

China Merchants Bank Announces 2016 Annual Results

**Adhered to the “Light-operation Bank” strategy with
enhanced edges of “One Body with Two Wings”**

Net profit reached RMB62.081 billion, up 7.60% year-on-year

Highlights

- Operating income increased 3.75% year-on-year to RMB209.025 billion (H shares: Net operating income increased 3.94% year-on-year to RMB210.270 billion)
- Net profit attributable to the Bank’s shareholders increased 7.60% year-on-year to RMB62.081 billion
- Basic earnings per share attributable to the Bank’s shareholders increased 7.42% year-on-year to RMB2.46
- Net interest income decreased 2.17% year-on-year to RMB134.595 billion. Net interest margin decreased 0.27 percentage point year-on-year to 2.50%
- Net non-interest income increased by 16.51% year-on-year to RMB74.430 billion (H shares: increased 16.93% year-on-year to RMB75.675 billion)
- Total assets increased 8.54% to RMB5,942.311 billion from the end of the previous year
- Tier 1 capital adequacy ratio and capital adequacy ratio under the advanced method were 11.54% and 13.33%
- Non-performing loans increased RMB13.711 billion to RMB61.121 billion from the end of the previous year; non-performing loan ratio was 1.87%, up by 0.19 percentage point as compared with the end of the previous year
- Non-performing loan allowance coverage ratio was 180.02%, up by 1.07 percentage points as compared with the end of the previous year

(Notice: The 2016 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 24, 2017 - 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, 2016.

In 2016, under the background of interest rate liberalization and faster opening up of the financial industry, the Group continued to implement its strategic objective of “Light-operation Bank” and strategic positioning of “One Body with Two Wings”, adhered to the concept of

keeping balance among efficiency, quality and scale. The Group generally maintained a sound development momentum.

1. Adhered to “keeping balance among efficiency, quality and scale” and continued to enhance operating structure

In 2016, the Group overcame many unfavorable factors and maintained a stable operation in adherence to its concept of “keeping balance among efficiency, quality and scale”, as well as pushing forward the operational transformation. Net profit increased 7.60% year-on-year to RMB62.081 billion. ROAA and ROAE were 1.09 and 16.27, respectively, remaining at sound levels. Overall risk was under control, the non-performing loan ratio was 1.87%. Total assets increased 8.54% to RMB 5,942.311 as compared with that at the end of the previous year. Total deposits and total loans increased steadily to 6.45% and 15.49%, respectively, as compared with that at the end of the previous year.

2. Continued to push forward strategic transformation

(1) Adhered to the “Light-operation Bank” strategy and made great progress in strategic transformation

- i) **“Lighter” capital:** in 2016, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the weighted approach were 11.59% and 9.63%, respectively, representing an increase of 0.13 percentage point and 0.19 percentage point, respectively, as compared with the end of the previous year. Such increase reflected an improved level of capital adequacy. The risk adjusted return on capital (RAROC) before tax under the weighted approach was 20.27%, which was significantly higher than the capital cost.
- ii) **“Lighter” assets:** thanks to the structural adjustments, the assets structure of the Company was further optimized and in 2016, the retail loans accounted for 50.45% of our total loans. The balance of residential mortgages and credit card overdrafts increased by RMB229.039 billion and RMB95.966 billion respectively, as compared with the end of the previous year, accounting for 47.37% and 26.89% of the total retail loans, respectively.
- iii) **“Lighter” liabilities:** the Company optimized the mechanism for pricing of deposits and differentiated authorization, and compressed high-cost negotiated deposits by RMB26.280 billion. As at the end of the period, the balance of negotiated deposits and demand deposits were RMB48.400 billion and RMB2,331.333 billion, respectively. As a result, the proportion of demand deposits increased by 6.97 percentage points to 64.00%.



- iv) **“Lighter” income structure:** the operating income increased by 3.16% year-on-year. Among which, net non-interest income grew by 15.54% year-on-year, accounting for 34.24% of the total income, and representing a year-on-year increase of 3.67 percentage points.
- v) **“Lighter” operation:** in 2016, the total number of corporate online banking customers increased by 32.75% as compared with the end of the previous year. The accumulated number and amounts of corporate online banking transactions increased by 72.87% and 22.39% year-on-year, respectively. The number of corporate mobile phone banking users reached 290,500, and the number of various business operations such as account enquiries, payments and settlements which were completed through corporate mobile phone banking reached 24,690,000 for the year. The cost-to-income ratio was 27.53%, slightly increased from 2015, which is mainly attributable to the impact of change from business tax to value-added tax with price and tax separated. Excluding the abovementioned impact, the cost-to-income ratio of the Company was 26.45%, representing a year-on-year decrease of 0.83 percentage point.

(2) Continued to enhance and expand the edges of “One Body with Two Wings”

- i) **“One Body” remained robust:** in 2016, profit before tax from retail finance rose by 23.80% year-on-year, accounting for 53.62% of the total profit before tax of business lines, and representing a year-on-year increase of 4.07 percentage points; the cost-to-income ratio of retail finance was 34.15%, representing a year-on-year decrease of 1.48 percentage points; net non-interest income from retail finance rose by 19.95% year-on-year, accounting for 32.90% of net operating income from retail finance.
- ii) **“Two Wings” have both delivered good results:** After the transformation in recent years, the wholesale business of the “Two Wings” covering corporate finance and financial institutions finance developed steadily. As for corporate finance, the Company has gradually enhanced its connections with core customers and significantly improved the efficiency in expanding the basic client base. As for financial institutions finance, the Company took the lead to launch e-transaction for placements from banks and other financial institutions and managed to maintain the leading position of our interbank cross-border RMB business. Investment banking and comprehensive asset management have become two growth drivers of the “Two Wings” thanks to our efforts in product offerings.

(3) Strict control of risk management; overall assets quality was controllable



In 2016, the Group continued to enhance its risk management system and the asset quality improved steadily with a slowing non-performing loan ratio. Overdue loans of the Group amounted to RMB69.879 billion, down by RMB10.489 billion from the end of the previous year and accounting for 2.14% of its total loans, representing a decrease of 0.70 percentage point as compared with the end of the previous year. Special mention loans ratio was 2.09%, down 0.52 percentage point as compared with the end of the previous year. Ratio of its non-performing loans to the loans overdue for more than 90 days increased to 1.28 from 1.05 at the end of the previous year. Losses on assets were RMB66.159 billion, representing an increase of 11.63% year-on-year.

The non-performing loan ratio of retail loans business was 1.01%, down by 0.07 percentage point as compared with the end of the previous year. The non-performing loan ratio of credit cards business was 1.40%, and the business risk exposure was controllable. The non-performing ratio of the proprietary funds invested in non-standard creditor's assets under the credit category was 0.84%, up by 0.53 percentage point as compared with the beginning of the year. The Group's full-calibre credit assets allowance ratio was 3.25%, representing an increase of 0.64 percentage point as compared with the beginning of the year. The non-performing loan allowance coverage ratio of credit assets was 177.07%, representing an increase of 4.98 percentage points as compared with the beginning of the year.

In 2016, the Company's disposal of non-performing loans amounted to RMB50.173 billion. Among which, the Company wrote off non-performing loans of RMB28.613, cleared non-performing loans of RMB9.277 billion, and disposed non-performing loans of RMB5.915 billion through securitization. Meanwhile, the Company carried out bulk transfer of non-performing assets that could be transferred at reasonable market prices to dispose of assets promptly, and transferred non-performing loans amounting to RMB4.363 billion for the year. In addition, the Company disposed RMB2.005 billion non-performing loans through other platforms, including restructuring, relocation, repossession and exemption.

3. Retail finance, wholesale finance all continued to grow with a further enhanced asset quality

(1) Retail finance business continued to improve its competitive advantages

In 2016, the profit of the retail finance business of the Company maintained its rapid growth with steady improvement in value contribution. The profit before tax amounted to RMB44.094 billion, representing an increase of 23.80% as compared with the previous year. The percentage of the profit before tax of the retail finance business in the total profit before tax of the whole business lines of the Company increased to 53.62%, representing an increase of 4.07 percentage points as compared with the previous year. The net operating



income from the retail finance amounted to RMB97.923 billion, representing an increase of 8.43% as compared with the previous year, and accounting for 49.43% of the net operating income of the Company, up by 2.40 percentage points as compared with the previous year. The Company has always had the development of its retail finance business and the construction of its retail finance business system prioritized, and has ultimately formed a solid, high-quality and extensive retail customer base through continuously optimization of its business management system, product system, service system and risk prevention system. The Company enjoys outstanding competitive edge in such core retail businesses as wealth management, private banking, retail credit and consumer finance.

Retail customers and AUM continued to expand. In 2016, the Company had 91.06 million retail customers, representing an increase of 19.32% as compared with the end of the previous year. The balance of total assets under management (AUM) from our retail customers amounted to RMB5,530.5 billion, representing an increase of RMB780.9 billion or 16.44% as compared with the end of the previous year. The balance of deposits from retail customers amounted to RMB1,191.634 billion, representing an increase of 5.54% as compared with the end of the previous year.

Wealth management business developed steadily. The Company recorded RMB7,654.1 billion in accumulated sales of personal wealth management products, RMB495.2 billion in the distribution of open-ended funds, RMB152.5 billion in premiums from agency distribution of insurance policies and RMB132.2 billion in agency distribution of trust schemes. Fees and commission income from retail wealth management business was RMB18.549 billion, representing an increase of 8.61% as compared with the corresponding period of the previous year, accounting for 58.98% of the net retail fees and commission income, among which, income from agency distribution of funds amounted to RMB5.536 billion, representing a decrease of 26.29% from the corresponding period of the previous year. Income from agency distribution of insurance policies amounted to RMB5.104 billion, representing an increase of 81.96% from the corresponding period of the previous year. Income from entrusted wealth management amounted to RMB4.814 billion, representing an increase of 50.02% from the corresponding period of the previous year. Income from agency distribution of trust schemes amounted to RMB2.911 billion, representing a decrease of 15.11% as compared with the corresponding period of the previous year.

Private banking business continued to enhance with a sound development trend. The Company had 59,560 private banking customers, representing an increase of 21.47% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB1,659.5 billion, representing an increase of 32.54% as compared with the end of the previous year. As at the end of the reporting period, the



Company has established a high-end customer service network consisting of 51 private banking centers and 63 wealth management centers in 54 domestic cities and 2 overseas cities.

Operating efficiency of credit cards business continued to improve. The Company had 37.30 million active credit cards users, representing an increase of 20.21% as compared with the end of the previous year. The total credit card transaction of the Company amounted to RMB2,274.8 billion, representing an increase of 25.02% as compared with the corresponding period of the previous year. The percentage of the revolving balances of credit cards was 23.72%. Interest income from credit cards amounted to RMB32.293 billion, representing an increase of 20.82% as compared with the corresponding period of the previous year. Non-interest income from credit cards amounted to RMB11.319 billion, representing an increase of 17.93% as compared with the corresponding period of the previous year. The non-performing loan ratio of credit cards business was 1.40%, and the business risk exposure was controllable.

Structure of retail loans continued to optimize. The total retail loans of the Company amounted to RMB1,520.711 billion, representing an increase of 25.73% as compared with the end of the previous year and accounting for 50.45% of the total loans and advances to customers, up by 3.74 percentage points as compared with the end of the previous year. In 2016, in response to the demand of the market and customers, the Company adopted an active stance on the housing mortgage loans while steadily increasing loans offered to the small and micro enterprises. The Company recorded a balance of residential housing loans of RMB720.305 billion, representing an increase of 46.62%. Loans granted to small and micro enterprises amounted to RMB400 billion and the balance of such loans totaled RMB281.653 billion, representing a decrease of 8.84% as compared with the end of the previous year.

(2) Proactively adjusted customer mix of wholesale finance business, strategic businesses recorded rapid growth

The balance of corporate customer deposits amounted to RMB2,451.006 billion, representing an increase of 6.92% as compared with the end of the previous year, among which, demand deposits accounted for 57.98% of total deposits from corporate customers, up by 7.87 percentage points as compared with the end of the previous year. The average cost of deposits from corporate customers was 1.48%, down by 0.58 percentage point as compared with the previous year. The Company developed two levels of strategic customers as its core customer base, the number of strategic customers under the Head Office up by 45% as compared with the end of the previous year.



Transaction banking business grew rapidly. The Company had a total of 1.1102 million customers using its cash management service, representing an increase of 33.45% as compared with the end of the previous year. The Company secured a total of 1,249 effective core customers in the supply chain and 12,880 effective upstream/downstream customers, representing an increase of 166.31% and 37.83% as compared with the beginning of the year, respectively. The balance of our supply chain finance amounted to RMB96.861 billion, representing an increase of 42.45% as compared with the end of the previous year. Offshore international settlements amounted to US\$287.488 billion, representing a year-on-year increase of 1.52%.

Competitiveness of investment banking businesses consolidated significantly. The Company's asset investment doubled to RMB126.495 billion for the year, among which, M&A finance amounted to RMB80.995 billion, structured financing amounted to RMB32.695 billion, equity investment and financing amounted to RMB12.805 billion, and net non-interest income realized a year-on-year increase of 35.82%. Total amount of the underwritten bonds topped RMB388.887 billion; M&A financing amount of RMB80.995 billion, representing a year-on-year increase of 72.92%.

Financial institutions business developed rapidly. The deposit structure was further optimized, the proportion of demand deposits increased by 17.82 percentage points to 76.33% as compared with the end of the previous year. The average cost ratio of the Company's placements from banks and other financial institutions was 2.25%, representing a year-on-year decrease of 0.54 percentage point. The Company sped up turnover of bills and shortened the transaction duration. The trading amount of discounted bills transferred to other banks or financial institutions was RMB27.24 trillion, representing an increase of 64.62% as compared with the previous year.

Asset management business maintained a good development momentum. According to the statistics of CBRC, as at the end of the reporting period, the Company ranked the second among commercial banks in terms of the balance of funds obtained from wealth management products and the balance of funds obtained from off-balance-sheet wealth management products. The balance of wealth management business of the Company amounted to RMB2.38 trillion, representing an increase of 30.49% as compared with the end of the previous year. The balance of net-worth products amounted to RMB1,576.244 billion, representing an increase of 63.90% as compared with the end of the previous year, and accounting for 66.35% of the balance of wealth management business, up by 13.53 percentage points as compared with the end of the previous year.



Asset custody business recorded rapid growth. The volume of asset custody of the Company exceeded RMB10 trillion, and the balance of asset custody amounted to RMB10.17 trillion, representing an increase of 42.12% as compared with the end of the previous year; the custody fee income amounted to RMB4.282 billion, representing an increase of 20.04% as compared to the previous year; and the number of asset custody projects reached 15,167, representing an increase of 31.82% as compared with the end of the previous year.

Financial markets business developed steadily. According to the data from the China Foreign Exchange Trade System, the trading volume of RMB options in the interbank market of the Company ranked first in the whole market. In 2016, the trading volume of RMB-denominated options of the Company (including proprietary and on behalf of customers) reached RMB1,638.750 billion, representing an increase of 139.50% as compared with the previous year; the trading volume of RMB exchange rate swaps reached RMB3,751.502 billion, representing an increase of 31.01% as compared with the previous year; the trading volume of single customer derivatives reached RMB421.421 billion, representing an increase of 88.05% as compared with the previous year; and income from the derivative transactions with one single customer amounted to RMB524 million, representing a year-on-year increase of 60.88%.

(3) Overseas strategy steadily progressing

In 2016, profit attributable to the shareholders of Wing Lung Group was HK\$3.497 billion, representing an increase of 7.57% as compared with the previous year. The Hong Kong Branch realized a net operating income of HK\$2.001 billion, profit before tax of HK\$1.585 billion. The New York Branch realized net operating income of USD99,982,200 and profit before tax of USD28,385,100. The Singapore Branch realized a net operating income of USD13,816,800 and profit before tax of USD602,400. The Luxembourg Branch realized a net operating income of €7,173,700 and profit before tax of €239,500. The London Branch realized a net operating income of USD6,130,700.

(4) Comprehensive financial services continued to grow

In 2016, total assets of CMB Financial Leasing reached RMB136.990 billion, up by 19.24% as compared with the beginning of the year; net profit reached RMB1.703 billion, up by 9.80% as compared with the previous year. Net profit of CMB International Capital amounted to HK\$511 million. China Merchants Fund reported total assets of RMB3.884 billion, up by 20.96% as compared with the end of the previous year; net profit of RMB628 million, representing an increase of 14.60% as compared with the previous year. CIGNA & CMB Life Insurance realized an insurance income of RMB11.986 billion, representing an increase of 52.75% as compared with the previous year, and a net profit of RMB239 million,

representing a decrease of 18.15% as compared with the previous year.

(5) Vigorously developed FinTech strategies

In response to the external challenges posed by the Internet financing and Fintech, the Company has accelerated the implementation of its Fintech strategy and improved service quality by taking full advantage of such technologies as mobile internet, cloud computing, big data, artificial intelligence and biological identification, so as to forming a “network-based, digitized and intelligence-oriented” three-step FinTech strategy, which is, setting up specialized investment funds, expanding investment in FinTech and strengthening the development of talent team. Meanwhile, the Company continued to optimize the environment of FinTech innovation and application, to reform and improve the organizational structure, assessment and incentive mechanism, in order to support business innovation. Furthermore, the Company highly valued infrastructure construction, and followed closely on the latest developments and innovative applications of new technologies with a continued investment in infrastructure in areas including mobile technology, cloud computing, big data and artificial intelligence.

In 2016, the total number of customers who have downloaded our mobile banking application added up to 41.5192 million, with 25.7792 million active users each year. The total number of registered users of our mobile user application “CMB life” topped 31.49 million, with 30.21 million active users. A total of 735 million mobile banking transactions were concluded in 2016, with a transaction amount of RMB12.10 trillion. The mobile cheque service recorded 5.88 million effective transactions and accumulated transaction volume exceeding RMB306.2 billion. The sales amounts of wealth management products through the mobile banking channel reached RMB2.22 trillion (excluding funds and insurances), the average purchase amount of the users of Machine Gene Investment (摩羯智投) was RMB36,900.

4. Outlook and strategies

The global economy has been struggling for a sluggish growth for several consecutive years as a result of the international financial crisis, and the trend is expected to continue in 2017. In China, the pressure of economic downturn in 2017 is expected to remain huge. However, benefiting from the deepening of supply-side structural reform, the policy on streamlining administration and delegating power to the lower levels as well as the innovation-driven development strategy, it is estimated that the economy will assume a slow and steady growth for the whole year, exhibiting a trend of feeble stability and slight fluctuation. The transformation of the banking industry will become an increasingly urgent task amid a complicated economy. In response to the challenges and opportunities under the new circumstances, the Company will closely follow the keynote of the Central



Economic Working Conference and remain determined in putting the strategy of “Light-operation Bank” and “One Body with Two Wings” in practice. The key operational measures of the Company in 2017 include, 1) integrating quality assets in the supply-side structural reform and seizing business opportunities; 2) deepening reform and advance strategic transformation both in width and depth; 3) while continuing to increase resource investment in retail business and maintaining reasonable outlet and staff allocation, we will also vigorously explore and promote financial technologies so as to overcome the limits of linear growth pattern and create a new business model for retail business of the commercial banks in a speedy manner; 4) consolidate our risk management system by addressing both symptoms and root causes.

END

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