

China Merchants Bank Reports 2008 Interim Results

Net profit up 116.42% to RMB 13.245 billion

China's stable economic growth spurs growth in interest-earning assets

Improved revenue and customer mix enhances loan yields

Results Highlights

- Net profit rose by 116.42% to RMB13.245 billion (2007 1H: RMB6.120 billion)
- Profit before tax rose 90.10% to RMB17.122 billion (2007 1H: RMB9.007 billion)
- Basic earnings per share increased by 114.29% to RMB0.90 (2007 1H: RMB 0.42)
- Net assets per share rose 30.77% to RMB5.27 (2007 1H: RMB4.03)
- Total assets increased by 6.50% from the end of year 2007 to about RMB1,395.791 billion (December 31, 2007: RMB1,310.522 billion)

(Notice: The 2008 interim results of China Merchants Bank Co., Ltd. as an H share were prepared in accordance with International Financial Reporting Standards (IFRS) and are unaudited, but have been reviewed by KPMG. The Board of Directors and all the Directors of China Merchants Bank Co., Ltd. hereby confirm that the information contained in this report contains no false representations, misleading statements or material omissions. The Directors jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.)

Hong Kong, August 18, 2008 — China Merchants Bank Co., Ltd. (SSE: 600036; HKEx: 3968; “China Merchants Bank” or “the Company”) announced its interim results for the six months ended June 30, 2008. During the period under review, China posted stable economic growth under the country's macroeconomic control measures. China Merchants Bank continued to improve the revenue and customer mix as part of the bank's measures to cope with the country's tight monetary policy. As a result, the Company's interest-earning assets continued to grow. Meanwhile, the bank's asset quality remained good and net interest margin widened, resulting in growth in net interest income. The Company also took efforts to increase non-interest income from retail and corporate banking and thus maintained growth momentum in non-interest

income. All these drove up profit. Other factors that helped contribute to the profit growth are: 1) decreasing credit cost due to good asset quality, and 2) lower effective income tax rate because of reduced statutory tax rate.

For the six months ended June 30, 2008, net profit increased by 116.42% year on year to RMB13.245 billion. Net operating income grew by 64.18% year on year to RMB28.820 billion. The increases were due to the rapid growth in interest income from loans and advances to customers, debt investments and fees and commission incomes. Net interest income accounted for 83.69% of the increment in net operating income, up 4.03 percentage points when compared with the same period of 2007, while net non-interest income accounted for 16.2% of the growth.

Total assets were RMB1,395.791 billion as of June 30, 2008, a 6.5% increase from RMB1,310.552 billion as of December 31, 2007. Total deposits were RMB1,046.626 billion as of June 30, 2008, up 10.93% from the end of 2007. Total loans were RMB742.660 billion, up 10.32% from the end of 2007. Basic earnings per share grew by 114.29% year on year to RMB0.90. The Board of Directors has resolved that no interim dividend will be paid.

As of June 30, 2008, corporate loans totaled RMB497.614 billion, 11.61% more than at the end of 2007, and accounted for 67.00% of total loans. In the period under review, the Company continued to be selective in lending --- it lent more to sectors with good performance and prospect such as transportation, energy and power generation (alternative energy in particular), steel, urban infrastructure, environmental protection and high-tech industries. The Company was the first to launch green financial services in China. It also restrained loans to industries targeted by the government's macroeconomic control measures, namely high consumers of energy and resources as well as polluting industries. The move improved the industry mix of its loan portfolio. The growth of the Company's loans to small and medium-sized enterprises was significantly affected by such domestic factors as credit tightening policy, Chinese currency appreciation, rising labour cost, and the increasingly stringent regulations on energy saving and emissions reduction, as well as by the international factors such as the sub-prime mortgage crisis in the United States and rising oil prices. Loans to small and medium-sized enterprises grew by about 6% to RMB202.10 billion, indicating a slower growth. Small and medium-sized corporate customers increased to 8,775, about 8% more than that at the end of 2007.

China Merchants Bank's management said, "Despite the complicated market conditions, the Company will continue to develop its small and medium-sized enterprise loan business, promote the brand of its services to the small and medium-sized enterprises, improve and innovate products and services for small and medium sized enterprises, and put greater effort in staff training, with a view to achieving rapid, healthy and stable growth for its loan business and services for small and medium-sized enterprises."

Affected by the state's macroeconomic control measures and tight monetary policy, the Company's retail loan business slowed down. As of June 30, 2008, retail loans were RMB190.034 billion, an 8.57% increase compared to the end of 2007. Residential mortgage loans grew 5.40% when compared to the end of 2007, while accounts receivable at the credit card business increased 17.65%. Retail loans accounted for 25.59% of total loans as of June 30, 2008, down 0.41 percentage points from the end of last year because of a credit crunch in the country's residential mortgage loan market.

Interest income rose 60.55% year on year to RMB35.778 billion in the first half of 2008. The increase was primarily due to an increase in the size of and the average return on loans to customers, investment securities, deposits at the central bank and deposits at other banks and financial institutions. Loans and advances to customers remained the largest source of interest income, accounting for 76.93% of the total.

Net interest income was RMB24.125 billion in the first half of 2008, up 64.16% year on year. The increase was primarily due to an expansion of interest-earning assets and their improved average yield.

Net interest spread was 3.51%, or 66 basis points higher than in the first half of 2007. This was because the average yield of interest-earning assets rose by 94 basis points to 5.43% in the first half of 2008 from 4.49% in the first half of 2007. Meanwhile, the average rate paid on interest-bearing liabilities only rose by 28 basis points to 1.92% in the first half of 2008 from 1.64% in the first half of 2007.

Net interest margin was 3.66% for the first half of 2008, which was 55 basis points higher than that in all of 2007, and 70 basis points higher than that in the first half of 2007. The increase was primarily due to four factors: 1) the People's Bank of China raising the prime rate a number of times; 2) the interest rate of demand deposits

remaining more or less the same; 3) the higher proportion of demand deposits relative to total deposits, 4) wider net interest spread between deposit and loan as a result of the Company's effort to raise its pricing power. Net interest income increased by 64.16%, compared with the 32.34% growth in total interest-earning assets.

As at 30 June 2008, the Company held bonds issued by two home loan mortgage companies, namely Fannie Mae and Freddie Mac, with an aggregate carrying value of US\$180 million, (of which, US\$110 million worth of the bonds were issued by Fannie Mae and US\$70 million worth of the bonds were issued by Freddie Mac, and all those bonds were high-grade bonds) and recorded an unrealized gain of US\$1.56 million. In addition, the Company also held US\$75 million worth of mortgage-backed securities, which are guaranteed by the two companies. The total carrying value of such bonds which were involving Fannie Mae and Freddie Mac and were held by the Company amounted to US\$255 million, with an unrealized gain of US\$830,000 at market value.

In the first half of 2008, the Company continued to record a decline in both the non-performing loans and non-performing loan ratio. By the end of the reporting period, the non-performing loans totaled RMB 9.289 billion, a decrease of 1.105 billion, or 10.63% from the beginning of the year 2008. As at the end of the period, non-performing loan ratio was 1.25%, representing a decrease of 0.29 percentage point compared to the beginning of the year. As a result of the decrease in the growth rate of non-performing loans and the improved results of recovering sizeable non-performing assets, the proportion of "substandard, doubtful and loss" loans all decreased as of the end of the reporting period when compared to that at the beginning of this year. In the first half of 2008, the Company recovered RMB1.505 billion of non-performing loans accumulated as of the beginning of this year, half year ahead of the schedule of achieving the target for the whole year of 2008.

Dr. Ma Weihua, President and CEO of China Merchants Bank said, "In the first half of 2008, there was a credit crunch, a slump in the stock market, mounting pressure of Chinese currency appreciation, higher uncertainty about the development of China's economy and intensifying competition among domestic and overseas banks in terms of businesses, products, services, technology, corporate governance improvement and brand building. To better cope with the challenges, China Merchants Bank implemented a series of reforms involving compliance management, risk management, and strategy management, among other things. It also put more efforts in innovating and marketing products and developing the market. The Company

improved the system of its business of services for small and medium sized enterprises, while actively scrutinized sector- and conglomerate-oriented lending. It also pursued to increase sales to corporate clients. In response to the significant changes of market situation, the Company focused on fee-based business to diversify the income source and adjust the income structure.”

During the period under review, the Company was honored the "*Best Internet Bank of China in 2007*" by *The Economic Observer*, and was awarded the honor of "*China's Best Domestic Cash Management Bank*" by *Asia Money* for the fourth consecutive year. In May 2008, the Company was once again named the "*Best Joint Stock Retail Bank*" by *The Asian Banker*. These awards demonstrated that China Merchants Bank's brand had been recognized in banking sector.

Of the prospects for the second half of 2008, Dr. Qin Xiao, Chairman of China Merchants Bank, said, "The Company is presented with the opportunities brought by the generally positive momentum of macro-economic development and further improved financial ecosystem, but at the same time confronted with challenges posed by the slower growth of global and domestic economy, higher uncertainty brought by the macro-economic control measures and continuous fluctuations in the capital market. In face of this complicated operating environment, the Company will proactively capture opportunities, prevent operating risks and implement management reform so as to overcome unfavorable factors. We will continue to ensure internal control and compliance, and emphasize innovation, risk management and market development. Meanwhile, we will pursue the strategic shift to maintain stable development. We will strive to maintain our edge in a highly competitive market with the aim of bringing good returns to its shareholders."

END

Consolidated Income Statement (Unaudited)

(Expressed in millions of RMB unless otherwise stated)

	For six months ended 30 June 2008	For six months ended 30 June 2007
Interest income	35,778	22,284
Interest expense	<u>(11,653)</u>	<u>(7,588)</u>
Net interest income	24,125	14,696
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Fee and commission income	4,534	3,012
Fee and commission expense	<u>(440)</u>	<u>(348)</u>
Net fee and commission income	4,094	2,664
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Other net income	568	194
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Operating income	28,787	17,554
Operating expenses	<u>(10,306)</u>	<u>(6,968)</u>
Operating profit before impairment losses	18,481	10,586
Impairment losses	(1,392)	(1,579)
Share of profits of an associate	<u>33</u>	<u>-</u>
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Profit before tax	17,122	9,007
Income tax	<u>(3,877)</u>	<u>(2,887)</u>
Net profit attributable to equity holders of the Bank	13,245	6,120
	=====	=====
Dividends		
Declared and paid	4,117	1,764
	=====	=====
	RMB	RMB
Earnings per share		
Basic	0.90	0.42
Diluted	0.90	0.42
	=====	=====

Consolidated Balance Sheet (Unaudited)

(Expressed in millions of RMB unless otherwise stated)

	As at 30 June 2008	As at 31 Dec 2007 (audited)
Assets		
Cash and balances with banks and other financial institutions	18,940	20,276
Balances with central bank	190,929	146,266
Placements with banks and other financial institutions	182,114	225,669
Loans and advances to customers	722,584	654,417
Investments	258,235	244,123
Interest in an associate	255	225
Fixed assets	9,616	8,722
Deferred tax assets	2,123	2,162
Other assets	<u>10,995</u>	<u>8,692</u>
Total assets	<u>1,395,791</u>	<u>1,310,552</u>
	=====	=====
Liabilities		
Deposits from banks and other financial Institutions	202,257	218,520
Placements from banks and other financial institutions	21,972	46,603
Deposits from customers	1,046,626	943,534
Financial liabilities at fair value through profit or loss	3,794	2,945
Certificates of deposit issued	1,661	1,095
Convertible bonds issued	2	13
Other debts issued	9,994	9,992
Current taxation	2,446	2,588
Other liabilities	26,043	13,778
Subordinated notes issued	<u>3,500</u>	<u>3,500</u>
Total liabilities	<u>1,318,295</u>	<u>1,242,568</u>
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Shareholders' equity

Share capital	14,707	14,705
Capital reserve	27,556	27,545
Surplus reserve	4,612	3,088
Investment revaluation reserve	(100)	(471)
Regulatory general reserve	9,500	9,500
Retained profits	21,221	7,976
Proposed profit appropriations	-	5,641
Total shareholders' equity	77,496	67,984
Total shareholders' equity and liabilities	1,395,791	1,310,552