

China Merchants Bank announces its 2006 Annual Results

Results Highlights

- Net profit up 81.22 % to RMB6,794 million (2005: RMB3,749 million)
- Profit before tax up 56.05 % to RMB10,084 million (2005: RMB6,462 million)
- Earnings per share up 55.88% to RMB0.53 (2005: RMB0.34)
- Net assets per share up 49.40% from previous year to RMB3.75 (2005: RMB2.51)
- Total assets up 27.16% to RMB934.10 billion (2005: RMB734.61 billion)

(Notice: China Merchants Bank Co., Ltd.'s 2006 annual results report was prepared in accordance with International Financial Reporting Standard (IFRS) and was audited. The Board of Directors and the directors of China Merchants Bank Co., Ltd. hereby confirm that the information contained in this report does not contain any false representations, misleading statements or material omissions. The Directors jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.)

Hong Kong, April 17, 2007 — China Merchants Bank Co., Ltd. (SSE: 600036; HKEx: 3968; “China Merchants Bank” or the “Bank”) today announced its results for 2006 today. During the year ended December 31, 2006, net profit reached RMB6,794 million (2005: RMB 3,749 million), an increase of 81.22% over 2005. Total assets as of December 31, 2006 reached RMB934.10 billion, an increase of 27.16% from RMB734.61 billion December 31, 2005. Earnings per share (basic) were RMB0.53, up RMB0.19 from 2005. The Board of Directors has recommended a final dividend of RMB0.12 per share, up RMB0.04 or 50.00% from 2005. The total dividend payout ratio for the year was 25.96%.

Mr. Qin Xiao, Chairman of China Merchants Bank, said, “Over the past year, the Bank consistently followed the philosophy of ‘balanced development in respect of profitability, quality and scale’, with the support of regulatory authorities, shareholders and various sectors of the society. The Bank actively sought to adjust

adjust its business strategies and further improved management standards, as well as realizing the goals of balanced growth and financial budget that set out by the Board, in order to achieve significant operating results.”

Mr. Ma Weihua, President of China Merchants Bank, said, “2006 was a fruitful year for the Bank in terms of operational management. During the year, the Bank faced a number of challenges, including implementation of the macro-control policies, the full reform and opening-up of the banking industry, the acceleration of interest rate and exchange rate liberalization, and the rapid development of direct financing. The Bank has followed by the guidelines to “updating the mindset, deepening the reform, strengthening innovation and preventing risks” in accordance with the directions of the Board. The Bank has moved closer to its goal of “10 reforms”, and is on the way to adjusting its business strategies and internationalizing its management, as well as accomplishing all targets set out in the beginning of the year.”

During the year 2006, the Bank recorded steady growth in deposits and ongoing improvement in loan quality. By the end of 2006, the Bank’s gross assets reached RMB934.10 billion, up by 27.16% over the figure for the beginning of the year; total deposits were RMB773.76 billion, an increase of 21.97%; and total loans were RMB549.42 billion, a rise of 19.78%. Net profit for the year was RMB6,794 million, an increase of 81.22% over 2005. For the year 2006, the Bank’s net interest income reached RMB21.51 billion, a significant increase of 29.25% over 2005.

There were four characteristics in the Bank’s business development in 2006. Firstly, it further enhanced its profitability. Its return on average assets (ROAA) (after-tax) reached 0.81% at the end of the year, 0.24 percentage points higher than that of the previous year, and its return on average equity (ROAE) (after-tax) was 16.74%, an increase of 1.1 percentage points compared with the previous year. Secondly, the Bank’s capital strength has improved significantly. The capital adequacy ratio was 11.40% at the end of the year, 2.39 percentage points higher than that at the beginning of the year. The core capital adequacy ratio was 9.58%, 4.01 percentage points higher than that for the start of the year. Thirdly, the Bank’s retail banking business grew rapidly. By the end of 2006, the Bank’s retail deposit balance comprised 40.32% of the total deposits, same as the level in 2005 but higher than the industry’s average. The Bank’s retail loan balance comprised 18.03% of its loans to customers, up 2.35 percentage points from the end of 2005. Fourthly, the Bank’s income derived from fee and commission business experienced rapid growth. Total net fee and commission income for the year was RMB2,514 million, up RMB947 million or 60.43% from

2005. This comprised 10.11% of the total business operating income, an increase of 1.95 percentage points over that of the previous year.

In 2006, the Bank accelerated the reform of its credit risk management mechanism. This was achieved through establishing a Credit Management Department, Credit Approval Department and Special Asset Management Centre at its headquarters; intensifying its research of industry policies and; strengthening its loan approval system; centralizing management of customer credit limits at its headquarters, gradually introducing customer credit assessments and quickening the pace of the facility rating system's development; while continuously improving asset quality. The Bank also improved its internal control mechanism, established a legal and compliance department at its headquarters; accomplished a vertically integrated reform for its audit system; organized and commenced three regulatory monitoring exercises; and intensified disciplinary actions for malpractices. During the year, there were no criminal convictions or material liabilities related to the Bank. As a result, the Bank's asset quality has been substantially enhanced. The year-end NPL balance was RMB12,006 million, down RMB161 million or 1.32% compared with the beginning of the year; year-end NPL ratio was 2.58%, down 0.46 percentage points from the start of the year.

In 2006, the Bank stepped up its marketing efforts on establishment of its "Lifetime Partner" and introduced cutting-edge products such as cash management and online banking, while achieving its marketing goals. It issued 2.09 million All-in-one cards during the year, bringing the total number of cards in issue to 38.849 million, with a total of RMB240.68 billion deposited in All-in-one card accounts, comprising 77.15% of total retail deposits. Deposit per card averaged RMB6,195. As of 31 December, 2006, a total of 10.34 million credit cards were issued, with 5.17 million added during the year. About 7.12 million of them are in circulation and used by 4.47 million card users. Total amount processed through card transactions for the year was RMB66.4 billion. The balance of outstanding revolving credit totaled RMB3.60 billion.

On September 22, 2006, China Merchants Bank successfully listed its H shares on the Hong Kong Stock Exchange. "The successful issuance and listing of H shares substantially boosted China Merchants Bank's capital strength and competitive edge, and secured for the Bank a prospect of sustainable development. With an offshore listing, China Merchants Bank adheres strictly to regulatory requirements in corporate governance of the offshore markets. This will secure a channel of replenishing capital to support the bank's strategic development in the future," said Chairman Qin.

“The marketability, growth and stability of the Bank were recognized by international investors. In evaluation exercises conducted by the media and various other organizations, we won many honors including “The Best Retail Bank in China”, “The Best Bank in China” and “The Most Respected Enterprise of China”. These achievements underscore a unanimous recognition of the Bank’s investment value by the market participants.” said President Ma.

Looking to 2007, Mr. Qin, the Chairman, said: “China’s economy will continue a stable and healthy growth. While entering into our third decade, we are confident in facing all kinds of competition and challenges. I strongly believe that the Bank will distinguish itself among the competitors. Let us make concerted efforts to develop the Bank into the best commercial bank in China with international competitiveness, and sustain its success, with the aim of bringing better return to the shareholders and the society.”

Consolidated Income Statement (Audited)

(Expressed in millions of Renminbi unless otherwise stated)

	<u>2006</u>	<u>2005</u>
Interest income	33,990	25,877
Interest expense	(12,481)	(9,235)
Net interest income	<u>21,509</u>	<u>16,642</u>
Fee and commission income	2,988	1,856
Fee and commission expense	(474)	(289)
Net fee and commission income	<u>2,514</u>	<u>1,567</u>
Other net income	843	1,005
Operating income	<u>24,866</u>	<u>19,214</u>
Operating expenses	(11,091)	(9,115)
Operating profit before provision	13,775	10,099
Provision for impairment losses	(3,691)	(3,637)
Profit before tax	<u>10,084</u>	<u>6,462</u>
Income tax	(3,290)	(2,713)
Net profit attributable to equity holders of the Bank	<u>6,794</u>	<u>3,749</u>
Dividends		
Declared and paid	3,193	753
Proposed in respect of current year	1,764	830
	<u>4,957</u>	<u>1,583</u>
	RMB	RMB
Earnings per share		
Basic	0.53	0.34
Diluted	0.53	0.33

Consolidated Balance Sheet (Audited)

(Expressed in millions of Renminbi unless otherwise stated)

	<u>2006</u>	<u>2005</u>
Assets		
Cash and balances with banks and other financial institutions	20,861	22,491
Balances with central bank	82,372	62,102
Placements with banks and other financial institutions	88,171	46,982
Loans and advances to customers	549,420	458,675
Investments	178,885	131,902
Fixed assets	7,376	6,777
Deferred tax assets	2,260	2,166
Other assets	4,757	3,518
	934,102	734,613
Liabilities		
Deposits from banks and other financial institutions	68,854	39,673
Placements from banks and other financial institutions	7,749	3,574
Deposits from customers	773,757	634,404
Financial liabilities at fair value through profit or loss	106	86
Certificates of deposit issued	1,170	1,211
Convertible bonds issued	22	5,184
Other debts issued	9,987	9,982
Current taxation	2,652	2,715
Other liabilities	11,145	8,286
Subordinated notes issued	3,500	3,500
	878,942	708,615
Shareholders' equity		
Share capital	14,703	10,374
Capital reserve	27,536	6,095
Surplus reserve	2,377	1,591
Investment revaluation reserve	195	404
Regulatory general reserve	6,500	3,000
Retained profits	1,374	2,918
Proposed profit appropriations	2,475	1,616
	55,160	25,998
	934,102	734,613
Total shareholders' equity and liabilities		