

## China Merchants Bank Announces 2017 Interim Results

**Net Profit Rose 11.43% Year-on-year;  
Non-performing Loans and Ratio Both Decreased**

### Highlights

- Net operating income decreased 0.32% year-on-year to RMB113.032 billion (A shares: operating income decreased 0.22% year-on-year to RMB112.666 billion)
- Net profit attributable to the Bank's shareholders increased 11.43% year-on-year to RMB39.259 billion
- Basic earnings per share attributable to the Bank's shareholders increased 11.43% year-on-year to RMB1.56
- Net interest income increased 5.07% year-on-year to RMB70.896 billion. Net interest margin decreased 0.15 percentage point year-on-year to 2.43%
- Net non-interest income decreased by 8.23% year-on-year to RMB42.136 billion (A shares: decreased by 8.08% year-on-year to RMB41.770 billion)
- Total assets increased 4.33% to RMB6,199.690 billion from the end of the previous year
- Capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the advanced approach were 14.59% and 12.42% respectively
- Non-performing loans decreased RMB662 million to RMB60.459 billion from the end of the previous year; non-performing loan ratio was 1.71%, down by 0.16 percentage point as compared with the end of the previous year
- Non-performing loan allowance coverage ratio was 224.69%, up by 44.67 percentage points as compared with the end of the previous year; the allowance-to-loan ratio was 3.84%, up by 0.47 percentage point compared with the end of the previous year

(Note: All financial information set out in this interim results press release is unaudited and prepared in accordance with the International Financial Reporting Standards. Unless stated otherwise, all of the above data belong to the Group and denominated in RMB.)

18 August, 2017 - China Merchants Bank Co., Ltd. (HKEx: 3968; SSE: 600036; "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, 2017.

In the first half of 2017, under the complicated external environment, China Merchants Bank continued to implement its strategic objective of “Light-operation Bank” and strategic positioning of “One Body with Two Wings”, achieved stable growth, continued to improve its asset quality, and maintained sound momentum of overall development.

## 1. Analysis of overall operation of the Group

**Earnings increased steadily.** In the first half of 2017, the Group realised a net profit attributable to the shareholders of the Bank of RMB39.259 billion, representing a year-on-year increase of 11.43%; the net interest income was RMB70.896 billion, representing a year-on-year increase of 5.07%; the net non-interest income was RMB42.136 billion, representing a year-on-year decrease of 8.23%. The annualised return on average asset (ROAA) and return on average equity (ROAE) attributable to the shareholders of the Bank were 1.29% and 19.11%, respectively, up by 0.01 percentage point and 0.04 percentage point from the previous year, respectively.

**The scale of assets and liabilities expanded modestly.** As at 30 June 2017, the Group’s total assets amounted to RMB6,199.690 billion, representing an increase of 4.33% as compared with that at the end of the previous year. The total loans and advances to customers amounted to RMB3,539.938 billion, representing an increase of 8.53% as compared with that at the end of the previous year. Total liabilities amounted to RMB5,777.866 billion, representing an increase of 4.31% as compared with that at the end of the previous year. Total deposits from customers amounted to RMB4,142.254 billion, representing an increase of 8.95% as compared with that at the end of the previous year.

**The non-performing loans decreased and the allowance coverage ratio remained solid.** As at 30 June 2017, the Group had total non-performing loans of RMB60.459 billion, representing a decrease of RMB662 million as compared with the end of the previous year. The non-performing loan ratio was 1.71%, down by 0.16 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 224.69%, representing an increase of 44.67 percentage points as compared with the end of the previous year.

## 2. Analysis of progress of strategic transformation

### 1. Continue to adhere to the “Light-operation Bank” strategy

- i) **“Light” capital:** The capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the advanced approach were 14.36% and 12.08%, respectively, representing an increase of 2.99 percentage points and 2.63 percentage points,

respectively, as compared with those under the weighted approach, indicating an effective saving in capital. The risk adjusted return on capital (RAROC) before tax under the advanced approach was 29.58%, which was significantly higher than the capital cost.

- ii) **“Light” assets:** The total retail loans of the Company increased by 10.63% as compared with the end of the previous year, which was higher than the growth rate of total loans; the total retail loans accounted for 51.43% of total loans, representing an increase of 0.98 percentage point as compared with the end of the previous year. Among them, the balance of residential mortgages and credit card loans increased by RMB79.597 billion and RMB47.072 billion, respectively, as compared with the end of the previous year, accounting for 47.55% and 27.11% of the total retail loans, respectively.
  
- iii) **“Light” liabilities:** The Company further enhanced the refined management of debt cost, and compressed high-cost negotiated deposits by RMB26.440 billion, with yield to maturity of negotiated deposits at 5.66% as at the end of the period. As at the end of the period, the balance of demand deposits was RMB2,513.879 billion, up by 7.83% as compared with the end of the previous year. The proportion of demand deposits amounted to 63.59% and maintained at a higher level.
  
- iv) **“Light” income structure:** Due to the impact of factors including change from business tax to value-added tax and more stringent regulatory policies, the net non-interest income declined, but its proportion remained at a higher level. The proportion of net non-interest income in net operating income was 35.29% for the current period. Meanwhile, the proportion of net operating income from retail finance in net operating income was 51.40%, up by 3.02 percentage points as compared with the corresponding period of the previous year.
  
- v) **“Light” operation:** The monthly active users of the bank’s mobile application “CMB APP” and “CMB Life” both exceeded 20 million; the total number of corporate online banking customers and amounts of corporate online banking transactions increased by 11.39% and 88.05%, respectively, as compared with the corresponding period of the previous year; “Zhao Ying Tong (招赢通)” transaction platform for industry peers secured 1,108 financial institutions, with an online trading replacement ratio of nearly 50%. During the reporting period, the Company’s cost-to-income ratio was 25.27%.

## 2. Continue to consolidate the strategic positioning of “One Body with Two Wings”

- i) **“One Body” remained robust.** Profit before tax from retail finance amounted to

RMB26.911 billion, accounting for 57.17% of the total profit before tax of business lines; the cost-to-income ratio of retail finance was 30.55%; net non-interest income from retail finance rose by 1.18% year-on-year, accounting for 36.47% of net operating income from retail finance.

ii) **“Two Wings” 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. During the reporting period, the Company newly developed 169,000 corporate depositors, 126,000 new customers using its cash management service. As for financial institutions finance, the Company focused on its connections with customers, and ranked first among national small- and medium-sized banks in terms of the volume and proportion of interbank demand deposits, with the proportion of demand deposits of 77.94%. Investment banking and macro asset management business have become two growth drivers of the “Two Wings” thanks to the bank’s efforts in product offerings.

iii) **“One Body with Two Wings” has developed steadily with internal coordination.** During the period, the Company has enhanced the referral of corporate customers for retail finance. In addition, the Company further tapped into its strategic customers and provided exclusive comprehensive retail finance services to strategic customers and their employees so as to improve customer loyalty. The Company fully capitalised on the advantages of its retail channel regarding sale of insurance, funds and trusts to provide complementary services to other financial institutions, thereby effectively promoting the development of its custody business and the growth in institutional deposits. In the meantime, corporate finance of the Company grew rapidly, laying a solid foundation for the development of the bank’s retail finance.

### 3. Analysis of the Company’s business overview

#### 1. Retail finance business continued to enhance its competitive advantages

In the first half of 2017, the retail finance business of the Company kept on its customer-oriented policy along with continuous optimisation of business flow and enhancement of operational efficiency, and both net operating income and profit before tax maintained solid growth. During the reporting period, the net operating income from retail finance business of the Company amounted to RMB56.150 billion, representing an increase of 5.51% as compared with the corresponding period of the previous year. It

accounted for 49.68% of the total profit before tax of the whole business lines of the Company, up by 2.75 percentage points year-on-year. In the first half of 2017, the Company further consolidated its retail customer base through continuous optimisation of management system, product system, service system, channel system and risk prevention system for its retail finance business. The Company has outstanding competitive edges in such core retail businesses as wealth management, private banking, retail credit and consumer finance.

**Retail customers and AUM continued to expand.** The Company had 97.33 million retail customers, representing an increase of 6.89% as compared with the end of the previous year. The balance of total assets under management (AUM) from retail customers amounted to RMB5,898.3 billion, representing an increase of 6.65% as compared with the end of the previous year. The balance of deposits from retail customers amounted to RMB1,270.555 billion, representing an increase of 6.62% as compared with the end of the previous year.

**Wealth management continued to enhance its competitiveness.** The Company recorded RMB3,896.4 billion in accumulated sales of personal wealth management products, RMB321.9 billion in the distribution of open-ended funds, RMB104.6 billion in agency distribution of trust schemes and RMB45.4 billion in premiums from agency distribution of insurance policies. Fees and commission income from retail wealth management business was RMB11.115 billion, representing a decrease of 18.80% as compared with the corresponding period of the previous year.

**Private bank business continued to upgrade.** As at the end of the reporting period, the Company had 63,985 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 7.43% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB1,793.6 billion, representing an increase of 8.08% 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 58 private banking centers and 63 wealth management centers in 54 domestic cities and 6 overseas cities.

**Operating efficiency of credit card business continued to improve.** The Company had issued an aggregate of 88.12 million credit cards, with 51.92 million active cards and 6.42 million new cards issued during the reporting period; there were 41.11 million active credit-card users, representing an increase of 10.21% as compared with the end of the previous year. The total credit card transaction of the Company from January to June

2017 amounted to RMB1,288.1 billion, representing an increase of 22.27% as compared with the corresponding period of the previous year, and the average transaction of each active card per month amounted to RMB4,389. The percentage of the revolving balances of credit cards was 22.39%. From January to June 2017, interest income from credit cards amounted to RMB18.920 billion, representing an increase of 21.63% as compared with the corresponding period of the previous year. Non-interest income from credit cards amounted to RMB6.775 billion, representing an increase of 29.37% as compared with the corresponding period of the previous year.

**Structure of retail loans continued to optimize.** The total retail loans of the Company amounted to RMB1,682.374 billion, representing an increase of 10.63% as compared with the end of the previous year and accounting for 51.43% of the total loans and advances to customers, up by 0.98 percentage point as compared with the end of the previous year. The Company recorded a balance of residential housing loans of RMB799.902 billion, representing an increase of 11.05% as compared with the end of the previous year and accounting for 47.55% of the retail loans of the Company. As at the end of the reporting period, the balance of loans granted to small- and micro-sized enterprises amounted to RMB296.066 billion, representing an increase of 5.12% (calculated on the Bank's statistical calibre) as compared with the end of the previous year. The non-performing loan ratio of micro loans was 1.44%, down by 0.2 percentage point as compared with the end of the previous year.

## 2. The wholesale finance business improved gradually

In the first half of 2017, the corporate customer deposits of the Company maintained steady growth. During the period, the balance of corporate customer deposits amounted to RMB2,682.870 billion, representing an increase of 9.46% as compared with the end of the previous year; the daily average balance amounted to RMB2,573.505 billion, representing an increase of 10.15% as compared with the corresponding period of the previous year; among the daily average balance of corporate customer deposits, the demand deposits accounted for 56.28% of total deposits from corporate customers. In the first half of 2017, the average cost ratio of deposits from corporate customers was 1.47%, down by 0.01 percentage point as compared with the corresponding period of the previous year.

**Transaction banking and offshore businesses maintained steady growth.** The Company had a total of 1.2362 million customers using its cash management service, representing an increase of 11.35% as compared with the end of the previous year. The balance of supply chain finance at the end of the period amounted to RMB120.795 billion, representing an increase of 24.71% as compared with the end of the previous year. The

Company had 54,213 onshore international business customers, representing a year-on-year increase of 1.90%. Onshore international settlements of the Company amounted to USD93.027 billion. The bank's offshore international settlements amounted to USD155.936 billion, representing a year-on-year increase of 15.31%.

**Financial institutions business developed steadily.** The balance of placements from banks and other financial institutions reached RMB381.375 billion, representing a decrease of 28.96% as compared with the end of the previous year. The proportion of demand deposits increased by 1.61 percentage points as compared with the end of the previous year to 77.94%, continuing to outperform other national small- and medium-sized banks in terms of volume and proportion of demand deposits. The deposit structure was further optimised. The average cost ratio of the Company's placements from banks and other financial institutions was 1.97%, representing a decrease of 0.28 percentage point as compared with the corresponding period of the previous year. During the reporting period, the bank's rediscount business with the Central Bank amounted to RMB42.529 billion, representing a year-on-year increase of 31.75%, still ahead of the bank's peers in terms of market share.

**Competitiveness of investment banking businesses continued to improve.** In the first half of the year, the amount of lead-underwritten bonds topped RMB131.915 billion, which amounted to a rise of market share for bond financing instruments by 0.43 percentage point as compared with the same period of the previous year, ranking first in the industry in terms of lead-underwritten amounts of financial bonds. M&A finance for the first half year was amounted to RMB60.878 billion, representing a year-on-year increase of 54.94%, providing financial support and financial consultancy services for M&A transactions of more than RMB170 billion in total value.

**Asset management business maintained a good development momentum.** In response to the changes in regulatory policy and the hastened retracement of the trajectory of wealth management business back to that of asset management business, the Company drew up plans and carried out self-examination in accordance with the series of circulars and guidance issued by the CBRC and strictly implemented various regulatory requirements in respect of wealth management business on one hand; on the other hand, the Company consolidated the basis of investment management, advanced the net-worth transformation of the product, promoted the return of wealth management business to the original business, and achieved a series of results. According to the statistics of CBRC, as of the end of the reporting period, the Company ranked 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 funds of the Company amounted to RMB2.13 trillion, representing a decrease of 10.50% as compared with the end of the previous year. The balance of net-worth products amounted to RMB1,611.309 billion, representing an increase of 2.22% as compared with the end of the previous year, and accounting for 75.72% of the balance of wealth management business funds, up by 9.37 percentage points as compared with the end of the previous year. The leverage ratio of entrusted bond investment of the Company was 119.42%. The risk exposure was generally controllable.

**Asset custody business expanded steadily.** As of the end of the reporting period, the balance of assets under custody amounted to RMB10.63 trillion, representing an increase of 4.52% as compared with the end of the previous year; the custody fee income amounted to RMB2.542 billion as of the first half of the year, representing a year-on-year decrease of 7.33%.

**Financial markets business developed steadily.** According to the data from the Shanghai Gold Exchange, in the second quarter, the interbank gold bilateral trading market makers of the Company ranked first in the whole market in the overall ranking. the trading volume of RMB exchange rate swaps of the Company reached RMB2,436.5 billion, representing a year-on-year increase of 69.46%; the trading volume of RMB-denominated options (including proprietary trading and single customer derivatives trading on behalf of customers) reached RMB443.7 billion. the trading volume of customer transactions of the Company amounted to RMB840.9 billion, representing a year-on-year increase of 8.10%. Among which, the derivative transaction volume of single customer was RMB271.6 billion, representing a year-on-year increase of 69.33%; the customer transaction intermediary business income amounted to RMB1.580 billion, representing a year-on-year increase of 9.40%.

### **3. Asset quality continued to consolidate with a strengthened risk management system**

In response to changes in external macroeconomic environment, the Company proactively strengthened its risk management system and the asset quality continued to improve. During the period, overdue loans of the Group amounted to RMB71.587 billion, up by RMB1.708 billion from the end of the previous year and accounting for 2.02% of its total loans, representing a decrease of 0.12 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 47.63%, guaranteed loans accounted for 31.34%, while credit loans accounted for 21.03% (the majority of which were overdue loans of credit cards). The Company adopted prudent classification criteria for overdue loans, and the ratio of its



non-performing loans to the loans overdue for more than 90 days increased to 1.25.

Balance of non-performing retail loans amounted to RMB14.779 billion with a non-performing loan ratio of 0.88%, down by 0.13 percentage point as compared with the end of the previous year. The non-performing loan ratio of credit cards business was 1.26%, representing a decrease of 0.14 percentage point as compared with the end of the previous year. The full-calibre credit assets allowance ratio of the Company was 3.56%, representing an increase of 0.31 percentage point as compared with the end of the previous year. The non-performing loan ratio of corporate loans was 3.05%, a decrease of 0.25 percentage point as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio of credit assets was 219.17%, representing an increase of 42.10 percentage points as compared with the end of the previous year.

In the first half of 2017, the Company disposed of non-performing loans amounting to RMB17.791 billion, of which, RMB8.848 billion was written off in a regular way, RMB4.911 billion was cleared and settled, RMB1.236 billion was securitised as non-performing assets, RMB66 million was transferred at discount, and RMB2.730 billion was disposed of by restructuring, upward migration, repossession, remission and other means.

#### **4. Vigorously developed FinTech strategies**

During the reporting period, the Company proactively enhanced its financial technology capability through the promotion of financial technology innovation, pushed forward innovative applications for mobile internet, cloud computing, big data, artificial intelligence, block chain and other emerging technologies, and expedited financial technology to move towards the direction of “network-based, digitised and intelligence-oriented”. The Company withdrew special funds from 1% of pre-tax profits of the previous year to set up financial technology innovation project funds to encourage the application of emerging technologies for financial innovation in the whole Bank. In respect of retail finance, the Company adhered to the strategy of “prioritising the development of mobile phone applications”. In respect of risk management, the Company continued to introduce third-party credit data and borrowing information of customers through P2P, small loans, consumer finance companies and other platforms, and continuously optimised the scoring model and early warning model. In respect of wealth management, dynamic adjustments to asset allocation were repeatedly made for “Machine Gene Investment (摩羯智投)” to provide customers with six monthly investment operation reports, and the aggregate amounts of such applications reached RMB4.5 billion with average return in the first half reaching the top 1/3 of non-monetary funds.

#### 4. Outlook

Looking ahead into the second half of 2017, the world economy is generally positive, but unstable and uncertain factors still linger. The room for world trade recovery is limited, and the economy will continue to rebound while the challenges still exist. The overall domestic economic situation is stable; the supply-side reform and innovation-driven strategy will be further promoted; the policy dividend will continue to prosper; and the transformation of old and new momentum will speed up. Overall, China's economic growth in the second half of the year will slow down moderately, structural adjustment will further accelerate and the overall economic and financial risk will remain controllable.

In the near future, “enhancing regulatory control and improving weak links” will become the new normal of the financial industry. The Company will face different challenges such as tightening of the monetary environment, intensification of macro-prudential supervision, frequent business inspection and risk checking, changes in government financing mode and cross-financial risk transmission, and etc. Under the new situation, the Company will continue to adhere to the strategic direction and positioning of “Light-operation Bank” and “One Body with Two Wings” in the second half of the year. On the one hand, the customer origin, service origin and business origin will be refocused, with the emphasis on consolidating the advantages, laying a good foundation and improving weak links; and on the other hand, a new business model will be created through proactive application of financial technology to find a new impetus for sustainable development. In conclusion, under the background of the new normal of financial regulation, the Company will uphold the ideology of returning to the customer origin, refining the basic skills, embracing financial technology and continuously promoting strategic transformation, together with the bank's intrinsic and extrinsic factors, to proactively strive to create a new era for transformation.

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