

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2006

(Expressed in millions of Renminbi unless otherwise stated)

## (A) SIGNIFICANT DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) AND THOSE PREPARED IN ACCORDANCE WITH THE RELEVANT ACCOUNTING RULES AND REGULATIONS IN THE PRC

As a bank incorporated in the People’s Republic of China (“PRC”) and listed in Shanghai Stock Exchange, China Merchants Bank (“the Bank”) prepared its statutory financial statements for the year ended 31 December 2006 in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance (the “MOF”), the Accounting Regulations for Financial Enterprises (2001), and other relevant regulations issued by the MOF (collectively “PRC GAAP”).

The above financial statements are named as “PRC statutory financial statements” for the purposes of this reconciliation.

A reconciliation of differences between the financial statements prepared under IFRSs and those PRC statutory financial statements are set out below.

	2006	2005
Net profit attributable to equity holders of the Bank under IFRSs	<b>6,794</b>	3,749
Foreign exchange translation	<b>313</b>	38
Net profit shown in PRC statutory financial statements (Note)	<b>7,107</b>	3,787

Note: There is no difference in the shareholders’ equity as shown in the financial statements prepared under IFRSs and the PRC statutory financial statements as at 31 December 2005 and 31 December 2006.

Effective from 1 January 2006, the Bank has adopted the new Provisional Regulations On the Recognition And Measurement Of Financial Instruments No. 14 which are substantially consistent with IAS 39 on “Financial Instruments: Recognition and Measurement”. 2005 comparative figures have been retrospectively adjusted.

## (B) LIQUIDITY RATIOS

	2006	2005
<b>Liquidity ratios</b>		
RMB current assets to RMB current liabilities	<b>51.1%</b>	52.2%
Foreign currency current assets to foreign currency current liabilities	<b>166.0%</b>	90.4%

The above liquidity ratios are calculated in accordance with the formula promulgated by the People's Bank of China ("the PBOC") and the China Banking Regulatory Commission ("the CBRC") and based on PRC GAAP.

## (C) CAPITAL ADEQUACY RATIO

The capital adequacy ratio is prepared on a solo basis in accordance with the guideline "Regulation Governing Capital Adequacy of Commercial Banks" 【Order (2004) No. 2】 issued by the CBRC (the "CBRC guideline") in March 2004, which may have significant differences with the relevant requirements in Hong Kong or other countries.

The capital adequacy ratios and related components of the Bank as at 31 December 2006 and 2005 calculated based on PRC GAAP, were as follows:

	2006	2005
Core capital adequacy ratio	<b>9.58%</b>	5.57%
Capital adequacy ratio	<b>11.40%</b>	9.01%

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## (C) CAPITAL ADEQUACY RATIO *(continued)*

The capital adequacy ratios and related components of the Bank as at 31 December 2006 and 2005 calculated based on PRC GAAP, were as follows: *(continued)*

	2006	2005
<b>Components of capital base</b>		
Core capital:		
– Paid up ordinary share capital	<b>14,703</b>	10,374
– Reserves	<b>38,422</b>	13,466
– Total core capital	<b>53,125</b>	23,840
Supplementary capital:		
– General provisions for doubtful debts	<b>8,005</b>	6,135
– Term subordinated bonds	<b>2,100</b>	2,800
– Convertible bonds	<b>22</b>	5,864
– Investment revaluation reserve	<b>136</b>	–
– Total supplementary capital	<b>10,263</b>	14,799
Total capital base before deductions	<b>63,388</b>	38,639
Deductions:		
– Investments in unconsolidated subsidiary and other long-term investments	<b>125</b>	108
– Investment in commercial real estate	<b>406</b>	409
Total capital base after deductions	<b>62,857</b>	38,122
Risk weighted assets	<b>551,503</b>	423,312

## (D) CURRENCY CONCENTRATIONS OTHER THAN RMB

	2006			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
<b>Non-structural position</b>				
Spot assets	92,152	22,979	7,281	122,412
Spot liabilities	(61,884)	(34,157)	(7,151)	(103,192)
Forward purchases	9,017	12,067	751	21,835
Forward sales	(40,845)	(615)	(676)	(42,136)
Net option position	115	–	(115)	–
Net long/(short) position	(1,445)	274	90	(1,081)
Net structural position	–	51	–	51
<b>2005</b>				
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
<b>Non-structural position</b>				
Spot assets	56,163	15,301	7,179	78,643
Spot liabilities	(56,243)	(15,547)	(7,179)	(78,969)
Forward purchases	5,684	407	1,270	7,361
Forward sales	(2,476)	(2,276)	(1,125)	(5,877)
Net long/(short) position	3,128	(2,115)	145	1,158
Net structural position	–	50	–	50

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## (D) CURRENCY CONCENTRATIONS OTHER THAN RMB *(continued)*

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and premises, net of depreciation charges;
- Capital and statutory reserves of Hong Kong branch; and
- Investment in a subsidiary in Hong Kong.

## (E) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the Mainland China, and regards all claims on third parties outside the Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical areas is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2006			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	20,813	1,684	5,701	28,198
– of which attributed to Hong Kong	4,999	1,684	4,643	11,326
Europe	32,536	1,180	635	34,351
North and South America	13,181	5,227	1,396	19,804
	66,530	8,091	7,732	82,353

## (E) CROSS-BORDER CLAIMS *(continued)*

	2005			Total
	Banks and other financial institutions	Public sector entities	Others	
Asia Pacific excluding the PRC	6,858	247	4,067	11,172
– of which attributed to Hong Kong	208	247	3,900	4,355
Europe	15,513	475	10	15,998
North and South America	3,494	5,035	733	9,262
	25,865	5,757	4,810	36,432

## (F) OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHICAL SEGMENTS

	2006	2005
Eastern China	<b>1,105</b>	705
Southern and Central China	<b>5,961</b>	6,926
Western China	<b>2,245</b>	2,422
Northern China	<b>839</b>	682
Others	<b>105</b>	26
	<b>10,255</b>	10,761

Note: The above analysis includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

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## (G) GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	2006	2005
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months	<b>904</b>	1,360
– between 6 and 12 months	<b>847</b>	1,886
– over 12 months	<b>8,504</b>	7,515
<b>Total</b>	<b>10,255</b>	10,761
As a percentage of total gross loans and advances:		
– between 3 and 6 months	<b>0.16%</b>	0.29%
– between 6 and 12 months	<b>0.15%</b>	0.40%
– over 12 months	<b>1.50%</b>	1.59%
<b>Total</b>	<b>1.81%</b>	2.28%

Notes:

(i) The above analysis includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

(ii) There were no overdue loans and advances to financial institutions as at 31 December 2006 and 2005.

## (H) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	2006		2005	
		<b>% of total loans and advances</b>		<b>% of total loans and advances</b>
Rescheduled loans and advances to customers	<b>2,486</b>	<b>0.44%</b>	2,447	0.52%
Less:				
– rescheduled loans and advances but overdue more than 90 days	<b>1,581</b>	<b>0.28%</b>	1,822	0.39%
Rescheduled loans and advances overdue less than 90 days	<b>905</b>	<b>0.16%</b>	625	0.13%

There were no rescheduled loans and advances to financial institutions as at 31 December 2006 and 2005.

## (I) CORPORATE GOVERNANCE

### Board committees

The Board of Directors has established a number of committees including the Risk Management Committee, Audit and Related Party Transactions Control Committee and Senior Management and its Committees.

#### (i) *Risk Management Committee*

The Risk Management Committee supervises the senior management on risk management matters, assesses the risks and recommendations to the Board of Directors measures to improve the risk management and internal control systems.



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## (I) CORPORATE GOVERNANCE *(continued)*

### Board committees *(continued)*

#### *(ii) Audit and Related Party Transactions Control Committee*

The Audit and Related Party Transactions Control Committee reviews the performance of the independent auditors and recommends each year to the Board of Directors whether to retain the independent auditors. The Committee also liaises between the internal audit function and independent auditors, oversees the internal auditing system, reviews the financial information, evaluates and monitors the compliance with, and adequacy of, the internal controls and reviews significant related party transactions and makes recommendations on whether to approve such transactions to the Board of Directors.

#### *(iii) Senior Management and its Committees*

The Senior Management comprises the President and Chief Executive Officer and four Vice Presidents. They meet regularly to review the management and performance of the Bank. There are four management committees that have senior management level responsibility in respect of risk management. These committees comprise Risk Control Committee (responsible for credit risk management), Assets and Liabilities Management Committee (responsible for managing liquidity risk and market risk and overall assets and liabilities), Audit and Supervision Management Committee (responsible for maintaining the independence, authority and effectiveness of internal auditing system) and Internal Control Review Committee (responsible for operational risk management).