

## China Merchants Bank Reports 2010 Interim Results

### Strategic execution leads to 59.80% rise in net profit

#### Results Highlights

- Net operating income increased 32.99% to RMB33.010 billion (2009 1H: RMB 24.821 billion)
- Profit before tax rose 67.32% to RMB17.030 billion (2009 1H: RMB10.178 billion)
- Net profit attributable to the Bank's shareholders rose 59.80% to RMB13.203 billion (2009 1H: RMB8.262 billion)
- Basic earnings per share attributable to the Bank's shareholders increased 51.16% to RMB0.65 (2009 1H: RMB 0.43)
- Return on average equity (after tax) attributable to the Bank's shareholders was 24.27%, up 4.08 percentage points when compared with 2009 1H
- Return on average assets (after tax) attributable to the Bank's shareholders was 1.21%, up 0.28 percentage points when compared with 2009 1H
- Total assets grew by 10.37% to RMB2,282.482 billion from the end of 2009
- Capital adequacy ratio increased by 1.51 percentage points to 11.60% from the end of 2009
- Core capital adequacy ratio rose by 1.42 percentage points to 8.05% from the end of 2009
- Non-performing loan ratio decreased by 0.15 percentage point to 0.67% from the end of 2009
- Allowances for impairment losses to non-performing loans ratio rose by 50.93 percentage points to 297.59% from the end of 2009

(Notice: The 2010 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 18, 2010** – 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 unaudited interim results for the six months ended June 30, 2010.

In the first half of 2010, China Merchants Bank executed on strategy and took advantage of the recovery of the domestic economy. Both the scale of operations and efficiency increased.



The performance of businesses improved. Net profit rose by 59.80% year on year on the back of the economic recovery, and the rebound in both interest rate and interest margin. The growth was also attributable in part to the Group's enhanced loan pricing power, the optimization of its asset structure, and the control of cost of liabilities. The Group also reduced operating costs and kept provisions under control with effective management.

### **1 ) Major financial data for the first half of 2010**

In the first half of 2010, the Group's operating profit grew substantially on the back of a rebound in net interest margin and growth in interest-yielding assets against the backdrop of a gradual recovery in the global economy. Net profit attributable to shareholders of the Bank increased by 59.80% year on year to RMB13.203 billion. Net interest income grew by RMB7.720 billion or 41.45% year on year to RMB26.343 billion. Net interest margin on annualized basis was 2.56%. Net non-interest income increased by RMB469 million, or 7.57% to RMB6.667 billion. Return on average assets (after tax) attributable to the Bank's shareholders was 1.21% and return on average equity (after tax) attributable to the Bank's shareholders was 24.27%, which grew substantially when compared with the respective figures of 1.00% and 21.17% for the whole year of 2009.

As at the end of June 2010, the Group's total assets increased by RMB214.541 billion or 10.37% to RMB2,282.482 billion when compared with the beginning of the year. Loans and advances increased by RMB144.943 billion, or 12.22% to RMB1,330.765 billion when compared with the beginning of the year. Deposits from customers grew by RMB144.254 billion, or 8.97% to RMB1,752.400 billion when compared to the beginning of the year.

In the first half of 2010, the quality of the Group's assets continued to improve, with a decline in both non-performing loans and the non-performing loan ratio. The Group's non-performing loans totaled RMB8.850 billion, or RMB882 million less when compared with the beginning of the year. The non-performing loan ratio was 0.67%, a decrease of 0.15 percentage points from the beginning of the year. The allowance coverage ratio was 297.59%, an increase of 50.93 percentage points as compared with the beginning of the year.

Dr. Qin Xiao, Chairman of China Merchants Bank, said, "In the first half of 2010, both domestic and international economic developments were complex. Nevertheless, we overcame difficulties and seized market opportunities so that we were able to achieve significant growth in both interest income and fee-based income. The Bank performed well."



## **2 ) Progress in strategic execution and optimization of business structure**

Since the beginning of 2010, China Merchants Bank has been executing a strategy based on specific goals for transformation of its business model. In the process, it enhanced its loan pricing power, reduced capital consumption, kept operating costs under control, increased the number of high net-worth customers and ensured that risks were manageable. As a result, the Bank's asset quality continued to improve, and the structure of business and assets and liabilities were optimized. The proportion of loans with a high lending rate against total loans increased. The Bank's strategic businesses such as retail banking, small enterprises lending and business of fee and commission income developed rapidly with higher operational efficiency.

### **Adjusted loan structure and diversified services of retail banking**

The Bank continued to diversify the services of retail banking and optimize the structure of retail loans. In the first half of 2010, the proportion of retail banking continued to rise. The Company's retail loans accounted for 33.55% of its total loans and advances, or 1.35 percentage points higher than at the beginning of the year. In particular, loans other than mortgages increased rapidly. To cope with the state's new policy of reining in housing loans and the shrinking transactions in the housing market, the Company diversified its retail banking services by actively developing the businesses of car loans, individual business loans and individual commercial housing loans to minimize the adverse effect of the cyclical fluctuations of the property sector. As at the end of June of 2010, the proportion of loans other than residential mortgages rose to 52.06% of the increment of the total loans, or 31.46 percentage points higher than that in 2009. Since the beginning of 2010, the quality of retail loans remained good. The non-performing loans and non-performing loan ratio of the retail banking both declined.

Meanwhile, the Bank's credit card business and private banking business also achieved significant progress. As at the end of June 2010, the Company had issued 32.60 million credit cards, including 1.87 million cards newly issued during the reporting period. The total number of cards in circulation was 17.87 million. The average transaction value per month of each card in circulation was RMB1,713. By the end of June 2010, the total number of private banking customers of the Company grew by 17.29% as compared to that at the beginning of the year, while total assets of private banking customers under management grew by 19.88%. In 2010, the Company's private banking business provided its customers with more personalized and customized consultation services. Meanwhile, the Bank also completed

private banking products and enhanced value-added services through an open platform for products.

The Company has been awarded “The Best Retail Bank in China” three times and “The Best Joint Stock Retail Bank in China” for six consecutive years by *The Asian Banker*.

### **Corporate banking showed steady progress -- SME lending improved in both quality and quantity**

In 2010, the Bank increased lending to quality industries in line with the state’s policy to adjust the structure of the economy. It also sped up the adjustment of its loan structure by reviewing loans to provincial government projects and taking corrective measures. It also tightened lending to property development, industries with “high pollution, high energy consumption and excess capacity” as well as backward industries. During the period of the interim report, the Group achieved balanced growth in different types of loans and optimized the loan structure. As at 30 June 2010, the corporate loans of the Company totalled RMB754.348 billion, representing an increase of 14.44% as compared to the end of the previous year, and accounted for 60.01% of the total customer loans. Discounted bills totalled RMB69.404 billion, representing a decrease of 31.79% as compared to the end of the previous year, and accounted for 5.52% of the total customer loans. Total corporate customer deposits were RMB1,049.299 billion, representing an increase of 11.61% as compared to the end of the previous year, and accounted for 62.65% of total customer deposits.

In the first half of 2010, the Company continued to step up efforts to develop small and medium-sized enterprises (SME) lending business. It adopted a series of measures to ensure the healthy development of SME lending, including product innovation and enhancement of risk management and pricing power in SME loans. As at the end of June 2010, the total amount of the Company’s SME loans within mainland China was RMB351.119 billion, representing an increase of RMB42.749 billion or 13.86% as compared to that at the end of the previous year. At the same time, the quality of SME loans improved with a non-performing loan ratio of 1.44%, representing a decrease of 0.40 percentage points as compared to that at the end of the previous year. As at 30 June, 2010, the Bank’s small enterprise lending centre had established 26 branches, with accumulated loans totalling RMB14.910 billion. Small enterprise loans totalled RMB11.312 billion, representing an increase of RMB5.800 billion when compared to the end of the previous year. The average interest rate of the small enterprise loans was about 22% above the benchmark interest rate. The non-performing loan ratio was zero.

**Fee and commission income grew significantly, while intermediary business developed rapidly**

In the first half of 2010, the intermediary business underwent rapid growth, with net fee and commission income of the Group totaling RMB5.346 billion, or an increase of 32.26% year on year. In particular, income from cash management surged by 321.1% over the same period of last year. Sale of corporate wealth management products increased by RMB4.639 billion year on year. Non-interest income from the Group's international business increased by 21.81% over the same period of last year. In the offshore business, cumulative income from fee-based businesses increased by 123.08% year on year. Income from asset custody business increased by 52.16% year on year. In the investment banking business, income from debt underwriting business increased by 45.00% over the same period of last year. Commission income from bank cards (including credit cards) increased by 22.13% year on year. Income from fund agency services and income from agency sale of insurance increased by 56.38% and 101.35% respectively over the same period of last year.

**3) Steady development into international and comprehensive financial institution**

In the first half of 2010, the Company continued to make steady progress in its integration with Wing Lung Bank. With the achievements in 2009, the Bank strengthened the implementation of integration measures by promoting the development of inter-related businesses by the Company and Wing Lung Bank. The move has led to synergy. As a result, Wing Lung Bank saw rapid and healthy development in its businesses, as well as a rise in its profitability. For the six months ended 30 June 2010, Wing Lung Group recorded an unaudited consolidated profit after tax of HK\$637 million, representing an increase of 39.07% over the same period of last year. Its total assets grew by 1.12% to HK\$118.625 billion when compared to the end of 2009. Its net assets increased by 4.51% to HK\$11.918 billion. Wing Lung Group's total deposits, including structured deposits, decreased by 3.31% to HK\$89.242 billion, as compared with that at the end of 2009. Its total advances to customers, including trade bills, grew by 19.08% to HK\$62.955 billion, as compared with that at the end of 2009.

The Hong Kong Branch and New York Branch of the Company seized opportunities for Chinese banks arising from the changes in the financial market, by developing businesses with domestic branches in mainland China. The overseas branches provide integrated services for customers with domestic and overseas businesses. As a result, the Bank is successfully meeting customer demands for financial services arising from their international operations.

China Merchants Fund Management Co., Ltd. (“CMFM”), CMB Financial Leasing Co., Ltd. (“CMBFL”) and CMB International Capital Co., Ltd. (“CMBIC”) performed well in the period under review. As of 30 June 2010, CMFM reported a total asset of RMB604 million and a net asset of RMB489 million. CMFM had altogether 15 open-ended mutual funds with assets under management totaling RMB31.201 billion. Total asset of CMBFL increased by 72.62% to RMB17.678 billion, as compared to the end of the previous year, and its net asset was RMB2.237 billion. As of 30 June 2010, CMBIC had total asset of HK\$738 million. Its net asset increased by 0.29% to HK\$342 million, as compared to the beginning of the year.

#### **4) Prospects, strategic evolution and innovation**

Of the prospect for the second half of 2010, Dr. Ma Weihua, President and CEO of China Merchants Bank said, “Economic and financial developments in mainland China and overseas remain complex. The foundation for the global economic recovery is not solid. Loan growth continues to slow in mainland China. The economy has also decelerated. The state is facing dilemma when adopting macroeconomic control measures. Faced with the new market conditions, we will seize opportunities and take on challenges. We will strengthen the management and continue the strategic evolution. We will emphasize efficiency, effective allocation of capital, higher returns from loans and stronger pricing power in lending. We will also work to raise the proportion of retail banking in profit contribution. The Company will raise the efficiency of its staff, improve wholesale banking and strengthen risk management. With all these measures to improve the organization and management system, we aim to have better results in the future.”

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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 30 June 2010, the Company had 62 branches, 706 sub-branches (including offices), 1 representative office (in Beijing), 1 credit card center, 1 credit center for small-sized enterprises, 1,820 self-service banking centers and over 1,700 off-bank self-service machines (ATM & CDM) in more than 70 major cities on 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, and a representative office in London.

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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