

## China Merchants Bank Announces 2016 Interim Results

### Accelerated transformation and drove innovation

### Net profit rose 6.84% year-on-year to RMB 35.231 billion

#### Highlights

- Net operating income increased 8.63% year-on-year to RMB 113.394 billion
- Net profit attributable to the Bank's shareholders rose 6.84% year-on-year to RMB 35.231 billion
- Basic earnings per share attributable to the Bank's shareholders increased 6.87% year-on-year to RMB 1.40
- Net interest income increased 1.39% year-on-year to RMB 67.477 billion. Net interest margin decreased 0.20 percentage point year-on-year to 2.58%
- Net non-interest income increased by 21.37% year-on-year to RMB 45.917 billion
- Total assets rose 1.14% to RMB 5,537.298 billion from the end of 2015
- Tier 1 capital adequacy ratio and capital adequacy ratio under the advanced method were 12.09% and 13.90%, respectively
- Non-performing loans increased by 16.55% to RMB 55.256 billion from the end of 2015; non-performing loan ratio was 1.83%, up by 0.15 percentage point as compared with the end of the year
- Non-performing loan allowance coverage ratio was 189.11%, up by 10.16 percentage points as compared with the end of the year

(Notice: Unless otherwise indicated, all data shown in this presentation is based on IFRS and denominated in RMB; all financials are on consolidated Group level and all business data are on standalone Bank level.)

August 18 2016 - 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 its unaudited results for the six months ended June 30, 2016.

In the first half of 2016, the Company adhered to its strategic focus on "Asset-light Banking", and "One Body with Two Wings", and adopted a prudent and steady approach to achieve sound operation performance, although the macro-economy showed a "L-shaped" growth in its downward momentum, and banking industry had to deal simultaneously with the combined impact of the four headwinds of the Chinese economy, namely the slowdown in economic growth, the painful adjustments of economic structure, the enduring aftermath of the previous economic stimulus policies, and the arduous endeavour in the deepening of reform.



## 1. Profitability, asset quality and scale maintained balanced development and led to satisfactory growth

In the first half of 2016, the Group overcame many unfavorable factors and maintained satisfactory growth in adherence to its guiding principles of achieving balanced development of efficiency, quality and scale, actively pushing forward the operational transformation. Net profit reached RMB35,231 million, up 6.84% YoY steadily. ROAE reached 19.07%, up 1.98ppt YoY. ROAA was 1.28%, up 0.15ppt from 2015. Total assets increased by 1.14% from the end of last year, delivering small-scale growth. Total deposits from customers and gross loans and advances to customers grew by 3.39% and 7.16% respectively. As of end of June 2016, NPL was 1.83%, up 0.15ppt from the end of last year as the trend of risk exposure slowed.

## 2. Strategic transformation steadily proceeded

### (1) Performance strengthened under the “asset-light” model

**“Lighter” capital:** In the first half of 2016, the Group’s Core Tier 1 capital adequacy ratio and capital adequacy ratio under both the advanced method and weighted method continued to increase. Its risk compensation capability for unexpected losses further improved.

**“Lighter” assets:** Active changes were seen in adjustment in asset structure: The ratio of RWA to total assets was down 1.30 ppt to 61.32%. The proportion of retail loans to total loans and advances was up by 1.12 ppt from the end of last year. The proportion of loans extended to overcapacity industries to total loans and advances was down by 0.05ppt from the end of last year.

**“Lighter” liabilities:** Demand deposits to total deposits went up by 6.13ppt to 63.16%. Retail demand deposits accounted for 74.27% of total retail deposits, up 3.17ppt from the end of last year. Corporate demand deposits accounted for 57.97% of total corporate deposits, up 7.86ppt from the end of last year. The optimization of deposit pricing and differentiated authorization mechanisms led to decrease in high-cost structured deposits of RMB3.68 billion, down by 28%.

**“Lighter” income structure:** Net non-interest income grew by 21.20% YoY, while net interest income went up by 1.70% YoY. Net non-interest income accounted for 39.23% of net operating income, up 4.09 ppt YoY.

**“Lighter” channels:** Counter replacement ratio of retail e-banking channels further improved to 97.79%, up by 1.47ppt as compared to last year. Cumulative number of mobile banking transactions amounted to 332 million, up 41.28% YoY. Replacement ratio of non-cash transactions at visual electronic counters achieved 47% up by 26.52ppt from end of last year.



The technology of facial recognition has been widely used and has recorded 30 million uses since inception. Counter replacement ratio of corporate e-banking channels achieved 60.73%. Cost-to-income ratio continued to decrease, down 4.4ppt from the end of last year to reach 22.88%.

**(2) "One Body with Two Wings" strategy was well maintained**

**"One Body" was strengthened:** In the first half of 2016, the net operating income of retail finance business showed 15.83% growth YoY. Net non-interest income grew by 22.55%, reaching RMB19,733 million. Pre-tax profit of retail finance business amounted to RMB26,957 million, up 36.68% YoY. Its contribution to total pre-tax profit continued to increase and reached 49.27%. Cost-to-income ratio of retail finance business was 28.89%, down 3.23ppt YoY.

**Two Wings" continued to strengthen with visible synergies:** In the first half of the year, our corporate finance and financial institutions finance businesses overcame negative impact of domestic and overseas economic conditions, with net operating income slightly up 1.58%. The development of "One Body" and "Two Wings" was proceeded with synergies through transfer pricing, compensation of interests, and promotion of cross-selling.

**(3) Risk management proved to be prudent with alleviated risk exposure and slower growth of NPL ratio**

Overdue loans ratio was 2.71%, down 0.13 ppt from the end of last year, while the increase of overdue loans during the period decreased notably by RMB28,665 million YoY. Special mention loans ratio was 2.48%, down 0.13ppt from the end of last year, while the increase of special mention loans during the period decreased notably by RMB16,282 million. Ratio of NPLs to loans overdue for more than 90 days rose from 1.05 to 1.07. Impairment losses on assets amounted to RMB36,170 million, up 23.99% YoY.

**3. Retail finance, corporate finance and financial institutions finance all delivered healthy growth, and asset structure optimized**

**(1) Retail finance: competitive advantages continued to improve**

The bank made retail finance its mainstay business, as it continues to put its clients at the center of its business and refine the entire business process in order to increase operating efficiency and boost net operating income growth. Profit from retail finance business maintained fast growth with increased value contribution and strengthened competitiveness.

The number of retail customers amounted to 72.37 million, up 8.11% from the end of last year. The number of "All-in-One" card issued amounted to 97.96 million, up 7.46% from the beginning of this year. AUM of retail customers grew by 8.92%, reaching RMB 5,173.3 billion. Balance of



retail demand deposits grew by 4.48% from the end of last year. In view of rate cuts of PBOC last year and refined deposit structure, the average cost of retail deposits was 0.96%, down 0.48ppt YoY.

**Retail finance credit exposure expanded with continuously optimized structure.** Retail loans amounted to RMB1,334,877 million, up 10.36% from the end of last year and accounting for 47.83% of total loans, up 1.12ppt from the end of 2015. Residential mortgage loans amounted to RMB606,945 million, up 23.55% from the end of last year. Balance of credit card overdrafts reached RMB340,406 million, up 8.74% from the end of last year. Micro-finance loans amounted to RMB290,321 million, down 6.04% from the end of last year.

**Private banking business thrived.** Number of private banking customers reached 53,954, up 10.04% from the end of last year. AUM of private banking customers amounted to RMB1,423.700 billion, up 13.71% from the end of last year. Net operating income from private banking customers with bank cards reached RMB3,861 million, up 37.92% from the end of last year. In the first half of 2016 the Bank added 4 new private banking centers to reach a total of 49 centers.

**Wealth management business showed a clear lead and continued to grow.** Number of sunflower-level and above customers totaled 1.81 million, up 9.57% from the end of 2015. AUM of sunflower-level and above customers was RMB4,101.3 billion, up 9.97% from the end of last year. Fee and commission income from wealth management reached RMB13,688 million, up 23.24% YoY. Fees from agency distribution of insurance amounted to RMB4,154 million, up 150.24% YoY. Fees from entrusted wealth management reached RMB3,495 million, up 103.08% YoY. Fees from agency distribution of trust plans amounted to RMB1,770 million, down 27.40%. Fees from agency distribution of funds reached RMB4,141 million, down 20.62% YoY.

**Credit card business maintained rapid growth.** Number of active credit card users hit 33.28 million, up 7.25% YoY. Cumulative transaction value of credit cards reached RMB1,053,500 million, up 25.56% YoY. Percentage of the revolving balances of credit cards was 24.67%. Interest income from credit cards reached RMB15,555 million, up 26.33% YoY. Non-interest income from credit cards amounted to RMB5,237 million, up 13.65% YoY.

## **(2) Corporate finance: business foundation further enhanced**

The Company steadily pushed forward the structural adjustment of corporate finance and enhanced foundation of the business. After surpassing one million users last year, corporate deposit customers continued its strong growth, reached 1.17million. SME customers grew 21.35% from the beginning of this year, hitting 855.3 thousand users; "Qian Ying Zhan Yi" customers reached 22,335 users, growing 8.18% from the beginning of this year. Balance of corporate demand deposits increased by 22% from the beginning of this year. As a result of



refining deposits pricing, differentiating authorization mechanism and PBOC interest rate cuts last year, average cost of deposits from corporate customers is 1.56%, down by 0.5ppt. Proactive adjustments to loan structure, especially the loan balance of manufacturing, wholesale and retail, construction and mining sector, decreased by 5.54%, 2.97%, 9.86% and 15.96% respectively.

**Transaction banking achieved fast growth.** Total number of cash management customers reached 973,570, representing a growth of 17.03%. Number of core customers in the supply chain reached 958, up by 104.26% from the beginning of this year. Balance of supply chain finance was RMB71,099 million, up 4.56% from the beginning of this year. The number of onshore international business customers was 53,200, representing a growth of 7.86%. Offshore international settlements was USD135,232 million, increased by 22.09%.

**Investment banking business expanded rapidly.** The company lead underwriting of debt financing instruments of RMB167,767million. Granted value from M&A financing activities was RMB39,292 million, along with structural financing activities of RMB7,700 million and equity investment activities of RMB3,300 million, has achieved significant growth. The investment bank's non-interest net income was RMB1,754 million, up 61.36% YoY. The proportion of the investment bank's non-interest income to total non-interest income was 4.15%, up by 1.04ppt compared to year 2015.

### **(3) Financial institutions finance: interbank business achieved stable growth**

**Interbank business achieved stable growth.** Number of customers under third-party custody business were 7,053.6 thousand, up by 9.44%. Deposits structure further improved. Proportion of interbank demand deposits reached 66.77%, up by 8.26ppt; the size of demand deposits and proportion of demand deposits is outperforming other national joint stock banks. The trading volume of the discounted bills business was RMB 36,761.9 billion, up by 152.14%.

**Asset management business: AUM and revenue maintained a strong growth.** According to CBRC statistics, as of the end of reporting period, the balance of the Company's wealth management products ranked #2 among all domestic commercial banks. The balance of wealth-management products is RMB2,044,856 million, representing of a growth of 12.31%. The balance of net-worth products was RMB1,399,468 million, increasing by 45.52% from the end of last year; net-worth products accounted for 68.44%, up by 15.62ppt.

**Custodian business experienced rapid growth.** Assets under custody grew 18.02% over the past half year, reaching RMB84,452.84 million. Custody fee income reached RMB 2,743million, with YoY growth of 43.39%; the number of custody projects for the first half of 2016 reached13,047, up by 13.39% from the end of last year. The Company established a relatively balanced and diversified business structure covering 5 major customer bases including fund, brokerage, insurance, trust and PE.



**Financial market business was well developed.** According to China Foreign Exchange Trading System (CFETS), as of the end of June, the Company's trading volume of RMB-denominated options ranked #1 in the country. Trading volume for RMB-denominated options saw growth of 48.77% YoY, while RMB exchange rate swaps saw growth of 36%. Trading volume for single customer derivatives grew 122%, while non-interest income from foreign exchange settlements for customers grew 41.38%.

#### **(4) Overseas strategy is steadily progressing**

Total net profit for Wing Lung Group was HKD1,841 million, up 1.62% YoY. Hong Kong branch reported net operating income of HKD1,048 million and pre-tax profit of HKD1,023 million. New York branch reported net operating income of USD44.07 million and pre-tax profit of USD28.80 million. Singapore branch reported net operating income of USD6.365 million and pre-tax profit of USD3.25 million. Luxembourg branch reported total assets of EUR607 million and net operating income of USD1.65 million. London branch was open and commenced business in June.

#### **(5) Comprehensive financial services continued to grow**

Total assets of CMB Financial Leasing reached RMB114,295 million, grew by 9.94% from the end of prior year; net profit was RMB840 million, up by 17% YoY. Total assets of CMB International Capital amounted to HKD8,058 million, up by 143.73% from the end of prior year. AUM of China Merchants Fund hit RMB991.8 billion, up by 14.49% from the end of last year. GWP of Cigna&CMB Life Insurance was RMB7,357 million, representing of a YoY growth of 103.80%. Total loans of MUCFC reached RMB8,250 million, growing by 306.80% from the beginning of the year.

#### **(6) FinTech: Vigorously developing FinTech to establish service platform**

As of 30 June 2016, the aggregate number of mobile banking customers reached 34.09 million, with active users of 22.25 million. The number of CMB Life subscribers reached 25.06 million, with active users of 21,800 million. The number of mobile check service transactions reached 1.24 million. The number of inter-bank customers acquired on the Zhao Ying Tong platform reached 919 million. Aggregate transaction volume on the Zhao Ying Tong platform was RMB 1.78 trillion, with YoY growth of 147.22%.

#### **(7) Strengthened comprehensive risk management contributed to stable asset quality**

In 2016, the domestic and global economic have been confronting with sever challenges, increasing operational risks for banks. The Company continued to improve the comprehensive risk management system and strengthen risk management measures. Asset quality of the Company is well under control. The bank's accumulated NPL and annualized NPL formation ratio both decreased, implying that trend from increasing NPL formation has been effectively





curbed. Retail NPL ratio was 1.03%, and credit card NPL ratio was 1.21%, down 0.05ppt and 0.16ppt compared to the end of the prior year. Due to the economic downturn, enterprises solvency capabilities was impaired, while the Company' has been adopting a stringent standards for NPL classification, resulting in the corporate NPL ratio to be 3.10%.NPL ratio of the proprietary funds invested in non-standard debt assets under the credit category was 1.46%, up by 0.66ppt from the end of last year.

Loan allowance ratio was 3.45%, up by 0.45 ppt. NPL provision coverage ratio was 189.11%, up by 10.16ppt compared to the end of last year. For the first half of the year, accumulated amount of disposed NPL amounted to RMB16,403 million; effectively disposal of NPL up to RMB2,600 million through assets securitization.

#### **4. Challenges and opportunities**

It is expected that in the second half of 2016, domestic and international financial markets remain complicated and volatile. Meanwhile, the five development concepts of “innovative, coordinated, green, open and shared” development set out in the 18th CPC National Congress, the State’s “13th Five Year Plan” and the emphasized supply side structural reform provide clear economic development guidance and opportunities for banks to tackle these operation challenge. Faced with such challenges and opportunities, the Bank will continues its balanced development on efficiency, quality and size and insist upon its strategic transformation plan. Major measures for 2H16 will be as follows: continue to pursue its strategic objectives of becoming an “asset-light bank” with the strategy of "One Body with Two Wings"; strengthen innovation-driven development, grasp structural opportunities, improve differentiation competitiveness and expand the internet finance business, so as to become the best commercial bank in China with leading retail operations and innovative and unique strategies; adhering to rigorous risk management, optimizing internal systems, enhancing “red line” awareness, increased “bottom line” thinking for greater efficiency and expedition of the development of a risk management system will allow for risk adjusted value creation.

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