

Transforming Business Model and Forging Asset-light Banking with “One Body, Two Wings” Strategy

China Merchants Bank Announced 2014 Annual Results

Net profit rose 8.06% year-on-year to RMB 55,911 million

Highlights

- Net operating income increased 25.10% year-on-year to RMB166,525 million
- Net profit attributable to the Bank’s shareholders rose 8.06% year-on-year to RMB55,911 million
- Basic earnings per share attributable to the Bank’s shareholders decreased 3.48% year-on-year to RMB2.22.
- Net interest income increased 13.23% year-on-year to RMB112,000 million. Net interest margin decreased 0.30 percentage point year-on-year to 2.52%
- Net non-interest income increased by 59.41% year-on-year to RMB54,525 million.
- Total assets rose 17.81% to RMB 4,731,829 million from the beginning of 2014
- Tier 1 capital adequacy ratio and capital adequacy ratio under the advanced method were 10.44% and 12.38%, respectively
- Non-performing loans increased by RMB 9,585 million to RMB 27,917 million from the beginning of 2014; non-performing loan ratio was 1.11%, up by 0.28 percentage point as compared with the beginning of the year
- Non-performing loan allowance coverage ratio was 233.42%, down by 32.58 percentage points as compared with the beginning of the year

(Notice: The 2014 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 18, 2015 - 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, 2014.

In 2014, as Chinese economy growth slowed with shifting momentum and interest rate linearization progressed, banking industry faced greater challenges. The Bank adhered to balancing growth of “profitability, asset quality and scale”, transformed operation model, implemented the “One Body, Two Wings” development strategy which highlighted the strategic position of retail finance with the



support of corporate banking and interbank finance, forged asset-light banking. The strategy yielded positive results.

1. Profitability, asset quality and scale maintained balanced development with satisfactory overall performance

In 2014, The Group adhered to its guiding principles of achieving balanced development of efficiency, quality and scale, strengthened its strategic focus and maintained satisfactory performance. Net profit attributable to the Bank's shareholders rose 8.06% year-on-year, ROAA and ROAE amounted to 1.28% and 19.28% respectively and remained at sound levels. Non-performing loan ratio remained stable at 1.11%. Total assets grew by 17.81% as compared with the end of last year.

2. Capital position further improved and risk management remained prudent

In 2014, the Group continuously improved its capital position and maintained its prudent risk management. Capital adequacy ratio under the advanced method improved steadily and reached 12.38%, up 0.93 percentage point from June 2014; capital adequacy ratio under the weighted method reached 11.74%, an increase of 0.60 percentage point as compared with the end of last year. Its risk compensation capability for unexpected losses further improved. Non-performing loan allowance coverage ratio remained sufficient at 233.42%. Loan allowance ration increased by 0.37 percentage point to 2.59%. Credit cost at bank level remained stable at 1.43%. The Group adopted prudent classification criteria for overdue loans, and the ratio of its non-performing loans to loans overdue more than 90 days was 1.11. The Group measured the risks accurately and made necessary provisions based on base assets. Bank level non-standard credit assets allowance ratio was 1.43%.

3. Promoting business model transformation and forging " Asset-light Banking " strategy

- 1) Light Capital:** Risk Weighted Assets (RWA) to total assets under the weighted method was 65.61%, down by 1.72 percentage points. RWA increased by 14.63% compared with the end of 2013; net operating income grew by 25.10% year-on-year. The capital consumption notably decreased. Core Tier 1 capital adequacy ratio under the advanced method rose by 0.81 percentage point from June 2014, and Core Tier 1 capital adequacy ratio under the weighted method rose by 0.08 percentage point from December 2013. The internal capital generation was further improved.



- 2) **Light Asset:** Net non-interest income increased by 61.79% year-on-year to RMB 49,618 million. The proportion of net non-interest income to net operating income of the Bank was 31.50%, up by 7.15 percentage points year-on-year. Risk adjusted return on capital (RAROC) stayed relatively high at 23.52% and well above the cost of capital. In 2014, the Bank grasped the re-launch opportunity of asset securitization pilot programs and issued three asset-securitization products worth RMB 24,545 million. The Bank ranked as the No.1 among commercial banks in China in terms of cumulative issuance size.
- 3) **Light Operation:** The Bank's operational efficiency improved continuously, cost-of-cost income ratio was 30.58% in 2014, down by 4.11 ppt. The Bank has fully leveraged on its traditional strength in electronic banking. Replacement ratio of counter transactions with electronic channels in respect to corporate increase by 2.88 ppt to 95.38%, and retail e-banking channels increased by 1.85ppt to 56.50%. Replacement ratio of online corporate banking settlements amounted to 93.32%. Accumulated number of retail online banking transactions grew by 29.62%

Business strategy of “one body with two wings”, highlighting the strategic position of retail finance with the support of corporate banking and interbank finance and achieving great success.

- 4) In 2014, the percentage of pre-tax profit of retail finance business reached 42.81%, up by 6.19 percentage points year-on-year. Net operating income from corporate banking business grew by 14.94% year-on-year. Net operating income from interbank finance business was up by 80.38%. In 2014, RMB 650 billion was distributed through the payroll service. Retail finance product sales attributed to corporate banking reached RMB 26.3 billion; Interbank finance offered 2,021 wealth management products to retail finance customers.

4. Retail finance, corporate banking and interbank finance all delivered healthy growth, and asset quality remained stable

1) Retail finance continued to maintain competitive advantages

In 2014, the number of retail customers grew by 18.10% year-on-year to 56.25 million. The number of sunflower-level and above customers increased by 21.08% year-on-year. The number of private banking customers increased by 28.96% year-on-year. Number of credit card accounts in circulation rose by 22.68% year-on-year.

Wealth management income from retail finance achieved rapid growth. AUM of retail customers grew steadily by 22.82% year-on-year, amounting to RMB 3,469.9 billion. AUM of sunflower-level and above customers went up by 26.71%, and AUM of private banking customers increased by 31.71%. The Bank recorded accumulated sales of personal wealth



management products of RMB 4,801.9 billion, up by 41.24% year-on-year. Sales of open-ended mutual funds grew by 55.71% year-on-year, and standard premiums from the sales of third-party insurance policies went up by 23.44%.

Number of micro enterprise customers grew by 53.24% as compared to the beginning of 2014 and amounted to 1.43 million. Loans extended to micro enterprises increased by 19.01% year-on-year.

Consumer finance continued to be strengthened. Balance of residential mortgage grew by 22.92% as compared with the beginning of 2014. All-in-one card cumulative transaction value went up by 105.45%. Credit card cumulative transaction value further grew by 41.58%. Balance of credit card overdraft went up by 41.71%

2) Competitiveness of corporate banking business enhanced steadily

In 2014, the Bank strived to grow its corporate banking business into professional service has achieved healthy business growth. As of the end of 2014, the number of corporate deposit customers grew by 35.03% as compared with the beginning of the year, and the balance of corporate loans went up by 8.73%. Daily average balance of corporate deposits grew by 22.42%. Market share of onshore RMB corporate loans went up by 0.26 percentage point to 3.12%. The Bank delivered the highest growth in onshore RMB corporate loans among all small-to-medium banks in 2014.

Cash management business delivered healthy growth. As of the end of 2014, the number of cash management customers went up by 71.54% as compared with the beginning of the year to 548,240. The cumulative number of corporate online banking transactions grew by 37.92% year-on-year, and the cumulative transaction value of corporate online banking transactions increased by 41.39%.

Trade finance business achieved rapid expansion. In 2014, the Bank promoted the rapid development of its trade finance business. The number of new core supply chain customers amounted to 1,488, while the number of new upstream / downstream customers reached 9,648. Amount of domestic trade financing increased by 77.03% as compared with the end of last year. The granted value of international trade facilities grew by 9.77% year-on-year. The balance of offshore trade financing rose by 54.54%.

Cross-border finance business maintained its fast development. Number of international business customers onshore grew by 24.41% as compared with last year. Number of offshore customers rose by 21.71% year-on-year. Amount of cross-border RMB settlements was up by 99.33% year-on-year. International settlements increased by 26.72%. Foreign exchange settlements grew by 22.63% year-on-year.

The Company witnessed strong breakthrough of investment banking and M&A advisory business. Number of M&A advisory customers went up by 261.54% as compared with the end



of last year. The granted value of M&A financing grew by 138.47% year-on-year. Debt financing instruments underwritten climbed by 65.02% year-on-year.

3) Interbank finance business realized rapid development.

Interbank asset management business reported a booming development. In 2014, Balance of operating funds of wealth management products increased by 41.64% as compared with the beginning of the year, and the number of wealth management products developed grew by 272.96% year-on-year. Net value products as percentage of operating funds of wealth management products rose by 19.08 percentage points as compared with last year.

Asset custody business experienced rapid growth. Balance of entrusted assets grew by 90.77% as compared with the beginning of 2014 to RMB3,543,038 million. The Bank's market share in client AUM custody for fund companies reached 13.92%, up by 6.90ppt as compared with last year and ranked No. 1 in the industry, up from No. 5 in 2013. The Asset Custody department developed 7,737 projects for funds, brokerage, insurance, banks, trusts and private equity. The number of custody projects rose 128.97% compared to last year.

Financial market business achieved strong growth. Volume of bond trading grew by 180.77% as compared with last year. Volume of proprietary derivatives trading went by up 61.11% year-on-year. Volume of transfer discounted bills increased by 340.84%.

4) Strengthened risk management contributed to stable asset quality.

In 2014, the Bank focused on strengthening risk management and maintained stable asset quality. Corporate NPL ratio was 1.59%. Small enterprise NPL ratio was 2.83%. Retail NPL ratio was 0.78%. Micro enterprise NPL ratio was 1.08%. Non-standard credit assets NPL ratio was 0.005%. NPL ratio of loans for domestic corporate real estate decreased by 0.20 percentage point. There was no non-performing loan for LGFVs. NPL ratio of loans extended to overcapacity industries was 1.75% and remained under control.

5. Other important operational information of the Company

1) Comprehensive financial services continued to grow.

In 2014, total assets of Wing Lung Group grew by 13.99% as compared with the end of the previous year. Net profit was up by 22.04% year-on-year. Total assets of CMB Financial Leasing improved by 33.64% as compared with the beginning of 2014. Total net income of CMB International Capital was up by 43.56% as compared with the end of the previous year. AUM of China Merchants Fund grew by 92.25% in 2014. Gross Written Premium (GWP) of CIGNA and CMB Life Insurance was up by 25.12% year-on-year.

2) Promoting the development of Internet finance by leveraging on traffic, platforms and



data

The Bank will develop our business through increasing traffic, numbers of customers and logins of mobile banking, CMB Life, SME E-Home and corporate e-banking achieved steady growth. By the end of 014, the number of retail e-banking customers amounted to 36.13 million, the number of retail e-banking logins amounted to 1,329 million, the number of customers with CMB life amounted to 11.50 million, and the number of retail CMB Life logins amounted to 838 million. The number of corporate e-banking customers amounted to 542,000, the number of corporate e-banking logins amounted to 60 million, registered members of SME E-Home amounted to 538,000, and the number of SME E-Home logins amounted to 1.10 million. The Bank has accelerate establishment of the platforms of mobile banking, CMB Life, SME E-Home, C+ cash management, ISCF supply chain finance and interbank financial assets trading and increased traffic so as to drive the transformation into an Internet-based banking model. The Bank will drive business growth by utilizing data. We will establish a big data platform integrated with structured and non-structured data to support analysis and decision-making, risk control and marketing.

6. Outlook and strategies

Looking into 2015, we are expected to continue to operate in complicated and ever-changing economic and financial environment. Faced with such challenges and opportunities, the Company will continue adhere to our strategy of forging asset-light banking and firmly implement our "One Body with Two Wings" development strategy; Further strengthen the management and implementation of our strategies in response to domestic and international developments; Enhance capital and risk management, improve capital efficiency and risk management capability; Continue to push forward reform in overall system and process optimization to improve management and operating efficiencies; Refine our incentive and restraint mechanism to promote business activities; Increase focus on and accelerate the development of Internet.

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