

## China Merchants Bank Reports 2013 Interim Results

### Net profit rises 12.39% year-on-year to RMB 26.271 billion

#### Highlights

- Net operating income increased 12.14% year-on-year to RMB 64.212 billion
- Net profit attributable to the Bank's shareholders rose 12.39% year-on-year to RMB26.271 billion
- Basic earnings per share attributable to the Bank's shareholders increased 12.96% year-on-year to RMB1.22
- Net interest margin decreased 0.22 percentage points year-on-year to 2.89%
- Total assets rose 11.81% to RMB 3,810.629 billion from the beginning of 2013
- Capital adequacy ratio decreased by 0.69 percentage points to 10.72% from the beginning of 2013
- Tier 1 capital adequacy ratio fell by 0.34 percentage points to 8.00% from the beginning of 2013
- Net non-interest income increased by 23.14% year-on-year to RMB16.771 billion.
- Non-performing loans increased by RMB3.231 billion to RMB14.925 billion from the beginning of 2013; Non-performing loan ratio was 0.71%, up by 0.10 percentage point as compared with the beginning of the year
- Non-performing loan allowance coverage ratio was 304.72%.

(Notice: The 2013 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 data mentioned in this document belong to the Group)

**August 16, 2013** – 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 unaudited interim results for the six months ended June 30, 2013.

In the first half of 2013, despite the complicated and volatile external situation, the Group overcame various unfavorable factors, vigorously promoted the Second Transformation and achieved a sound development.

#### **1. Profitability, asset quality and scale maintained balanced development with strong overall performance**

**1) Profitability improved steadily.** In the first half of 2013, the Group accomplished a net profit attributable to the shareholders of RMB26.271 billion, representing an increase of RMB2.897billion or 12.39% as compared with the same period of the previous year, achieving a steady growth. In the first half of 2013, the Group realized a net interest income of RMB47.441 billion, representing an increase of 8.71% compared with the same period of the previous year.

The Group achieved net interest margin of 2.89%, and reported a lower-than-average cost of deposits of 1.85% in the first half of the year. And the Group realized a net non-interest income of RMB16.771 billion, representing an increase of 23.14% as compared with the same period of the previous year, and net fee and commission income increased by 45.54% year-on-year. The annualized ROAA and ROAE attributable to the shareholders of the Bank were 1.46% and 25.46% respectively.

- 2) **Overall risk is under control in terms of asset quality while allowance coverage ratio remained stable.** As at 30 June 2013, non-performing loans of the Group increased by RMB3.231 billion to RMB14.925 billion from the beginning of 2013; Non-performing loan ratio was 0.71%, up by 0.10 percentage point as compared with the beginning of the year. Allowances for impairment losses to non-performing loans ratio was 304.72%.
- 3) **The scale of assets and liabilities expanded moderately.** As at the end of June 2013, the Group's total assets amounted to RMB3,810.629 billion, representing an increase of RMB402.530 billion or 11.81%, as compared with the end of last year. The total loans and advances to customers amounted to RMB2,098.078 billion, representing an increase of RMB193.615 billion or 10.17%, as compared with the end of last year. The total deposits from customers amounted to RMB2,797.578 billion, representing an increase of RMB265.134 billion or 10.47%, as compared with the end of last year.
- 4) **Capital utilization remained stable.** The capital adequacy ratio and the tier 1 capital adequacy ratio of the Group was 10.72% and 8.00% respectively, representing a decrease of 0.69 percentage point and 0.34 percentage point as compared with those at the beginning of the year. The decrease in the capital adequacy ratio as compared with the beginning of the year was mainly due to the distribution of cash dividend of RMB13.593 billion in respect of the profit for the previous year and the amortisation of old subordinated bonds of RMB4.17 billion during this year. Taking the above factors aside, the capital adequacy ratio and the tier 1 capital adequacy ratio of the Group increased by 0.02 percentage point and 0.20 percentage points respectively as compared with those at the beginning of the year.

## 2. Structure continued to improve and operating efficiency further enhanced

- 1) **Business structure was further optimized.** In 1H2013, net non-interest income accounted for 24.93% of the total income. The proportion of net fee and commission income grew robustly to 21.74%, up 5.05 percentage points compared with the corresponding period of last year. Retail banking business accounted for an increasingly significant proportion of the business and contributed 36.73% of the Company's pre-tax profit, 4.58 percentage points higher than the previous year. Small and micro enterprises loans grew rapidly, resulting in significant improvement in loan structure optimisation. Loans to small and micro enterprises increased by 39.14%, and its contribution to domestic general loans increased by 6.36 percentage points compared with that at the beginning of this year.
- 2) **Customer structure continued to improve.** The Company's retail and wholesale customer

base continued to expand with optimised structure in the first half of 2013. The number of retail customers increased by 2.7 million as compared with the beginning of this year. The number of Sunflower-level and above customers increased by 89,000 as compared with the beginning of this year. The number of private banking customers increased by 15.82% as compared with the beginning of this year. The number of wholesale high-net-worth customers increased by 5.02% as compared with the beginning of this year.

- 3) **Risk profile continued to optimize.** Despite a moderate climb in NPL ratio, the Company has upheld the principle of prudent operations and continuously lowered the balance of loans extended to high-risk sectors, thus maintaining the overall credit risk under control. By the end of June 2013, the balance of loans extended to local government financing vehicles was RMB86.116 billion, representing a decrease of 4.80% as compared with the beginning of the year, while the NPL ratio was merely 0.04%. The balance of loans extended to real estate enterprises was RMB79.118 billion, decreased by 1.67%, as compared with the beginning of the year, and the NPL ratio was 0.74%. The annualised NPL formation ratio was 0.58%, below the average of its peers.
- 4) **Operating efficiency was further enhanced.** Risk Adjusted Return On Capital (RAROC) was 21.25%, increased 0.04 percentage point compared with the previous year. The Company's cost-to-income ratio was 31.64%, down 0.62 percentage point as compared with the corresponding period of last year. Loan risk pricing capability was strengthened steadily. The floating band of weighted average interest rates of new corporate loans in RMB (weighted at actual amounts) was 12.46%, up 0.66 percentage point from 2012; the floating band of weighted average interest rates of new retail loans in RMB was 30.11%, up 7.16 percentage points from 2012. Annualised profit before tax per outlet and that per person went up by 4.43% and 4.62% as compared with the corresponding period of last year, respectively.

### 3. Core businesses remained healthy growth

#### 1) Retail banking business maintained positive growth momentum

As of end of June, AUM of Sunflower-level and above customers was RMB1,870.4 billion, and grew by 11.87% as compared with the beginning of this year; AUM of private banking customers was RMB509.8 billion, and grew by 17.41% as compared with the beginning of this year. Retail deposits amounted to RMB962.288 billion, accounting for 35.86% of total customer deposits, among which demand deposits accounted for 59.30%; retail loans was RMB737.647 billion and accounted for 38.32% of total customer loans; micro enterprises loans increased by 44.02% as compared with the beginning of this year, accounting for 34.58% of the retail loans. According to the data released by the People's Bank of China, the Company ranked first among domestic small and medium-sized banks in terms of the balance of retail deposits; ranked fifth among domestic banks in terms of the balance of retail loans, next only to the Big Four state-owned commercial banks, among them, the Company ranked first among domestic banks in terms of the growth amount and growth rate of

personal operating loans for the period.

Bank card business maintained a robust growth rate. In first half of 2013, average deposits per All-in-one card increased by RMB1,165. POS transaction value increased by 49.61% as compared with the corresponding period of last year. The number of credit cards in circulation increased by 1.64 million as compared with the end of the previous year. Average transaction value per month of each active card grew by 22.56% year-on-year. Interest income and non-interest income of credit card grew by 36.13% and 42.42%, respectively. The offshore card transaction volume was the highest among its peers.

## **2) Superior wholesale business further consolidated and upgraded, and the emerging wholesale businesses maintained a solid growth momentum**

During the first half of 2013, as for its wholesale banking business, the Company continued to optimize the system construction, and strove to establish new profitability mode.

In the first half of the year, the Bank's superior wholesale business further consolidated and upgraded. The total number of cash management customers increased by 20.95%; electronic financial supply-chain trading volume went up by 61.53% as compared with the corresponding period of last year; international factoring transaction value went up by 294.27% year-on-year; forfeiting transaction value grew by 107.40% year-on-year; cross border RMB settlements increased by 97.45%, 33.51 percentage points higher than the nationwide growth; inter-bank cross border RMB clearing services went up by 61.33% year-on-year. Offshore trade finance balance grew by 35.23%; offshore deposits balance grew by 33.65%. And the Company's "Cross-border RMB bank platform" won the "Top Ten Financial Product Innovation Award" sponsored by The Banker magazine.

The company has maintained a solid growth momentum in emerging wholesale businesses. The investment banking sector has recorded a 30.18% year-on-year increase in debt financing instruments underwritten, and achieved remarkable results in M&A advisory business, refinancing of listed companies and structured financing and other specialized financial advisory businesses; the balance of assets under custody, the sales value of wealth management products, and the volume of precious metal leasing increased by 58.86%, 22.55% and 106.63% year-on-year, respectively.

In the first half of 2013, the company continuously increased the presence of "Qian Ying Zhan Yi" business and its brand recognition. As of the end of June, customers in the "Qian Ying Zhan Yi" program increased by 69.53% from the end of the previous year; the loan balance of enterprises in the "Qian Ying Zhan Yi" program increased by 68.20% from the end of the previous year. In the future, the Company plans to license and establish 100 "Qian Ying Zhan Yi Innovative Sub-branches" across the country in the next one to two years as the incubators for technologically

innovative and growth enterprises.

### **3) Distribution channel has been well organized 布局, and service efficiency continued to improve through e-banking**

By the end of June, the Company had established 981 outlets, with 30 private-banking centers in 25 major cities. Overall counter replacement ratios of retail e-banking channel and corporate e-banking channel reached 91.85% and 57.49% respectively. The total cumulative number of retail online banking transactions and corporate banking transactions increased by 51.92% and 16.09% year-on-year respectively. The personal mobile banking service of the Company continued to maintain rapid growth. The bank has continuously made breakthroughs in e-banking product innovation. Together with China Mobile, it launched the mobile payment product "mobile wallet" and launched new service facilities such as "visual counter". The sustained and rapid growth in e-banking not only satisfied customers' demand but also effectively relieved the pressure on outlets with lower operating cost.

## **4. Outlook and Strategies**

Currently, both domestic and global financial situations remain complicated and volatile, which is likely to impose pressure on the Company's business development, risk prevention, profit growth and internal management. Admst the new environment and challenges, the Company will further press forward with the "Second Transformation" in the following aspects: firstly, optimize the small and micro enterprises strategy and improve the overall service standards for high-value customers; secondly, strengthen retail banking's existing advantages whilst developing and enhancing competitiveness in the wholesale banking business; thirdly, effectively build on management capabilities under the customer-centric philosophy with efforts in improving service standards, optimizing business processes and enhancing innovation capabilities; fourthly, enhance comprehensive risk management to ensure the stable and sustainable development of the bank. The Company will adhere firmly to its guiding concept of "achieving balanced development of efficiency, quality and scale", and strive to become the distinguished, innovative and best commercial bank in China with international competitive edges.

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