

China Merchants Bank Reports 2012 Annual Results

Net profit rises 25.31% year-on-year to RMB45.273 billion

Highlights

- Net operating income increased 17.74% year-on-year to RMB113.818 billion
- Net profit attributable to the Bank's shareholders rose 25.31% year-on-year to RMB45.273 billion
- Basic earnings per share attributable to the Bank's shareholders increased 25.75% year-on-year to RMB2.10
- Net interest margin decreased 0.03 percentage point year-on-year to 3.03%
- Total assets rose 21.94% to RMB3,408.219 billion from the beginning of 2012
- Capital adequacy ratio increased by 0.61 percentage point to 12.14% from the beginning of 2012
- Core capital adequacy ratio rose by 0.27 percentage point to 8.49% from the beginning of 2012
- Net non-interest income increased by 24.98% year-on-year to RMB25.444 billion.
- Non-performing loans increased by RMB2.521 billion to RMB11.694 billion from the beginning of 2012; Non-performing loan ratio was 0.61%, an increase of 0.05 percentage point from the beginning of 2012
- Allowances for impairment losses to non-performing loans ratio was 351.79%

(Notice: The 2012 annual 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)

March 28, 2013 — 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 annual results for the year ended 31 December 2012.

In 2012, faced with complicated and mixed international and domestic economic situations, the Group adhered firmly to its guiding concept of “achieving balanced development of efficiency, quality and scale” and responded positively in concerted efforts to cope with any new issues, difficulties and challenges in the Second Transformation, and to seize opportunities and speed up the transformation. As a result, CMB delivered satisfactory results in terms of operation and management and continuously created value for our shareholders.

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

1. Profitability was further improved. In 2012, the Group's net profit attributable to the Bank's

shareholders increased RMB9.144 billion or 25.31% year-on-year to RMB45.273 billion. Net interest income was RMB88.374 billion, up RMB12.067 billion or 15.81% year-on-year. Net non-interest income was RMB25.444 billion, up 24.98% year-on-year. Return on average asset (ROAA) and return on average equity (ROAE) attributable to shareholders of the Bank were 1.46% and 24.78%, up by 0.07 percentage point and 0.61 percentage point from 2011 respectively. Operating efficiency was further improved, which was driven by (i) an increase in net interest income brought about by optimization of asset structure and steady expansion of asset scale; (ii) a reasonable decrease in the cost-to-income ratio which was attributable to standardized and refined expenditure and income management; and (iii) a steady growth in net fee and commission income thanks to the effort in capitalizing on customers' demand for integrated wealth management and shorter cash turnover time resulted from stronger consumption demand to develop the intermediary businesses.

2. The non-performing loan ratio rose slightly, and the allowance coverage ratio remained at a relatively high level. As at the end of 2012, the Group had non-performing loans of RMB11.694 billion, representing an increase of RMB2.521 billion as compared with the beginning of the year. The non-performing loan ratio was 0.61%, an increase of 0.05 percentage point as compared with the beginning of the year. The allowance coverage ratio of non-performing loans was 351.79%, a decrease of 48.34 percentage points as compared with the beginning of the year.

3. The scale of assets and liabilities expanded steadily. As at the end of 2012, the Group's total assets were RMB3,408.219 billion, representing an increase of RMB613.248 billion, or 21.94%, as compared with the beginning of the year. Loans and advances amounted to RMB1,904.463 billion, representing an increase of RMB263.388 billion, or 16.05%, as compared with the beginning of the year. Deposits from customers amounted to RMB2,532.444 billion, representing an increase of RMB312.384 billion, or 14.07%, as compared with the beginning of the year.

2) **“Second Transformation” progressed steadily and key indicators continued to improve.**

Given the complicated and challenging external environment in 2012, the Company carried on with the core values of “Service, Innovation and Prudence” and consistently pushed forward the “Second Transformation”. Efficiencies in capital, operation and management were further enhanced. Business structure continued to be improved.

Profit contribution from retail business continued to increase. In 2012, percentage of the Company's retail profit to total profit reached 32.78%, 2.27 percentage points higher than the previous year. Profit from retail business amounted to RMB11.041 billion, an increase of 62.72% from the previous year, accounting for 37.95% of the Company's profit, representing an increase of 5.49 percentage points from the previous year.

Net non-interest income as percentage of operating income increased. In 2012, the proportion of net non-interest income to operating income was 21.25%, a rise of 1.30 percentage points

compared with the corresponding period of the previous year.

The proportion of small and micro enterprises business continued to rise. The Company leveraged on its strength in product innovation to promote the development of products in batches, and make full use of its comprehensive advantage in retail business, so as to innovate new business model, establish core brand and fully extend its competitive strength in the market. According to the bank' statistics, as at 31 December 2012, balance of the Company' loans to small and micro enterprises totaled RMB417.629 billion, representing an increase of RMB190.167 billion or 83.60% over the beginning of the year, and accounted for 24.99% of domestic general loans (excluding discounted bills), representing an increase of 9.16 percentage points over the beginning of the year. Balance of micro enterprises loans increased 104.91% and the proportion of micro enterprises loans to total retail loans accounted for 26.36%, representing an increase of 10.84 percentage points. The proportion of small enterprises loans to all corporate loans accounted for 24.06%, representing an increase of 8.04 percentage points.

Key indicators also continued to improve, which were mainly reflected in the following aspects:

Capital utilization efficiency continued to rise. As at 31 December 2012, the capital adequacy ratio of the Company was 11.73%, representing an increase of 0.45 percentage point as compared with the beginning of the year. The core capital adequacy ratio was 8.86%, representing an increase of 0.12 percentage point as compared with the beginning of this year. The return on average equity (ROAE) was 22.89%, representing an increase of 0.82 percentage point as compared with the previous year. The risk adjusted return on capital (RAROC, profit after tax) was 22.65%, representing an increase of 0.15 percentage point as compared with the previous year.

Risk pricing of loans remained stable. In 2012, the floating range of new weighted average interest rates of corporate loans in RMB (weighted at actual amounts, same as below) was 11.80%. The floating range of weighted average interest rates of retail loans in RMB was 22.95%. The Company maintained a relatively steady net interest margin under the adverse circumstance of lower interest rate and interest rate liberalization. Net interest margin was 3.10%, which was among the top in the industry.

The proportion of high-net-worth customers increased continuously. As at 31 December 2012, the number of Company's Sunflower customers or higher customers increased by 16.33% as compared with the beginning of the year. The proportion of high-net-worth customers rose 0.13 percentage point. The number of private banking customers increased by 18.34 % compared to the beginning of the year.

Operational efficiency continued to improve. As at 31 December 2012, the cost-to-income ratio of the Company was 36.15%, representing an increase of 0.05 percentage point as compared with the previous year; profit before tax per person was RMB1.21 million (calculated with the same statistical calibres), representing an increase of 18.63% as compared with the previous year; profit

before tax per outlet was RMB60.89 million, representing an increase of 16.83% as compared with the previous year.

Overall asset quality remained stable. As at 31 December 2012, the non-performing loan ratio of the Company was 0.65%, up 0.07 percentage point from the end of the previous year, while the special mention loans ratio was 1.04%, which was relatively unchanged from the end of the previous year. Affected by the macro-economic downturn, the operational risk of enterprises increased. Income of retail customers decreased due to employment instability, which accelerated the occurrence of non-performing and special mention loans. In response, the Company took timely and effective risk management and control measures so as to ensure that the overall risk was under control.

3) Main business growth remained healthy

Retail banking business maintained healthy growth

In 2012, the Bank's retail customer base continued to expand. As at the end of 2012, the total number of retail customers grew 7.49% from the beginning of the year. The total number of Sunflower customers or customers rose 16.33%. The number of private banking customers grew 18.34%.

As at the end of 2012, total balance of retail customers' assets under management increased 15.07%. The balance of total assets under management from Sunflower customers or above grew 16.40%. The balance of total assets under management from private banking customers grew 17.38%. The Bank's total retail customer deposits were RMB863.770 billion, up 14.97% from the end of the previous year, which was the highest growth among small and mid-sized Chinese banks. Growth in new foreign currency savings deposits came 1st among Chinese banks. Outstanding retail loans and new retail loans ranked 5th nationwide after the "Big Four" banks. Growth in personal business loans also became the 1st among Chinese banks. Total retail customer deposits accounted for 35.60% of the Bank's total deposits, which grew steadily from the beginning of the year. Demand deposits accounted for 58.26% of total retail customer deposits and remained at high level. Retail loans accounted for 38.16% of total loans to customers, representing an increase of RMB114.965 billion as compared with the beginning of the year.. During the year, saving deposits experienced a rapid and steady growth with the characteristics of low cost and optimized structure.

The Company's retail banking wealth management business was booming. In 2012, the Company recorded RMB3,056.697 billion in accumulated sales of personal wealth management products, representing a year-on-year increase of 48.13% and distributed RMB341.5 billion open-ended mutual funds, representing a substantial year-on-year increase of 138.15%.

The Company's credit card business remained highly competitive in 2012. The Company continuously pushed forward management reform and built a differentiated competitive edge for CMB credit cards through comprehensive innovation, thus making remarkable achievements in

operation transformation. As at the end of 2012, the total number of active cards increased by 2.91 million to 21.80 million. Average transaction value per month of each active card was RMB2,690, increased 16.70% year-on-year. Non-performing loan ratio of credit card business decreased by 0.32 percentage point to 1.06% as compared with the end of the previous year. Interest income from credit cards amounted to RMB6,256 million, an increase of 38.62% as compared with the corresponding period of the previous year. Non-interest income from credit cards was RMB5,460 million, an increase of 41.49% as compared with the corresponding period of the previous year. All-in-one card business continued to perform well. Average balance per All-in-one card increased by RMB519. Transaction volume via POS increased by 18.09%.

Wholesale banking business maintained steady growth

As at 31 December 2012, the balance of corporate customer deposits amounted to RMB1,562.704 billion, representing an increase of 13.60% as compared with the previous year. The balance of inter-bank deposit from other financial institutions reached RMB253.134 billion, representing an increase of 24.32% as compared with the previous year. Corporate loans amounted to RMB 1,033.545 billion, representing an increase of 14.33% as compared with the previous year. As at 31 December 2012, the Company boasted 480,700 corporate depositors and 35,200 corporate borrowers, representing an increase of 10.89% and 20.55% respectively as compared with the previous year.

The Company focused on the development of small enterprises business. Balance of the small enterprises loans amounted to RMB240.490 billion, up 70.54% as compared with the beginning of the year, and the proportion of small enterprises loans to all corporate loans accounted for 24.06%, representing an increase of 8.04 percentage points as compared with the beginning of the year.

Since the official launch of the “Qian Ying Zhan Yi (千鷹展翼)” program for innovative emerging enterprises in 2010, business developed rapidly and became influential. As at 31 December 2012, the total number of innovative emerging enterprises served under the “Qian Ying Zhan Yi” program was 7,581, representing a surge of 134.05% from the previous year. Loan balance was RMB65.4 billion, representing an increase of 111.23% as compared with the beginning of the year. A total of 45 enterprises listed on the SME Board and ChiNext opened custody accounts with the Company for management of IPO proceeds, representing 35% of the total number of enterprises listed on the SME Board and ChiNext during the period, and ranking first among domestic banks.

The Company’s wholesale banking intermediary business maintained steady growth. As at 31 December 2012, the underwriting amount of debt financing instruments of investment banking business amounted to RMB132.665 billion, representing an increase of 12.91% as compared with the previous year. The Company put its focus on expanding its financial advisory services for M&A projects, IPOs and PE. The balance of assets under custody increased 111.76% as compared with the previous year. The total number of customers using cash management services reached 219,144, representing an increase of 23.41% as compared with that at the beginning of the year.

The sales of corporate wealth management products totaled RMB1,236.65 billion, representing a year-on-year increase of 42.30%, and realizing an income of RMB572 million from the sales of corporate wealth management products, representing a year-on-year increase of 35.55%.

In addition, the Company's cross-border financial business developed steadily. Financial market business achieved faster growth.

The Company also strengthened distribution channel and raised integrated service capability. In 2012, the Company had 961 branches and established 29 private banking centers in 24 key cities nationwide. The overall counter-replacement ratio in retail and corporate e-banking channels reached 90.66% and 52.40% respectively. The total cumulative number of retail e-banking transactions and corporate e-banking transactions increased 46.80% and 18.46% respectively. The total number of mobile banking contracts signed was approximately 10 million. E-banking grew consistently and rapidly. It not only effectively satisfied customers, but also relieved the pressure on outlets of the Company and reduced operation costs.

It is the 80th anniversary of Wing Lung Bank in 2012. Operating results continued to improve. In 2012, Wing Lung Bank's total assets amounted to HK\$178.941 billion. Total deposits amounted to HK\$132.094 billion. Total loans amounted to HK\$99.326 billion. Compound annual growth rates since 2008 of the above were 15.49%, 12.25% and 22.93% respectively. Profit attributable to shareholders amounted to HK\$2.131 billion in 2012. Compound annual growth rate of net profit since 2009 was 34.08%. Non-performing loan ratio decreased 0.18 percentage point in four years.

4) Confronted with opportunities and challenges under new circumstances and actively implementing measures in response

Facing opportunities and challenges under new circumstances, the Company will adhere to differentiate from the peers, vigorously develop small and micro enterprises business, wealth management and intermediary business, and accelerate process re-engineering and new product development, aiming to become an innovative bank distinguished by leading profitability, first-class services, sound management and excellent brand image. Major operating strategies include:

Fully implementing the development strategy of small and micro enterprise businesses to improve loans pricing ability. Confronted with situations of interest rate liberalization and financial disintermediation, the Company maintained net interest margin among top in the industry to ensure stable profit growth. The Company strived to push forward small and micro enterprises business strategy. New loans will be mainly granted to small and micro enterprises.

Accelerating the development of intermediary business to raise the percentage of non-interest income. The Company vigorously developed wealth management business. It also actively developed emerging intermediary business and continued to carry on rapid development of traditional intermediary business.

Proactively exploring the on-and-off balance sheet business innovation to broaden income sources. For on balance sheet innovation, the Company will vigorously develop peers' businesses to open up new growth points. For off balance sheet innovation, the Company will vigorously develop off balance sheet financing business namely entrusted loans and bond underwriting to generate new income sources.

Strengthening cost control to lower cost-to-income ratio. For cost control, in 2013, the Company will improve cost allocation method, optimize network construction, stringent financial management, raise salary and cost effectiveness, so as to ensure that growth rate of business expenses will be lower than that of net operating income as well as profit.

Creating a risk-adjusted core value and enhancing the overall risk management level. The Company will accelerate the establishment of overall risk management system to accurately capture the trend of risk change, effectively prevent various types of risks and prepare for the implementation of the new Basel Capital Accord.

Dr. Ma Weihua, President and CEO of China Merchants Bank said, "Looking forward in 2013, banking sector is still facing pressure such as complicated operating conditions, narrowing interest margin and asset quality. Meanwhile, the increasingly stringent capital control, the gradual deepening of interest rate liberalization, the clearer trend towards financial disintermediation and intensified competition from peers will make the business environment for banks more difficult. The Company has gained certain leading advantage in retail business, emerging wholesale banking business and cross-border financing following two consecutive transformations, thus laying a solid foundation for the Company to achieve sustainable development. Confronted with pressure and challenges and in light of the work philosophy of "deepening management reform and accelerating Second Transformation under the customer-centered and market-oriented principles", we will fully implement the "serving small and micro enterprises" business development strategy. We will adopt the following six operation measures: 1) putting more effort on enhancing our competitive strength in wholesale banking business; 2) continuing to increase profit contribution of retail banking; 3) updating our risk concepts; 4) accelerating process re-engineering and resource integration; 5) breaking down departmental barrier; 6) making greater effort in the cross-border finance platform and steadily advancing internationalization and all-function banking operation; in order to achieve sustainable development in the new historic era. We strive to become the distinguished, innovative and best commercial bank in China with international competitive edges."

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