

China Merchants Bank Announced 2015 Interim Results

Net profit rose 8.26% year-on-year to RMB 32.976 billion

Highlights

- Net operating income increased by 23.51% year-on-year to RMB104.381 billion
- Net profit attributable to the Bank's shareholders rose 8.26% year-on-year to RMB32.976 billion
- Basic earnings per share attributable to the Bank's shareholders increased 8.26% year-on-year to RMB1.31
- Net interest income increased 17.69% year-on-year to RMB66.104 billion. Net interest margin increased 0.09 percentage point year-on-year to 2.77%
- Net non-interest income increased by 35.06% year-on-year to RMB38.277 billion
- Total assets rose 10.34% to RMB 5,221.221 billion from the beginning of 2015
- Tier 1 capital adequacy ratio and capital adequacy ratio under the advanced method were 10.50% and 12.40%, respectively
- Non-performing loans increased by RMB 11.698 billion to RMB 39.615 billion from the beginning of 2014; non-performing loan ratio was 1.50%, up by 0.39 percentage point as compared with the beginning of the year
- Non-performing loan allowance coverage ratio was 204.17%, down by 29.25 percentage points as compared with the beginning of the year

(Notice: The 2015 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 25, 2015 - 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, 2015.

In the first half of 2015, China's economy remained weak and lack of new growth drivers, and increasing operating pressure emerged as a result of greater volatility in capital market, as well as the acceleration in interest rate liberalization. The Group has maintained steady performance and made significant achievement on the transformation of service model to asset-light banking and forging the "one body with two wings" strategy in adherence to its guiding principles of achieving balanced development of efficiency, quality and scale.

1. Maintain the effective growth in risk assets to ensure the coordinated development of "profitability, asset quality and scale"

In the first half of 2015, the Group has overcome various unfavorable factors and maintained the effective growth in risk assets to ensure the coordinated development of "profitability, asset quality and scale". Net income improved by 8.26% year-on-year. ROAA and ROAE amounted to 1.33% and 20.40% respectively and remained at sound levels. Non-performing loan ratio was at 1.50%. Capital quality was under control. Total assets grew by 10.34% as compared with the beginning of this year, achieving proper growth.

2. Significant achievement on the transformation of service model to asset-light banking and forging the "one body with two wings" strategy

Light Capital: As of the end of first half, Risk Weighted Assets (RWA) to total assets of the Bank was 62.07%, down by 3.53ppt from the beginning of this year. Annualized return on RWA increased by 0.06ppt year-on-year to 2.16%. Core Tier 1 capital adequacy ratio rose to 10.05% under the advanced method and 9.18% under the weighted method. The internal capital generation was further improved.

Light Asset: In the first half of 2015, net non-interest income increased by 35.45% year-on-year to RMB 35.34 billion. The proportion of the net non-interest income to net operating income of the Bank was 35.59%, up by 3.10ppt year-on-year. Risk adjusted return on capital (RAROC) stayed relatively high at 27.86%.

Light Operation: Our operational efficiency improved continuously. Cost-to-income ratio was 24.04%, down by 6.52ppt compared to 2014. Operating income per capita was 1.33 million, up by 13.38% year-on-year. The Bank has fully leveraged on its traditional strength in electronic banking. Replacement ratio of counter transactions with electronic channels in respect to corporate and retail e-banking channels increased by 1.46ppt and 1.76ppt to 96.84% and 58.26% respectively. Accumulated number of mobile banking transactions grew by 223.53%. Accumulated number of retail online banking transactions grew by 25.79%. The replacement ratio of online corporate banking settlements was up to 94.68%.

Promoted "one body with two wings" strategy and rapidly increased retail finance profit contribution

Pre-tax profit of retail finance business amounted to RMB19.722 billion, up by 30.32% year-on-year, representing 49.03% of the Bank, up by 8.82ppt year-on-year. Operating income of retail finance business grew rapidly to RMB45.021 billion, up by 40.39%, representing 45.34% of the Bank's operating income; net non-interest income of retail finance business amounted to RMB16.102 billion, up by 95.77% year-on-year, representing 35.77% of the Bank's operating income. Affected by the lower effective demand of the economy, net operating income from corporate banking business was down by 5.88% year-on-year; net operating income from interbank finance business

was up by 30.53% year-on-year.

3. Capital position further improved and risk management remained prudent

In the first half of 2015, capital adequacy ratio improved steadily. Capital adequacy ratio of the Group was 12.40% under the advanced method and 11.77% under the weighted method, both up from the beginning of this year. NPL allowance coverage ratio was 204.17%, and loan allowance ratio reached 3.06%. Credit cost was 2.46%.

4. Retail finance, corporate banking and interbank finance all delivered healthy growth, and asset quality remained stable

1) Retail finance continued to maintain competitive advantages

In the first half of 2015, the client base of retail finance continued to expand and high-value client base increasing rapidly. Number of retail customers reached 61.17 million, up by 8.75% from the beginning of this year, among which: The number of sunflower-level and above customers reached 1.54 million, up by 19.74% from the beginning of this year. Number of private banking customers reached 44,039, up by 33.94% from the beginning of this year. The client size of private banking continued to top the industry. Number of credit card accounts in circulation reached 28.45 million, up by 9.13% from the beginning of this year.

Wealth management achieved rapid growth and continued to maintain market leadership. AUM of retail customers grew rapidly by 24.56% compared to the beginning of this year, reaching historical high at RMB4, 322.0 billion. AUM of sunflower-level and above customers went up by 29.12%, reaching RMB3, 358.1 billion. The Bank recorded accumulated sales of personal wealth management products of RMB3, 501.1 billion, up by 30.85% year-on-year. Sales of open-ended mutual funds grew by 34.74% year-on-year, amounting to RMB414.2 billion, and standard premiums from the sales of third-party insurance policies went up by 15.99% year-on-year, reaching RMB37.0 billion.

Retail finance rapidly developed with asset-liability structure further improved. In the first half of 2015, The Bank increased extension to low-risk residential mortgage business. Balance of residential mortgage amounted to RMB400.81 billion, up by 24.72% from the beginning of this year, representing 37.94% of retail loans. Balance of credit card overdraft reached RMB245.36 billion, up by 11.69% from the beginning of this year. Loans extended to micro enterprises amounted to RMB329.09 billion, representing 31.15% of retail mortgage. The Bank continued maintained the competitive advantage in low capital cost. The proportion of retail demand deposit was 67.19%, up by 6.14ppt from the beginning of this year.

2) Foundation of corporate finance further enhanced

In the first half, the Bank further enhanced the foundation of corporate finance. The number of corporate deposit customers grew by 16.79% as compared with the beginning of last year. The number of SME customers went up by 26.93% from the beginning of this year. The number of "Qian Ying Zhan Yi" customers increased by 24.59% from the beginning of this year. Daily average balance of corporate deposits grew by 4.21%, and daily average balance of corporate deposits was up by 6.95% as compared with the beginning of this year. The Bank further improved corporate deposit structure. The proportion of demand deposit from corporate clients was 47.73%, up by 2.92ppt from the beginning of this year.

Under the unfavorable external environment, the Bank achieved structural growth. In cash management, in the first half of 2015, the total number of cash management customers was up by 23.40% as compared to the beginning of this year to 676,555. Cumulative number of corporate online banking transactions grew by 59.79% year-on-year, and cumulative transaction value of corporate online banking transactions increased by 63.24%. The replacement ratio of online corporate banking settlements was up by 1.66ppt. In terms of trade finance, number of onshore customers of international business grew by 11.96% year-on-year. Number of offshore customers rose by 12.10% from the beginning of this year. The balance of domestic trade financing went up by 22.05% year-on-year. Amount of offshore international settlements increased by 20.99% year-on-year.

Investment banking and M&A finance business expanded rapidly. In the first half of 2015, debt financing instruments underwritten went up by 65.00% year-on-year. The number of bonds underwritten was up by 55.63% year-on-year. The granted value of M&A financing activities was up by 176.24% year-on-year. The company served as sole lead underwriter for the largest perpetual bond issue in China. So far we have led the underwriting of 10 ultra-short term debenture debuts for local enterprises across 10 provinces and cities. The M&A financing team has undertaken a series of high-profile capital markets projects focusing listed companies, SOE reform and cross-border M&A, topping the market for privatization transactions and significantly improving M&A financing brand image. M&A financing business primarily targets emerging sectors encompassing internet, finance, healthcare and media.

3) Interbank asset management business recorded steady growth

In the first half of 2015, balance of operating funds of wealth management products increased by 80.79% as compared with the beginning of this year, and the number of wealth management products developed grew by 147.97% on a year-on-year basis. Net value products as percentage of operating funds of wealth management products rose by 0.93ppt as compared with the beginning of this year. As of the end of June, size of margin financing for secondary stock markets was

RMB152.3 billion. As the Bank has taken strict risk control measures, principal and interest on equity assets were effectively provisioned despite the stock market volatility.

Asset custody business experienced rapid growth. Balance of entrusted assets grew by 49.40% as compared with the beginning of this year to RMB5, 293.42 billion. The Asset Custody Department developed 9,550 projects for funds, brokerage, insurance, banks, trusts and private equity. The number of custody projects has risen 23.43% compared to the beginning of this year.

Financial market business achieved strong growth. Volume of bond trading grew by 211.09% year-on-year. Volume of proprietary derivatives trading went by up 45.22% year-on-year. Volume of discounted bills increased by 265.85% year-on-year.

4) Comprehensive financial services continued to grow

Total assets of Wing Lung Group grew by 7.02% as compared with the beginning of this year. Net profit was up by 15.97% year-on-year. Total assets of CMB Financial Leasing improved by 2.98% as compared with the beginning of this year. Total assets of CMB International Capital went up by 36.12% as compared with the beginning of this year. AUM of China Merchants Fund was RMB748.7 billion; ranking No.2 in the industry. GWP of CIGNA&CMB Life Insurance was up by 65.67% year-on-year.

5) Mobile banking and internet finance developed in parallel

In retail finance, number of mobile banking log-ins increased significantly, reaching 706 million. New mobile banking downloads was 6.42 million, and accumulated mobile banking downloads reached 20.68 million. Number of monthly active log-in users was 14.92 million. The number of CMB Life exceeded 16.1 million. In corporate banking, the number of customers acquired via Small Business E-Home reached 862,700. The number of customers using mobile check business was 41,100. In interbank finance, the number of inter-bank customers acquired on the Zhao Ying Tong platform was 420. Number of accumulated registered users of CMB-China Unicom Consumption Finance reached 1.88 million, most of which are consumer credits with small size and high frequency. Lines of credit reached RMB890 million and loan balance was RMB300 million. Asset quality was at a good level.

6) Strengthened risk management contributed to stable asset quality

Facing the economic downturn, the Bank managed to maintain the overall balance of asset quality by undertaking various risk control measures. First, The Bank fully disclosed risk, maintained strict classification standards and accurately reflected the quality of the asset. The ratio of NPLs to loans overdue more than 90 days was 1.03, ahead of joint stock banks. Secondly, overall provisioning of the Bank was sufficient, and its risk compensation capability for unexpected losses further improved. The Bank's NPL allowance coverage ratio for domestic institutions reached 201.19%, and loan

allowance ratio for domestic institutions was 3.27%. Thirdly, the Bank disposed NPL in time through accelerating NPL collection, charge off, innovative disposal and so on. Accumulated amount of disposed NPL reached RMB13.52 billion. By the end of June 30 2015, corporate NPL ratio was 2.31%, retail NPL ratio was 0.95%, non-standard credit assets NPL ratio reached 0.21% and coverage ratio was 1.82%. NPL ratio of loans for domestic corporate real estate decreased by 0.01 percentage point. NPL ratio of loans extended to overcapacity industries was 1.79% and remained under control. There were no non-performing assets for loans extended to local government financing vehicles.

6. Outlook and strategies

Looking into the second half 2015, we are expected to continue to operate in complicated and ever-changing economic and financial environment. Faced with such challenges and opportunities, the Company will strive to achieve its strategic objective of building an "asset-light bank" under the development strategy of "one body with two wings" in the second half of 2015. In particular, we will step up efforts in the following aspects. Firstly, continue to take specific measures to improve risk management capability and enhance overall risk management. Secondly, maintain the effective growth in risk assets to ensure the coordinated development of "profitability, asset quality and scale". Thirdly, develop asset-light emerging businesses such as wealth management, asset management, and investment banking businesses, in addition to exploring new businesses related to big data and internet finance. Fourthly, carry on organizational structure reform, process innovation and service upgrade to improve operational efficiency and service capabilities. Fifthly, explore employee stock ownership plan to mobilize the organization and personnel and increase the overall competitiveness of the bank.

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