

China Merchants Bank Reports 2010 Annual Results

Net profit rises by 41.32% to RMB25.769 billion in its “second strategic transformation”

Highlights

- Net operating income increased by 38.21% to RMB 71.756 billion
- Net profit attributable to the Bank's shareholders rose 41.32% to RMB25.769 billion
- Basic earnings per share attributable to the Bank's shareholders increased by 29.47% to RMB 1.23
- Net interest margin increased by 0.42 percentage points to 2.65%
- Total assets grew by 16.18% to RMB 2,402.507 billion from the end of 2009
- Capital adequacy ratio increased 1.02 percentage points to 11.47% from the end of 2009
- Core capital adequacy ratio rose 1.41 percentage points to 8.04% from the end of 2009
- Non-performing loans of RMB 9.686 billion, down RMB46 million from the end of the 2009, with non-performing loan ratio down 0.14 percentage points to 0.68% from the end of 2009.
- Allowances for impairment losses to non-performing loans ratio rose 55.75 percentage points to 302.41% from the end of 2009

(Notice: The 2010 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 31, 2011 — 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, 2010.

1) Growth in profitability and size, improvement in asset quality

The global economy was recovering strenuously from the financial crisis in 2010 while China's economic conditions were uncertain and complicated. Against this backdrop, the Group launched its “second strategic transformation”. The managerial and operational changes driven by this strategy led to higher profits and improved asset quality as well as an overall increase in assets and liabilities.

1. *Profitability was improving.* In 2010, profit attributable to shareholders of the Bank increased by 41.32% to RMB 25.769 billion. Net interest income increased by 41.40% to RMB 57.076 billion. Net non-interest income increased by 27.07% to RMB14.680 billion. Return on

average asset and return on average equity attributable to the shareholders of the Bank were 1.15% and 22.73% respectively. The figures were 1.00% and 21.17% respectively for 2009. Operating efficiency improved significantly because of two major factors: i) a higher net interest income as a result of an increase in interest-earning assets and the consistent growth in net interest margin; and ii) a robust growth in net fee and commission income due to the Group's increased efforts in developing fee-based businesses.

Net interest margin increased. In 2010, the average yield of the interest-earning assets of the Group was 3.93%, up by 28 basis points as compared to the previous year while the average cost of total interest-bearing liabilities was 1.37%, down by 13 basis points as compared to the previous year. The average interest yield of the interest-earning assets increased while the average cost of total interest-bearing liabilities was under effective control, leading to a growth of 42 basis points in the net interest margin of the Group to 2.65%.

Net fee and commission income increased. In 2010, the net fee and commission income of the Group increased by 41.75% to RMB 11.330 billion. The increase was due to fee increases in bank cards and agency services.

2. *The quality of our assets continued to improve.* As at the end of 2010, our non-performing loan ratio was 0.68%, a decrease of 0.14 percentage points as compared with the beginning of the year. The non-performing loan allowance coverage ratio was 302.41%, representing an increase of 55.75 percentage points as compared with the beginning of the year.

3. *The assets and liabilities continued to grow.* As at the end of 2010, the Group's total assets increase by 16.18% to RMB2,402.507 billion from the beginning of the year. Loans and advances totaled RMB1,431.451 billion, representing an increase of 20.71%, as compared with the beginning of the year. Deposits from customers increased by 17.97% to RMB1,897.178 billion from the beginning of the year.

2) A good start of second strategic transformation

The Group launched a "second strategic transformation" in 2010 despite a challenging domestic economic environment. The results have been positive:

1. *Capital utilization efficiency continued to increase.* As at the end of 2010, the risk-adjusted return on capital (RAROC) was 20.23%, representing an increase of 2.18 percentage points. After the rights issue of A Shares and H Shares in April 2010, the capital adequacy ratio of the Company increased to 11.21% at the end of 2010 from 10.05% of the 2009, and the core

capital adequacy ratio increased to 8.70% from 7.36%. The Group maintained growth momentum in return on equity even after the rights issue.

2. *Risk-based pricing power over loans increased notably.* As at the end of 2010, the floating band of weighted average interest rates of our new general loans in RMB increased by 7.92 percentage points as compared with 2009. The floating band of weighted average interest rates of our new general wholesale loans increased by 3.80 percentage points over 2009, and the floating band of weighted average interest rates of our new general retail loans increased by 20.07 percentage points over 2009.
3. *Cost efficiency and manpower capacity increased.* By the end of 2010, operating expenses of the Company increased by 25.16% to RMB 27.144 billion over 2009, 13.99 percentage points lower than the growth rate of net operating income. Cost-to-income ratio decreased by 4.43 percentage points to 39.63%. Average net profit per employee increased by 28.26% to RMB 590,000. Average net profit per branch grew by 26.07% to RMB 31.29 million.
4. *The proportion of high-net-worth customer increased consistently.* As at the end of 2010, the number of our high-net-worth retail customers with average daily total assets per month of more than RMB500,000 totaled 670,100, accounting for 1.48% of the total retail customers, compared with the 1.31% at the beginning of the year. Their assets accounted for 67.3% of the total assets of the retail customers. The number of high-net-worth corporate customers with consolidated income of more than RMB100,000 was 37,018, accounting for 8.70% of the total corporate customers, up from the 6.76% at the beginning of the year. Their proportion in total consolidated income increased to 93.76% from 92.97%.
5. *Effective risk management.* The Company has improved credit risk management. In 2010, the proportion of the special mention loans decreased to 0.99% from 1.19%, and the ratio of deteriorating loans – loans that moved from normal to sub-par grade -- decreased to 1.25% from 2.86%. The non-performing loan formation rate decreased to 0.16% from 0.26%. The allowance-to-loan ratio increased to 2.05% from 2.02%.

3) **Steady progress internationally**

In 2010, the Group saw positive developments in its international operations. Integration of the operations of Wing Lung Bank yielded results. For the year ended 31 December 2010, Wing Lung Group (WLB and its subsidiaries) recorded a consolidated after-tax profit of HK\$ 1.349 billion, an increase of 52.50% over 2009. The growth was mainly driven by an increase in net interest income. Non-interest income also increased significantly. At the end of 2010, WL Group's total

assets increased by 16.85% to HK\$137.075 billion. Net assets increased by 11.80% to HK\$ 12.750 billion.

The Group's New York branch launched a business in US dollar clearing and trade settlement. The Group's Hong Kong branch focused on cross-border Renminbi business, bringing many new products to market by working through cooperation between the Bank and Wing Lung Bank and other overseas operations. The Group's London representative office directed its efforts towards survey and liaison work. During the year, official approval for the establishment of the Taipei office was obtained. In addition, CMB Financial Leasing Co., Ltd. expanded its leasing business for heavy equipment and aircraft. Its profitability ranked highest among its domestic peers.

Dr. Ma Weihua, President and CEO of China Merchants Bank said, "Faced with the opportunities and challenges under the new circumstances, we are working steadily towards our goal of becoming the best commercial bank in China that is also competitive internationally. Our guiding principles are 'Look ahead, seize opportunities, be enterprising, and develop sustainably'. We are in the midst of a second strategic transformation in which we are building new systems to support customers, capital, risk management, products, assessment, organization, sales channels, and operations, as well as improving the professionalism of our management. These new systems will help to bring us to a new level as we follow our strategic plan."

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