China Merchants Bank Reports 2012 Interim Results

Progress on "Second Strategic Transformation" Achieving Positive Results

Net profit rises 25.68% year-on-year to RMB 23.377 billion

Highlights

- Net operating income increased 23.89% year-on-year to RMB 57.261 billion
- Net profit attributable to the Bank's shareholders rose 25.68% year-on-year to RMB23.377 billion
- Basic earnings per share attributable to the Bank's shareholders increased 25.58% year-on-year to RMB1.08
- Net interest margin increased 0.12 percentage points year-on-year to 3.11%
- Total assets rose 18.88% to RMB 3,322.701 billion from the beginning of 2012
- Capital adequacy ratio increased by 0.02 percentage points to 11.55% from the beginning of 2012
- Core capital adequacy ratio rose by 0.10 percentage points to 8.32% from the beginning of 2012
- Net non-interest income increased by 29.65% year-on-year to RMB13.620 billion.
- Non-performing loans increased by RMB730 million to RMB9.903 billion from the beginning of 2012; Non-performing loan ratio was 0.56%, which was unchanged since the beginning of the year
- Allowances for impairment losses to non-performing loans ratio rose by 3.90 percentage points to 404.03% from the beginning of 2012

(Notice：The 2012 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 data mentioned in this document belong to the Group)

August 17, 2012 — China Merchants Bank Co., Ltd. (SSE: 600036; HKEx: 3968; "China Merchants Bank" or "the Company" or "the Bank") together with its subsidiaries ("the Group") today announced unaudited interim results for the six months ended June 30, 2012.

In the first half of 2012, faced with significant macro-economic pressures, China Merchants Bank decided to make adjustments to its strategy in line with the "Second Transformation," actively optimized its asset-liability structure to mitigate adverse pressure in the market, and as a result, the bank was able to expand its operating scale steadily in the first half of 2012, improve asset quality, and show balanced development across all business lines.

1) Continued to maintain balanced development of profitability, asset quality and scale

1. Profitability steadily improved. In the first half of 2012, the Group's net profit attributable to shareholders increased RMB4.777 billion or 25.68% year-on-year to RMB23.377 billion. The net profit grew steadily but at a rate of 6.48 percentage points lower than 32.16% for the first quarter of 2012. In the first half of 2012, net interest income was RMB43.641 billion, up RMB7.925 billion or 22.19% year-on-year. Net non-interest income was RMB13.620 billion, up by RMB3.115 billion or 29.65% year-on-year. Annualized ROAA and ROAE attributable to shareholders of the Bank were 1.53% and 27.0%, increasing from 1.39% and 24.17% in 2011 respectively.

2. The scale of assets and liabilities maintained moderate growth. As at the end of June 2012, the Group's total assets were RMB3,322.701 billion, up RMB527.730 billion or 18.88% from the beginning of the year. Total loans and advances were RMB1,783.903 billion, up RMB142.828 billion or 8.70% compared with the beginning of the year. Total deposits from customers increased RMB236.376 billion or 10.65% to RMB2,456.436 billion as compared with the beginning of the year.

Asset quality remained sound while the allowance coverage ratio improved further. As at the end of 2011, non-performing loans of the Group increased by RMB730 million from the beginning of the year to RMB9.903 billion. The non-performing loan ratio was 0.56%, which was largely unchanged from the beginning of the year. Non-performing loan allowance coverage ratio increased by 3.90 percentage points to 404.03% compared with the beginning of the year.

2) Progress on the Bank's "Second Transformation" yielded positive results, with further improvements to operational efficiency

Given the complicated and challenging external environment in the first half of 2012, the Company continued to implement its strategy related to the Second Transformation, and achieved remarkable results.

Firstly, business structure further improved. As at the end of June 2012,The Company's loans to domestic medium, small and micro-sized enterprises remained at a relatively high level, accounting for 56.29% of total domestic corporate loans. The proportion of net non-interest income to net operating income was 22.75%, a rise of 1.33 percentage points compared with the corresponding period of the previous year. As at 30 June 2012, retail loans as a percentage of total loans remained stable with its structure further optimized. The percentage of retail profit to total profit rose to 32.15%, 4.45 percentage points higher than the previous year.

Secondly, key indicators of the Group continued to improve, which were mainly reflected in the following aspects:

Capital utilization efficiency continued to rise. As at 30 June 2012, the capital adequacy ratio of the Group rose by 0.02 percentage points from the beginning of the year to 11.55%, while the core capital adequacy ratio rose by 0.10 percentage points to 8.32% compared to the beginning of the year. Excluding the impact of factors including additional capital contribution to CMB Financial Leasing, adjustments made to the proportion of dividend, the capital adequacy ratio of the Company increased by 0.08 percentage points to 11.36% compared with the beginning of the year. The core capital adequacy ratio increased by 0.09 percentage points to 8.83% compared with the beginning of this year. The risk adjusted return on capital (RAROC) increased by 2.52 percentage points to 24.28% compared with the previous year. Since 2011, without having raised any new capital, the capital adequacy ratio for both the Group and the Company has steadily increased as the Bank has showed a strong ability to generate capital organically.

Risk pricing of loans improved greatly. The floating band of new weighted average interest rates on general corporate loans in RMB (weighted at actual amounts, same as below) increased by 0.67 percentage points compared with the previous year. The floating band of weighted average interest rates of retail loans in RMB increased by 1.84 percentage points compared with the previous year.

The proportion of high-net-worth customers continued to increase. The Company had 871,000 “Sunflower” (i.e. retail customers with monthly daily average of over RMB500,000 in total assets) or higher customers, up by 11.21% compared with the beginning of this year; the number of private banking customers increased by 11.57 % from the beginning of this year; the proportion of high-net-worth wholesale customers rose by 1.68 percentage points to 15.89% compared with the beginning of this year.

Operational efficiency continued to improve. As at 30 June 2012, The cost-to-income ratio of the Company decreased by 3.84 percentage points to 32.26% compared with the previous year; annualized profit before tax per person rose by 27.45% from the previous year to RMB1.30 million; annualized profit before tax per sub-branch was RMB64.81 million, up 24.35% compared with the previous year.

Overall asset quality remained stable. As at 30 June 2012, the non-performing loan ratio of the Company was 0.58%, which was relatively unchanged from the end of the previous year, while the special mention loan ratio decreased by 0.03 percentage points to 1.01% compared with the end of the previous year.

3) Main business growth remained healthy

Retail banking business maintained healthy growth, while the credit card business continued to maintain its competitive advantages

As of the end of June 2012, the Bank’s total retail customer deposits were RMB846.305 billion, up 12.65% from the end of the previous year, which is the highest growth among small and mid-sized Chinese banks. Retail loans increased 7.10% compared with the end of the previous year, and outstanding retail loans and new retail loans ranked 5th nationwide after the “Big Four” banks. During the period under review, the Company optimized the structure of its retail loan base. Contributions by personal business loans and credit card loans, both of which are fairly high margin areas, rose 4.49 percentage points and 1.01 percentage points, respectively. Demand deposits, which help lower funding costs, accounted for 59.39% of total retail customer deposits, an increase of 1.1 percentage points from the end of the previous year. Assets under management from retail customers totaled RMB2.3 trillion, up 8.9% from the beginning of the year. The total number of Sunflower customers or customers with assets above (i.e. customers with daily average assets per month of RMB500,000 or above deposited at the Company) grew 11.21% to 871,000.

The Company's credit card business remained highly competitive. As of 30 June 2012, the total number of active cards increased by 1.35 million to 20.24 million. The cumulative transaction volume for the first half of 2012 rose by 28.1% to RMB292.7 billion and the Company had the largest overseas credit card spending compared with its domestic peers. Interest income from credit cards rose by 33.86% and non-interest income from credit cards rose 32.84% year-on-year, driven by the Company's strategy to enhance the acquisition of valuable customers and by the rapid growth of installment business, especially the bill installment business. Non-performing loan ratio of credit card business decreased by 0.14 percentage point to 1.24% compared with the end of the previous year.

Meanwhile, the Bank's wealth management and private banking businesses saw rapid growth. As of the end of June 2012, the Company had 18,401 private banking customers, up 11.57% compared with the beginning of the year. Total assets under management were RMB412.125 billion, up 11.42% from the beginning of the year.

The wholesale banking business grew steadily, with significant growth coming from SMEs and Micro Enterprises

As of 30 June 2012, total corporate deposits and loans rose by 9.72% and 8.95%, respectively, from the end of the previous year. Demand deposits accounted for 51.87% of total deposits of corporate customers. In the first half of the year, the Company increased its support for industries such as emerging strategic industries, the modern services sector, renewable energy, environmental protection, and high-tech industries. And at the same time, the Company slowed loans to industries facing policy controls, such as real estate, local government financing vehicles, and "high pollution, high energy consumption and overcapacity" industries. All of this helped further improve the distribution of corporate loans. As of the end of June 2012, balance of loans by the Company through local government financing vehicles decreased RMB12.628 billion or 11.06% to RMB101.555 billion as compared with the end of the previous year, and accounted 6.14% of the total loans granted by the Company. This was 1.31 percentage points lower than the previous year. As of the end of June 2012, the balance of corporate loans granted to real estate developers was RMB79.931 billion, representing 4.84% of the Company's total loans and a decrease of 0.76 percentage points compared with the end of the previous year.

In the first half of 2012, business related to SMEs and micro enterprises saw healthy growth. As of 30 June 2012, the total balance of loans granted by the Company to domestic medium, small, and micro enterprises rose by 7.35% year-on-year to RMB537.909 billion at the end of the previous year, accounting for 56.29% of total domestic corporate loans. Ever since the 2010 introduction of the Company's "Qian Ying Zhan Yi" plan, a program to cultivate relationships with innovative and emerging enterprises, the number of customers under the program has grown to 5,334, up by 64.68% from the end of previous year. The Company also has established cooperative relationships with more than 250 private equity firms.

In addition, China Merchants Bank improved its service capabilities and its distribution channels in its wholesale banking business. Sales of corporate wealth management products rose by 73.6%, total assets under custody increased by 78.79%, and assets under management for wholesale customers rose by 60.39%. Total assets in the financial leasing business rose 36.5%. Offshore intermediary business revenue accounted for 47% of the total revenue for the four Chinese-funded banks handling this business. At the same time, the Bank's international, cross-border RMB clearance and cash management service businesses have developed quite rapidly. As of 30 June 2012, the overall counter-replacement ratio in corporate e-banking channels reached 51.13%. The accumulated number of transactions through U-BANK rose by 21.25% year-on-year to 20.20 million, and total volumes rose by 28.70%year-on-year to RMB11,570 billion.

4) Management is keeping a close eye on changes to its external environment and actively implementing measures in response

Facing the complicated and volatile macroeconomic environment, the Company comprehensively analyzed the operating environment, the impact of macroeconomic policy changes and other operating issues, and implemented appropriate measures in response to ensure steady growth.

The Bank is adhering to its strategy related to the "Second Transformation" to cope with the challenges brought by interest rate liberalization. The Company will strive to improve its risk pricing capabilities and loan returns by further implementing strategic transformation. It will push forward the restructuring of its balance sheet and business structure, focus on loans to small and micro enterprises and continue to strengthen its management of loan pricing. The Company will also maintain the stable growth of intermediary businesses by focusing on the development of wealth management, mobile finance, POS transaction and pension services, as well as fully realize the potential of various businesses, including its international, interbank, offshore, financial market, investment bank, asset custody, and cash management businesses.

Enhancing risk management to avoid various risks and potential threats. The Bank will strengthen its overall risk management amid the economic uncertainty. It will enhance internal controls and compliance, and improve financial and operational reporting to mitigate various threats, including credit, liquidity, market, operation and reputational risks. Meanwhile, the Bank will manage to reduce the risk of significant losses, and other regional and systematic risks by strengthening its management of risk related to real estate credit and loans to local government financing platforms, while carrying out individual exposure tests on coastal regions and cyclical industries, as well as insisting on the withdrawal of business where customers are engaged in private sector borrowing.

Improving management, rationalizing resource allocation and promoting workflow transformation. The Company will continue to boost capital efficiency by enhancing its organic capital accumulation abilities and improve operating efficiency by deepening workflow transformation. The Company will also improve its management efficiency by strictly controlling costs and steadily enhancing profit per person and profit per sub-branch. .Meanwhile, the Company will further optimize the allocation of resources, including credit, capital, cost and HR, etc., to ensure that resources flow to higher return businesses and customer groups. The Bank will also actively increase the proportion of high value customers, continue to improve its targeted marketing capabilities as well as apply customer-oriented business philosophies to promote workflow transformation

Dr. Ma Weihua, President and CEO of China Merchants Bank said, "In the second half of this year, the complicated economic and financial environment is likely to impose pressure on our liabilities, assets, intermediate businesses, capital management, cost management and risk prevention. Amidst this new environment and the challenges we face, we will further explore new concepts and continue refining our strategy related to the Second Transformation by focusing on small and micro enterprises. We will increase the proportion of demand deposits, fuel the growth of intermediary businesses such as wealth management, and optimize resource allocation to channel resources toward higher return businesses and clientele. We will also foster a long-term mechanism for business processes optimization, guard against various risks, as well as continue to integrate with and transform Wing Lung Bank. All these measures are aimed at further building the competitive edge that we believe our bank holds in the market."

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