited consolidated balance sheet

(Expressed in millions of Renminbi unless otherwise stated)

	<i>30 June</i>	<i>31 December</i>
	<i>2009</i>	<i>2008</i>
Assets		
Cash and balances with banks and other		
financial institutions	70,694	37,016
Balances with central bank	198,303	174,673
Placements with banks and other financial		
institutions	182,811	156,378
Loans and advances to customers	1,128,211	852,754
Investments	346,540	310,446
Interest in associates	287	266
Interest in jointly controlled entities	144	136
Fixed assets	15,038	15,062
Intangible assets	2,388	2,381
Deferred tax assets	2,480	2,521
Goodwill	9,598	9,598
Other assets	16,274	10,566
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Total assets	1,972,768	1,571,797
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Liabilities		
Deposits from banks and other financial		
institutions	185,309	115,792
Placements from banks and other financial		
institutions	67,104	50,124
Deposits from customers	1,540,682	1,250,648
Trading liabilities	177	524
Derivative financial liabilities	1,338	2,266
Financial liabilities at fair value through		
profit or loss	945	1,828
Certificates of deposit issued	1,900	1,840

Unaudited consolidated balance sheet (continued)

(Expressed in millions of Renminbi unless otherwise stated)

	<i>30 June</i>	<i>31 December</i>
	<i>2009</i>	<i>2008</i>
Liabilities (continued)		
Convertible bonds issued	2	2
Other debts issued	4,997	4,996
Current taxation	1,018	2,956
Deferred tax liabilities	881	848
Other liabilities	53,285	26,752
Subordinated notes issued	30,945	33,440
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Total liabilities	1,888,583	1,492,016
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Equity		
Share capital	14,707	14,707
Capital reserve	18,398	18,823
Surplus reserve	6,653	4,612
Investment revaluation reserve	1,147	2,854
Regulatory general reserve	10,822	10,793
Exchange reserve	(23)	(34)
Retained profits	28,069	19,836
Proposed profit appropriations	-	7,924
Approved stock dividends	4,412	-
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Total equity attributable to share holders of the bank	84,185	79,515
Minority interests	-	266
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Total equity	84,185	79,781
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Total equity and liabilities	1,972,768	1,571,797
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About China Merchants Bank Co., Ltd.

Founded in 1987 with its head office in Shenzhen, China, the Company mainly focuses on the China market. As at 31 December 2008, the Company had 47 branches, 648 sub-branches (including offices), one representative office in Beijing, one credit card center, one credit center for small-sized enterprises, 1,622 self-service banking centers and over 1,500 off-bank self-service machines (ATM & CDM) in mainland China, and a wholly owned subsidiary CMB Financial Leasing Company Limited. The efficiently operated outlets of the Company are primarily located in China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large cities in other regions. The Company owns two subsidiaries, namely, Wing Lung Bank Limited and CMB International Capital Corporation Limited, and a branch in Hong Kong. It has a branch and a representative office in New York.

The growth of the Company from a regional bank into a large national commercial bank of China is primarily attributable to its own resources and efforts. The Company was listed on Shanghai Stock Exchange in April 2002 and on SEHK in September 2006.

The Company provides customers with various corporate and retail banking products and services, and conducts treasury activities for proprietary purpose and on behalf of customers. The innovative products and services of the Company, such as "All-in-one Card," a multi-function debit card, "All-in-one Net," a comprehensive online banking service, dual currency credit card, the "Sunflower Wealth Management" services and private banking services, have become widely accepted in China.

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