

China Merchants Bank Announces 2018 Interim Results

Net Profit Rose 14% Year-on-year; Non-performing Loans and Ratio Both Decreased

Highlights

- Net operating income increased 11.56% year-on-year to RMB126.103 billion (A shares: operating income increased 11.75% year-on-year to RMB126.146 billion)
- Net profit attributable to the Bank's shareholders increased 14.00% year-on-year to RMB44.756 billion
- Basic earnings per share attributable to the Bank's shareholders increased 13.46% year-on-year to RMB1.77
- Net interest income increased 8.63% year-on-year to RMB77.012 billion. Net interest margin increased 0.11 percentage point year-on-year to 2.54%
- Net non-interest income increased by 16.51% year-on-year to RMB49.091 billion (A shares: increased by 17.04% year-on-year to RMB49.134 billion)
- Total assets increased 3.81% to RMB6,537.340 billion from the end of the previous year
- Capital adequacy ratio and the Core Tier 1 capital adequacy ratio of the Group under the advanced approach were 15.08% and 11.61%, respectively
- Non-performing loans decreased RMB2.011 billion to RMB55.382 billion from the end of the previous year; non-performing loan ratio was 1.43%, down by 0.18 percentage point as compared with the end of the previous year
- Non-performing loan allowance coverage ratio was 316.08%, up by 53.97 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.51%, up by 0.29 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.)

24 August, 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 unaudited results for the six months ended 30 June, 2018.

In the first half of 2018, confronted with the cumulative influence of external conditions such as the macro-economic deleveraging and stringent financial regulation, the Group continued to implement its strategic direction and positioning of “Light-operation Bank” and “One Body with Two Wings” by carrying out various businesses in a proactive and sound manner. Our overall operation continued to improve and the dynamic and balanced development of “Quality, Efficiency and Scale” was achieved.

1. Analysis of the Operation

Earnings increased steadily. In the first half of 2018, the Group realised a net profit attributable to shareholders of the Bank of RMB44.756 billion, representing a year-on-year increase of 14.00%; the net interest income was RMB77.012 billion, representing a year-on-year increase of 8.63%; the net non-interest income was RMB49.091 billion, representing an increase of 16.51% as compared with the corresponding period of the previous year and an increase of 4.95% as compared with the corresponding period of the previous year without taking into consideration the impact of the new financial instruments standard. The return on average asset (ROAA) and return on average equity (ROAE) attributable to ordinary shareholders of the Bank were 1.39% and 19.61%, up by 0.10 percentage point and 0.50 percentage point from the corresponding period of the previous year, respectively.

The scale of assets and liabilities expanded steadily. As at the end of June 2018, the Group’s total assets amounted to RMB6,537.340 billion, representing an increase of 3.81% as compared with the end of the previous year. The total loans and advances to customers amounted to RMB3,877.868 billion, representing an increase of 8.77% as compared with the end of the previous year. Total liabilities amounted to RMB6,033.289 billion, representing an increase of 3.77% as compared with the end of the previous year. Total deposits from customers amounted to RMB4,257.803 billion, representing an increase of 4.76% as compared with the end of the previous year.

The non-performing loans decreased and the allowance coverage ratio remained solid. As at the end of June 2018, the Group had total non-performing loans of RMB55.382 billion, representing a decrease of RMB2.011 billion as compared with the end of the previous year. The non-performing loan ratio was 1.43%, down by 0.18 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 316.08%, representing an increase of 53.97 percentage points as compared with the end of the previous year.

2. Analysis of the Company's Business Development Strategies

During the reporting period, the Company further promoted the strategic transformation of “Light-operation Bank” and “One Body with Two Wings”, and used Fintech as the locomotive to provide “nuclear power” for the second half of the strategic transformation, so as to develop itself into the best customer experience bank.

1. Transforming foundational Fintech capabilities towards Internet-based

With respect to resource commitment, the Company raised the upper limit of Fintech innovation project funds to 1% of the previous year's audited operating income, and increased resources committed for construction of infrastructures, transformation and upgrading of service systems and establishment of ecological scenarios. With respect to infrastructure construction, the Company precipitated in the construction of cloud computing and distributed trading platform; continued to increase big data processing capacity; enhanced the construction of API (application programming interface) platform; and pushed forward the construction and application of Blockchain platform. With respect to agile IT development, the dual-model IT research and development system was further promoted. During the reporting period, 3,550 new applications were launched by the Company, up by 32% year-on-year. With respect to talent structure, the Company enriched the talent pool in the areas of IT and DT (data technology). The Company attracted talents and continued to establish a Fintech talent pool through measures such as Fintech training camp and visits paid to universities and colleges.

2. The customer-centric approach was taken for retail finance to foster the best customer experience

- i) **The operation model has been undergoing a change from card-based operation to APP-based operation.** Customer engagement has been enhanced by the Company by means of strengthening the operation of the mobile banking app and focusing on the customer experience and the core scenarios. During the reporting period, the number of monthly active users of CMB APP and CMB Life APP reached 53,819,900 (excluding repeated users). The number of transactions and the sales amount of wealth management investments¹ of CMB APP accounted for 75.48% and 55.29% of the Bank respectively. The consumer finance transactions successfully conducted through CMB Life APP accounted for 48.81% of the total consumer finance transactions. CMB APP and CMB Life APP have become important front of retail operations for the Company.

¹ Including the investments in wealth management on custody, funds, precious metals, insurance, etc.

- ii) **The online and offline multidimensional service systems have been established.** During the reporting period, the Company, on the one hand, continued to adhere to the “mobile priority” development strategy spurred by mobile-centric app, made overall arrangement for financial social media and content services, promoted online and offline collaboration, explored intensive operating models aimed for customers. As a result, 1,876,200 new online accounts were opened.
- iii) **Smart services have been enhanced.** The Company enhanced its smart services in four aspects, including smart transaction, smart marketing, smart risk control and smart customer services. The cumulative sales volume of Machine Gene Investment product amounted to RMB11.625 billion, and the number of customers using Machine Gene Investment reached 166,900. Domestic precious metal arbitrage business was launched through the Company’s online quantitative trading system with a cumulative trading volume amounted to RMB22.723 billion. As a result, the performance efficiency was 90% higher than manual labor, saving labor costs by more than 80%. The Company has invested in the scale system for fraud risk control, integrating dozens of dimensions such as customer equipment, environment, and counterparty, and applying more than 2,000 variables. With a capacity of risk decision analysis within 30 milliseconds and calculation of billions of data streams, the scale system achieved the sensitivity level of microprobability of loss. Moreover, the Company established a smart real-time credit card risk management system, the non-performing rate of credit card was controlled at 1.14%, and the overall risk of credit card assets was stable and controllable.

3. The wholesale finance customer service system has been transforming itself into the Internet-based model at a faster pace

- i) **Launching online traditional customer services for wholesale finance.** As at the end of the reporting period, the number of the Company’s corporate mobile banking customers reached 580,000, representing a year-on-year growth of 44.42%. 12,033,700 transactions were recorded with a total amount of RMB786.096 billion in the reporting period. There were 1,032,800 mobile payment users, with the total amount of payment transactions through mobile channels reaching RMB785.316 billion.
- ii) **Extending wholesale finance to industrial ecology.** The Company developed an innovative financial institution service model that integrated online and offline services. It covers 12 businesses in 5 major categories including wealth management, third-party asset custody, financial market, cash management, asset sales, etc.
- iii) **Promoting “Smart Service” at middle and back office supporting wholesale finance.** The Company leveraged on the big data from internal and external sources

to build the data obtainment and risk assessment mechanism for customer pre-warning, thus realising the pre-warning on more than 50% of the customers with new non-performing loans, and achieving the average pre-warning time of more than 12 months for the customers with overdue loans.

4. Further enhancing comprehensive customer service by centering on “customer journey”

During the reporting period, the Company put its emphasis on building the bank with the best customer experience, and by leveraging on the concept of “customer journey”, the Company leveraged on Fintech and through “end-to-end” to develop a customer-oriented service system. The Company utilised Fintech to promote platform-based and intensive management of customers. With concentrated management of Gold Card and Sun-flower customers through direct banking, the accumulated value of customer asset under management has seen a new addition of RMB23.9 billion. Net number of Sun-flower customers increased by 27,000, thus initially realizing “Light Operation” in retail business.

3. Analysis of the Company’s Business Overview

1. Retail finance maintained its growth momentum

In the first half of 2018, the profit of the retail finance business of the Company maintained its rapid growth, with the profit before tax amounting to RMB31.690 billion, representing a year-on-year increase of 17.76%. It accounted for 56.62% of the total profit before tax of the whole business lines of the Company. The net operating income from the retail finance amounted to RMB61.646 billion, representing a year-on-year increase of 12.60% and accounting for 51.88% of the net operating income of the Company, among which, the net interest income from retail finance amounted to RMB37.555 billion, representing a year-on-year increase of 7.96% and accounting for 60.92% of the net operating income from retail finance, while the net non-interest income from retail finance amounted to RMB24.091 billion, representing a year-on-year increase of 20.67% and accounting for 39.08% of the net operating income from retail finance, and 55.03% of the net non-interest income of the Company.

Retail customers and AUM continued to expand. The Company had 116.3261 million retail customers (including the customers of its debit cards and credit cards), representing an increase of 9.09% 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 2,295,500, representing an increase of 7.94% as compared with the end of the previous year. The balance of total assets under

management (AUM) from our retail customers amounted to RMB6,632.883 billion, representing an increase of 7.60% as compared with the end of the previous year, among which, the balance of total assets under management from the Sunflower-level and above customers amounted to RMB5,424.408 billion, representing an increase of 7.17% as compared with the end of the previous year, and accounting for 81.78% of the balance of total assets under management from retail customers of the Bank. The balance of deposits from retail customers amounted to RMB1,357.955 billion, representing an increase of 10.29% as compared with the end of the previous year.

Wealth management continued to enhance its differentiated leading edge. The Company recorded RMB4,865.635 billion in sales of personal wealth management products, representing a year-on-year increase of 24.88%; RMB489.837 billion in the agency distribution of listed open-ended funds (LOF), representing a year-on-year increase of 52.17%; RMB146.116 billion in agency distribution of trust schemes, representing a year-on-year increase of 39.69%; and RMB26.555 billion in premiums from agency distribution of insurance policies, representing a year-on-year decrease of 41.51%. The Company recorded a fee and commission income from retail wealth management business of RMB11.547 billion.

Private bank business continued to upgrade. The Company had 71,776 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 6.47% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB2,034.020 billion, representing an increase of 6.76% as compared with the end of the previous year; total assets per account amounted to RMB28.3384 million. As at the end of the reporting period, the Company has established a high-end customer service network consisting of 63 private banking centers and 66 wealth management centers in 63 domestic cities and 7 overseas cities.

Competitive advantage of credit card business continued to improve. The Company had issued an aggregate of 114.4395 million credit cards, with 74.6446 million active cards, representing an increase of 19.51% as compared with the end of the previous year, and there were 52.6886 million active credit-card users, representing an increase of 12.23% as compared with the end of the previous year. The average transaction of each active card per month amounted to RMB4,348.04. The balance of credit card loans was RMB512.091 billion, representing an increase of 4.24% as compared with the end of the previous year. The percentage of the revolving balances of credit cards was 20.12%. In the first six months of 2018, interest income from credit cards amounted to RMB21.596 billion, representing a year-on-year increase of 14.14%. Benefiting from the increase of

credit card fees resulting from increased transaction volume, non-interest income from credit cards amounted to RMB9.788 billion, representing a year-on-year increase of 44.47%.

Structure of retail loans continued to optimize. The total retail loans amounted to RMB1,849.158 billion, representing an increase of 4.81% as compared with the end of the previous year and accounting for 51.40% of the total loans and advances to customers, down by 1.96 percentage points as compared with the end of the previous year. The Company recorded a balance of residential housing loans of RMB866.051 billion, representing an increase of 4.88% as compared with the end of the previous year. The balance of micro-finance loans amounted to RMB332.857 billion (calculated on the Bank's statistical calibre), representing an increase of 7.04% as compared with the end of the previous year. The balance of consumption loans amounted to RMB97.931 billion, up by 7.18% as compared with the end of the previous year with its percentage of the increment in retail loans (excluding credit cards) down by 6.66 percentage points as compared with the end of the previous year.

2. Wholesale finance business continued to grow

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB24.283 billion, accounting for 43.38% of profit before tax for the business lines of the Company. The net operating income from wholesale finance of the Company was RMB57.494 billion, representing an increase of 9.76% as compared with the previous year, and accounting for 48.39% of the net operating income of the Company, including net interest income from wholesale finance of RMB38.760 billion, representing a year-on-year increase of 11.93%; net non-interest income of wholesale finance amounted to RMB18.734 billion, representing a year-on-year increase of 5.53%.

Customer base and balance of corporate depositors maintained steady growth. As at the end of the reporting period, the total number of corporate depositors was 1,718,000, up by 9.20% as compared with the end of the previous year. Among which, small-sized enterprise customers amounted to 1,606,900, representing an increase of 10.46% as compared with the beginning of the year. The number of the strategic customers under the Head Office of the Company was 235, increasing by 69 as compared with the end of the previous year, the balance of daily average proprietary deposits amounted to RMB536.605 billion, increasing by 14.55% as compared with the beginning of the year, and the balance of general loans amounted to RMB427.210 billion, representing an increase of 21.15% as compared with the beginning of the previous year. In the first half of 2018, the daily average balance of corporate customers deposits amounted to RMB2,718.321 billion, representing an increase of 4.55% as compared with the previous

year. Among which, daily deposit balance institutional customers amounted to RMB742.852 billion, representing an increase of 6.67% as compared with the beginning of the year.

Structure of corporate loans continued to consolidate. As at the end of the reporting period, total corporate loans of the Company amounted to RMB1,529.481 billion, representing an increase of 7.08% as compared with the end of the previous year and accounting for 42.51% of total loans and advances to customers. Among them, the balance of the medium- to long-term loans to domestic enterprises amounted to RMB626.367 billion, accounting for 44.48% of the total loans to domestic enterprises, and representing an increase of 0.20 percentage point as compared with the end of the previous year. The Company further optimised the industry structure of corporate loans, giving priority to industries undergoing structural upgrading, traditionally competitive industries, strategic emerging industries, modern service industries and green industries, and flexibly adjusted loans to real estate, local government financing vehicles and other industries in response to the changes in external operating environment.

Transaction banking and offshore businesses expanded steadily. The Company had a total of 1,554,100 customers using its cash management service, representing an increase of 11.33% as compared with the end of the previous year. The balance of supply chain finance amounted to RMB207.065 billion, representing an increase of 11.75% as compared with the end of the previous year. The onshore international settlements of the Company amounted to USD95.240 billion while the offshore international settlements amounted to USD146.110 billion. The Company offered its cash management services to 1,831 groups, the number of member enterprises under management reached 43,200, and the transaction amount exceeded RMB6 trillion in the first half of the year.

Investment banking business continued to enhance its competitiveness. The Company realised a year-on-year increase of 5.04% in the non-interest income from the investment banking business. The bonds with the Company as the lead underwriter amounted to RMB187.176 billion, ranking sixth in the debt financing instrument issuance market of non-financial enterprises, up by one place as compared with the corresponding period of the previous year, and ranking third among the lead underwriters of banks in the non-policy financial bonds market (as per the ranking by WIND public data). During the reporting period, the Company posted RMB58.565 billion in its M&A finance business.

Asset management business actively transformed. During the reporting period, the wealth management business of the Company scored a number of achievements in terms of business transformation, asset allocation, risk management, entrusted

investment management and products transformation. During the reporting period, the Company recorded RMB7.14 trillion in sales of wealth management products, representing a year-on-year decrease of 4.42%; the balance of the Company's wealth management products (excluding structured deposits) amounted to RMB1.80 trillion, representing a decrease of 4.00% as compared with the end of the previous year calculated at the same statistical calibre. With respect to bonds asset, the Company griped the investment opportunities brought about by the rebound due to market adjustment by enhancing its investment strategies with research on the market and a timely adjustment to its investment strategies and structure. As at the end of the reporting period, the Company's wealth management funds invested in the bond market totaled RMB1,086.013 billion, and its proportion of all wealth management assets recorded an increase of 4 percentage points as compared with the end of the previous year. With respect to credit assets, the Company grasped the trend of asset standardisation and gradually rolled out its asset securitisation investment, while making non-standardised credit investments within the quota limit in strict compliance with the regulatory guidance and actively contributing to real economy. As at the end of the reporting period, the total balance of wealth management funds invested with the non-standardised credit assets amounted to RMB182.784 billion.

Asset custody business developed steadily. As at the end of the reporting period, the balance of assets under custody of the Company was RMB11.92 trillion, and continued to rank second in the domestic custody industry (data from China Banking Association). The Company realised a custodian fee income of RMB2.416 billion. The Company independently developed the "Wealth Management Custodian Expert System" and "ABS Custodian System" adapted to the new policy on asset management, increased its efforts to marketing mutual fund under custody, and solidifying the market position of the Company in the domestic custody industry.

Financial markets business maintained steady growth. During the reporting period, affected by the market environment, the bond yields decreased substantially; the exchange rate fluctuation in the foreign exchange market was remarkable, as the customers' foreign exchange settlement amount increased. The trading volume of customer transactions of the Company amounted to USD162.759 billion, representing a year-on-year increase of 30.54%. The trading volume of RMB exchange rate swaps of the Company reached USD397.310 billion, representing a year-on-year increase of 11.55%; the trading volume of RMB-denominated options (including proprietary trading and trading on behalf of customers) reached USD81.797 billion, representing a year-on-year increase of 31.46%.

3. Asset quality continued to consolidate with an optimized risk management system

In the first half of 2018, 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 risk. As at the end of the reporting period, overdue loans of the Group amounted to RMB63.553 billion, up by RMB1.696 billion from the end of the previous year and accounting for 1.64% of its total loans, representing a decrease of 0.10 percentage point as compared with the end of the previous year. 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 1.24.

During the reporting period, the Group saw a steady growth in the volume of credit assets and a decrease in the non-performing loan ratio. The allowance coverage ratio remained solid, and our risk loss endurance capability was further improved. As at the end of the reporting period, the non-performing retail loan ratio was 0.77%, down by 0.12 percentage point as compared with the end of the previous year. Among which, the non-performing credit card loan ratio was 1.14%, up by 0.03 percentage point as compared with the end of the previous year. The non-performing corporate loan ratio of the Group was 2.30%, representing a decrease of 0.20 percentage point as compared with the end of the previous year.

The Company used a number of methods to manage risk assets. During the reporting period, the Company disposed of non-performing loans amounting to RMB18.187 billion, of which, RMB8.499 billion was written off in a regular way, RMB6.164 billion was cleared and settled, RMB1.523 billion was securitised as non-performing assets, and RMB2.001 billion was disposed of by restructuring, upward migration, repossession, remission and other means.

The Company will keep abreast of the macroeconomic and financial development and adhered to its management philosophy of “Quality Goes First Based on Compliance and Risk Control” while conducting overall planning, making breakthroughs in key areas and steadily advancing the transformation of its risk management from seeking “temporary treatments” to imposing “final solutions”, aiming to establish itself as a “leading risk management bank”. Firstly, constantly improving the comprehensive risk management mechanism while improving and completing the concentrated risk management mechanism. Secondly, keeping up the optimisation of the asset portfolio while steadily making adjustment to its asset structure. Thirdly, strengthening the control of asset quality and risk screening and follow-up in the key areas while preventing and controlling risks in a perspective manner. Fourthly, optimising the portfolio of non-performing assets while

accelerating the disposal of risk associated assets. Fifthly, consolidating the management foundation while comprehensively promoting the whole-process credit optimisation. Sixthly, actively deepening the application of Fintech and upgrading the professional techniques on risk management.

4. Outlook

Looking forward to the second half of 2018, the global economy is expected to remain on the track of recovery. However, due to the trade war and political risks, the uncertainty in the economic growth will increase. China's economic growth will be slowing down smoothly in the second half of the year, while the structural adjustment will be deepened, with the economic and financial risks generally controllable. Although real estate regulation is expected to continue, real estate investment is still under pressure, but under the support of active fiscal policy, the growth rate of infrastructure investment is expected to rebound, and the decelerating growth of investment will be released. In the second half of the year, the Company will focus more on intensity and pace when it comes to “de-leveraging”, and strive for the prevention and mitigation of financial risks while serving the real economy, so as to support economic growth to some extent.

The Company will maintain its strategic determination, return to its origin of customer service, fit in the rhythm of development, optimise its structure, with its focus placed on the improvement of quantity, quality and experience of its customers. Specifically, the strategy covers the following four aspects: Firstly, the Company will continue to deepen the comprehensive cultivation of the wholesale customers; further adjust the customer structure by increasing the number of strategic customers representing the new economic drivers, and enhance the expertise of customer selection. Secondly, it will promote in full scale the digital transformation of retail banking; accelerate the construction of a service system with a complete customer base, complete product line and complete channel to provide our customers with better experience; stay MAU-oriented and strive for a leap in the retail business from an era of cards to an era of Apps. Thirdly, it will improve the institutional mechanism centering on customer experience; promote system reform and mechanism optimisation to a deeper level in terms of product design, data connectivity, scenario expansion, and traffic distribution, and accelerate ecological system construction and improvement of customer experience. Fourthly, it will widely carry out its tasks of risk prevention and control and internal management. While constantly and resolutely implementing the policy of eradicating and suppressing high-risk customers, “highly polluting, highly energy-consuming and overcapacity-stricken” enterprises and “zombie enterprises”, the Company will miss no opportunities in controlling the risks with customers with “high leverage”, and carefully carry out credit limit management and the creation of a complete

picture of customer risks, closely monitor the external sources of risks and its paths of conduction, so as to effectively prevent the cross financial risks.

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