China Merchants Bank Announces 2017 Annual Results

Net Profit Rose 13% Year-on-year;
Non-performing Loans and Ratio Both Decreased

Highlights

- **Net operating income increased 5.12% year-on-year to RMB221.037 billion (A shares: operating income increased 5.33% year-on-year to RMB220.897 billion)**
- **Net profit attributable to the Bank's shareholders increased 13.00% year-on-year to RMB70.150 billion**
- **Basic earnings per share attributable to the Bank's shareholders increased 13.01% year-on-year to RMB2.78**
- **Net interest income increased 7.62% year-on-year to RMB144.852 billion. Net interest margin decreased 0.07 percentage point year-on-year to 2.43%**
- **Net non-interest income increased by 0.67% year-on-year to RMB76.185 billion (A shares: increased by 1.22% year-on-year to RMB76.045 billion)**
- **Total assets increased 5.98% to RMB6,297.638 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 15.48% and 13.02%, respectively, representing an increase of 2.15 and 1.48 percentage points, respectively, as compared with the end of the previous year**
- **Non-performing loans decreased RMB3.728 billion to RMB57.393 billion from the end of the previous year; non-performing loan ratio was 1.61%, down by 0.26 percentage point as compared with the end of the previous year**
- **Non-performing loan allowance coverage ratio was 262.11%, up by 82.09 percentage points as compared with the end of the previous year; the allowance-to-loan ratio was 4.22%, up by 0.85 percentage point compared with the end of the previous year**

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

23 March, 2018 - 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 2017 annual results.

2017 was the 30th anniversary of China Merchants Bank. Over the past year, the Company took initiatives to adapt the changes in the external environment, further promoted the strategic transformation of "Light-operation Bank", our overall operation continued to improve. In addition, the Bank clearly positioned itself as a "Digital Bank", realised an improvement on asset quality ahead of its peers and accelerated the growth of earnings.

1. Analysis of overall operation of the Group

Earnings increased steadily. In 2017, the Group realised a net profit attributable to the shareholders of the Bank of RMB70.150 billion, representing a year-on-year increase of 13.00%; the net interest income was RMB144.852 billion, representing a year-on-year increase of 7.62%; the net non-interest income was RMB76.185 billion, representing a year-on-year increase of 0.67%. The return on average asset (ROAA) and return on average equity (ROAE) attributable to ordinary shareholders of the Bank were 1.15% and 16.54%, up by 0.06 percentage point and 0.27 percentage point from the previous year, respectively.

Scale of assets and liabilities expanded steadily. As at the end of 2017, the Group's total assets amounted to RMB6,297.638 billion, representing an increase of 5.98% as compared with that at the end of the previous year. The total loans and advances to customers amounted to RMB3,565.044 billion, representing an increase of 9.30% as compared with that at the end of the previous year. Total liabilities amounted to RMB5,814.246 billion, representing an increase of 4.97% as compared with that at the end of the previous year. Total deposits from customers amounted to RMB4,064.345 billion, representing an increase of 6.90% as compared with that at the end of the previous year.

Non-performing loans decreased and allowance coverage ratio remained solid. As at the end of 2017, the Group had total non-performing loans of RMB57.393 billion, representing a decrease of RMB3.728 billion as compared with the end of the previous year. The non-performing loan ratio was 1.61%, down by 0.26 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 262.11%, representing an increase of 82.09 percentage points as compared with the end of the previous year.

2. Analysis of business development strategies

1. Continuous implementation of strategic transformation

i) The Company bravely faced the challenges in operating environment and

continued to implement its "Light-operation Bank" strategy. Due to stricter financial regulations, commercial banks were undergoing the transformation of off-balance sheet and witnessing the decline of non-interest income and the incorporation of newly added assets to on-balance sheet. Therefore, a new round of competition was kicked off in the banking industry. The Company remained determined in facilitating the strategic layout of "Light-operation Bank". Adhering to the professional operating model of "Light Assets" and "Light Capital", the Company will proactively promote the implementation of "Light Management" and "Light Operation" by leveraging on the cutting-edge technologies.

ii) **The Company proactively developed its featured businesses and constantly promoted the business model of "One Body with Two Wings".** The retail finance, known as the "One Body", rendered stable performance and outperformed our other business lines. The retail loans and net operating income respectively accounted for 53.36% and 51.28% of the total revenue of the Bank, and its value contribution increased steadily. In addition, the Company enjoyed a greater leading advantage over its peers in terms of number of the gold card holders/Sunflower customers or above and the Diamond-class customers as well as total assets under management (AUM) for retail customers. The corporate finance and financial institutions finance known as the "Two Wings" continued to grow against all the odds. The Company made significant breakthroughs in the direct HQ-to-HQ service of the businesses from the PRC ministries, large-sized state-owned enterprises and financial institutions, and successfully expanded its businesses associated with electronic resident health cards, occupational annuity, security deposits for trading of public resources, and key universities, etc.

2. Clear positioning of "Digital Bank"

The Company regarded Fintech transformation as the most important task in the next three to five years. All the departments across the Bank should use their greatest efforts to build CMB into a "Digital Bank" as an upgrade of "Light-operation Bank". Through comparing with Fintech companies, the Company inflicted fundamental changes in both the concepts and methodologies, and accelerated the transformation of its operating model, so as to accomplish the transformation towards "Digital Bank", with financial technologies playing a fundamental role as the "nuclear power" for the second half of the Company's strategic transformation.

i) **Enhancing the basic capabilities with financial technology across the Bank.** The Company constantly strengthened its financial technologies in the respects of infrastructure, agile business development, and innovation incubation platform.

ii) **Promoting "network-based, digitised and intelligence-oriented" operation in retail financial business.** The Company implemented the strategy of "mobile priority", recording more than 45 million active users per month of our retail APPs. Furthermore, the Company built an intelligence-oriented marketing tool to support its digitised customer traffic management. In addition, the Company built an intelligence-oriented tool for risk control so as to achieve comprehensive digitised decision making in respect of risk control.

iii) **Upgrading the middle and back offices of the wholesale finance segment for automated and intelligent operation.** The Company currently focuses on enhancing the level of automation and intelligence of the operation support system in the middle and back offices through applying financial technologies, so as to enhance business efficiency and the quality of risk control.

iv) **Creating an "end-to-end" customer journey to enhance customer experience.** During the reporting period, the Company shifted its focus back to serving our customers. It established a customer-oriented service system through rebuilding the customer-oriented end-to-end procedures and applying the latest financial technologies.

3. Analysis of the Company's business overview

1. Retail finance business further enhanced its competitive advantages

In 2017, the profit of the retail finance business of the Company maintained its rapid growth, the profit before tax amounted to RMB47.595 billion, representing an increase of 7.94% as compared with the previous year. It accounted for 56.52% of the total profit before tax of the whole business lines of the Company. The net operating income from the retail finance amounted to RMB106.227 billion, representing an increase of 8.48% as compared with the previous year, and accounting for 51.28% of the net operating income of the Company, among which, the net interest income from retail finance amounted to RMB69.328 billion, representing an increase of 5.51% as compared with the previous year and accounting for 65.26% of the net operating income from retail finance, while the net non-interest income from retail finance amounted to RMB36.899 billion, representing an increase of 14.54% as compared with the previous year and accounting for 34.74% of the net operating income from retail finance, and 55.78% of the net non-interest income of the Company. In 2017, the retail finance of the Company recorded a fee income of RMB13.802 billion from bank cards, representing an increase of 28.97% as compared with the previous year; the fee and commission income from retail wealth management was RMB18.585 billion, accounting for 51.59% of the net fee and commission income from retail finance.

Retail customers and AUM expanded steadily. The Company had 106.6323 million retail customers, representing an increase of 17.10% as compared with the end of the previous year, among which, the number of Sunflower-level and above customers (those with minimum daily average total assets of RMB500,000 for each month) reached 2,126,700, representing an increase of 11.51% as compared with the end of the previous year. The balance of total assets under management (AUM) from our retail customers amounted to RMB6,164.340 billion, representing an increase of 11.46% as compared with the end of the previous year. The balance of deposits from retail customers amounted to RMB1,231.278 billion, representing an increase of 3.33% as compared with the end of the previous year. According to the data released by the PBOC, the Company ranked first among the joint stock banks in terms of the balance of retail deposits.

Contribution from the value of wealth management business increased steadily. The Company recorded RMB9,178.368 billion in sales of personal wealth management products, representing an increase of 19.91% as compared with the previous year; RMB705.510 billion in the agency distribution of open-ended funds, representing an increase of 42.47% as compared with the previous year; RMB224.844 billion in agency distribution of trust schemes, representing an increase of 70.08% as compared with the previous year. The fee and commission income from retail wealth management business was RMB18.585 billion, representing an increase of 0.19% as compared with the previous year.

Private bank business continued to expand. The Company had 67,417 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 13.19% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB1,905.267 billion, representing an increase of 14.81% as compared with the end of the previous year; total assets per account amounted to RMB28.2609 million, representing an increase of 1.43% 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 61 private banking centers and 67 wealth management centers in 58 domestic cities and 6 overseas cities.

Credit card business continued to enhance its competitive advantages. The Company had issued an aggregate of 100.2272 million credit cards, with 62.4568 million active cards, representing an increase of 37.27% as compared with the end of the previous year, and there were 46.9460 million active credit-card users, representing an increase of 25.86% as compared with the end of the previous year. The credit card transaction of the Company in 2017 amounted to RMB2,969.992 billion, representing an increase of 30.56% as compared with the previous year, and the average transaction of each active card per month amounted to RMB4,630.51. The balance of credit card loans was RMB491.238 billion, representing an increase of 20.10% as compared with the end of the previous year. The percentage of the revolving balances of credit cards was 21.86%. The interest income from credit cards amounted to RMB39.538 billion, representing an increase of 22.44% as compared with the previous year. The non-interest income from credit cards amounted to RMB14.913 billion, representing an increase of 31.75% as compared with the previous year. As at the end of the reporting period, the non-performing loan ratio of credit cards business was 1.11%, representing a decrease of 0.29 percentage point as compared with the end of the previous year. The business risk exposure was controllable in general.

Structure of retail loans continued to optimise. The total retail loans of the Company amounted to RMB1,764.296 billion, representing an increase of 16.02% as compared with the end of the previous year and accounting for 53.36% of the total loans and advances to customers, up by 2.91 percentage points as compared with the end of the previous year. The Company recorded a balance of residential housing loans of RMB825.783 billion, representing an increase of 14.64% as compared with the end of the previous year. The balance of micro-finance loans amounted to RMB310.969 billion (calculated on the Bank’s statistical calibre), representing an increase of 10.41% as compared with the end of the previous year with the increment in retail loans (excluding credit cards) up by 30.86 percentage points as compared with the end of the previous year, which has returned to the path of healthy growth.

2. Wholesale finance business continued to grow

In 2017, total corporate loans of the Company amounted to RMB1,428.350 billion, representing an increase of 6.41% as compared with the end of the previous year and accounting for 43.20% of total loans and advances to customers; the floating range of weighted average interest rates of newly granted corporate loans in RMB was 3.28%. The balance of corporate customer deposits amounted to RMB2,658.746 billion, representing an increase of 8.48% as compared with the end of the previous year; the daily average balance amounted to RMB2,599.915 billion, representing an increase of 11.28% as compared with the previous year; among which, the demand deposits accounted for 56.23% of total deposits from our corporate customers. In 2017, the average cost ratio of deposits from corporate customers was 1.51%, up by 0.03 percentage point as compared with the previous year. The cost of deposits from corporate customers was effectively put under control despite the rapid rise in market prices.

Transaction banking and offshore businesses expanded steadily. The Company had a total of 1,396,000 customers using its cash management service, representing an increase of 25.74% as compared with the end of the previous year. The balance of supply chain finance amounted to RMB185.301 billion, representing an increase of 91.31% as compared with the end of the previous year. The onshore international settlements amounted to USD203.951 billion and the offshore international settlements amounted to USD309.016 billion, representing a year-on-year increase of 7.49%.

Investment banking business further enhanced its competitiveness. The total non-interest income of investment bank business increased by 19.22% year-on-year. Initial results are seen with the integration of investment banking and commercial banking with elevation of its market brand reputation. The total value of lead-underwritten bonds amounted to RMB283.727 billion, ranking second in non-policy financial bonds market, and fifth in the medium term notes market. A total amount of RMB105.822 billion had been achieved in M&A during the year, with a year-on-year growth of 30.65%, and ranked third in Asia lead M&A syndicated financing market.

Financial institutions business developed steadily. The total amount of interbank deposits was RMB421.251 billion. Among them, the total amount of interbank demand deposits in the areas of fund clearing, settlement and depository service reported a balance of RMB288.635 billion, with a ratio of 68.52%. The number of financial institutions signed for our "Zhao Ying Tong (招赢通)" transaction platform for industry peers of the Company reached 1,338, the number of accounts opened by public fund institutions reached 288, the number of customers of online interbank deposits exceeded 100, the online business volume amounted to RMB1.36 trillion, and the online trading replacement ratio of the platform exceeded 80%.

Wealth management business maintained a good development momentum. As of the end of the reporting period, the total value of the Company's wealth management products amounted to RMB2.19 trillion, with a year-on-year growth of 1.42%. According to the information of the CBRC, as at the end of the reporting period, the Company's wealth management products and off-balance sheet wealth management products ranked second among the commercial banks in terms of total fund values. In addition, the balance of net worth-focused products amounted to RMB1,662.950 billion, representing a year-on-year increase of 5.50%, accounted for 75.81% of the balance of wealth management products, representing a year-on-year increase of 2.93 percentage points. The leverage of the Company's entrusted bonds investment was 120.30%, with the risks generally remaining manageable.

Asset custody business developed steadily. As of the end of the reporting period, the balance of entrusted assets was RMB11.97 trillion, representing a year-on-year growth of 17.70%. The annualised custodian fee income was RMB4.855 billion, representing a year-on-year increase of 13.38%. The Company ranked second in the domestic custody industry in terms of both the balance of entrusted assets and custodian fee income.

Financial markets business maintained steady growth. As at the end of the reporting period, the balance of RMB bond portfolio of the Company was RMB904.678 billion, with a portfolio duration of 3.80 years and a yield of 3.69%; the balance of the foreign exchange investment portfolio of the Company amounted to USD8.791 billion, with a portfolio duration of 1.13 years and a portfolio yield of 2.53%. The trading volume of RMB exchange rate swaps reached RMB5,029.595 billion, representing a year-on-year increase of 34.07%; the trading volume of RMB-denominated options of the Company (including proprietary trading and trading on behalf of customers) reached RMB730.985 billion. According to the data from the China Foreign Exchange Trade System, the trading volume of RMB options of the Company ranked first in the whole interbank market.

3. Asset quality was stable with an optimised risk management system

In 2017, against the backdrop of complicated and volatile economic environment at home and abroad and the increasing risk in bank operations, the Company continued to improve its overall risk management system and proactively overcome and prevent all kinds of risks. Overdue loans of the Group amounted to RMB61.857 billion, down by RMB8.022 billion from the end of the previous year and accounting for 1.74% of its total loans, representing a decrease of 0.40 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 46.55%, guaranteed loans accounted for 30.26%, while credit loans accounted for 23.19% (the majority of which were overdue loans of credit cards). The Group adopted prudent classification criteria for overdue loans, and the ratio of its non-performing loans to the loans overdue for more than 90 days was 1.26.

In 2017, the Group developed its retail and corporate loan business in a balanced manner and constantly optimized the loan structure. The non-performing retail loan ratio was 0.89%, down by 0.11 percentage point as compared with the end of the previous year; the non-performing corporate loan ratio was 2.50%, representing a decrease of 0.42 percentage point as compared with the end of the previous year. During the period, the balance of provisions for full-calibre credit assets of the Company (including proprietary loans and proprietary funds invested in non-standardised credit assets under the credit category) amounted to RMB150.129 billion, including the balance of loan provisions of RMB146.669 billion and the balance of provisions for proprietary funds invested in non-standardised credit assets under the credit category of RMB3.460 billion. The full-calibre credit assets allowance ratio was 3.89%, representing an increase of 0.64 percentage point as compared with the end of the previous year, whereas the non-performing loan allowance coverage ratio of credit assets was 256.71%, representing an increase of 79.64 percentage points as compared with the end of the previous year.

During the reporting period, the Company further strengthened the disposal of non-performing loans and used a number of methods to manage risk assets. In 2017, the Company disposed of non-performing loans amounting to RMB41.358 billion, of which, RMB21.368 billion was written off in a regular way, RMB9.822 billion was cleared and settled, RMB2.856 billion was securitised as non-performing assets, RMB222 million was transferred at discount, and RMB7.090 billion was disposed of by restructuring, upward migration, repossession, remission and other means.

4. Outlook

2018 is the first year for China to improve the efficiency and effectiveness of its economic development. The banking industry has entered a stage of differentiation. In the short run, the situation can be concluded as “strict regulation, tight monetary policy and robust economy”. The Company believes that “deleveraging” requires banks to be more prudent in credit extension, while “strict regulation” requires banks to prepare for the transformation of their asset management business. By seizing the opportunity of improving asset quality, the Company should refocus on its business origin and enforce reform in 2018. The Company will take the following measures: the first is to further promote adjustments in asset structure; the second is to strengthen our capabilities to sell assets; the third is to take multiple actions on absorbing deposits, facilitate the growth of deposits by customer management; the fourth is to achieve good results in compliant operations and risk prevention. Under the current operating environment, the Company plans to achieve a growth rate of approximately 10.30%, 11.30% and 5.20% in proprietary loans, proprietary deposits and active liabilities in 2018, respectively.

In the long run, in order to adapt to the huge changes in operating environment brought about by technologies, commercial banks have to formulate their general development plans through detaching from the pursuit of short-term benefits, thereby fundamentally changing their business and management models. Furthermore, in order to accomplish the mission of gaining users, the Bank has to concentrate on addressing some in-depth and fundamental issues and implement seven mid- to long-term missions: the first is to deepen transformation and further promote service upgrading; the second is to remove silos and formulate a customer-oriented business process, as well as to rationalise and optimise its digital end-to-end process based on the “customer journey map”; the third is to take efforts to establish an automated and intelligent shared operating platform; the fourth is to construct a comprehensive risk management system to support transformation and development; the fifth is to achieve the “quality leapfrogging” of Digital Bank, breaking down the segregation between segments and joining forces on the monthly number of active users of CMB APP and CMB Life APP; the sixth is to focus on mitigating the issue of imbalanced and insufficient institutional development; the seventh is to improve work ethics and team building, and remodel our service culture.

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Investor and Media Enquiries

Investor Relations
China Merchants Bank H.O.
Tel: 86-755-2269 9082
Fax: 86-755-8319 5109
E-mail: ir@cmbchina.com

Ms. Vivian Wang
Christensen
Tel: 852-2232-3978
Fax: 852-2117-0869
E-mail: vwang@ChristensenIR.com

Ms. Eva Yip
Christensen
Tel: 852-2232-3966
Fax: 852-2117-0869
E-mail: eyip@ChristensenIR.com