



China Merchants Bank Reports 2008 Annual Results

Net profit up 38.27% to RMB 21.077 billion

Continuing strategic transformation

Integration with Wing Lung Bank smooth

Results Highlights

- Profit before tax rose 27.16% to RMB26.759 billion (2007: RMB21.043 billion)
- Net profit attributable to the Bank's shareholders increased by 38.27% to RMB21.077 billion (2007: RMB15.243 billion)
- Basic earnings per share attributable to the Bank's shareholders increased by 37.50% to RMB1.43 (2007: RMB 1.04)
- Return on average equity (after tax) attributable to the Bank's shareholders was 28.58%, up 3.82 percentage points when compared with 2007
- Return on average assets (after tax) attributable to the Bank's shareholders was 1.46%, up 0.10 percentage points when compared with 2007
- Total assets grew by 19.90% to RMB1571.797 billion
- Capital adequacy ratio rose by 0.94 percentage point to 11.34%
- Core capital adequacy ratio decreased by 2.22 percentage points to 6.56%
- Non-performing loan ratio decreased by 0.43 percentage point to 1.11%
- Allowances for impairment losses to non-performing loans ratio rose by 42.90 percentage points to 223.29%
- The Board of Directors proposed to declare a bonus issue of 3 bonus shares for every 10 shares and a cash dividend (including tax) of RMB1.00 for every 10 shares

(Notice: The 2008 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)

April 24, 2008 — China Merchants Bank Co., Ltd. (SSE: 600036; HKEx: 3968; "China Merchants Bank" or "the Company" or "the Bank") and its subsidiaries together ("the Group") tonight announced annual results for the year ended December 31, 2008.



In 2008, against the backdrop of the deepening global financial crisis, China's slowing economic growth and the dramatic changes in the capital and financial markets, the Group overcame unfavourable conditions and pressed ahead with its strategic transformation, achieving good results.

Pressing ahead with business structure adjustment Strategic transformation begins yielding results

In 2008, the Group pressed ahead with strategic transformation with the following measures:

- Accelerated the development of retail banking. Proportion of retail deposits in total deposits increased significantly. Proportion of retail loans in total loans increased slightly
- Pursued the strategy of putting equal emphasis on small, medium-sized and large customers. Provided more support for quality industries. Continued to maintain the proportion of lending to small and medium-sized enterprises (SME) in total loans at a certain level. Continued to maintain the good quality of the assets. Both non-performing loans and the non-performing loan ratio declined.
- Stepped up efforts to develop the corporate non-interest businesses of wealth management, cash management and corporate annuities, etc, leading to a significant increase in non-interest income.

The Group continued its strategic transformation which led to a steady growth in business scale and a faster growth in profit. In 2008, net profit attributable to the shareholders of the Company increased by 38.27% to RMB21.077 billion. Profitability also increased steadily. Return on average assets (after tax) rose 0.10 percentage points to 1.46%, while return on average equity (after tax) increased by 3.82 percentage points to 28.58%. Basic earnings per share attributable to the Bank's shareholders increased by 37.50% to RMB1.43. The Board of Directors proposed to declare a bonus issue of 3 bonus shares for every 10 shares and a cash dividend (including tax) of RMB1.00 for every 10 shares.

As at the end of 2008, the Group's total assets grew by 19.90% to RMB1,571.797 billion. Total deposits increased by 32.55% to RMB1,250.648 billion. Total loans and advances to customers increased by 29.89% to RMB874.362 billion. To cope with the rapid growth of



assets and business, China Merchants Bank continued to strengthen its risk management with a result of further enhanced asset quality. The quality of assets remained at high level. As at the end of 2008, the Group had non-performing loans of RMB9.677 billion, a decrease of RMB717 million from the beginning of the year. The non-performing loan ratio was 1.11%, a decrease of 0.43 percentage points from the beginning of the year. The allowance coverage ratio was 223.29%, an increase of 42.9 percentage points from the beginning of the year.

1) Strong growth in retail banking

Steady development in corporate banking

During the period under review, China Merchants Bank speeded up the development of retail banking business and further implemented its strategy of business structure restructuring. Retail banking maintained a strong growth trend. The proportion of retail deposits grew significantly. Meanwhile, the proportion of retail loans increased slightly. Balance of retail deposits of the Group grew significantly to RMB524.927 billion as at the end of 2008 from RMB326.533 billion as at the end of 2007, with a growth rate of 60.76%. Balance of retail loans of the Group grew 32.91% from RMB175.026 billion as at the end of 2007 to RMB232.635 billion as at the end of 2008.

Meanwhile, the Group's corporate banking business also achieved steady growth. As at the end of 2008, total corporate loans reached RMB545.961 billion, accounting for 62.44% of total loans. Discounted bills increased by 83.19% to RMB95.766 billion, accounting for 10.95% of total loans. Deposits of corporate clients amounted to RMB725.721 billion, accounting for 58.03% of total deposits.

2) SME lending business

As the global financial crisis deepened, the small and medium-sized enterprises in China were hit hard. They were faced with the financing problems and a worsening operating environment. Despite the increasing potential of default risk, we continued to develop our SME lending business. We set up a small business lending center in Suzhou to provide professional financial services. It is the first independently licensed small business lending center in China. Both our SME non-performing loan ratio and non-performing loans declined. As at the end of the reporting period, domestic SME loans balance was RMB220.54 billion, an increase of RMB30.24 billion. Domestic SME loans accounted for 43.1% of total domestic loans, down slightly by 0.2 percentage points as compared to the beginning of the year.



Non-performing loan ratio was 2.68%, down by 0.94 percentage points as compared to the beginning of the year. Domestic SME loans were granted to the companies located in the developed areas of Eastern China, Southern China and Central China, SME loans granted in such areas accounted for 80% of the Company's total domestic SME loans. Of the domestic SME loans, approximately 40% were collateral loans, 45% were guaranteed loans and 60% were granted to manufacturing, transportation, storage and warehousing and postal services, wholesale and retail businesses.

3) Non-interest income

In 2008, non-interest income, which has a low correlation with the capital market, grew rapidly. Amid the weakening capital market, the Group made a great effort to develop a new range of non-interest income products, including wealth management, cash management and corporate annuities, etc. Non-interest income increased to RMB8.770 billion in 2008 from RMB7.184 billion in 2007. As a response to customers' increasing demand for wealth management, the Group accelerated the development of its wealth management business. Revenue of retail trustee business grew by 208%. The number of customers of "Sunflower Wealth Management" increased rapidly. The size of assets managed for the "Sunflower Wealth Management" customers increased by 39.98% to RMB659.30 billion in 2008 from RMB471.0 billion in 2007. Private banking also developed rapidly with the establishment of seven private banking centres. The size of assets managed for our private banking customers grew by 33.51% to RMB129.9 billion in 2008. The accumulated number of issued "All-in-one Card," which is a multi-function debit card, increased to 49.07 million, with the average deposit of RMB7,649 per card.

Dr. Qin Xiao, Chairman of China Merchants Bank, said, "We are gratified that we achieved encouraging operating results in 2008 because we adhered to the concept of scientific development for a "Balanced Development of Profits, Quality and Scale", persisted with the operating philosophy of "Change as Situation Does" and our service guideline of "We are here just for you". We also focused on accelerating the strategic transformation and pressed ahead with internationalization of operation and management reform."

Achieving a breakthrough with internationalization

Making steady progress in development into comprehensive financial institution

In the period under review, the Group achieved good development in the domestic market



and actively expanded overseas markets, making significant progress with internationalization of its operations. Our New York Branch was opened in Wall Street. As such, China Merchants Bank became the first Chinese bank to be approved by the Federal Reserve Committee to open business in the United States since the implementation of the United States Foreign Bank Supervision Enhancement Act of 1991.

We successfully took over Wing Lung Bank, a bank with a 75 years history. The strategic goal of the acquisition is to develop China Merchants Bank and Wing Lung Bank into a first-rate commercial bank which has competitive strength in providing cross-border financial services and has unique characteristics in mainland China, Hong Kong, Southeast Asia and ultimately the world. The bank will also be able to compete globally and has management of international standards.

Dr. Ma Weihua, President and CEO of China Merchants Bank said, “The acquisition of Wing Lung Bank is significant to the group’s development. It will enable the Group to expand its Hong Kong operation and speed up its internationalization as well as manifest its strategic transformation.”

Presently, China Merchants Bank’s integration with Wing Lung Bank is making smooth progress. Integration of the two banks’ businesses and customer bases, risk management, operations, information technology system, human resources, brands and corporate cultures has already yielded results.

The Group will implement a three-step strategy based on the principle of “laying a foundation in one year, making remarkable progress in three years and achieving success in five years” in the integration with Wing Lung Bank:

- 1) “Laying a foundation in one year” – in the first year of the Group’s integration with Wing Lung Bank, the two banks will carry out the inter-bank referrals of customers, share resources, establish mechanism for internal and external interactions, and form a team to serve key customers. The goal is to make a breakthrough in cross-border financial services and accelerate the growth of various businesses.
- 2) “Making remarkable progress in three years” – to restructure more than half of the banking outlets by 2011, and enhance the synergy in corporate banking through further linkage. To manifest the synergy of retail banking. All these moves aim at increasing Wing Lung Bank’s market share in Hong Kong.



- 3) “Achieving success in five years” – to complete the reform of all the banking outlets and customer services by 2013, making Wing Lung Bank a comprehensive commercial bank with a competitive advantage in mainland China-Hong Kong cross-border business, and with a leading position in the Hong Kong market. The move will also enable the Group to establish a platform with international competitive strength to support the Group’s overseas business expansion. The Group will be able to build a business network to cover major overseas markets.

Other growth initiatives and major activities included the successful subscription for shares in Taizhou Commercial Bank, the successful issuance of the first tranche of asset-backed securities, the commencement of the business operations of CMB Financial Leasing Company Limited, the steady progress in the acquisition of equity interests in CIGNA & CMC Life Insurance Company Ltd. and in the Trust & Investment Corporation of the Tibet Autonomous Region, and the ongoing preparatory works for the futures settlement business. All these have consolidated the platform for comprehensive operation.

Prospects

Of the prospects for 2008, Dr. Qin Xiao, Chairman of China Merchants Bank, said, “The global and domestic economies will still be affected by the financial crisis. In an effort to stimulate domestic demand and boost economic growth, the Chinese government implemented a series of measures and announced a RMB 4,000 billion economic stimulus plan, which presents opportunities for the country’s banking industry. On the other hand, the Chinese banking industry is confronted with various unfavorable factors such as the narrowing net interest margin, slowing growth in non-interest income, and rising credit risks. In light of the challenges and opportunities in 2009, China Merchants Bank will follow the guiding principle of taking a prudent and scientific approach to ensure steady development. We will take efforts to control risks effectively while growing our businesses. First, a proper growth rate for credit expansion will be maintained with reference to potential projects, risk control and adequacy of funds. Second, we will actively manage assets-liabilities structure in order to mitigate the adverse effect of the interest-rate cut cycle. Finally, we will take effective measures to increase fee-based income and control expenditures to ensure that funds are properly allocated and that those controllable and unnecessary expenses are reduced. We are confident that we can emerge stronger from the difficult time and enter a new stage of development, bringing good returns to the shareholders.”

END

Consolidated Income Statement (Audited)

(Expressed in millions of RMB unless otherwise stated)

	For the year ended 31 Dec 2008	For the year ended 31 Dec 2007
Interest income	72,635	51,585
Interest expense	(25,750)	(17,683)
Net interest income	<u>46,885</u>	<u>33,902</u>
Fee and commission income	8,776	7,258
Fee and commission expense	(1,032)	(819)
Net fee and commission income	<u>7,744</u>	<u>6,439</u>
Other net income	917	707
Insurance operating income	98	-
Operating income	<u>55,644</u>	<u>41,048</u>
Operating expenses	(23,636)	(16,738)
Charge for insurance claims	(106)	-
Operating profit before impairment losses	<u>31,902</u>	<u>24,310</u>
Impairment losses	(5,154)	(3,305)
Share of profits of associates	37	38
Share of losses of jointly controlled entities	(26)	-
Profit before tax	<u>26,759</u>	<u>21,043</u>
Income tax	(5,813)	(5,800)
Profit for the year	<u>20,946</u>	<u>15,243</u>
Attributable to:		
Equity shareholders of the Bank	21,077	15,243
Minority interests	(131)	-
Profit for the year	<u>20,946</u>	<u>15,243</u>
Dividends		
Declared and paid	4,117	1,764
Proposed in respect of current year	5,883	4,117
	<u>10,000</u>	<u>5,881</u>
	RMB	RMB
Earnings per share		
Basic	1.43	1.04
Diluted	1.43	1.04

Consolidated Balance Sheet (Audited)
 (Expressed in millions of RMB unless otherwise stated)

	As at 31 Dec 2008	As at 31 Dec 2007 (restated)
Assets		
Cash and balances with banks and other financial institutions	37,016	20,276
Balances with central bank	174,673	146,266
Placements with banks and other financial institutions	156,378	225,669
Loans and advances to customers	852,754	654,417
Investments	310,446	243,634
Interest in associates	266	225
Interest in jointly controlled entities	136	-
Fixed assets	15,062	8,722
Intangible assets	2,381	518
Deferred tax assets	2,521	2,162
Goodwill	9,598	-
Other assets	10,566	9,075
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Total assets	1,571,797	1,310,964
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Liabilities		
Deposits from banks and other financial institutions	115,792	218,520
Placements from banks and other financial institutions	50,124	46,603
Deposits from customers	1,250,648	943,534
Trading liabilities	524	-
Derivative financial instruments	2,266	2,945
Financial liabilities designated at fair value through profit or loss	1,828	-
Certificates of deposit issued	1,840	1,095
Convertible bonds issued	2	13
Other debts issued	4,996	9,992



Current taxation	2,956	2,588
Deferred tax liabilities	848	-
Other liabilities	26,752	14,190
Subordinated notes issued	33,440	3,500
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Total liabilities	1,492,016	1,242,980
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Equity		
Share capital	14,707	14,705
Capital reserve	18,823	27,545
Surplus reserve	4,612	3,088
Investment revaluation reserve	2,854	(471)
Regulatory general reserve	10,793	9,500
Exchange reserve	(34)	-
Retained profits	19,836	7,976
Proposed profit appropriations	7,924	5,641
Total equity attributable to shareholders of the Bank	79,515	67,984
Minority interests	266	-
Total equity	79,781	67,984
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Total equity and liabilities	1,571,797	1,310,964
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About China Merchants Bank Co., Ltd.

Founded in 1987 with its head office in Shenzhen, China, the Company mainly focuses on the China market. As at 31 December 2008, the Company had 44 branches, 623 sub-branches (including offices), 1 representative office (in Beijing), 1 credit card center, 1 credit center for small-sized enterprises, 1,567 self-service banking centers and over 1,400 off-bank self-service machines (ATM & CDM) in mainland China, and a wholly owned subsidiary CMB Financial Leasing Company Limited. The efficiently operated outlets of the Company are primarily located in China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large cities in other regions. The Company owns two subsidiaries, namely, Wing Lung Bank Limited ("WLB" or "Wing Lung Bank") and CMB International Capital Corporation Limited ("CMBICC"), and a branch in Hong Kong. It has a branch and a representative office in New York. The Company has established correspondent relationship with 1,756 overseas financial institutions in 93 countries and regions.

The growth of the Company from a regional bank into a large national commercial bank of China is primarily attributable to its own resources and efforts. The Company was listed on Shanghai Stock Exchange in April 2002 and on SEHK in September 2006.

The Company provides customers with various corporate and retail banking products and services, and conducts treasury activities for proprietary purpose and on behalf of customers. The innovative products and services of the Company, such as "All-in-one Card," a multi-function debit card, "All-in-one Net," a comprehensive online banking service, dual currency credit card, the "Sunflower Wealth Management" services and private banking services, have become widely accepted in China.

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