



China Merchants Bank Co., Ltd. 1H09 Results Announcement

August 2009



Forward-Looking Statement Disclaimer

This presentation and subsequent discussions may contain forward-looking statements that involve risks and uncertainties. These statements are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will or may be expressed to be results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements, which reflect our belief only as of the date of this presentation. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. They relate to future events or our future financial, business or other performance and are subject to a number of uncertainties that may cause our actual results to differ materially.



Agenda

1

Highlights

2

Business developments

3

Financial performance

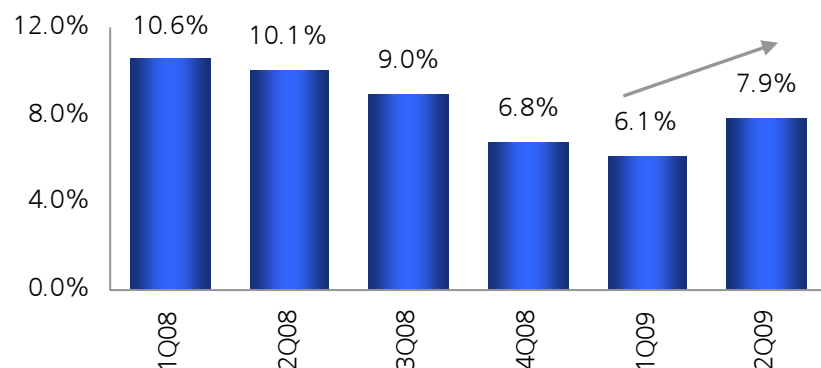
4

Outlook



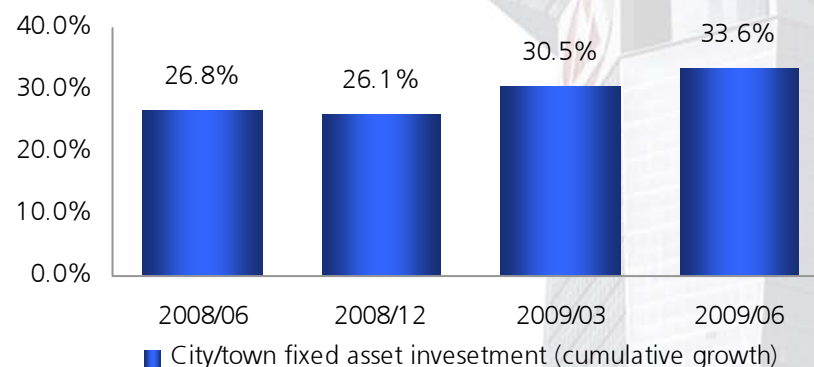
Review of 1H09 macroeconomic environment

GDP growth is on the rebound



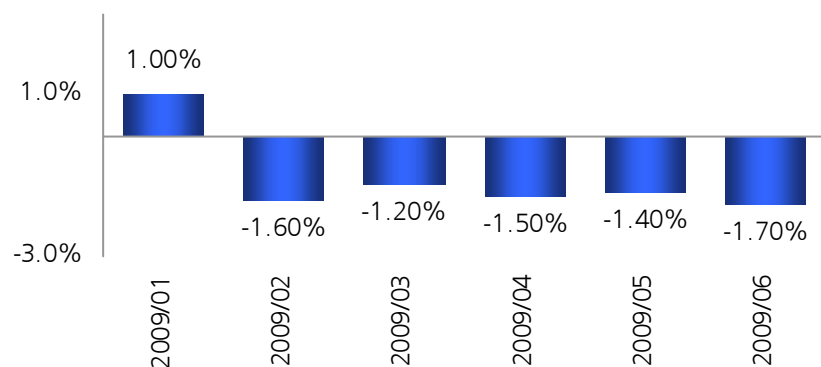
Source: National Bureau of Statistics

Accelerated investment in fixed assets



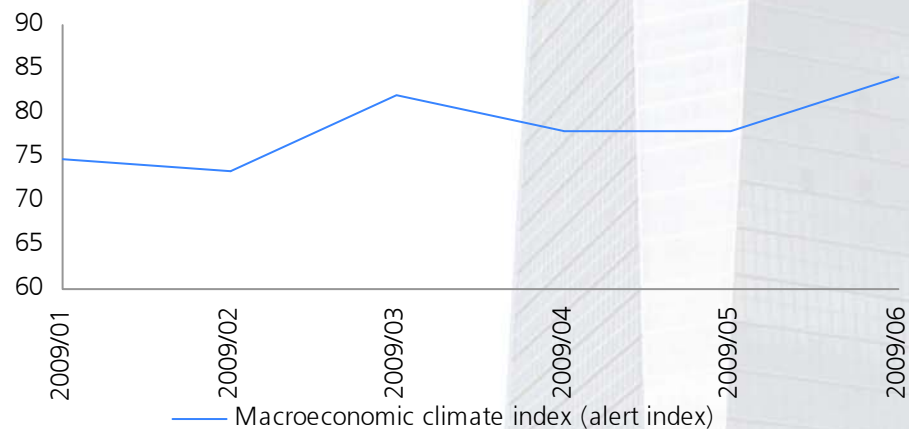
Source: National Bureau of Statistics

CPI



Source: National Bureau of Statistics

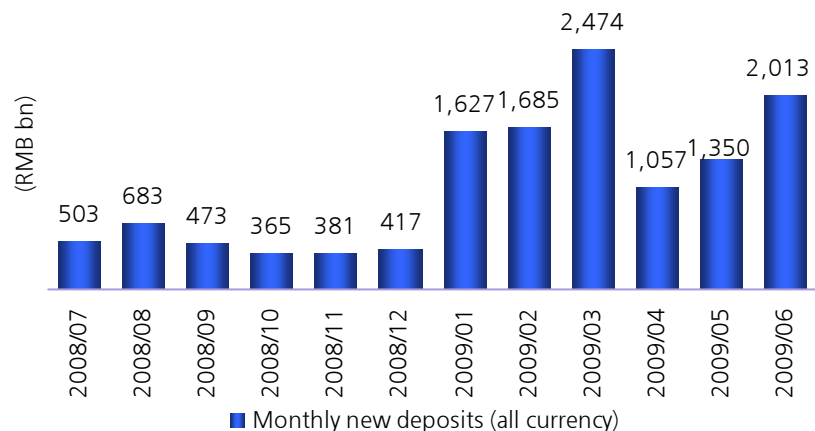
Rising macroeconomic climate index



Source: National Bureau of Statistics

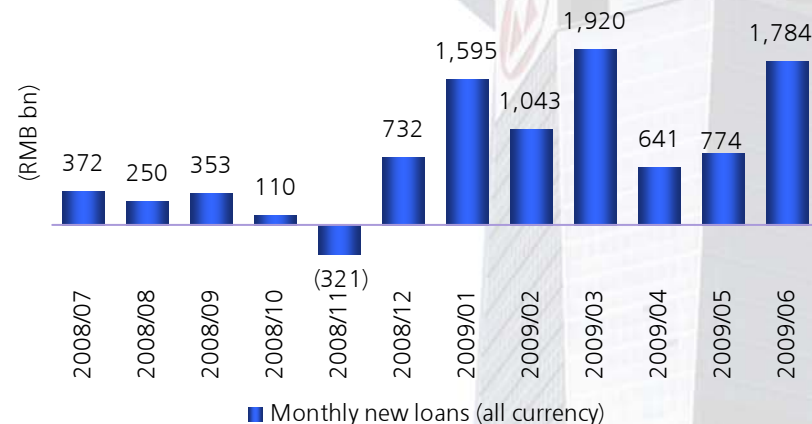
Review of 1H09 financial environment

Rapid growth of deposit base



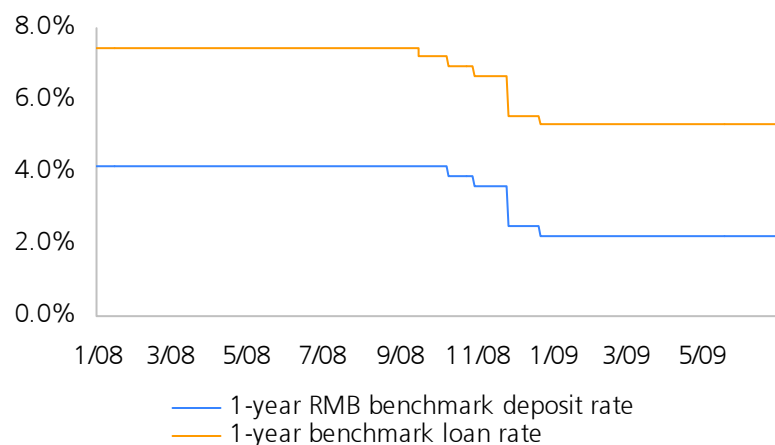
Source: PBOC

Rapid growth of loan extension



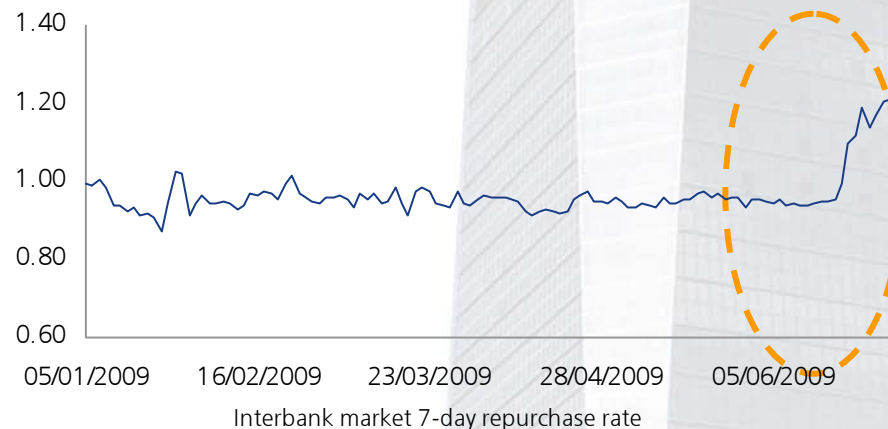
Source: PBOC

PBOC benchmark rates



Source: PBOC

Market interest rates have rebounded



Source: China Money

Summary balance sheet

(RMB mn)

Select balance sheet items	Group			Bank		
	1H09	2008	Growth	1H09	2008	Growth
Gross loans	1,152,167	874,362	↑ 31.8%	1,106,181	833,548	↑ 32.7%
Investment securities	345,851	309,819	↑ 11.6%	325,076	299,937	↑ 8.4%
Total assets	1,972,768	1,571,797	↑ 25.5%	1,888,958	1,499,442	↑ 26.0%
Customers deposits	1,540,682	1,250,648	↑ 23.2%	1,460,690	1,178,240	↑ 24.0%
Shareholders' equity	84,185	79,515	↑ 5.9%	92,289	87,507	↑ 5.5%

(RMB mn)

Select balance sheet items	Group				Bank			
	1H09	1Q09	1Qvs08 growth	2Qvs1Q growth	1H09	1Q09	1Qvs08 growth	2Qvs1Q growth
Gross loans	1,152,167	995,940	13.9%	15.7%	1,106,181	952,716	14.3%	16.1%
Investment securities	345,851	328,684	6.1%	5.2%	325,076	315,203	5.1%	3.1%
Total assets	1,972,768	1,723,197	9.6%	14.5%	1,888,958	1,723,197	14.9%	9.6%
Customers deposits	1,540,682	1,446,683	15.7%	6.5%	1,460,690	1,371,666	16.4%	6.5%
Shareholders' equity	84,185	82,171	3.3%	2.5%	92,289	90,506	3.4%	2.0%

Notes:

- 1 Unless otherwise noted, all figures are based on PRC GAAP. 1H09 figures are from unaudited accounts, 1Q09 figures are from reviewed accounts, and 2008 figures are from audited accounts

Summary income statement

(RMBmn)

Select I/S items	Group			Bank		
	1H09	1H08	Growth	1H09	1H08	Growth
Net interest income	18,623	24,125	↓ (22.8%)	18,025	24,102	↓ (25.2%)
Non-interest income (adjusted ¹)	6,198	4,695	↑ 32.0%	5,542	4,648	↑ 19.2%
Operating income (adjusted ¹)	24,821	28,820	↓ (13.9%)	23,567	28,750	↓ (18.0%)
Pre-provisioning operating profit	12,781	18,514	↓ (31.0%)	12,370	18,477	↓ (33.1%)
Profit before tax	10,178	17,122	↓ (40.6%)	9,821	17,087	↓ (42.5%)
Net profit attributable to shareholders	8,262	13,245	↓ (37.6%)	7,964	13,210	↓ (39.7%)

Select I/S items	Group			Bank		
	2Q09	1Q09	Growth	2Q09	1Q09	Growth
Net interest income	9,142	9,481	↓ (3.6%)	8,824	9,201	↓ (4.1%)
Non-interest income (adjusted ¹)	3,697	2,501	↑ 47.8%	3,344	2,198	↑ 52.1%
Operating income (adjusted ¹)	12,839	11,982	↑ 7.2%	12,168	11,399	↑ 6.7%
Pre-provisioning operating profit	6,566	6,215	↑ 5.6%	6,361	6,009	↑ 5.9%
Profit before tax	4,753	5,425	↓ (12.4%)	4,574	5,247	↓ (12.8%)
Net profit attributable to shareholders	4,054	4,208	↓ (3.7%)	3,897	4,067	↓ (4.2%)

Notes:

- Adjusted to include net non-operating income
- Unless otherwise noted, all figures are based on PRC GAAP. 1H09 figures are from unaudited accounts, 1Q09 figures are from reviewed accounts, and 2008 figures are from audited accounts

Financial highlights

Key ratios	Group			Bank		
	1H09 ²	2008	Change (percentage point)	1H09 ²	2008	Change (percentage point)
Return on average equity	20.2%	28.5%	(8.30)	17.7%	26.3%	(8.57)
Return on average asset	0.93%	1.46%	(0.53)	0.94%	1.45%	(0.51)
NIM	2.24%	3.42%	(1.18)	2.28%	3.44%	(1.16)
Net fee income ratio	16.3%	13.9%	2.37	16.4%	13.8%	2.65
Non-interest income as % of operating income (adjusted ¹)	25.0%	15.8%	9.21	23.5%	16.0%	7.51
Cost income ratio (excl. business tax)	42.6%	36.5%	6.09	41.4%	35.8%	5.60
Credit cost	0.52%	0.48%	0.04	0.54%	0.49%	0.05
Non-performing loans ratio	0.86%	1.11%	(0.25)	0.87%	1.14%	(0.27)
Special-mention loans ratio	1.12%	1.64%	(0.52)	1.12%	1.65%	(0.53)
Coverage ratio	241.4%	223.3%	18.10	246.3%	225.7%	20.57
Loans-to-deposits ratio	74.8%	69.9%	4.87	75.7%	70.7%	4.98
Core capital adequacy ratio	6.50%	6.56%	(0.06)	7.12%	7.15%	(0.03)
Capital adequacy ratio	10.63%	11.34%	(0.71)	10.01%	10.49%	(0.48)
Effective tax rate	18.8%	21.7%	(2.90)	18.9%	22.5%	(3.56)

Notes:

- 1 Adjusted to include net non-operating income
- 2 Income statement ratios are annualized
- 3 Unless otherwise noted, all figures are based on PRC GAAP. 1H09 figures are from unaudited accounts, 1Q09 figures are from reviewed accounts, and 2008 figures are from audited accounts



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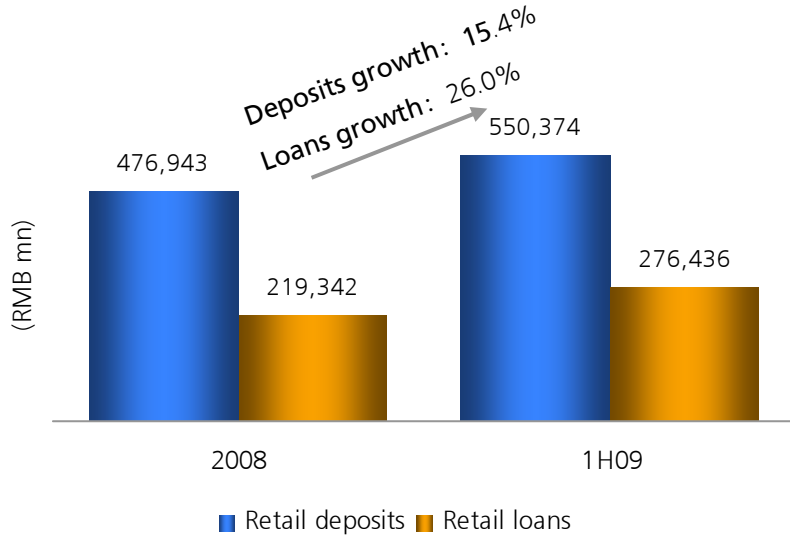
Outlook



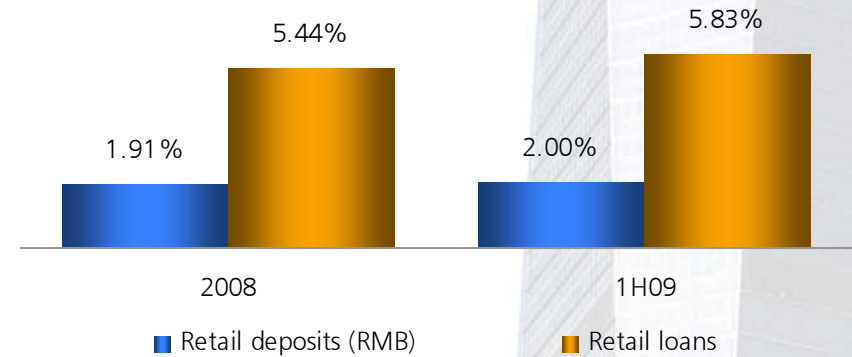
Strong retail banking franchise

Third-time winner of The Asian Banker's "Best Retail Bank in China"

Rapid growth of retail deposits/loans...

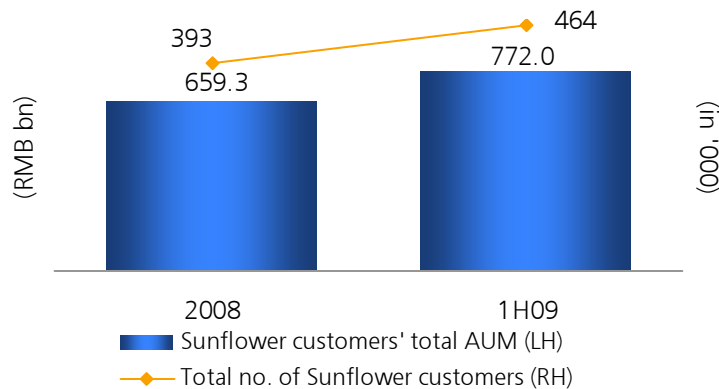


...with growing market share

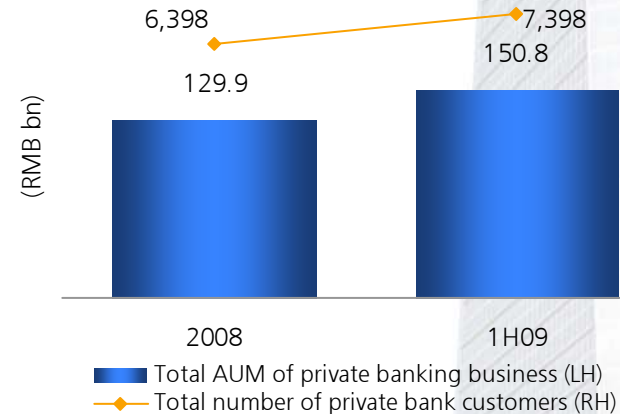


Source: PBOC monthly statistics

Increased recognition of Sunflower brand



Rapid growth of private banking business



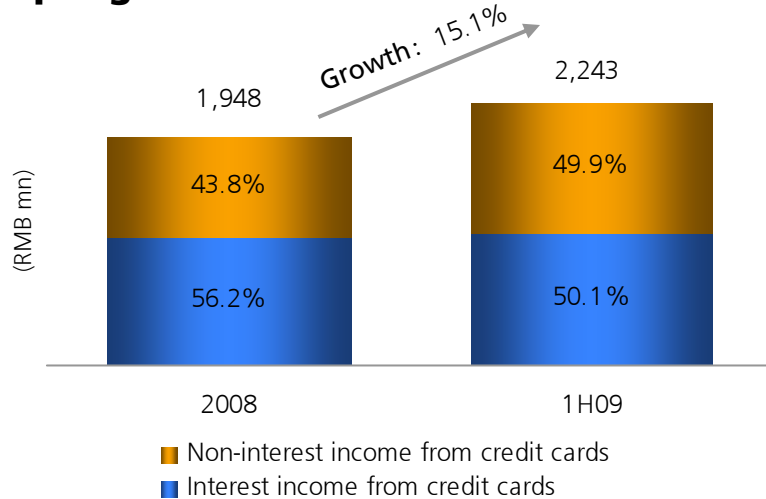
Notes:

1. All figures in this section are Bank Level numbers based on PRC GAAP unless otherwise noted

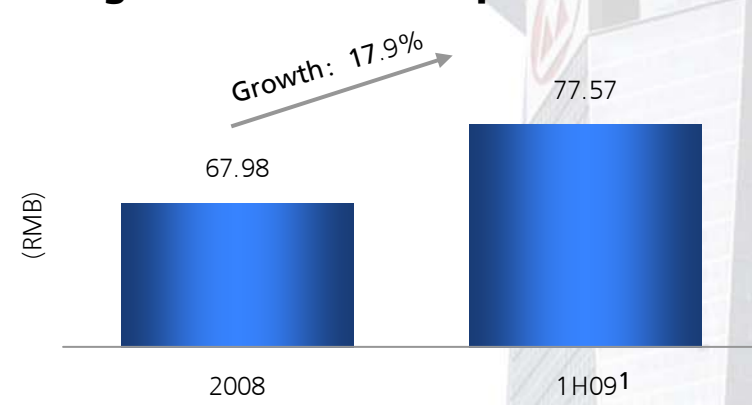
Selective development in credit cards business

From rapid expansion focusing on customers acquisition to selective development

Rapid growth of income from credit cards

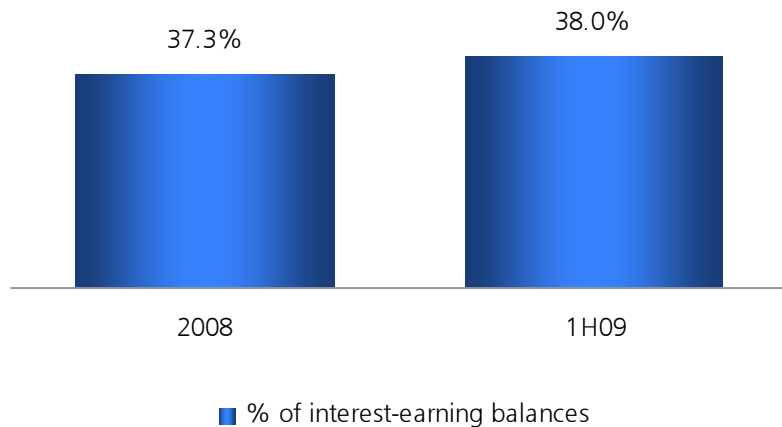


Average interest income per card

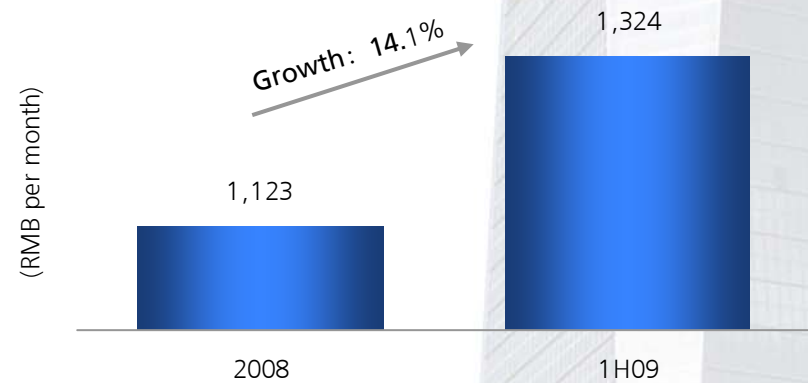


Source: Annualized

Credit card revolving balance

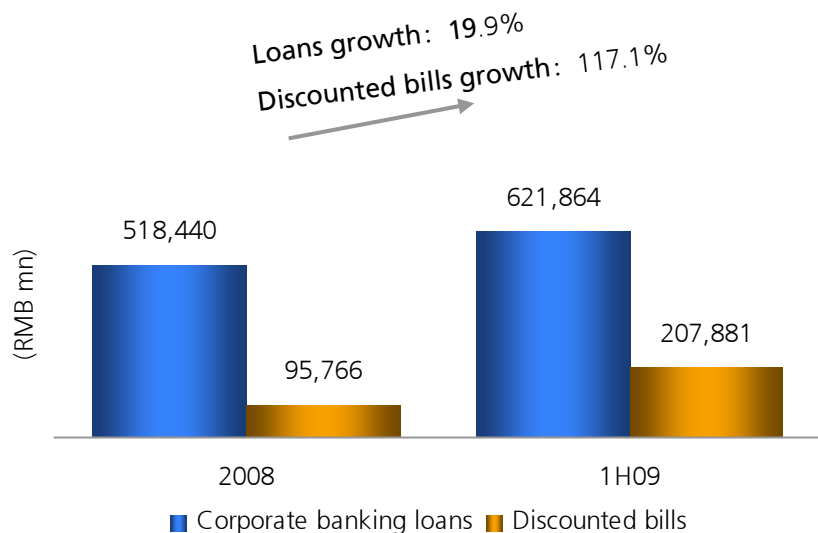


Transaction volume per card in circulation

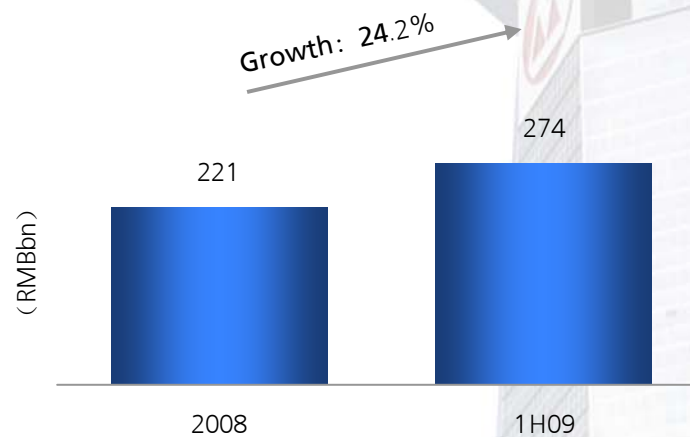


Steady growth in wholesale banking business

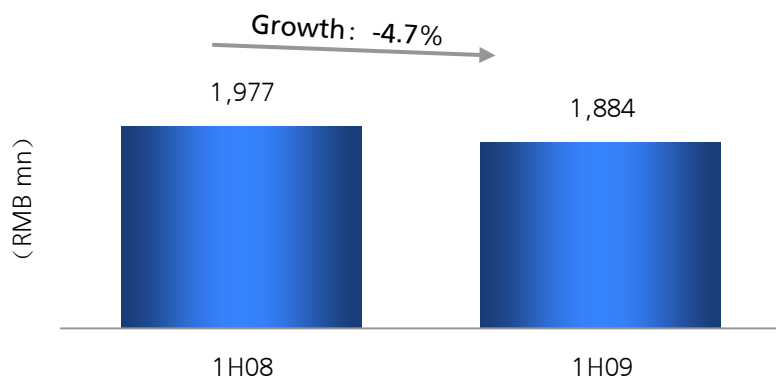
Corporate banking loans/discounted bills



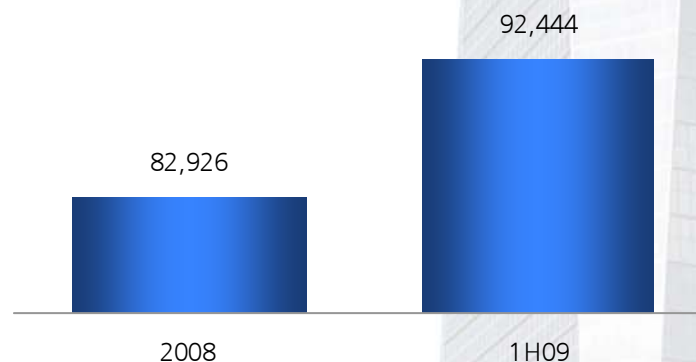
SME loans



Corporate banking non-interest income



No. of cash management customers

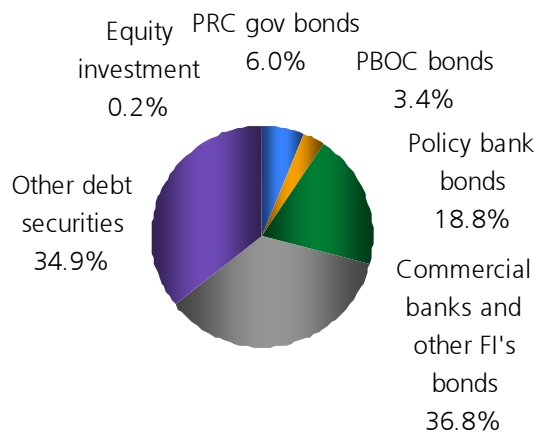


Steady development of treasury business

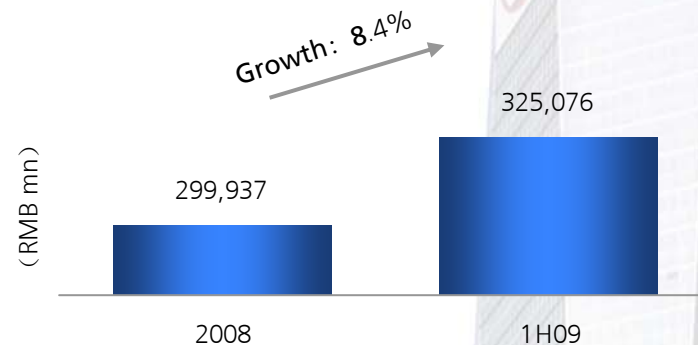
Operation strategy

- ◆ Increased scale of investments, improved composition and maturity structure of debt securities
 - Increased investments in Chinese government bond securities and policy bank bond securities
 - Increased investments in bonds issued by domestic commercial banks
 - Increased investments in bonds of non-financial institutions
 - Increased investments in high-yield floating rates bonds
 - Market-based short-term investments for profit realization

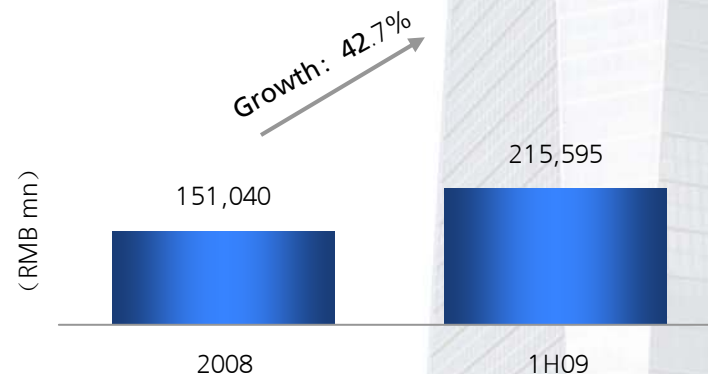
Composition of available-for-sale securities



Growing investments balance



Placements at other banks and FI's

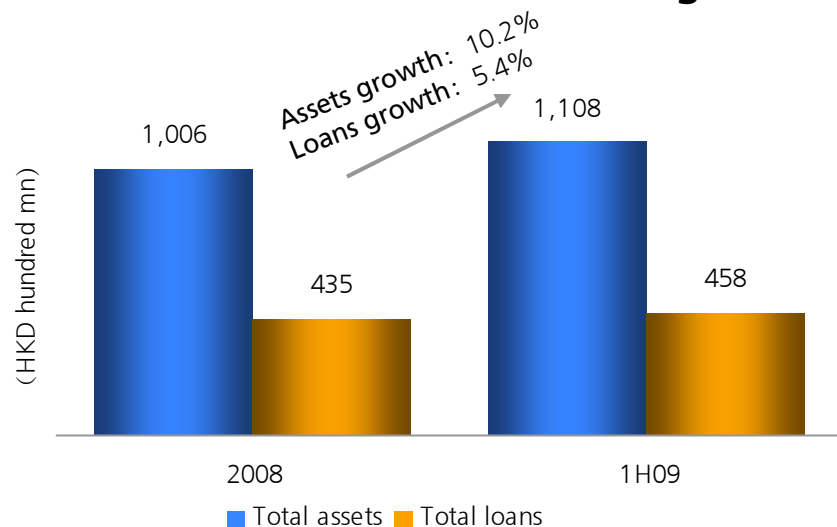


Wing Lung Bank's profitable performance

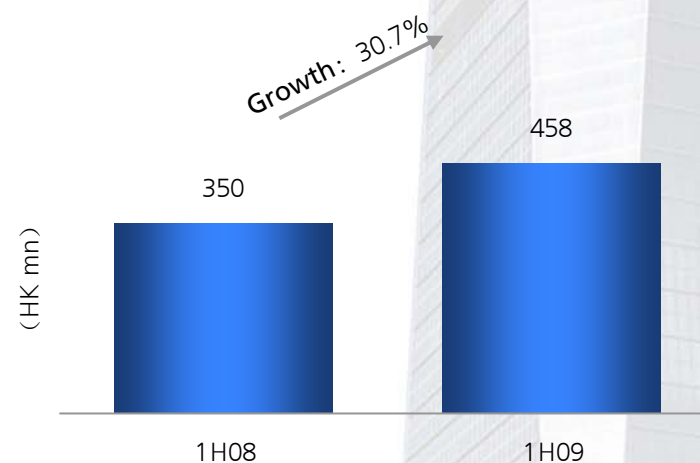
Progress update on integration of Wing Lung Bank

- ◆ In 1H09, Wing Lung Bank was successfully approved by the HKMA for qualifications in "Account Opening Witnessed by CMB Manager" and "Sub-receiving Bank for IPOs"
- ◆ Successfully offered popular new cross-border products, including "Financing Passage for SMEs in Hong Kong and the Mainland" and "China-Hong Kong Express Link"; currently in the process of preparing Sunflower wealth management business
- ◆ Conducted internal structural adjustments, including improvement on risk management and capabilities
- ◆ Replacement of the external logos of Wing Lung Bank's 37 branches
- ◆ Step-by-step restructuring of IT system to improve infrastructure support

Total assets/total loans continue to grow



Net profit





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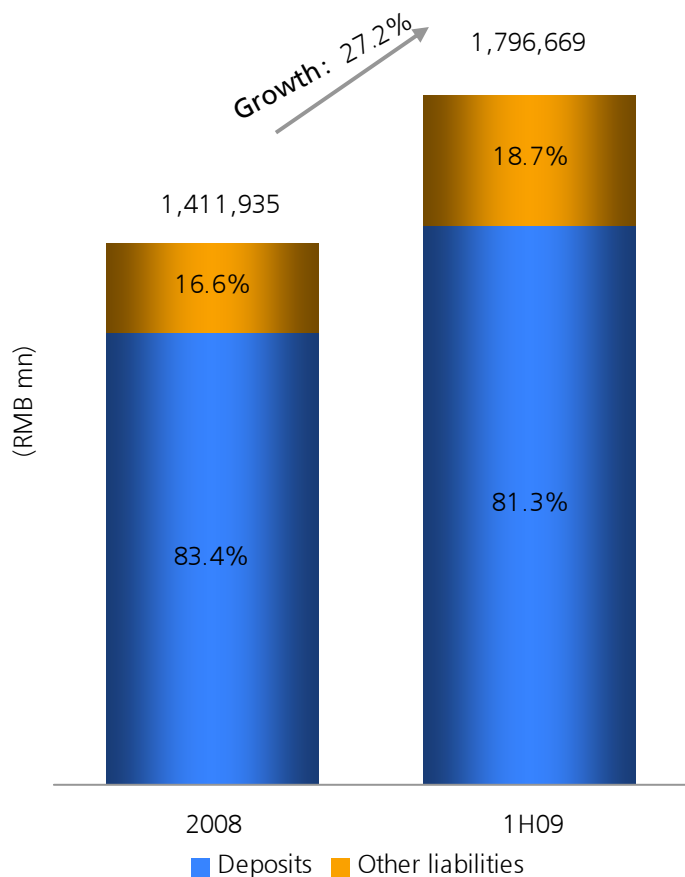
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Outlook

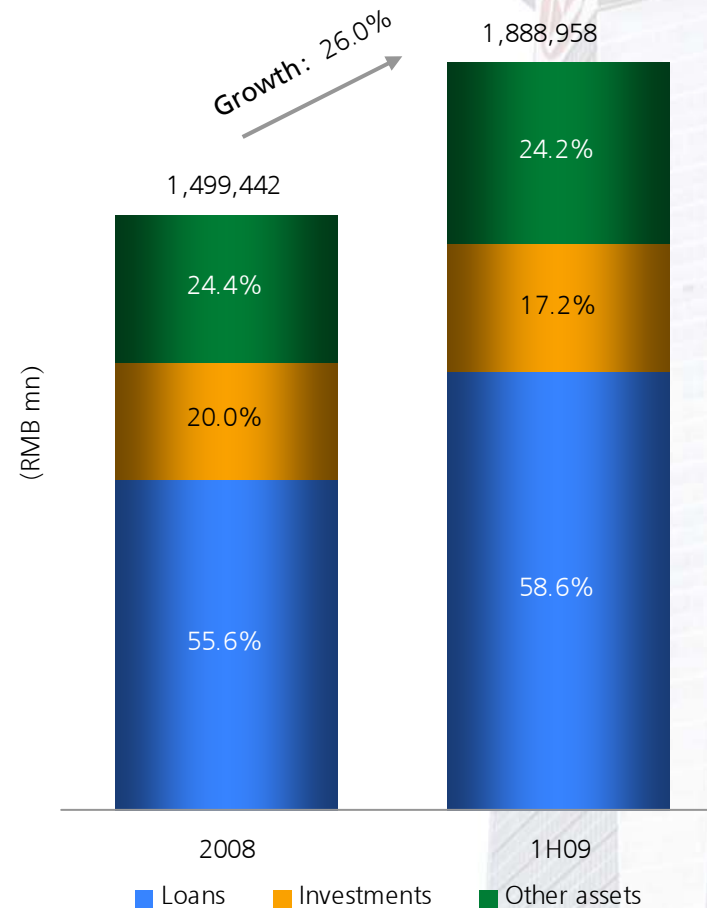


Rapid expansion of balance sheet scale

Strong liabilities growth...



...Supporting the assets expansion

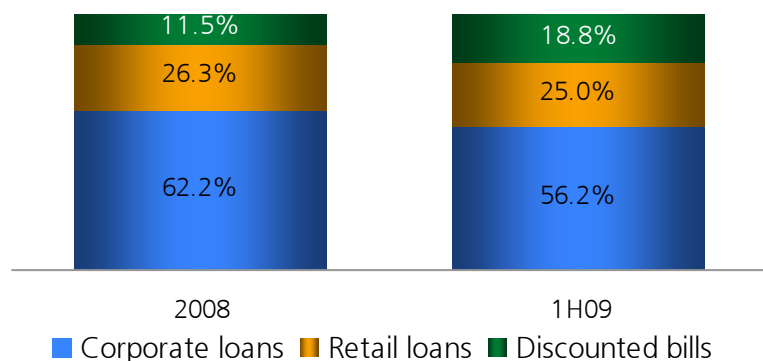


Notes:

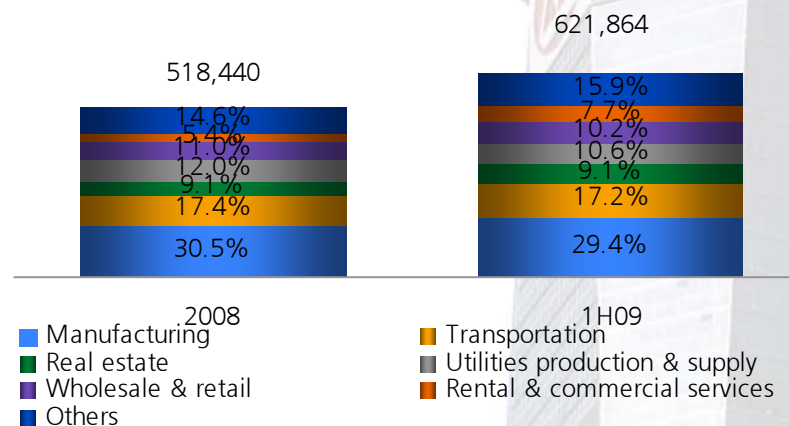
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Improving loans composition

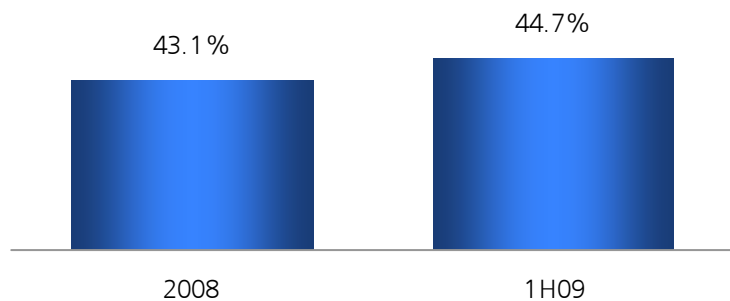
Composition of loans



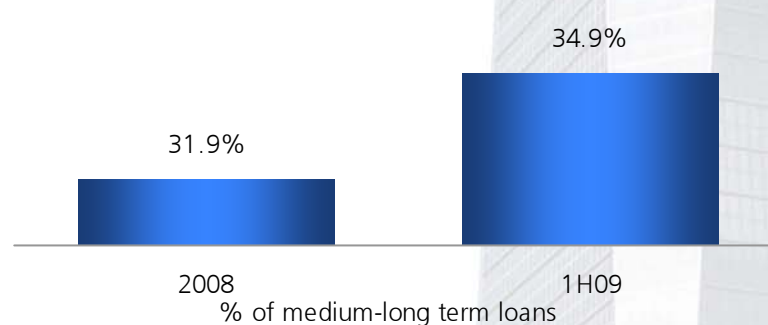
Industry distribution of corporate loans



SME loans as % of corporate loans¹



Maturity structure of corporate loans¹

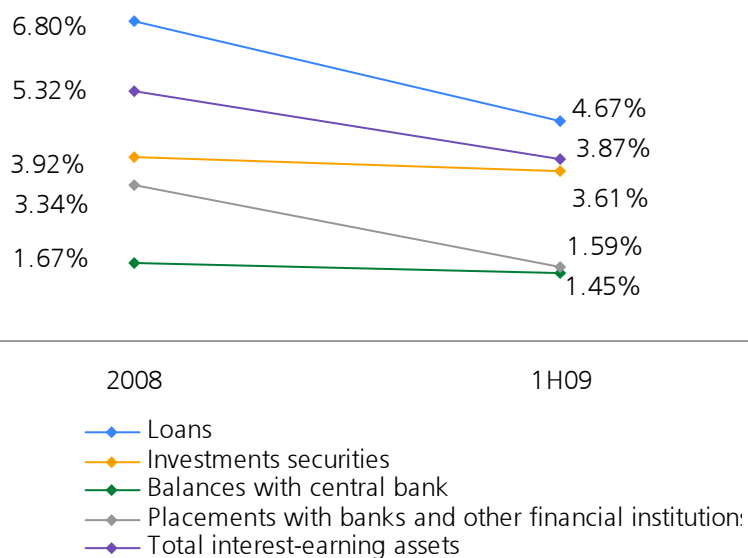


Note:

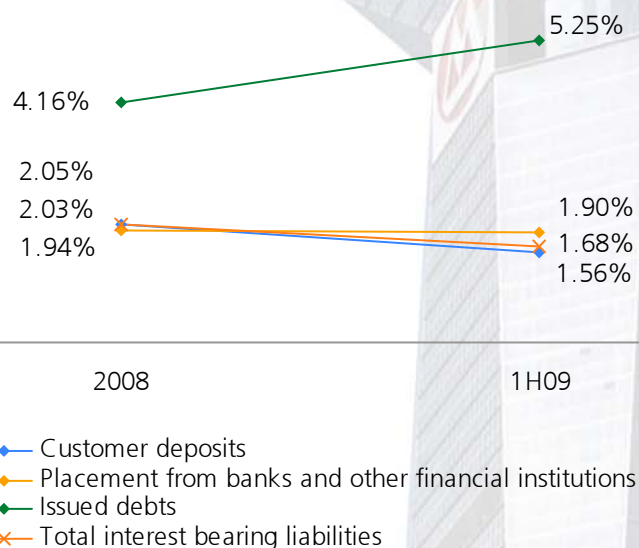
1 Bank level figures, as % of domestic loans extended

Reduced net interest income due to margin compression

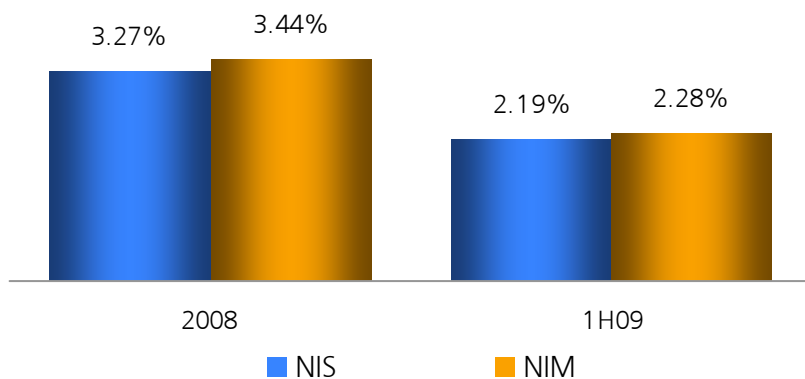
Yield on average interest-earning assets



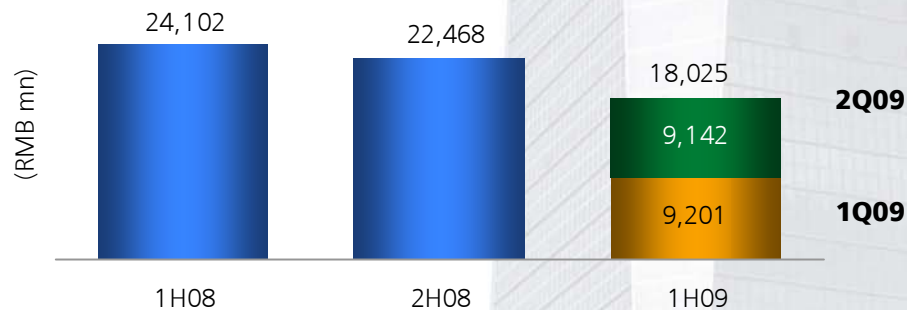
Average fund costs



Net interest spread vs. net interest margin

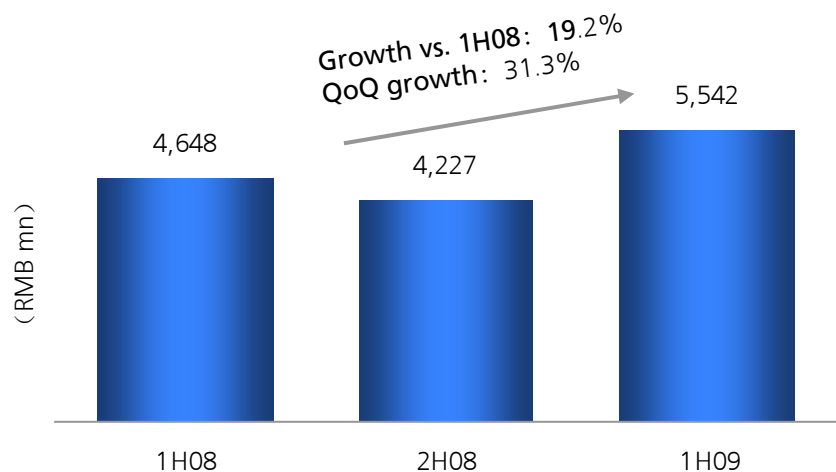


Net interest income



Steady growth of fee & commission income

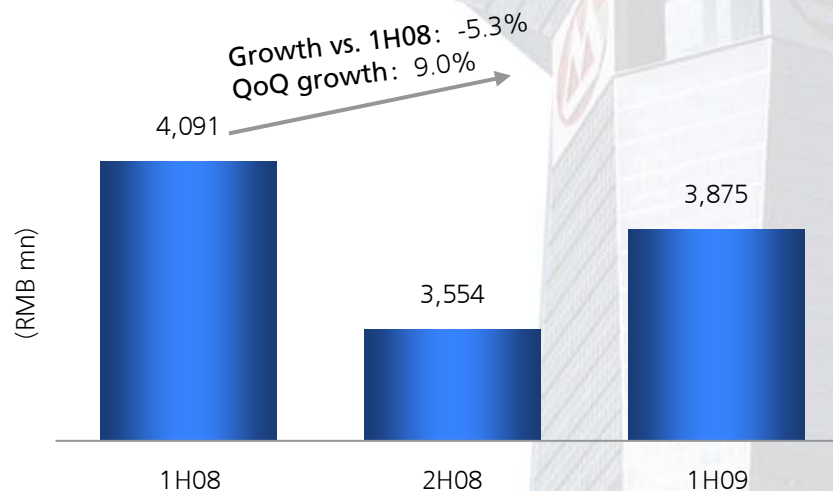
Non-interest income(adjusted¹)



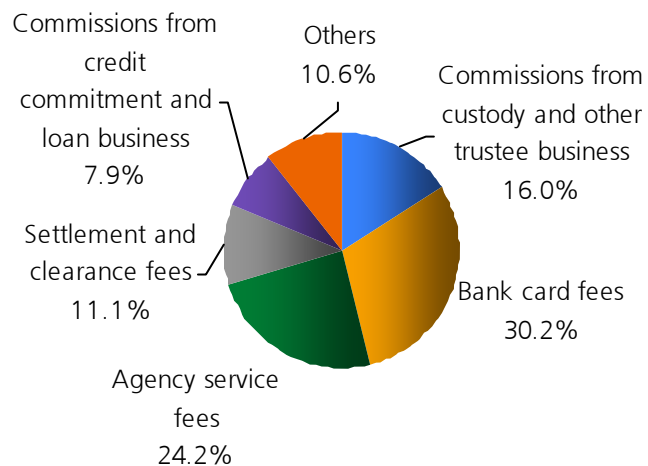
Notes:

1 Adjusted to include net non-operating income

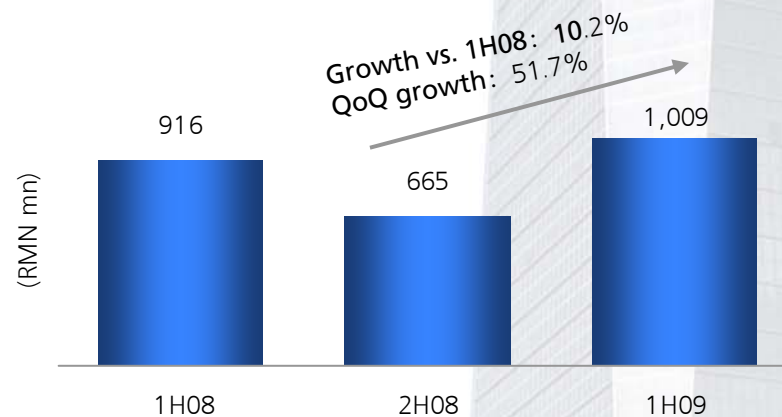
Fee & commission income



Composition of fee & commission income



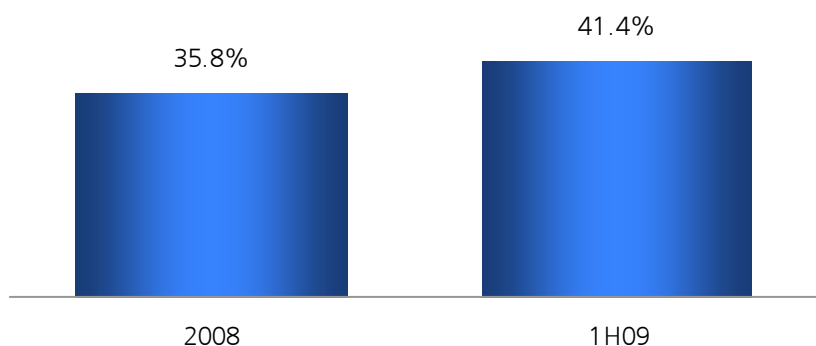
Agency services fee income



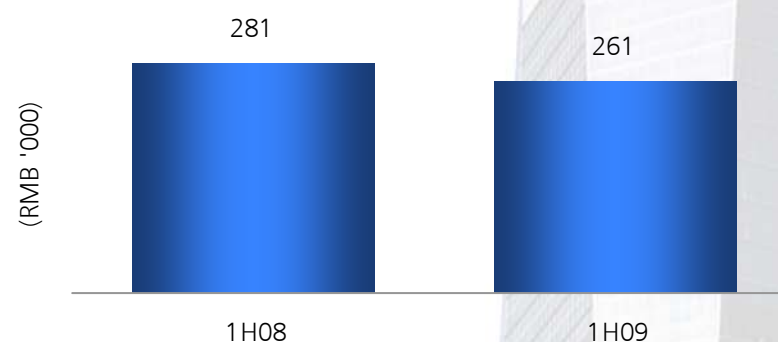
Higher operating expenses due to business expansion

Expenses increased due to the strategic expansion and upgrade of branch network

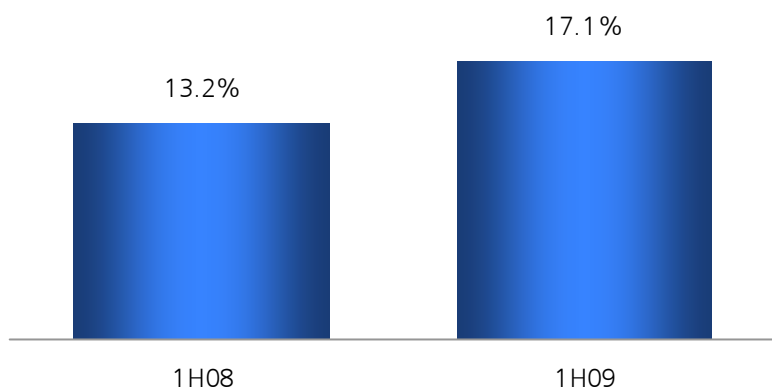
Cost-to-income ratio (excl. business tax)



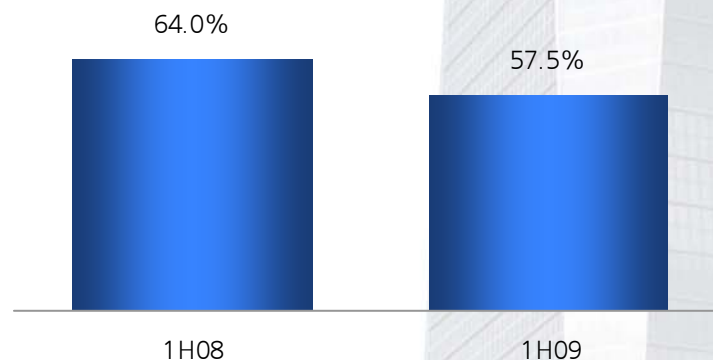
General operating and administrative expense per employee



Fixed costs as % of operating expenses¹



Personnel expenses as % of operating expenses



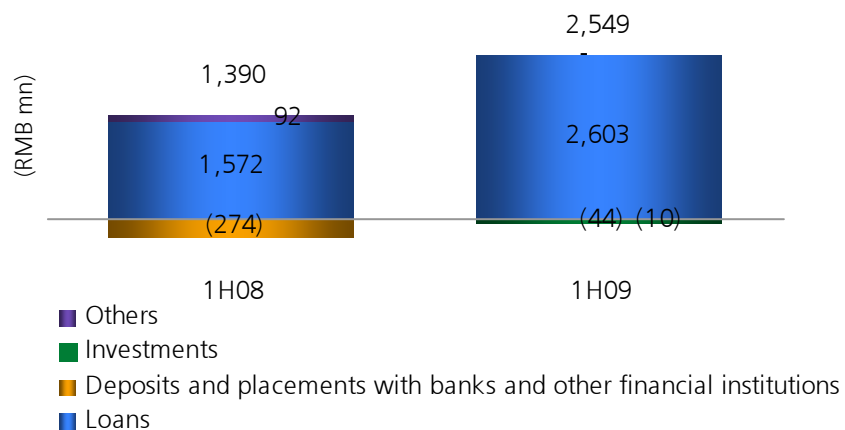
Note:

1 Fixed costs includes depreciation on fixed assets and rental expenses

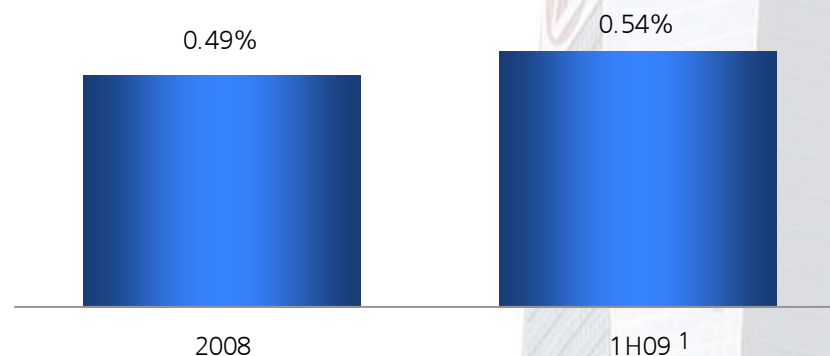
Improving asset quality

Slightly higher credit costs; NPL ratio continues to fall while coverage ratio increases

Composition of provision for impairment losses

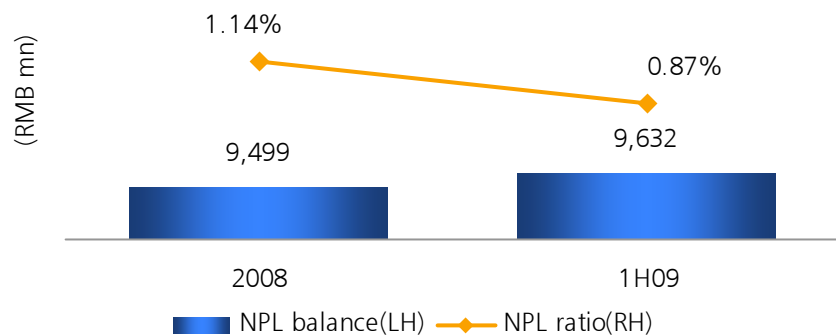


Credit costs

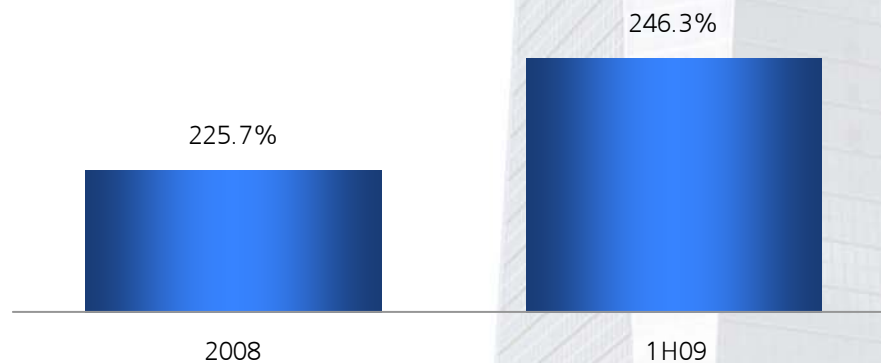


Note:
1 Annualized

NPL balance and NPL ratio

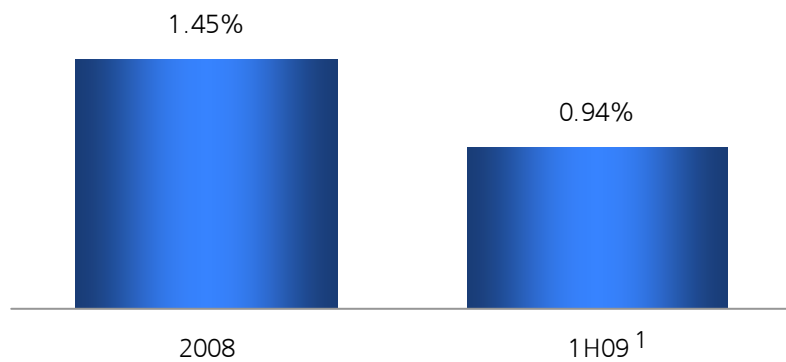


NPL coverage ratio

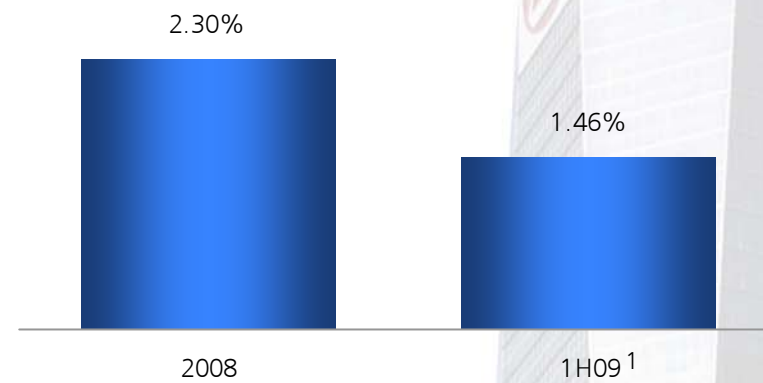


Profitability

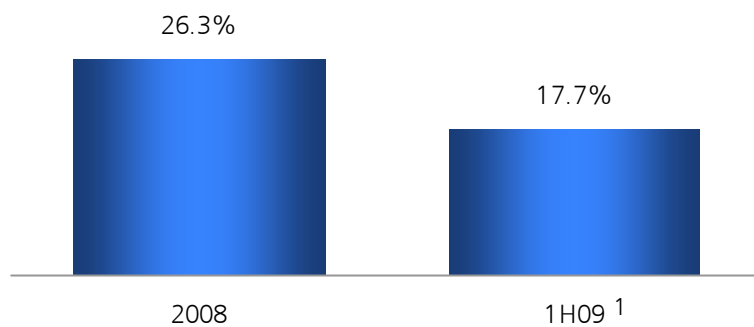
ROAA



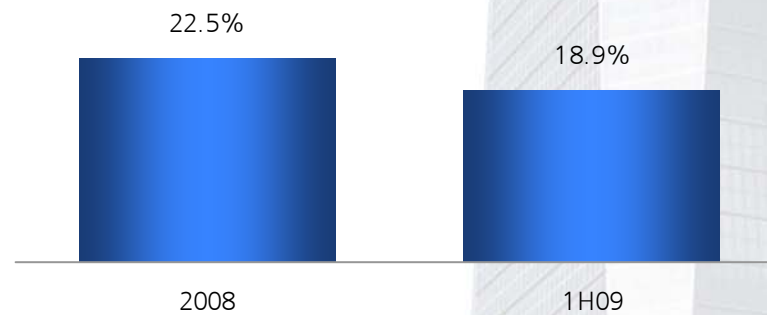
ROAA (pre-provision operating profits)



ROAE



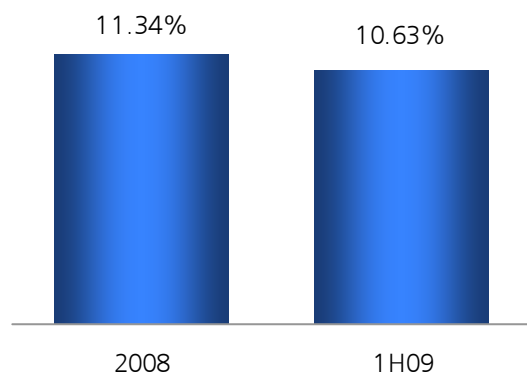
Effective tax rate



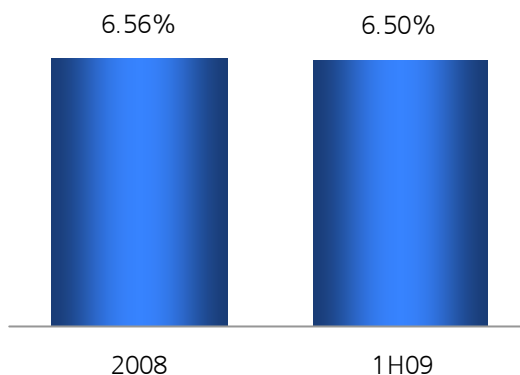
Note:
1 Annualized

Capital adequacy ratios

Group capital adequacy ratio



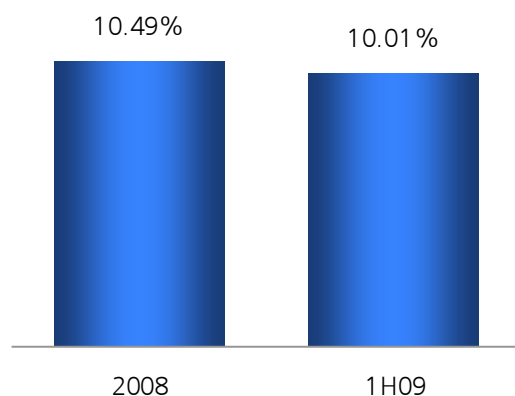
Group core capital adequacy ratio



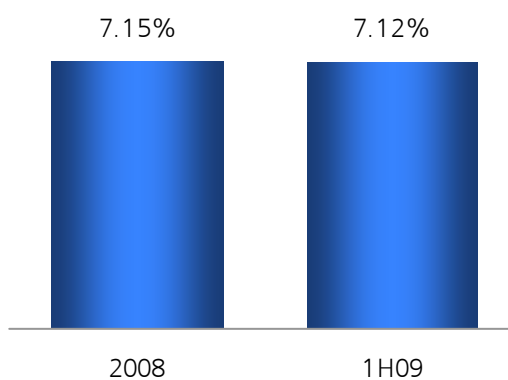
Group RWA as % of total assets



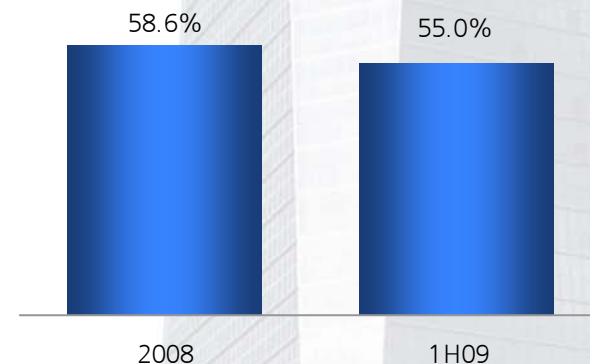
Bank capital adequacy ratio



Bank core capital adequacy ratio



Bank RWA as % of total assets





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Outlook

2H09

Operating environment

Challenge

- ◆ Recovery of the domestic economy is not yet secured
- ◆ Concentrated nature of loans leads to difficult risk management
- ◆ Increasing difficulty in raising liabilities
- ◆ Heightened pressure from policy directions, regulatory control, and industry competition

Opportunity

- ◆ In-depth implementation of policies to boost domestic demand
- ◆ Interest rates expected to rise, NIM likely to rebound
- ◆ Development of new priority areas in China
- ◆ Recovery seen in businesses' operations and production
- ◆ Growing demand for wealth management



Strategic response

- ◆ Assure balanced and healthy growth of assets and business operations
- ◆ Expand low-cost liabilities funding, ensure a steady and effective liabilities structure
- ◆ Strengthen product innovation and increase channels for intermediary businesses
- ◆ Strengthen overall risk management
- ◆ Accelerate comprehensive process management
- ◆ Effectively implement integration with Wing Lung Bank
- ◆ Develop New York branch businesses and promote international expansion

A+H share rights offering

More stringent
regulatory
standards

Higher expectations of
capital adequacy
from investors

Business operations
and development
needs

Risk prevention need

A+H share rights offering

- ◆ Rights offering to shareholders of A+H shares at same share price, at a ratio of no more than 2.5 shares per every 10 shares
- ◆ Amount of capital to be raised: RMB 18bn – RMB 22bn
- ◆ Purpose of capital-raising: to replenish capital base
- ◆ Assuming RMB 22bn raised, proforma 1H09 group core capital adequacy ratio would reach 8.5%, while proforma group capital adequacy ratio would reach 12.6%



Q&A

