

China Merchants Bank Announces 2015 Annual Results

Ongoing strategic transformation and differentiated operations

Net profit rose 3.19% year-on-year to RMB57,696 million

Highlights

- Net operating income increased 21.48% year-on-year to RMB202,302 million
- Net profit attributable to the Bank's shareholders rose 3.19% year-on-year to RMB57,696 million
- Basic earnings per share attributable to the Bank's shareholders increased 3.15% year-on-year to RMB2.29.
- Net interest income increased 16.66% year-on-year to RMB136,729 million. Net interest margin decreased 0.11 percentage point year-on-year to 2.75%
- Net non-interest income increased by 32.95% year-on-year to RMB65,573 million.
- Total assets rose 15.71% to RMB 5,474,978 million from the beginning of 2015
- Tier 1 capital adequacy ratio and capital adequacy ratio under the advanced method were 10.83% and 12.57%, respectively
- Non-performing loans increased by RMB19,493 million to RMB47,410 million from the beginning of 2015; non-performing loan ratio was 1.68%, up by 0.57 percentage point as compared with the beginning of the year
- Non-performing loan allowance coverage ratio was 178.95%, down by 54.47 percentage points as compared with the beginning of the year

(Notice: The 2015 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 above data belong to the Group.)

March 30, 2016 - 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 December 31, 2015.

In 2015, the domestic economy has entered the "New Normal", characterised by complicated macroeconomic conditions, great downward pressure on the economy and frequent occurrence of risks. Under the background of economic slowdown, interest rate liberalisation and faster opening up of the finance industry, the Group continued to implement its transformation strategies of "Asset-light Banking" and "One Body with Two Wings", forged forward with structural adjustments and maintained a sound development momentum.



1. Profitability, asset quality and scale maintained balanced development with steady operation management

In 2015, the Group has overcome various unfavorable factors and, in adherence to its guiding principles of achieving balanced development of efficiency, quality and scale, proceeded with strategic transformation and maintained satisfactory performance. Net profit improved by 3.19% YoY, recorded at RMB 576.96 million. ROAA and ROAE amounted to 1.13% and 17.09% respectively and remained at sound levels NPL ratio rose to 1.68% in view of the macroeconomic downturn. Overall risk was under control. Total assets achieved satisfactory growth of 15.71% as compared with the beginning of this year, amounted at RMB 5,474,978 million. Total deposits and gross loans increased by 8.09% and 12.35% respectively.

2. Strategic transformation steadily proceeded

1) The Bank steadily pushed forward strategic transformation with further strengthened profitability.

Pre-tax profit of retail finance business increased 19.54% YoY and accounted for 50.47% of total pre-tax profit, up by 7.73ppt as compared to 2014. The company reported net non-interest income of RMB 59,570 million, up 33.74% YoY. Net non-interest income accounted for 31.02% of net operating income, up by 2.76ppt. Net interest margin was up by 11ppt YoY despite the rate cuts, which is mainly attributable to the optimized profit structure.

2) The Company continued to optimize the business structure.

The percentage of gross loans and advances to total assets went down by 1.17ppt, as compared to the beginning of the year. The percentage of retail loans to total loans went up by 4.91ppt, as compared to the beginning of the year. The percentage of demand deposits to total deposits went up by 7.01ppt. Of the total operating income, the percentage of retail finance income went up by 2.93ppt, corporate finance income down by 10.32ppt, and financial institutions finance up by 1.81ppt.

3) Progress of “Asset-light Banking” was achieved gradually.

The percentage of RWA to total assets was 62.62%, down by 2.99ppt as compared to the beginning of the year. RWA growth of the Bank was 10.69% and net operating income growth was 21.48%, both achieved with less capital consumption. The aggregate issue volume of securitization of credit assets amounted to RMB 51.66 billion, up 80.38% YoY, with a No. 1 market share of approximately 7% among domestic commercial banks. RAROC stayed relatively high at 21.15%. Cost to income ratio was further improved to 27.28%, down by 3.28ppt.



The Bank vigorously push ahead with development of internet and mobile channels, and the e-banking channel replacement ratio improved continuously. Counter replacement ratio of retail e-banking channels further improved to 97.32%, up by 1.94ppt as compared to the prior year. Accumulated number of mobile banking transactions was 535 million, up 137.78% YoY. Replacement ratio of non-cash transactions at visual electronic counters achieved 20.48%. Counter replacement ratio in respect of corporate e-banking channels achieved 59.04%, up by 2.54ppt; Replacement ratio of online corporate banking settlements achieved 95.50%, up by 2.18ppt.

4) Significant synergies achieved in implementing "One Body with Two Wings" strategy.

Upholding "One Body with Two Wings" strategy, the Bank achieved balanced development of retail, corporate and financial institutions finance businesses. The net operating income from the retail finance maintained a rapid growth of 30.04%. Due to weak external demand, interest cuts, declines in export/import and business structural adjustment, net operating income of corporate finance business was slightly down by 3.78%. The net operating income from the financial institutions finance has recorded a strong growth of 40.29%. Satisfactory achievements were made, as the Bank promoted the "one body" to play a bigger role in driving the development of the "two wings", while having its corporate finance and financial institutions finance rendered more support to the growth of its retail finance.

3. Risk management proved resilient to challenges with capital position improved

In 2015, the Group adopted prudent classification criteria for NPLs, and the ratio of its NPLs to loans overdue more than 90 days was stable at 1.05. Loan allowance ratio was 3.00%. Impairment losses on assets was RMB 592,66 million, up 87.07% as compared to the prior year. NPL allowance coverage ratio remained sufficient at 178.95%. Capital adequacy ratio and CET1 ratio improved steadily under both advanced and weighted methods. Its risk compensation capability for unexpected losses further improved.

4. Retail finance, corporate finance and financial institutions finance all delivered healthy growth, and asset quality remained stable

1) Retail finance business continued to improve its competitive advantages

The Company has always prioritised development of retail finance business, and promotes construction of its retail finance business system. It has developed a solid, premium and broad retail customer base by capitalising on its business management system, product system, service system and risk prevention system which are subject to improvement from time to time. The Company possesses outstanding competitive edge in such core retail businesses as wealth management, private banking, retail credit and consumer finance.

The number of retail customers of the Company reached 66.94 million, up 19.00% as compared



with the beginning of the year. The total number of All-in-one Cards was 91.16 million, up 19.93%. The number of Sunflower-level and above customers reached 1,647,600, up 27.76% as compared with the beginning of the year. AUM from our retail customers amounted to RMB4,749.6 billion, up 36.88%. AUM from Sunflower-level and above customers amounted to RMB3,729.6 billion, up 43.41%. The net non-interest income from retail finance amounted to RMB26.780 billion, up 50.81%. Cost to income ratio of retail finance business was 35.72%, down by 3.92ppt YoY. RAROC was 80.4%, up by 26.4ppt

Asset-liability structure of its retail finance business is further enhanced. The total retail loans of the Company amounted to RMB1.21 trillion, up 26.62% as compared with the beginning of the year. During the economic downturn, the Bank took initiative to adjust business structure, increased extension to low-risk residential mortgage business while actively supporting the credit card business. Balance of residential mortgage amounted to RMB 491,266 million, up by 52.87%, representing 40.62% of retail loans. Balance of deposits from retail customers amounted to RMB1.13 trillion, representing an increase of 11.33%; of which, the percentage of demand deposits grew to 71.10%, up by 10.05 ppt. The Bank managed to maintain low funding cost, with annualized average cost of deposit from retail customers of 1.30%, down by 0.32ppt YoY.

In 2015, private banking business experienced rapid growth. The Bank had 49,032 private banking customers, up 49.12% as compared with the beginning of the year. AUM from private banking customers amounted to RMB1,252.1 billion, up 66.37% as compared with the beginning of the year. Average AUM per account was RMB 25.54 million. The Company established 8 new private banking centers, with the total now reaching 45. Net operating income from customers holding private banking cards amounted to RMB4.821 billion, up 31.97% YoY.

Wealth management achieved rapid growth and continued to maintain market leadership. Fee and commission income from retail wealth management business amounted to RMB17.079 billion, up 83.86%. Among which, income from distribution of funds, from distribution of third-party insurance policies, from entrusted wealth management and income from distribution of third-party trust plans experienced fast growth of 164.29%, 31.94%, 54.20% and 63.60%, respectively.

Credit card business maintained robust growth. The number of active credit cards users was 31.03 million, up 19.03% YoY. The cumulative transaction value of credit cards amounted to RMB1,819.5 billion, up 36.67% YoY. The percentage of the revolving balances of credit cards was 24.72%. Balance of credit card overdrafts was RMB313.056 billion, up 42.50% as compared with the beginning of the year. Interest income and non-interest income from credit cards amounted to RMB26.729 billion and RMB9.598 billion, up 56.81% and 38.78%, respectively.

2) Corporate finance business further enhanced its foundation

In 2015, in proactive response to external challenges and opportunities for its corporate finance, the Company focused on growing its customer base and strategic business transformation,



accelerated formation of two major business systems, namely transaction banking and investment banking, and thus further enhanced its differentiated.

Number of corporate depositors reached 1,027.8k, up 36.11% YoY. The Company had a total of 783,100 small enterprise customers, up 56.18%. The total number of Qian Ying Zhan Yi customers reached 26.4k, up 25.60% as compared with the beginning of the year. Balance of loans granted to Qian Ying Zhan Yi customers increased by 22.01%. Balance of corporate customer deposits increased 6.89% as compared with the beginning of this year. Demand deposits accounted for 50.11% of total corporate deposits, up by 5.30 ppt. The average cost of deposit from corporate customers was 2.06%, down by 0.30 ppt.

Transaction banking achieved fast growth, and in terms of cash management business: The total number of cash management customers reached 831.9k, up 51.74% YoY. The Bank secured 572 core customers in the supply chain and 10,537 customers from upstream and downstream industries, up 247% and 264% respectively. Balance of supply chain finance amounted to RMB67.998 billion, up 60.88% as compared with at the beginning of the year. Cumulative transaction value of corporate online banking transactions increased by 72.25%. Cumulative number of corporate online banking transactions increased by 70.64%. In terms of trade financing business: the number of onshore customers of our international business reached 65,958, representing a growth of 19.11% YoY. Market share of foreign exchange settlements was 4.48%, up by 0.12 ppt. The amount of domestic trade financing increased by 15.90% YoY. Offshore international settlement increased by 48.00%.

As a breakthrough to build “Asset-light Banking”, our investment banking business has been expanding rapidly in 2015. Debt financing instruments underwritten increased by 64.46% YoY. Number of bonds underwritten increased by 61.80%. Granted value of M&A financing activities went up by 64.18%.

3) Financial institutions finance business realized rapid development.

The Company’s financial institutions finance business achieved rapid development with profits stable growth of income and continued improvement in value contribution.

In 2015, the financial institutions finance business continued to record stable growth in value contribution. The financial institutions finance realized pre-tax profit of RMB22.983 billion, up 41.88% YoY, and accounted for 33.34% of the profit before tax of the Bank, up by 9.55 ppt. Operating income was RMB26.448 billion, up 40.29% YoY. Net interest income was RMB11.466 billion, up 24.25% as compared with the previous year, and net non-interest income was RMB14.982 billion, up 55.66% as compared with the previous year.

In 2015, interbank business achieved stable growth. The total number of customers under



third-party custody business was 6,445,400, up 51.66% as compared with the beginning of the year. The balance of funds under third-party custody amounted to RMB173.517 billion, up 53.52% as compared with the beginning of the year the balance of placements from banks and other financial institutions reached RMB702.862 billion, for which demand deposits accounted 58.51%, up by 24.52 ppt. The trading amount of discounted bills business for the whole year reached RMB 33.71 trillion, up 270.06% as compared with the previous year. The volume of interbank cross-border RMB clearing service reached RMB2,260.0 billion, up 187.90% YoY.

In 2015, asset management business maintained a strong growth momentum. The balance of wealth management products under operation by the Company amounted to RMB 1.82 trillion, up 118.97% as compared with the beginning of the year. The balance of net-worth products amounted to RMB 961.702 billion, up 296.33% as compared with the beginning of the year. Net worth products accounted for 52.82% of the balance of wealth management products under operation, up by 23.64 ppt. As the Company implemented stringent risk control on equity-linked wealth management business, the risk exposure of asset management business is under control during violent fluctuations in equity market.

Asset custody business experienced rapid growth in 2015. The balance of assets under custody amounted to RMB 7.16 trillion, representing an increase of 101.97% as compared with the beginning of the year. Custody fee income amounted to RMB 3.567 billion, representing an increase of 68.89% YoY; the number of asset custody projects reached 11,506. The Company established a relatively balanced and diversified business structure covering 5 major customer bases including fund, brokerage, insurance, trust and PE, and the number of custody projects increased by 48.71% as compared with the beginning of the year.

Financial market business was well developed. The Company's spot trading volume of bonds increased by 54.58% YoY. Of the bonds investments, 75% are issued by MOF or policy banks with sovereign credit ratings, while 12% are bonds issued by commercial banks. Trading volume of RMB-denominated options increased by 98.77% YoY. Trading volume of RMB interest rate swap business increased by 1261.56% YoY. Trading volume of RMB exchange rate swaps increased by 50.00% YoY.

4) Strengthened comprehensive risk management contributed to stable asset quality

As a result of the adverse impact from economic downturns, overall NPL balance and ratio of banking sector has been increasing. In response to grave risk environment in 2015, the bank strengthened its risk management measures, including: Continued to improve the comprehensive risk management system and the centralized risk management mechanism. Solidified management and front, middle and back defense lines. Tightened customer onboarding criteria, optimized asset portfolio and streamlined asset structure. Tightened monitoring and control over asset quality, deepened risk warning, examination and supervision.



Introduced innovative approaches for disposal of NPLs so as to dispose of NPLs aggressively through different means. Steadily increased application of quantitative risk management tools. Asset quality of the Company is well under control. Corporate NPL ratio was 2.60%. Retail NPL ratio was 1.08%. Credit cards NPL ratio was 1.37%. The Bank disposed NPL in time. Accumulated amount of disposed NPL reached RMB 38,335 million.

5. Other important operational information of the Company

1) Comprehensive financial services continued to grow.

The comprehensive operation system has been basically established, and cross-segment product innovation and business coordination have been actively promoted, therefore the benefits of strategic synergy and financial synergy have been revealed. In 2015, total assets of Wing Lung Group grew by 3.80% as compared with the beginning of this year. Net profit was up by 2.56% YoY. Net profits of CMB Financial Leasing improved by 5.13% as compared with the beginning of this year. Total assets of CMB International Capital went up by 25.85% as compared with the beginning of this year. AUM of China Merchants Fund was up by 103.50% as compared with the beginning of the year. GWP of CIGNA&CMB Life Insurance was up by 47.92% YoY.

2) Mobile banking vigorously developed to establish service platform

In 2015, the Bank established the Internet finance development strategy of "building service platforms, connecting to external traffic and conducting traffic operation (內建平台、外接流量、流量經營)". With respect to retail finance, aggregate number of mobile banking customers reached 27,588.8k; annual active customers reached 18,615.6k. No. of CMB Life subscribers was 20,535.2k, with No. of active users reached 18,390.9k. With respect to corporate finance, No. of registered customers of Small Business E Home reached 11,252k and No. of customers using the mobile cheque service reached 233.5k. With respect to financial intuitions finance, as at the end of 2015, No. of inter-bank customers acquired on the Zhao Ying Tong platform was 731 and aggregate transaction volume on the Zhao Ying Tong platform amounted to RMB 3.2 trillion.

6. Outlook and strategies

Looking into 2016, economic and financial conditions in China and globally remain complicated and uncertain. At the time, national 13th Five Year Plan has provided clear direction for economy development, among which we will embrace a great number of opportunities. In face of challenges and opportunities in a new environment, the bank will adhere to its philosophy of balanced development of "efficiency, quality and scale" and development strategy of "asset-light bank" and "one body with two wings," with key measures to be taken in 2016 include: First, we will improve our comprehensive risk management capabilities with focus on



enhancement of credit risk management to maintain asset quality. Second, we will further refine our business structure through assets, liabilities, customers and commitment of resources. Third, we will strive to achieve mechanism optimization and process reengineering to continue with the reform. Fourth, we will implement rigid management to foster a team of talents and corporate culture that are beneficial to the sustainable long-term development of the bank.

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Investor and Media Enquiries

Ms. Vivian Wang

Christensen

Tel: 852-2232-3978

Fax: 852-2117-0869

E-mail: vwang@ChristensenIR.com

Ms. Wei Wei

Christensen

Tel: 852-2232-3966

Fax: 852-2117-0869

E-mail: weiwei@ChristensenIR.com