招商銀行
CHINA MERCHANTS BANK

招商銀行股份有限公司
CHINA MERCHANTS BANK CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 03968)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Board of Directors of
China Merchants Bank Co., Ltd.

24 March 2017

As at the date of this announcement, the executive directors of the Company are Tian Huiyu and Li Hao; the non-executive directors of the Company are Li Jianhong, Li Xiaopeng, Sun Yueying, Fu Gangfeng, Hong Xiaoyuan, Su Min, Zhang Jian and Wang Daxiong; and the independent non-executive directors of the Company are Leung Kam Chung, Antony, Wong Kwai Lam, Pan Chengwei, Pan Yingli, Zhao Jun and Wong See Hong.

招商銀行
CHINA MERCHANTS BANK

PLAN FOR NON-PUBLIC ISSUANCE OF DOMESTIC PREFERENCE SHARES OF CHINA MERCHANTS BANK CO., LTD.

March 2017

DECLARATION OF THE ISSUER

1. The Company and all the members of the Board undertake that the information in the Plan is true, accurate and complete and there are no false representations or misleading statements in, or material omissions from, the Plan.

2. The Company assumes the liabilities for any changes in operation and financial condition of the Company upon completion of the issuance of Domestic Preference Shares. Any investment risks arising from the non-public issuance of Domestic Preference Shares shall be borne by the investors.

3. The Plan is an explanation made by the Board of the Company on the non-public issuance of Domestic Preference Shares, and any contradictory statement will constitute misrepresentations.

4. If the investors are in any doubt, they should consult their stock brokers, solicitors, professional accountants or other professional advisers.

5. The matters mentioned in the Plan do not represent that substantive judgment, confirmation, authorisation and approval in relation to the non-public issuance of Domestic Preference Shares have been obtained from the approving authorities. The effectiveness and completion of the matters mentioned in the Plan in relation to the non-public issuance of Domestic Preference Shares shall be subject to the approval of the General Meeting, A Shareholders Class Meeting and H Shareholders Class Meeting of the Company as well as the authorisation or approval from relevant approving authorities.

SPECIAL NOTICE

1. Type and amount of Preference Shares: The type of this issuance of Domestic Preference Shares (the "Domestic Preference Shares") will comply with the requirements of relevant provisions of the Company Law of the People's Republic of China, the Security Law of the People's Republic of China, the State Council Guidance Opinion on the Launch of Preference Shares, the Trial Administrative Measures on Preference Shares, the Administrative Measures for the Capital of Commercial Banks (Trial), and Guidance on Preference Shares Issuance of Commercial Banks to Replenish Tier-1 Capital by CBRC and CSRC. The number of the Domestic Preference Shares will not exceed 275 million, the proceeds of the Domestic Preference Shares will not exceed RMB27.5 billion. The number of preference shares shall be determined by the Board within the above scope in accordance with the authorization granted at the shareholders' general meeting (such authorization may be sub-delegated by the Board).

2. Method of issuance: All Domestic Preference Shares will be issued to issue targets through private placement. The preference shares may be issued in one or several tranches pursuant to the approvals of the CBRC, CSRC and other regulatory authorities and in accordance with relevant procedures. Except for dividend rates, the terms of Domestic Preference Shares issued in different tranches are identical. In the event that the Domestic Preference Shares are to be issued in multiple tranches, no separate approval shall be required to be obtained from existing holders of preference shares for each such issuance.

3. Issue target: The Domestic Preference Shares will be issued to not more than 200 issue targets in compliance with the requirements of the Trial Administrative Measures on Preference Shares and other relevant laws and regulations. The aggregate number of issue targets of the preference shares with the same terms shall not be more than 200. The Domestic Preference Shares shall be subscribed by the issue targets in cash. The Board of the Company shall determine the target investors in accordance with the full authorization to the Board of Directors obtained from the shareholders' general meeting (which authorization can be further delegated) and relevant regulations of CSRC, and in compliance with relevant procedures of the domestic market. No preferential placement to existing shareholders will be arranged.

4. Nominal value and issue price: The nominal value of the Domestic Preference Shares will be RMB100 per share and the preference shares will be issued at par.

5. Principles for determining the dividend rate: The dividend rate of the Domestic Preference Shares shall be adjustable by stage and shall be adjusted each five years from the end of payment date. During any adjusted dividend rate period, the dividend will be paid at the same agreed dividend rate. The dividend rate at the time of issuance is authorized by the shareholders' general meeting to authorize (which authorization can be further delegated) the Board, and determined in conjunction with the market condition, the actual situation of the Company and investor's needs, through book-building process and other approaches allowed by the CSRC. The dividend rate shall not exceed the annual average of the weighted average return on equity of the Company for the two most recent financial years.

6. To meet the eligibility criteria for additional tier-1 capital instruments, the Domestic Preference Shares carry the following special clauses:

   (1) The duration of the Domestic Preference Shares to be issued is perpetual.

   (2) Dividends on the Domestic Preference Shares are non-cumulative.

   (3) The Company shall distribute dividends to holders of Domestic Preference Shares if there are distributable profits after tax after making up losses and the contribution to statutory surplus fund and general provision according to laws subject to satisfaction of the regulatory requirement regarding capital adequacy. Holders of Domestic Preference Shares will have preference over holders of Ordinary Shares when it comes to dividend distribution. Dividend payment is not linked to the rating of the Company and does not vary with changes in such rating. The Company has the right to cancel the distribution of part or all of the dividends on Domestic Preference Shares. Such cancellation shall not constitute a breach of agreement. The Company shall make its best effort to consider the interests of the holders of preference shares during the execution of such right. The Company may use the cancelled dividend on Domestic Preference Shares to repay other debts when due at its sole discretion. Cancellation on part or all of the dividend distribution on Domestic Preference Shares shall not constitute any restriction on the Company other than the restriction on distribution of dividends on Ordinary Shares.

   (4) According to relevant provisions of the CBRC, the Domestic Preference Shares to be issued shall be mandatorily converted into Ordinary A Shares when a trigger event for mandatory conversion takes place. Upon the mandatory conversion of Domestic Preference Shares to Ordinary A Shares, it cannot be restored to Preference Shares under any circumstances. The initial mandatory conversion price of the Domestic Preference Shares shall be the average trading price of Ordinary A Shares of the Company in 20 trading days prior to the announcement date of the Board resolution on the proposal in respect of issuance of Domestic Preference Shares (i.e. RMB19.02 per share), and the Company will make cumulative adjustments to the mandatory conversion price according to certain prescribed events relating to the Ordinary A Shares (e.g. bonus issuance, capital conversion or increase, issuance of new shares at a price lower than the market price (excluding any increase in the share capital as a result of conversion of certain financial instruments issued by the Company that are convertible into ordinary shares) and placement), but the distribution of cash dividend to the holders of Ordinary Shares shall not result in any adjustment to the mandatory conversion price.

   (5) Pursuant to the regulatory requirements on capital of commercial banks, no reverse sale term is set for the Domestic Preference Shares, but conditional redemption term is set for them. Subject to the approval of the CBRC and the compliance with relevant redemption conditions, the Company shall have the right to redeem all or part of the Domestic Preference Shares. The holders of Domestic Preference Shares do not have the right to require the Company to redeem or repurchase the Domestic Preference Shares, and the holders of the Domestic Preference Shares shall not expect that the Preference Shares will be redeemed.

7. The Domestic Preference Shares are subject to voting right restrictions. Unless under exceptional circumstances set forth in the Articles of Association and the Plan, normally holders of the Domestic Preference Shares are not entitled to convene or attend any shareholders' general meetings and the Domestic Preference Shares held do not carry any voting right. The Domestic Preference Shares carry terms for restoration of voting rights. Upon the completion of the issuance of the Domestic Preference share, if the Company fails to pay the prescribed dividend to holder of Domestic Preference Shares for three financial years in aggregate or two consecutive financial years, the holders of Domestic Preference Shares shall have the right to attend and vote at the shareholders' general meetings as if they are holders of Ordinary Shares from the day immediately after the shareholders' general meetings resolves that the Company will not pay the prescribed dividend for the current dividend period.

8. The Plan has been approved by the tenth meeting of the tenth session of the Board of the Company, but still need to be submitted to the General Meeting, A Shareholders Class Meeting and H Shareholders Class Meeting for consideration and approval. In addition, the Non-public Issuance is subject to the approval of the CBRC, the CSRC and other regulatory authorities. Upon being approved by the CSRC, the Company will apply for the issuance and transfer of Domestic Preference Shares, and after which, all approving procedures in respect of the Domestic Preference Shares are completed.

9. According to the resolution of the Board of the Company, the Company also plans to issue Offshore Preference Shares in addition to the issuance of Domestic Preference Shares. The non-public issuance of Domestic Preference Shares and Offshore Preference Shares are independent from each other and are not conditional on each other. Within the effective period of the resolution, the issuance of Domestic Preference Shares and Offshore Preference Shares in a multiple tranches shall not require the voting approval of the issued and outstanding holders of Preference Shares.

DEFINITIONS

In this Plan, unless otherwise specified, the following terms shall have the following meanings:

"Company" or "Issuer"	China Merchants Bank Co., Ltd.
"Plan"	the Plan for Non-public Issuance of Domestic Preference Shares of China Merchants Bank Co., Ltd. (《招商銀行股份有限公司非公開發行境內優先股預案》) considered and approved at the tenth meeting of the tenth session of the Board held on 24 March 2017 by the Company
"Non-public Issuance", "the Issuance of Domestic Shares" or "Non-public Issuance of Domestic Preference Shares"	the non-public issuance of Domestic Preference Shares considered and approved at the tenth meeting of the tenth session of the Board held on 24 March 2017 by the Company
"Ordinary A Shares"	ordinary shares of the Company, which are subscribed for and traded in RMB and listed in the domestic market
"Company Law"	the Company Law of the People's Republic of China
"Securities Law"	the Securities Law of the People's Republic of China
"Capital Administrative Measures"	the Administrative Measures for the Capital of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》) promulgated by the CBRC and effective from 1 January 2013
"Articles of Association"	the amended Articles of Association of China Merchants Bank Co., Ltd. (《招商銀行股份有限公司公司章程》(applicable after issuance of the Preference Shares)) considered and approved at the tenth meeting of the tenth session of the Board held on 24 March 2017 by the Company
"Basel III"	the latest prudential regulations on international Banking industry promulgated by the Basel Committee on Banking Supervision
"Core Tier-1 Capital Adequacy Ratio"	the ratio of core tier-one capital held by a commercial bank and compliant with the Capital Administrative Measures to the risk weighted assets of the commercial bank
"Tier-1 Capital Adequacy Ratio"	the ratio of tier-one capital held by a commercial bank and compliant with the Capital Administrative Measures to the risk weighted assets of the commercial bank

"Capital Adequacy Ratio"	the ratio of capital held by a commercial bank and compliant with the Capital Administrative Measures to the risk weighted assets of the commercial bank
"CBRC"	China Banking Regulatory Commission
"CSRC"	China Securities Regulatory Commission
"RMB", "RMB10,000" and "RMB100 million"	Renminbi 1 Yuan, Renminbi 10,000 Yuan, Renminbi 100 million Yuan, respectively

Note: Unless otherwise indicated, all financial data in the Plan refer to combined financial data prepared in accordance with the Accounting Standards for Business Enterprises (《企業會計準則》). All figures are rounded off to 2 decimal places. Any discrepancy between total numbers and sums of amounts listed are due to rounding.

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SECTION I PURPOSE OF THE ISSUANCE OF DOMESTIC PREFERENCE SHARES

I. Meeting increased capital requirements imposed by the banking regulatory authorities

Under the backdrop of continuous adjustment of the global economy, domestic and foreign regulatory authorities have strengthened regulation of the Capital Adequacy Ratio of banks. Following the issuance of Basel III, CBRC issued the Capital Administrative Measures and other regulatory provisions to step up regulations on capital replenishment mechanisms of banks in the PRC. According to regulatory requirements, by the end of 2018, the minimum requirements for Core Tier-1 Capital Adequacy Ratio, Tier-1 Capital Adequacy Ratio and capital adequacy ratio of non-systemically important banks are 7.5%, 8.5% and 10.5% respectively, and the countercyclical capital buffer will be also increased by no more than 2.5% as the case may be. In addition, according to the added capital requirements of internal capital adequacy assessment procedures, China Banking Regulatory Commission will comprehensively decide the second pillar added capital by the assessment of commercial banks on their internal capital adequacy assessment procedures. It is necessary to reserve capital buffer in advance. Furthermore, the new regulations on international capital will be finalized, and the regulatory capital requirements of domestic commercial banks may be stricter. Therefore, based on the comprehensive analysis of the macro economic and financial situation, the current capital status and future development planning of the Company, the Company holds that non-public issuance of Preference Shares is required to retain the safe margin of maintaining certain Capital Adequacy Ratio.

II. Ensuring the sustainable and stable business development of the Company

With the quickening of economic transition process of China, the expansion in breadth and depth of reform and opening as well as the enhancement of influence of global economy, there is a good chance for the business of Company. Meanwhile, due to the continuous promotion of domestic interest rate marketization and financial disintermediation process as well as the increasing competition between Banks, capital strength of commercial banks became more important to their sustainable development. Under the background of macroeconomic policy of vigorously promoting the reform of the supply side in China, the development of the real economy is expected to be stable. The Company will continue to maintain a stable and reasonable rate of growth in credit supply in the future, and risk-weighted assets will continue to grow as a result, which will lead to some capital consumption and ongoing pressure on capital replenishment. Therefore, it is necessary to continuously enhance the capital supplements mechanisms, improve Capital Adequacy Ratios, enhance the ability of resisting substantial risks, reserve momentum for future development, and ensure the sustainable and sound development of the Company's business.

III. Constantly optimizing the capital structure of the Company

For a long time, the Company has been adhering to the principle of placing endogenous accumulation primarily assisted by exogenous supplement to raise capital by multi-channel and multimode, trying to maintain sufficient capital levels. According to Capital Administrative Measures, the capital levels of commercial banks are classified into Core Tier-1 Capital, Additional Tier-1 Capital and Tier-2 Capital. Compared with the advanced international peers, the Company's capital structure mainly consists of Core Tier-1 Capital and Tier-2 Capital at present, the capital structure is relatively single, and the cost of capital is relatively high. The preference shares under this Issuance will be accounted as the Additional Tier-1 Capital of the Company, which can replenish the capital and reasonably optimize the Company's capital structure as well, and reduce the cost of capital, which helps to enhance the value of the Company. Therefore, from the perspective of optimizing capital structure and improving corporate value, the Company is requited to enhance its capital strength by supplementing its capital through various financing channels in the means of issuing Preference Shares, thus laying a solid foundation for the realization of the strategic goals of the Company.

SECTION II PLAN FOR THE ISSUANCE OF DOMESTIC PREFERENCE SHARES

I. Type and amount of this issuance of Domestic Preference Shares

The type of this issuance of Domestic Preference Shares (the "**Domestic Preference Shares**") will comply with the requirements of relevant provisions of laws, regulations and normative documents, including the *State Council Guidance Opinion on the Launch of Preference Shares,* the *Trial Administrative Measures on Preference Shares,* the *Administrative Measures for the Capital of Commercial Banks (Trial), and Guidance on Preference Shares Issuance of Commercial Banks to Replenish Tier-1 Capital* by CBRC and CSRC.

The number of the Domestic Preference Shares will not exceed 275 million, the proceeds of the Domestic Preference Shares will not exceed RMB27.5 billion. The number of preference shares shall be determined by the Board within the above scope in accordance with the authorization granted at the shareholders' general meeting (such authorization may be sub-delegated by the Board).

II. Duration

The duration of the Domestic Preference Shares to be issued is perpetual.

III. Method of issuance

All Domestic Preference Shares will be issued through private placement. The preference shares may be issued in one or several tranches pursuant to the approvals of the China Banking Regulatory Commission ("CBRC"), China Securities Regulatory Commission ("CSRC") and other regulatory authorities and in accordance with relevant procedures. In the event that several tranches are opted, the first tranche of preference shares shall be issued within six months from the date of approval by the CSRC. The first tranche of preference shares shall be not less than 50% of the total number of preference shares proposed to be issued and the remaining preference shares shall be issued in 24 months thereafter. Except for dividend rates, the terms of Domestic Preference Shares issued in different tranches are identical.

In the event that the Domestic Preference Shares are to be issued in multiple tranches, no separate approval shall be required to be obtained from existing holders of preference shares for each such issuance.

IV. Issue Target

The Domestic Preference Shares will be issued to not more than 200 issue targets in compliance with the requirements of the *Trial Administrative Measures on Preference Shares* and other relevant laws and regulations. The aggregate number of issue targets of the preference shares with the same terms shall not be more than 200. The Domestic Preference Shares shall be subscribed by the issue targets in cash.

No preferential placement to existing shareholders will be arranged.

The Company shall determine the target investors in accordance with the full authorization to the Board of Directors obtained from the shareholders' general meeting (which authorization can be further delegated) and relevant regulations of CSRC, and in compliance with relevant procedures of the domestic market.

V. Nominal value and issue price

The nominal value (i.e. par value) of the Domestic Preference Shares will be RMB100 per share and the preference shares will be issued at par.

VI. Lock-up period

There will be no lock-up period for the Domestic Preference Shares.

VII. Dividend Distribution Terms

(1) Principles for determining the dividend rate

The dividend rate of the Domestic Preference Shares shall be adjustable by stage and shall be adjusted each five years from the end of payment date. During any adjusted dividend rate period, the dividend will be paid at the same agreed dividend rate. The dividend rate at the time of issuance is authorized by the shareholders' general meeting to authorize (which authorization can be further delegated) the Board, and determined in conjunction with the market condition period, the actual situation of the Company and investor's needs, through book-building process and other approaches allowed by the CSRC. The dividend rate shall not exceed the annual average of the weighted average return on equity of the Company for the two most recent financial years.[1]

The dividend rate shall be a benchmark rate plus a fixed premium. The benchmark rate shall be the average of the yields of the five-year PRC treasury bonds for the 20 trading days prior to (but excluding)the payment due date of the issuance of the Domestic Preference Shares or the adjustment date of the benchmark rate. The fixed premium shall be the difference between the dividend rate at the time of issuance of the Domestic Preference Shares and the benchmark rate at the time of the issuance of the Domestic Preference Shares. The fixed premium is not adjustable once determined.

On the adjustment date of the benchmark rate, the dividend rate of the new interest accrual period will be determined by adding the benchmark rate on the adjustment date to the fixed premium determined during the pricing of the issuance date. In the event that the yield of five-year PRC treasury bonds is not available at the adjustment date of benchmark rate, the Company and the holders of Domestic Preference Shares shall negotiate the new benchmark rate or the basis of the adjustment in compliance with the requirements of the regulatory authorities.

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1. As determined in accordance with the Rules for Preparation of Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (as amended in 2010), and calculated based on the return attributable to the holders of Ordinary Shares of the parent company included in the consolidated financial statements.

(2) Conditions of dividend distribution

1. The Company shall distribute dividends to holders of Domestic Preference Shares if there are distributable profits after tax[1] after making up losses and the contribution to statutory surplus fund and general provision according to laws subject to satisfaction of the regulatory requirement regarding capital adequacy. Prior to the distribution of dividends to holders of ordinary shares, both Domestic Preference Shares and Offshore Preference Shares of the Company shall have the same priority of distribution of dividends, which is above that of holders of ordinary shares. Dividend payment of the Domestic Preference Shares is not linked to the rating of the Company and does not vary with changes in such rating.

2. In order to satisfy the regulatory requirements regarding the eligibility criteria of additional Tier-1 capital instruments, the Company has the right to cancel the distribution of part or all of the dividends on Domestic Preference Shares. Such cancellation shall not constitute a breach of agreement. The Company shall make its best effort to consider the interests of the holders of preference shares during the execution of such right. The Company may use the cancelled dividend on Domestic Preference Shares to repay other debts when due at its sole discretion. Cancellation on part or all of the dividend distribution on Domestic Preference Shares shall not constitute any restriction on the Company other than the restriction on distribution of dividends on Ordinary Shares. Decisions on the declaration and payment of all of the dividends on Domestic Preference Shares shall be made by the Board pursuant to the authorization of the shareholders' general meeting or by relevant director(s) pursuant to the authorization of the Board. The cancellation of the distribution of part or all of the dividends on Domestic Preference Shares shall be reviewed and approved by the shareholders' general meeting. Where the Company resolves to cancel the distribution of part or all of the dividends on Domestic Preference Shares, the Company shall inform the investors at least 10 business days prior to dividend distribution date in compliance with the requirement of the relevant authorities.

3. In the event that the Company cancels the distribution of part or all of the dividends on Domestic Preference Shares, the Company will not distribute any profit to holders of Ordinary Shares during the period from the date when the shareholders' general meeting adopts relevant resolution to the restoration of full dividend payment[2] to the holders of Preference Shares.

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1. The distributable profits after tax derives from the retained earnings in the Parent Company's financial statements prepared in compliance with the PRC GAAP or IFRSs, whichever is lower.

2. As the dividend payments on the Domestic Preference Shares are non-cumulative; hence, the Company will not distribute dividends cancelled in previous years.

(3) Method of dividend payment

Dividends on the Domestic Preference Shares shall be payable in cash. The dividend bearing principal amount shall be the aggregate value of the relevant tranche of Domestic Preference Shares then issued and outstanding. Dividends on the Domestic Preference Shares shall be paid annually, that is the dividends payable in compliance with the last dividend year. Dividends will accrue from the due date for payment for the issuance of the relevant tranche of Domestic Preference Shares.

Any tax payable on the dividends of Domestic Preference Shares shall be borne by holders of the Domestic Preference Shares in compliance with the relevant laws and regulations.

(4) Method of dividend accumulation

The dividends on the Domestic Preference Shares are non-cumulative, that is, the difference between the dividends actually paid to the holders of the Preference Shares and the dividends which shall have been paid will not be carried forward to the following year.

(5) Distribution of remaining profit

Once the holders of the Domestic Preference Shares have received dividends at the dividend rate, they shall not be entitled to the distribution of the remaining profit together with holders of Ordinary Shares.

VIII. Terms of Conditional Redemption

(1) Subject of the redemption right

The Domestic Preference Shares provide conditional redemption by the issuer. The Company shall have the right to redeem the Preference Shares subject to obtaining the approval of the CBRC. The Company does not have obligation to redeem preference shares. The holders of Preference Shares do not have the right to demand the Company to redeem the Preference Shares and shall not expect that the Preference Shares will be redeemed.

The Domestic Preference Shares will not contain any term allowing investors to sell back the Preference Shares to the Company and the holders of Preference Shares shall not have any right to demand redemption of their Preference Shares by the Company.

(2) Redemption conditions and period

From or in the fifth year following the date of issuance of the Domestic Preference Shares, and subject to obtaining the approval of the CBRC and the compliance with the relevant requirements, the Company shall have the right to redeem part or all of the Domestic Preference Shares. In case of partial redemption, the Domestic Preference Shares shall be redeemed on a pro rata basis and on the same conditions.

The redemption period for the Domestic Preference Shares begins on the date on which redemption begins and ends on the conversion or redemption of all the Domestic Preference Shares. The specific commencement date of redemption period shall be finally determined by the Board (which authorization can be further sub-delegated) in accordance with market conditions. The exercise by the Company of its right to redeem the Domestic Preference Shares shall be subject to the fulfillment of the following conditions:

1. the Company shall use capital instruments of the same or superior quality to replace the Preference Shares to be redeemed and such replacement shall only be made at a time at which the Company has a sustainable income generating capability; or

2. the capital position of the Company immediately after redemption will remain significantly higher than the regulatory capital requirements prescribed by the CBRC.

(3) Redemption price and basis for determining the redemption price

During the redemption period, the Company shall have the right to redeem part or all of the Domestic Preference Shares which have not been converted, at the par value of the Domestic Preference Shares plus the amount of dividend declared but not yet paid for the current period.

IX. Terms of mandatory conversion

(1) Events triggering mandatory conversion

1. Upon the occurrence of any Additional Tier-1 Capital Instrument Trigger Event, that is, the Core Tier-1 Capital Adequacy Ratio drops to 5.125% or below, the Company shall have the right to convert, without the approval of the holders of Preference Shares, part or all of the Domestic Preference Shares then issued and outstanding into Ordinary A Shares based on the total par value of such Domestic Preference Shares in order to restore the Core Tier-1 Capital Adequacy Ratio of the Company to above 5.125%. In case of partial conversion, the Domestic Preference Shares shall be converted on a pro rata basis and on identical conditions.

2. Upon the occurrence of a Tier-2 Capital Trigger Event, the Company shall have the right to convert, without the approval of the holders of Preference Shares, all of the Domestic Preference Shares then issued and outstanding into Ordinary A Shares based on the total par value of such Domestic Preference Shares. A Tier-2 Capital Trigger Event means the earlier of the following events: (1) the CBRC having concluded that without a conversion or write-off, the Company would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Company would become non-viable.

Upon the occurrence of the above mandatory conversion events, the Company shall report to the CBRC for review and determination and shall fulfill the relevant information disclosure obligations of the *Securities Law of People's Republic of China*, the CSRC and Hong Kong's laws and regulations such as making provisional reports or announcements in accordance with relevant regulatory requirements.

(2) Mandatory conversion price and its basis

The initial mandatory conversion price of the Domestic Preference Shares shall be the average trading price of Ordinary A Shares of the Company in 20 trading days prior to the announcement date of the Board resolution on the proposal in respect of issuance of Domestic Preference Shares.

The average trading price of Ordinary A Shares in 20 trading days prior to the announcement date of the Board resolution on the relevant issuance proposal = the total trading amount of Ordinary A Shares in these 20 trading days/the total trading volume of Ordinary A Shares in these 20 trading days (i.e. RMB19.02 per share).

(3) Principles for determining the proportion and the number for mandatory conversion

Upon the occurrence of a trigger event, the Board will, in accordance with the approval of the CBRC and the authorization given by the shareholders' general meetings (which authorization can be further delegated), confirm the total par value of the Domestic Preference Shares for mandatory conversion and implement mandatory conversion of the Domestic Preference Shares then issued and outstanding in whole or in part, and the formula for determining the number of shares to be converted shall be: $Q = V/P$. Any fractional of Domestic Preference share will be dealt with by the Company in compliance with relevant regulatory requirements. Where it is not specified in the regulatory requirements, any fractional share will be rounded down to the nearest integral number.

Where: "Q" denotes the number of Ordinary A Shares that shall be converted from the Domestic Preference Shares held by each holder of Domestic Preference Shares; "V" denotes the total par value of Domestic Preference Shares held by each holder of Domestic Preference Shares for the mandatory conversion as determined under the principle that the losses will be absorbed in equal proportion among the Domestic Preference Shares and the Offshore Preference Shares; "P" denotes the mandatory conversion price of the Domestic Preference Shares under the Issuance.

Upon the occurrence of a trigger event, the Domestic Preference Shares then issued and outstanding will be converted into corresponding number of Ordinary A Shares based on the above formula in whole or in part on a pro rata basis.

If the control of the Company changes as a result of the conversion of Domestic Preference Shares to Ordinary A Shares, or relevant shareholders of the Company, its associates and parties acting in concert obtain a total percentage of issued Ordinary Shares of 30% or above (or other percentage in accordance with the effective securities regulations from time to time) as a result of the conversion of Preference Shares held by them to Ordinary Shares resulting in the relevant shareholders are liable for any mandatory general offer, or the conversion of Domestic Preference Shares to Ordinary A Shares results in the public float of the Company's Shares at any time less than the minimum requirements of the listing rules in the place where the Company's shares are listed, or the conversion of Domestic Preference Shares to Ordinary A Shares results in the number of Ordinary Shares of the Company held by the shareholders reaching the proportion required for approval under the domestic and foreign laws and regulations or other regulatory requirements, the conversion shall be in compliance with the relevant provisions of CSRC, CBRC and the domestic and foreign laws and regulations and other regulatory authorities.

(4) Mandatory conversion period

The period for mandatory conversion of the Domestic Preference Shares commences on the first trading day immediately following the completion date of issuance and ends on the date of full redemption or conversion.

(5) Method of adjustments of the mandatory conversion price

Upon the occurrence of certain prescribed events relating to the Ordinary A Shares (e.g. bonus issuance, capital conversion or increase, issuance of new shares at a price lower than the market price (excluding any increase in the share capital as a result of conversion of certain financial instruments issued by the Company that are convertible into ordinary shares) and placement) after the date of passing the Board resolution in respect of the issuance plan of the Domestic Preference Shares, the mandatory conversion price shall be subject to cumulative adjustments in the same order of the occurrence of such events and in accordance with regulatory requirements for information disclosure. The distribution of cash dividend to the holders of Ordinary Shares shall not result in any adjustment to the mandatory conversion price. The mandatory conversion price will be adjusted based on the following:

Bonus issuance or capital conversion or increase: $P_1 = P_0 /(1+n)$;

Insurance of new shares at a price lower than the market price or placement: $P_1 = P_0 \text{ x } (N+S \text{ x } (A/M)/(N+S)$;

Where: "P_0" denotes the effective mandatory conversion price before adjustment; "n" denotes the ratio of the bonus issuance for Ordinary A Shares or the capital conversion or increase; "N" denotes the total Ordinary Shares capital of the Company prior to the issuance of new A Shares or placement; "S" denotes the amount of the issuance of new A Shares or placement; "A" denotes the price for the issuance of the new A Shares or placement; "M" denotes the closing price of Ordinary A Shares on the trading date immediately prior to the date of registration of issuance or placement of new A Share; and "P_1" denotes the effective mandatory conversion price after adjustment.

In the event that the rights and benefits of the holders of the Domestic Preference Shares may be affected by the change in the class and number of shares and shareholders' interests of the Company due to the cancellation of any repurchased ordinary shares by, or merger or division of the Company or any other circumstances, the Company shall have the right to adjust the mandatory conversion price based on the actual circumstances and in accordance with the principles of fairness, justice, equity and full protection and balance of the interests of the holders of Preference Share and the holders of Ordinary shares. The adjustment mechanism for the mandatory conversion price in those circumstances will be determined in compliance with the relevant regulations.

(6) Entitlement to dividends of Ordinary Shares in the year of mandatory conversion

The new Ordinary A Shares to be issued as a result of the mandatory conversion of the Domestic Preference Shares will rank pari passu with the existing Ordinary A Shares, and all holders of Ordinary Shares (including the holders of Ordinary A Shares due to the mandatory conversion of the Domestic Preference Shares) whose names appear on the register of members of the Company on the record date for dividend entitlement shall be entitled to receive the dividend for the current dividend period.

(7) Other agreements

Upon the mandatory conversion of Domestic Preference Shares to Ordinary A Shares, it cannot be restored to Preference Shares under any circumstances.

X. Restrictions on voting rights

Under normal circumstances, the holders of Preference Shares are not entitled to convene or attend any shareholders' general meetings of the Company nor do the Preference Shares carry voting rights in any shareholders' general meetings. In the event that any of the following matters occurs, the holders of Domestic Preference Shares (excluding holder of Preference Shares with restored voting rights) will be entitled to attend shareholders' general meetings and vote as a separate class. Under such circumstance, each Domestic Preference Share will be entitled to one vote, but the Preference Shares held by the Company do not entitle the Company to vote:

1. amendments to the Articles of Association of the Company that relate to Preference Shares;

2. reduction of the registered capital of the Company by more than 10% on a single or aggregate basis;

3. division, merger, dissolution or change of corporate form of the Company;

4. issuance of Preference Shares by the Company (excluding the issuance of Domestic Preference Shares approved at the shareholders' general meetings, within the validity period of the resolution for the issuance of Preference Shares, under the issuance of Preference Shares framework);

5. other events specified in the laws, administrative rules and departmental regulations and the Articles of Association of the Company.

Resolution(s) relating to the above matters shall be approved by more than two-thirds of the votes held by the holders of Ordinary Shares of the Company present at the meeting (including holders of Preference Shares with restored voting rights) and by more than two-thirds of the votes held by the holders of Preference Shares present at the meeting (excluding holders of Preference Shares with restored voting rights).

XI. Restoration of voting rights

(1) Terms of restoration of voting rights

As such Domestic Preference Shares remain outstanding, if the Company fails to pay the prescribed dividend to holder of Preference Shares for three financial years in aggregate or two consecutive financial years, the holders of Domestic Preference Shares shall have the right to attend and vote at the shareholders' general meetings as if they are holders of Ordinary Shares from the day immediately after the shareholders' general meetings resolves that the Company will not pay the prescribed dividend for the current dividend period, and each preference share shall be entitled to the voting rights as provided in the Articles of Association of the Company. The formula for calculating the voting rights of the Domestic Preference Shares with restored voting rights is as follows:

R=W/P, with any fractional restored voting right rounded down to the nearest whole number.

Where: "R" denotes the Ordinary A Shares voting rights restored from the Domestic Preference Shares held by each holder of Domestic Preference Shares; "W" denotes the total par value of the Domestic Preference Shares with restored voting rights held by each holder of Domestic Preference Shares; "P" denotes the conversion price, refers to the average trading price (i.e. RMB19.02 per share) of Ordinary A Shares of the Company on the trading date 20 days prior to the date of the announcement of the passing of the Board resolution in respect of the Domestic Preference Shares issuance plan; the adjustment to conversion price shall be consistent with the adjustment method applicable to the mandatory conversion price as specified in "IX. Terms of mandatory conversion".

(2) Cancellation of restoration of voting rights

Upon the full payment of the dividends on the Domestic Preference Shares for the current dividend period, the voting rights granted to holders of the Domestic Preference Shares in accordance with the terms of restoration of voting rights will be cancelled commencing on the date of full payment of such dividends. Upon such cancellation, in the event that the terms for the restoration of voting rights are triggered again, holders of the Domestic Preference Shares may be re-granted with voting rights.

XII. Order of distribution of residual assets and basis for liquidation

Pursuant to the Articles of Association of the Company, the residual assets of the Company will be distributed in the order of liquidation expenses, employee salary, social insurance premiums and statutory compensatory amount, principal and interest of individual deposits, outstanding taxes, other debts of the Company and all such holders of preference shares will rank ahead of the holders of Ordinary Shares in terms of distribution of remaining assets.

The holders of Domestic Preference Shares of this Issuance will be entitled to an amount on liquidation equals to the total par value of the Domestic Preference Shares then issued and outstanding plus any declared but unpaid dividends for the current period. In the event that there are insufficient residual assets, the distribution will be made on a pro rata basis among the holders of the Domestic Preference Shares and the holders of Offshore Preference Shares.

Holders of Domestic Preference Shares will rank pari passu with the holders of Offshore Preference Shares in terms of distribution of remaining assets. All such holders of issuance of potential Preference Shares with the Company will rank pari passu in respect of distribution of residual assets. All holders of Preference Shares will be subordinated to the depositors, general creditors, holders of subordinated debts, holders of the Company's convertible debts, holders of Tier-2 capital debts and other holders of Tier-2 capital instruments in respect of distribution of residual assets, but will rank ahead of holders of Ordinary Shares.

Upon distribution to the foregoing items, the remaining assets of the Company will be distributed to the holders of Ordinary Shares in proportion to their corresponding shareholdings.

XIII. Rating arrangement

The rating arrangement of the Domestic Preference Shares shall be determined in accordance with relevant domestic laws and regulations and financial market conditions.

XIV. Guarantee

There is no guarantee arrangement in relation to the Domestic Preference Shares.

XV. Use of proceeds

Upon the approval by relevant regulatory authorities, the proceeds from the issuance of Domestic Preference Shares deducting issuance expenses, will be fully used for replenishment of the Additional Tier-1 Capital of the Company.

XVI. Transferability

Transfer of the Domestic Preference Shares will be made on a designated trading platform of the Shanghai Stock Exchange, and the suitability of investors in the process of transfer shall comply with the relevant regulatory requirements of the CSRC.

XVII. Compliance of latest regulatory requirements

In the event that the regulatory authorities impose new capital requirements or make material changes to the existing capital requirements when there are outstanding Domestic Preference Shares, the Company has the right to modify the issuance of the Domestic Preference Shares and relevant documents, as permitted by relevant laws and regulations, and pursuant to the new regulatory requirements, in order to comply with the regulatory requirements of additional Tier-1 capital instruments.

Upon consideration of issuance of the Domestic Preference Shares by the Board and approval by shareholders' general meetings, this plan may be further amended by the Board under the authorization of the shareholders' general meetings (including the authority for the Board to sub-delegate) on the basis of the advice of the regulatory authorities.

XVIII. Effective period of the resolution of the issuance of Domestic Preference Shares

The resolution in respect of the issuance of Domestic Preference Shares shall be valid for 24 months from the date on which the resolution is passed at the shareholders' general meetings of the Company. Under the framework of the resolution of issuance of preference shares at the shareholders' general meetings, and within the effective period of the resolution, the issuance of Domestic Preference Shares in a multiple tranches shall not require the voting approval of the issued and outstanding holders of Preference Shares.

XIX. Issuance of Domestic and Offshore Preference Shares

The non-public issuance of Domestic Preference Shares and non-public issuance of Offshore Preference Shares are independent from each other and are not conditional on each other. In the event that either of the non-public issuance of Offshore Preference Shares or its relevant proposal (including but not limited to relevant sub-proposals) or other relating matters fails to obtain the approval of the Board, the shareholders' general meetings, the class meeting (if necessary) or the CBRC and/or the CSRC, or fails to obtain the approval of other competent authorities, the non-public issuance of Domestic Preference Shares and its relevant proposal (including but not limited to relevant sub-proposals) shall not be affected.

XX. Authorization Matters

(1) Authorization concerning the issuance of Domestic Preference Shares

To ensure smooth implementation for the matters relating to the issuance of the Domestic Preference Shares, it will be proposed at the shareholders' general meeting to authorise the Board, and the Board will then delegate the authority to any two of the non-related directors namely Li Jianhong, Tian Huiyu, Sun Yueying, Li Hao, Hong Xiaoyuan, to jointly exercise the full power to handle matters relating to the issuance of the Domestic Preference Shares under the framework and principles as deliberated and adopted at the shareholders' general meeting and within the validity period of the resolution in respect of the issuance of the Domestic Preference Shares, including but not limited to those set out below:

1. to complete the review, registration, record, approval and agreement from relevant domestic and offshore government, regulatory authorities, organizations and exchanges for the issuance of the Domestic Preference Shares;

2. to complete the formulation, amendment and implementation of the issuance plan of the Domestic Preference Shares, based on the actual circumstances, including but not limited to the terms and conditions relating to the actual issuance time, issuance amount and the proceed scale, dividend rates (including the method to determine the dividend rates and the final dividend rates), the actual arrangements of redemption period, conversion arrangements, arrangements relating to issuance by tranches, issuance methods, issuance targets, rating arrangement, transfer arrangement, proceed saving account and other relevant matters of the issuance of the Domestic Preference Shares;

3. to make appropriate amendments, adjustments and supplements to the issuance plan and relative documents of Domestic Preference Shares within the scope permitted by laws and regulations, to reflect any new regulations by the competent authorities or policies by relevant regulatory authorities on Preference Shares or any changes to market conditions occurring prior to the issuance of Domestic Preference Shares, taking into account the actual situation of the Company, unless the amendments require a separate voting at the shareholders' general meeting according to relevant laws, regulations and the Articles and Association of the Company;

4. to sign, execute, amend, replenish, accomplish, deliver, and announce to relevant domestic and foreign regulatory authorities, institutions, exchange, organizations, personal documents and relevant agreements regarding the issuance of Domestic Preference Shares and other relevant documents, including but not limited to announcements, circulars, listing documents, prospectus, sponsorship and underwriting agreements, subscription agreements etc. and make the relevant information disclosures in accordance with the applicable laws and regulations;

5. to handle the application of the issuance of Domestic Preference Shares with relevant domestic and foreign regulatory authorities and make adjustment to the issuance of the Domestic Preference Shares in accordance with the amendment on opinions and supplement to relevant application documents of relevant domestic and foreign regulatory authorities;

6. to approve and sign the relevant regulatory documents regarding the issuance of Domestic Preference Shares and to make information disclosures;

7. to amend the relevant terms and conditions of the Articles of Association of the Company, review the amended articles of the CBRC and other regulatory authorities and handle the change of commercial registrations;

8. may at its discretion extend or earlier terminate the implementation of the Domestic Preference Shares issuance plans under force majeure or other situations make the issuance of Domestic Preference Shares impractical to implement, or under implementable situation but the interests of the Company as a whole being adversely affected;

9. to handle all the matters considered by them to be necessary, desirable or expedient regarding the issuance of Domestic Preference Shares under the approval of relevant laws and regulations;

10. the authorization shall be valid for 12 months from the date of approval of the shareholders' general meetings.

(2) Matters authorised in respect of the Domestic Preference Shares that remain outstanding

It will be proposed at the shareholders' general meeting to authorise the Board, and the Board will then delegate the authority to any two of the non-related directors namely Li Jianhong, Tian Huiyu, Sun Yueying, Li Hao, Hong Xiaoyuan, to jointly exercise the full power to handle related matters under the framework and principles as deliberated and adopted at the shareholders' general meeting and since the completion of the issuance of the Domestic Preference Shares, including but not limited to those set out below:

1. to declare and pay all dividends on the preference shares in accordance with the issuance plan. In the event that part or all of the dividends on the Preference Shares are cancelled, such cancellation shall be subject to the approval of the shareholders' general meetings;

2. to redeem the Domestic Preference Shares based on the market conditions during the redemption period of the preference shares under the issuance and to, at its sole discretion, deal with any matters relating to the redemption in accordance with the approval of the CBRC and other regulatory authorities;

3. to, at its sole discretion, deal with any matters relating to the conversion of Domestic Preference Shares upon the triggering of the mandatory conversion conditions, including but not limited to the conversion time, conversion proportion, issuing Ordinary Shares, revising the relevant provisions of the Articles of Association of the Company, completing relevant approval procedures of the CBRC and other regulatory authorities and completing the registration in respect of the change in the registered capital with the authority of industry and commerce in accordance with the provisions of mandatory conversion;

4. in the case of restoring the voting rights of Domestic Preference Shares, to handle, with full authority, the matters regarding the relevant shareholders are required to compliance with the review of the domestic and foreign regulatory authorities and the information disclosures as a result of subscribing to the restoration of voting rights of Domestic Preference Shares;

5. to determine the new benchmark rate and preference shares' dividend rate on the benchmark rate adjustment day in accordance with the shareholders' general meetings' principles;

6. in the event that the regulatory authorities impose new capital requirements or make material changes to the existing capital requirement, causing the Domestic Preference Shares being issued to be not qualified as Additional Tier-1 Capital, to modify the contractual terms of the Issuance so that the Domestic Preference Shares shall be qualified as additional Tier-1 capital instruments in compliance with the regulatory requirements.

XXI. Status on the Approval obtained for the Domestic Issuance Plan and procedures required for approval

The Domestic Issuance Plan has been considered and approved at the tenth meeting of the tenth session of Board of the Company held on 24 March 2017. The plan is subject to consideration and approval at the shareholders' general meeting, A Shareholders Class Meeting and H Shareholders Class Meeting of the Company. The plan for the Issuance shall be subject to approval by CBRC and CSRC, and the implementation of which will be on the plan finally endorsed by the afore-mentioned regulatory authorities.

SECTION III MAJOR RISKS ARISING FROM THE ISSUANCE OF DOMESTIC PREFERENCE SHARES

I. Risk of reduction in dividends to holders of Ordinary Shares

The Company shall distribute dividends to the holders of preference shares if there are distributable profits after tax in the Parent Company's financial statements after making up losses and the contribution to statutory surplus fund and general provision according to laws subject to satisfaction of the regulatory capital requirements of commercial banks regarding capital position. As the holders of Preference Shares have priority rights to receive profits allocated by the Company than the holders of Ordinary Shares, which will result in reduction in dividends attributable to the holders of Ordinary Shares. In addition, under the circumstance where whole or part of dividends of Preference Shares are cancelled by the Company, it would not allocate any profit to the holders of Ordinary Shares for a period starting from the following day when a resolution is passed at the General Meeting until the determination of restarting the full payment of dividends[1] to the holders of Preference Shares by the Company.

It is assumed that the total amount of the issuance of the Domestic Preference Shares is RMB27.5 billion at a dividend rate of 5.0% (such assumption is for illustration only and shall not represent the expected dividend rate of the Preference Shares of the Company) and the dividends are paid in full, the annual net profit attributable to holders of Ordinary Shares of the Company will be reduced by RMB1.375 billion without considering the financial return on proceeds and the pre-tax deduction of dividends on the Preference Shares, accounting for approximately 2.21 % of the net profit (RMB62.081 billion) attributable to holders of Ordinary Shares of the parent company in 2016. The profit available to the holders of Ordinary Shares of the Company may be reduced if the gain from the issuance of Preference Shares fails to cover the dividends of Preference Shares.

II. Risk of dilution for voting rights of holders of Ordinary Shares

Upon restoration of the voting rights of the Domestic Preference Shareholders, the holders of preference shares shall have the right to attend and vote at the shareholders' general meetings as if they are holders of Ordinary Shares by converting their voting rights into voting rights of Ordinary A Shares in accordance with the calculation methods set out in the Preference Share Plan under this issuance, which may lead to an increase in the total number of Shares with voting rights and may subject holders of original Ordinary Shares to risk of dilution for voting rights. Assuming that the amount of the Domestic Preference Shares under the issuance is RMB27.5 billion and the average trading price of Ordinary A Shares of the Company on the trading date 20 days prior to the date of the announcement of the passing of the Board resolution is RMB19.02 per share, the Domestic Preference Shares with voting rights of the Company accounts for 5.42% of total shares with voting rights upon the restoration of voting rights.

1. As the dividend payments on preference shares are non-cumulative; hence, the Company will not distribute dividends cancelled in previous years.

III. Risk arising from order of distribution of residual assets

The principal and dividends of Domestic Preference Shares rank senior to those of Ordinary Shares in terms of liquidation, so in the event of liquidation arising from the dissolution or bankruptcy of the Company, the holders of Ordinary Shares may be exposed to the risk of obtaining less liquidation properties to be distributed due to their lower ranking in the allocation of the remaining assets.

IV. Risk due to mandatory conversion

When the mandatory conversion conditions are satisfied, the Domestic Preference Shares issued in this Issuance and subsisting will be wholly or partly converted into Ordinary A Shares with the approval from the regulatory authority. As a result, the total share capital of Ordinary Shares will increase accordingly, and therefore there will be dilutive effect to a certain extent on the shareholding percentages and voting rights of the original holders of Ordinary Shares as well as some of the financial indicators including earnings per share.

As at 31 December 2016, the total number of outstanding Ordinary Shares of the Company was 25,219,845,601. Assuming that the maximum amount of the Domestic Preference Shares under the issuance is RMB27.5 billion and the average trading price of Ordinary A Shares of the Company on the trading date 20 days prior to the date of the announcement of the passing of the Board resolution is RMB19.02 per share for mandatory conversion, upon full conversion of Domestic Preference Shares into Ordinary A Shares, the Ordinary Shares of the Company will increase to 26,665,692,078 shares, and the shareholding of original holders of Ordinary Shares will be diluted to 94.58%.

V. Tax risk

In accordance with the relevant applicable tax policies, dividend on the Domestic Preference Shares under this issuance shall be from distributable profit of the Company after tax and cannot be deducted before income tax. But it is possible that tax risks arise from any future tax policy adjustments.

VI. Redemption risk

Upon approval by the CBRC, the Company shall have the right to redeem part or all of the Domestic Preference Shares issued from or in the fifth year following the date of issuance. The exercising of the redemption right may lead to a decrease in the net assets and Additional Tier-1 Capital of the Company, which in turn may affect the relevant financial data or indicators of the Company.

VII. Decision risk arising from class voting

According to the Guidance Opinion of the State Council on the Launch of Preference Shares Pilot Scheme, the Trial Administrative Measures on Preference Shares and other regulations as well as the Plan of Domestic Preference Shares of the Company, the holders of Preference Shares have the right to vote as a separate class in any of the following circumstances: 1. amendments to the Articles of Association of the Company that relate to Preference Shares; 2. reduction of the registered capital of the Company by more than 10% on a single or aggregate basis; 3. division, merger, dissolution or change of corporate form of the Company; 4. issuance of Preference Shares by the Company (excluding the issuance of Domestic Preference Shares approved at the shareholders' general meetings, within the validity period of the resolution for the issuance of Preference Shares, under the issuance of Preference Shares framework); and 5. other events specified in the laws, administrative rules and departmental regulations and the Articles of Association of the Company. Following the completion of issuance of Domestic Preference Shares, the holders of Preference Shares shall be entitled to vote as a separate class from the holders of Ordinary Shares in respect of the above-mentioned major events for which the Preference Shares carry separate voting rights. Namely, resolution(s) relating to the above matters shall be approved by more than two-thirds of the votes held by the holders of Ordinary Shares of the Company present at the meeting (including holders of Preference Shares with restored voting rights) and by more than two-thirds of the votes held by the holders of Preference Shares present at the meeting (excluding holders of Preference Shares with restored voting rights). Such class voting arrangement casts uncertainty over the Company's decisions on the above-mentioned major events.

VIII. Risks of failure to obtain approval for the Plan of Domestic Preference Shares under this issuance

The Issuance is subject to the consideration and approval at the General Meeting, A Shareholders Class Meeting and H Shareholders Class Meeting, and there is possibility that the Plan will not be approved by the General Meetings, and A Shareholders Class Meeting and H Shareholders Class Meeting of the Company. Meanwhile, the issuance is also subject to the approvals of the CBRC, the CSRC and other regulatory authorities. There is uncertainty in whether the issuance will be approved by the regulatory authorities and when the issuance will be approved.

IX. Risk of regulatory policy changes

Pursuant to current CBRC rules, the Domestic Preference Shares under this issuance meet requirements on Additional Tier-1 Capital. Therefore, proceeds from Domestic Preference under this Issuance will be used to replenish Additional Tier-1 Capital in accordance with relevant rules. During the term of Preference Shares, however, Domestic Preference Shares may become ineligible for the requirements of Additional Tier-1 Capital and thus cannot be included in Tier-1 capital due to regulatory policy changes, which may further lead to capital reduction and affect business development and risk resistance of the Company.

X. Other risks

The Company faces many risks in its business operation and development, such as credit risk, market risk, liquidity risk, reputational risk, internal control and operational risks, policy and legal risk, competition risk as well as international market and economic environment risks.

Beside risk factors stated in this Plan, there may be other incidental, sudden, unpredictable and unavoidable risks in connection with business of the Company and the Domestic Preference Shares under this issuance.

SECTION IV PLAN FOR USE OF PROCEEDS RECEIVED FROM THE ISSUANCE OF DOMESTIC PREFERENCE SHARES

I. Scale and use of proceeds from the issuance of Domestic Preference Shares

The Company proposes to raise no more than RMB27.5 billion of funds in total by issuing no more than 275 million Domestic Preference Shares. Upon the approval by relevant regulatory authorities, the proceeds from the issuance of Domestic Preference Shares deducting issuance expenses will be fully used for replenishment of the Additional Tier-1 Capital of the Company and enhancement of the Tier-1 Capital and improvement of its capital structure.

II. Rationality of the issuance of Domestic Preference Shares

In recent years, although its business scale has increased steadily, the Company has also faced certain pressure on its Capital Adequacy Ratio under increasingly strict regulation on capital adequacy. The Company actively adjusted its asset structure and business structure, and continued to enhance its self-development capability and the capability to replenish its capital internally. However, the Company shall also make appropriate use of external financing instruments to further replenish its capital while maintaining the percentage of its weighted risk assets within a proper range and insisting on replenishing core capital mainly with retained profits. Therefore, according to the Capital Management Plan of China Merchants Bank Co., Ltd. for 2017-2019 (《招商銀行股份有限公司2017-2019年資本管理規劃》) prepared by the Company, the Company intends to replenish its Additional Tier-1 Capital through the issuance of Domestic Preference Shares, in order to keep ongoing compliance with stricter regulatory requirements on capital imposed by regulators, continue to enhance its anti-risk capability, improve its sustainability development capability and optimize its capital structure, and eventually promoting the steady growth of shareholders' return.

The Company has been attaching great importance to shareholder return and firmly adhering to the long-term stable policy of cash dividends. In general, the annual dividends required to distribute on the Domestic Preference Shares have limited effect on the amount of the net profit attributable to the holders of Ordinary Shares of the parent company and thus have no material impact on cash dividends distributed to holders of Ordinary Shares. Pursuant to the Articles of Association, the Company will ensure a consistent and stable profit distribution policy while taking into account the current and long-term interest of shareholders and striving to safeguard the interests of all shareholders.

For the quantitative and specific effects of the issuance of the Domestic Preference Shares on the regulatory capital indicators of the Company and the cash dividends on Ordinary Shares, please refer to "IV. Effects of the issuance on the regulatory capital indicators of the Company" in "Section V Discussion and Analysis of the Board on the Effects of the issuance on the Company", and "I. Risk of reduction in dividends to holders of Ordinary Shares" in "Section III Major Risks Arising from the issuance of Domestic Preference Shares".

SECTION V DISCUSSION AND ANALYSIS OF THE BOARD ON THE EFFECTS OF THE ISSUANCE ON THE COMPANY

I. Accounting treatment relating to the issuance of the Preference Shares

In accordance with the requirements of Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No.37 – Presentation of Financial Instruments and Rules on Differentiating Financial Liabilities from Equity Instruments and Relevant Accounting Treatment issued by the Ministry of Finance and the Plan for the issuance of Domestic Preference Shares, the Domestic Preference Shares to be issued by the Company will be accounted for as equity instruments and dividend on Preference Shares will be treated as after-tax profit distribution.

II. Effect of the issuance on the tax of the Company

In accordance with the policies and regulations on Preference Shares and relevant provisions of prevailing tax laws, dividends of the Domestic Preference Shares will be paid out of the distributable after-tax profits. No distribution will be made prior to deducting income tax, and therefore will not result in any effects on tax payments of the Company. If relevant national authorities promulgate policies or regulations regarding tax treatments for Preference Shares, the Company will determine the way of handling relevant tax payments in accordance with the requirements of the relevant policies.

III. Effects of the issuance on the financial data and financial indicators of the Company

Based on the combined financial data of the Company as at 31 December 2016, assuming that the issuance of Domestic Preference Shares was completed on 1 January 2016 with a total issuance scale of RMB27.5 billion (without taking into account issuance expense) and a dividend rate of 5.0% (this figure is for illustrative purposes only and does not represent the Company's expected dividend rate for the Domestic Preference Shares under this issuance) and that the dividends were distributed in full, the static measurement is made as follows in two circumstances:

(I) Proceeds from the Preference Shares Bringing About Zero Utilization Benefits

Major Financial Indicators	As at 31 December 2016/ for the Year of 2016		
	Before the issuance	After the issuance	Difference
Share capital of Ordinary Shares (RMB million)	25,220	25,220	0
Equity attributable to shareholders of the parent company (RMB million)	402,350	428,475	+26,125
Net profit attributable to holders of Ordinary Shares of the parent company (RMB million, including non-recurring gains and losses)	62,081	60,706	–1,375
Return on weighted average net assets attributable to holders of Ordinary Shares of the parent company	16.27%	15.94%	Decreased by 0.33 percentage
Basic earnings per share attributable to holders of Ordinary Shares of the parent company (RMB)	2.46	2.41	–0.05

Notes:

(1) Equity attributable to shareholders of the parent company after the issuance =Equity attributable to shareholders of the parent company before the issuance + Preference Shares of RMB27.5 billion – dividends on Preference Shares for the year;

(2) Return on weighted average net assets attributable to holders of Ordinary Shares of the parent company after the issuance =(Net profit attributable to holders of Ordinary Shares of the parent company before the issuance – dividends on Preference Shares declared for the year)/(weighted average net assets attributable to holders of Ordinary Shares of the parent company before the issuance – weighted average dividends on Preference Shares declared for the year);

(3) Basic earnings per share attributable to holders of Ordinary Shares of the parent company after the issuance =(Net profit attributable to holders of Ordinary Shares of the parent company after the issuance – dividends on Preference Shares declared for the year)/weighted average share capital of Ordinary Shares.

(II) Proceeds from the Preference Shares Bringing About Utilization Benefits Based on the Return on Weighted Average Net Assets in 2016

It is assumed that the proceeds are used since 1 January 2016 and the relevant return amounts to the return on weighted average net assets attributable to holders of Ordinary Shares of the parent company in 2016 (namely 16.27%), and no other possible influence factors are considered.

Major Financial Indicators	**As at 31 December 2016/ for the Year of 2016**		
	Before the issuance	**After the issuance**	**Difference**
Share capital of Ordinary Shares (RMB million)	25,220	25,220	0
Equity attributable to shareholders of the parent company (RMB million)	402,350	432,949	+30,599
Net profit attributable to holders of Ordinary Shares of the parent company (RMB million, including non-recurring gains and losses)	62,081	65,180	+3,099
Return on weighted average net assets attributable to holders of Ordinary Shares of the parent company	16.27%	17.01%	Increased by 0.74 percentage
Basic earnings per share attributable to holders of Ordinary Shares of the parent company (RMB)	2.46	2.58	+0.12

Notes:

(1) Equity attributable to shareholders of the parent company after the issuance = Equity attributable to shareholders of the parent company before the issuance + Preference Shares of RMB27.5 billion – dividends on Preference Shares declared for the year + earnings from Preference Shares for the year; earnings from Preference Shares for the year = Preference Shares of RMB27.5 billion × Return on weighted average net assets before the issuance;

(2) Return on weighted average net assets attributable to holders of Ordinary Shares before the issuance = (Net profit attributable to holders of Ordinary Shares of the parent company before the issuance -dividends on Preference Shares declared for the year + earnings from Preference Shares for the year)/ (Weighted average net assets attributable to holders of Ordinary Shares of the parent company before the issuance – weighted average dividends on Preference Shares declared for the year + weighted average earnings from Preference Shares for the year);

(3) Weighted average earnings from Preference Shares for the year=(Preference Shares of RMB27.5 billion* Return on weighted average net assets before the issuance)/2;

(4) Basic earnings per share attributable to holders of Ordinary Shares of the parent company after the issuance =(Net profit attributable to holders of Ordinary Shares of the parent company before the issuance -dividends on Preference Shares declared for the year + earnings from Preference Shares for the year)/ Weighted average share capital of Ordinary Shares.

IV. Effects of the issuance on the regulatory capital indicators of the Company

The proceeds from the issuance of Domestic Preference Shares will be used to replenish the Additional Tier-1 Capital of the Company, improving the Capital Adequacy Ratio and Tier-1 Capital Adequacy Ratio of the Company. A static measurement (taking no account of issuance expense, the impact of dividend expense of then Preference Shares on undistribute profits and capital usage efficiency) is made based on the data of regulatory indicators of the Company as at 31 December 2016. The effects of the issuance of the Domestic Preference Shares on the regulatory capital indicators (Group-wide, weighting method) of the Company are as follows:

Units: in millions of RMB

	As at 31 December 2016		
Major Financial Indicators	**Before the issuance**	**After the issuance**	**Difference**
Core Tier-1 Capital, net	388,762	388,762	0
Tier-1 Capital, net	388,780	416,280	+27,500
Capital, net	462,493	489,993	+27,500
Risk-weighted Assets	3,852,894	3,852,894	0
Core Tier-1 Capital Adequacy Ratio	10.09%	10.09%	0
Tier-1 Capital Adequacy Ratio	10.09%	10.80%	Increased by 0.71 percentage
Capital Adequacy Ratio	12.00%	12.72%	Increased by 0.71 percentage

Based on the data of the Company as at 31 December 2016, after the issuance of Domestic Preference Shares, the Group-wide Tier-1 Capital Adequacy Ratio and Capital Adequacy Ratio of the Company (weighting method) will be increased from 10.09% to 10.08% and from 12.00% to 12.72% respectively, thus laying solid foundation for the business development of the Company.

V. Cash dividend distributions and capability of the Company to pay dividends on the Domestic Preference Shares under this issuance for the last three years

(I) Cash dividend distributions for the last three years

Cash dividend distributions in 2014, 2015 and 2016 are shown as follows:

Units: in millions of RMB

Item	2016	2015	2014
Amount of cash dividends	18,663	17,402	16,897
Net assets attributable to holders of Ordinary Shares of the parent company	62,081	57,696	55,911
Percentage of cash dividends to net profits	30.06%	30.16%	30.22%
Percentage of cash dividends in aggregate for the three years from 2014 to 2016 to the average net profits attributable to Shareholders for the same period as presented in the combined financial statements		90.44%	

Note: the Profit Appropriation Plan of the Company for 2016 is subject to the consideration and approval by the General Meeting yet.

According to the Articles of Association, the Company shall distribute dividends mainly in cash on the premise of complying with the provisions of current laws and regulations, capital adequacy ratio stipulated by regulatory authorities and meeting our fund requirements for its normal operation and business development, needs for major investment and M&A, the cash dividends under the Company's principle of distributing cash dividends each year will not be less than 30% of after-tax net profit attributable to the holders of Ordinary Shares after auditing pursuant to Chinese Accounting Standards. The formulation and implementation of the cash dividend policies are in line with the requirements of the Articles of Association and the resolution of the General Meeting. The cash dividend policies are considered reasonable and stable and have protected investors' legitimate rights and interests.

(II) The ability to pay dividends to Domestic Preference Shares

In recent years, the Company's profitability has remained stable due to favourable operating results and sustained and healthy development of various businesses. Net profit attributable to shareholders of the parent company in 2014, 2015 and 2016 amounted to RMB55,911 million, RMB57,696 million and RMB62,081 million, respectively and the arithmetic mean value of net profit attributable to shareholders of the parent company for the latest three years was RMB58,563 million. Assuming that Domestic Preference Shares in the amount of RMB27.5 billion are to be issued, the annual dividend on the Domestic Preference Shares, without taking into consideration of the issuance expenses, utilization benefits of proceeds from Preference Shares and the dividend rate of 5.0% (for illustrative calculation purpose only and not represent the dividend rate for the Domestic Preference Shares anticipated by the Company), will be RMB1,375 million which accounts for approximately 2.35% of the arithmetic mean value of the net profit attributable to shareholders of parent company for the latest three years. The Company's favourable profitability sets a great foundation for the normal payment of dividends to holders of Preference Shares.

In addition, the Company will make continuous efforts in improving its governance level and business structure, and strengthening internal management, in order to maintain a sound and stable momentum for its business development and financial condition. This will provide sufficient funds for the payment of dividends on the Domestic Preference Shares and will effectively protect the equity of those investing in the Preference Shares of the Company.

(III) Ability to fund the redemption of Preference Shares

Subject to the prior approval of the CBRC, the Company may exercise its redemption right in any of the following circumstances: 1. the Company shall use capital instruments of the same or superior quality to replace the Preference Shares to be redeemed and such replacement shall only be made at a time at which the Company has a sustainable income generating capability; or 2. the capital position of the Company immediately after redemption will remain significantly higher than the regulatory capital requirements prescribed by the CBRC. The Company shall have the right to redeem all or part of the Domestic Preference Shares after the fifth year following the completion date of issuance of the Domestic Preference Shares.

The Company may not exercise its redemption rights unless it has quite sufficient capital or it can replace the Preference Shares to be redeemed with capital instruments of the same or better quality. Upon redemption, the Company may reasonably allocate its own funds required by redemption or Preference Shares or raise funds through issuance of appropriate external financing instruments in advance to secure the payment capability necessary for the redemption of Preference Shares.

The right to redeem the Domestic Preference Shares under this issuance shall be rested with the Company and the exercising of conditional redemption right by the Company is subject to the obtaining of approval from the CBRC. The Company is not obliged to redeem the Preference Shares and holders of Preference Shares have no right to request the Company to redeem the Preference Shares and should not expect the exercise of redemption of Preference Shares.

VI. Representations and commitments of the Board relating to the issuance

(I) Representations of the Board about any other equity financing plan in the next twelve months

As at the date of announcing the Plan, in addition to the Issuance of Domestic and Offshore Preference Shares in the Plan, the Company will not rule out the possibility of replenishing the capital of the Company through equity financing or otherwise within the next twelve months based on Capital Adequacy Ratio of the Company and regulatory requirements.

(II) Measures of the Board on filling the immediate return under the issuance

As the holders of preference shares are entitled to receive their profit distribution of the Company in priority to the holders of ordinary shares at an agreed dividend rate, without taking into account the benefits from the business development supported by the proceeds to be raised from the Issuance, the indicators of the Company including the basic EPS and diluted EPS may decline to a certain extent in the short term, and there will be dilutive effect on the current returns of the holders of ordinary shares after receipt of the proceeds raised. The Company hereby reminds investors to pay attention to the risk of dilution of current returns due to the non-public issuance of Preference Shares.

Meanwhile, investors should be aware that the analysis conducted by the Company of the net profits attributable to ordinary shareholders of the parent company when analyzing the impact of the issuance on dilution of the current returns shall not be deemed as a profit forecast made by the Company, and the measures taken to recover immediate dilution to current returns of the Company does not represent a guarantee of the Company in respect of the future earnings. Investors should not make their investment decisions based such analysis and measures. The Company shall not assume any liabilities for any losses arising from relying on such analysis or measures by investors.

Accordingly, the Company will take various measures to ensure the effective use of proceeds, prevent the risk of dilution of current returns and improve the profitability and return on capability in the future. Such measures include:

1. *Operation conditions and development trend of existing business segments of the Company, the main risks faced by the Company and the improvement measures*

   The main businesses of the Company include retail finance business, corporate finance business, interbank business, as well as other businesses including overseas business and subsidiary business.

   In terms of retail finance business, compared with other banks in China, the Company has been always keeping retail finance business as its key development area, has been continuously deepening the building of the retail finance business system, and has built a solid and broad and quality customer base of retail customers through the continuously optimized business management system, product system, service system and risk prevention system. As such, the Company has possessed outstanding competitive advantages on the core business areas such as wealth management, private banking, retail credit, consumer finance, etc. In terms of corporate finance business, the Company positively faces up to external challenges and opportunities, focuses on customer group building and strategic transformation, and continues to enhance differentiated competitive strengths. In terms of interbank business, the Company follows the main theme of deepening comprehensive interbank cooperation to strengthen channel construction and promote the value contributions by interbank customers; positively copes with the changes in the market and the regulatory policies to increase business revenue. The Company has recorded rapid growth in businesses such as the cross-border RMB interbank cooperation business and managed to maintain the leading position in the industry in terms of such businesses.

The Company has achieved a remarkable progress in overseas expansion, and the international business is growing fast. Furthermore, in terms of integrated operation, the framework of integrated operation of the Company has been basically formed, and the comprehensive financial service functions are being accomplished step by step. The Company owns subsidiaries in the non-banking finance field, including CMB Financial Leasing Co., Ltd., CMB International Capital Corporation Limited, China Merchants Fund Management Co., Ltd. and Cigna & CMB Life Insurance Co., Ltd., etc., and the strategic synergy has initially come into being, the integrated operation is being propelled continuously, the business scale is expanding stably and the quality of the assets is high.

The risks faced by the Company during business operation mainly comprise credit risk, country risk, market risk, operational risk, liquidity risk, reputational risk and compliance risk. Guided by the Basel New Capital Accord and overall risk management, the Company continues to improve the policies, regulations and processes related to risk management, and adheres to the principles of "comprehensiveness, professionalism, independence and balance" to begin to transform into a "Light-operation Bank", speed up the establishment of risk management system with the core being risk-adjusted value creation. The Risk and Compliance Management Committee of the Head Office is the top decision-making organ for the risk management of the Company, and reviews and decides on the major risk management policies across the Bank under the preference, strategy, policy and authorization approved by the Board of Directors for risk management. In recent years, under the complex and changeable economic environment at home and abroad and the increasingly higher bank operating risk, the Company has improved the comprehensive risk management system continuously, and positively coped with and prevent various risks, thus ensuring the stable and healthy business development.

2. *The detailed measures for increasing the daily operating efficiency, decreasing the operating costs, and improving the business performance of the Company*

   (1) To insist on the strategic plan of "Light-operation Bank" and create differentiated competitive advantages. To take prudent capital arrangement as the basic restraint, strengthen the control over the gross amount, set reasonable business growth rate, conduct flexible and prudent management on the increase of risky assets, coordinate and arrange internal and external resources, strive for the balance in the structure of assets and liabilities, and promote the harmonious development in terms of quality, effectiveness and scale.

(2) To reinforce the awareness on capital constraint and capital return, strive to decrease capital consumption level, and increase the capital use efficiency. To keep EVA and RAROC as value assessment benchmarks, fully demonstrate the requirements of "Light-operation Bank" strategy on risk pricing, net interest and non-interest income, cost efficiency and etc., and continue to push the transformation of the profit model from scale-driving to value-digging. To increase risk pricing level, reinforce active interest rate management, keep the growth of net interest income; consolidate traditional advantages, expand the businesses in blue ocean area, strengthen portfolio marketing and valued-added services, increase the income contribution from intermediate business; increase the input-output ratio and keep relatively stable cost efficiency; reinforce consolidation management at the group level, increase profit contributions from subordinate entities step by step, give full play to the advantages in integrated operation, and increase the overall return.

(3) To build the business system of "One Body with Two Wings" with the retail finance business as the main body, supported by corporate finance and interbank finance, promote the mutual unification, inter coordination, mutual promotion between the "One Body" and the "Two Wings", and create three major profit-making pillars. To focus on the strategy of "mobile as the priority (移動優先)", take full advantage of Fintech and boost the financial and technological strategy with the objective of becoming "internet-based, data-intensive and intelligent". To reasonably adjust business structure, moderately decrease the percentage of businesses with high capital consumption, and invest more and more new added resources in businesses with low capital consumption, and provide focused support for the development of strategic, newly emerging and key businesses. To enhance the multiple dimensions and differentiated management for customer groups, and provide full life circle differentiated services for the customers by means of products, channels, service and technologies, so as to form a customer group structure with a large amount, reasonable structure, gradient growth and enough value.

(4) To reinforce asset quality management, strictly control the new non-performing loans, and put more efforts in clearing and disposing of existing non-performing assets. To build the long-term risk management mechanism, and improve the ability to effectively prevent, identify, measure and manage the risks. To advance the allocation and management of asset groups, deepen the application of big data and quantitative tools, improve ability for the mitigation and compensation of risks and losses, set the pre-warning system for risk management, accomplish the three lines of defense for risk management, build an overall risk management system with a perfect structure, clear responsibilities, and uniform view. To take improving efficiency, supporting marketing, encouraging innovation and effective control as the core to effectively plan and coordinate the connection among risk management, customer service and business innovation, stabilize business risk and acquire the ability of risk management for value creation, and improve the risk return and capital return.

(5) To insist on stable return policy for holders of Ordinary Shares. With the ultimate objective of creating the best return for stock holders, the Company, on the basis of stable development, develops the strong awareness of bring return to shareholders, continue to accomplish the dividend mechanism for holders of Ordinary Shares, and strive to keep the consistency, reasonability and stability of cash dividend policies.

(III) Undertakings of the Company's Directors and Senior Management on the Implementation of Remedial Measures for the Dilution of Current Returns Caused by This Non-public Issuance of Preference Shares

Directors and senior management of the Company will faithfully and diligently perform their duties, and safeguard the legitimate rights and interests of the Company and all shareholders. According to relevant regulations of the CSRC and in order to secure the implementation of the Company's remedial measures for the dilution of the returns, the Directors and senior management of the Company made the following undertakings:

1 Not to transfer any benefits to other entities or persons unconditionally or unfairly nor otherwise make any actions prejudicing the interests of the Company;

2 To restrict the expenditures of the Directors and senior management for performing their duties;

3 Not to use any assets of the Company for any investment or expenditure unrelated to the performance of their duties;

4 That the remuneration policy formulated by the Board of Directors or the Remuneration and Appraisal Committee shall be in line with the implementation of the Company's remedial measures for the dilution of returns;

5 That the conditions of the proposed share incentive plan of the Company in the future, if any, shall be in line with the implementation of the Company's remedial measures for the dilution of returns.

SECTION VI AMENDMENTS TO THE ARTICLES OF ASSOCIATION ARISING FROM THE ISSUANCE OF PREFERENCE SHARES

The Company revised the Articles of Association in accordance with the Company Law, the Guiding Opinions of the State Council on the Pilot Launch of Preference Shares, the Measures on the Administration of the Pilot Scheme of Preference Shares and the Guiding Opinions of CBRC and CSRC on Issuance of Preference Shares by Commercial banks to Replenish Tier-1 Capital. The main provisions of the revised Articles of Association in force related to this issuance of Preference Share are as follows:

I. Provisions on profit distribution

(I) Dividend policies for Preference Shares

1. Fixed dividend rate or floating dividend rate may apply to the preference shares issued by the Company, which shall be calculated according to agreements in the issuance documents of preference shares; Unless otherwise provided by laws and regulations or otherwise resolved at the shareholders' general meeting of shareholders, a dividend rate adjustable by stage is adopted for the issued and surviving preference shares of the Company, that is, the dividend shall be paid at fixed dividend rate for each adjustable stage;

2. The Company shall distribute dividends to shareholders of preference shares if there are distributable profits after taxation[1], provided that the Company has the right to cancel the distribution of part or all of the dividends on preference shares and such cancellation shall not constitute a breach of agreement. In the event that the Company cancels the distribution of part or all of the dividends on Offshore Preference Shares, the Company will not distribute any profit to shareholders of ordinary shares during the period from the date following the adoption of relevant resolution at the shareholders' general meeting to the restoration of full dividend payment to the shareholders of preference shares;

3. Where the Company does not distribute dividend to shareholders of preference shares in full for a particular year, the difference will not be carried forward to the following year;

4. Where the dividend is distributed to holders of preference shares by Company as agreed, they shall not be entitled to the distribution of the remaining profit;

5. The Company shall pay dividends and other amounts to holders of domestic preference shares and such sums shall be calculated, declared and paid in Renminbi. The Company shall pay dividends and other amounts to holders of offshore preference shares and such sums shall be calculated and declared in Renminbi, and paid in foreign currencies. The payment shall be handled according to the relevant provisions on foreign exchange administration of the State.

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1. As the dividend payments on the preference shares are non-cumulative; hence, the Company will not distribute dividends cancelled in previous years.

(II) Distribution order of profit after tax

The profit after taxation of the Company shall be allocated according to the following order and sequence:

1. make up for the losses of the previous year;

2. allocate 10% of the profits to the statutory common reserve fund;

3. allocate general reserve;

4. distribute dividends on preference shares;

5. allocate discretionary common reserve fund;

6. distribute dividends to holders of ordinary shares.

When the accumulated amount of the statutory common reserve fund reaches 50% or above of the registered capital of the Company, allocation is no longer required.

After making allocation to the statutory common reserve fund and general reserve from profits after taxation, the Company distributes dividends on preference shares according to the decision of the **Board of Directors** with authority from the shareholders' general meeting or **the decision of relevant director(s) with authority delegated from the Board of Directors**.

After making up for the losses, making allocation to the statutory common reserve fund and general reserve and distributing dividends on preference shares, the Company may also allocate discretionary common reserve fund from profits after taxation.

After making up for the losses, making allocation to the common reserve fund and general reserve and distributing dividends on preference shares, the remaining profit after taxation shall be distributed according to the shareholding ratios of holders of ordinary shares, except those allocations to be made not in accordance with the shareholding ratios as stipulated in these Articles.

The Company's shares held by the Company shall not participate in profit distribution.

Before making up for the losses, making allocation to the statutory common reserve fund and general reserve, the distribution of dividend or other distribution by way of bonus shall be prohibited. If the shareholders' general meeting distributes profits to the shareholders in violation of preceding provisions of the Article, the shareholders shall return to the Company the profits which are distributed in violation of the provisions.

II. Provisions on seniority of holders of Preference Shares in distribution of remaining assets

Holders of preference shares of the Company will rank in priority to the holders of Ordinary Shares in terms of distribution of remaining assets, the holders of preference shares received an amount on liquidation equals to the sum of declared but unpaid dividends for the current period. In the event that there are insufficient residual assets, the distribution will be made on a pro rata basis among the holders of the Domestic Preference Shares and the holders of Offshore Preference Shares.

III. Provisions on restrictions on and restoration of voting rights

(I) Restrictions on voting rights of Preference Shares

The holders of Preference Shares are not entitled to attend any general meeting and Preference Shares held by them shall have no voting right. In the event that any of the following matters occurs, the notice of the General Meeting shall be given to holders of Preference Shares in accordance with the notification procedures applicable to holders of Ordinary Shares as specified in the Articles of Association. The holders of Preference Shares will be entitled to attend shareholders' general meetings and vote as a separate class. Under such circumstance, each Domestic Preference Share will be entitled to one vote, but the Preference Shares held by the Company do not carry the voting rights:

1. amendments to the Articles of Association of the Company that relate to Preference Shares;

2. reduction of the registered capital of the Company by more than 10% on a single or aggregate basis;

3. merger, division, dissolution or change of corporate form of the Company;

4. issuance of Preference Shares;

5. other events specified in the laws, regulations and the Articles of Association.

Resolution(s) relating to the above matters shall be approved by more than two-thirds of the votes held by the holders of Ordinary Shares of the Company present at the meeting (including holders of Preference Shares with restored voting rights, including shareholders and its proxies) and by more than two-thirds of the votes held by the holders of Preference Shares present at the meeting (excluding holders of Preference Shares with restored voting rights, including shareholders and its proxies).

(II) Provisions on restoration of voting rights of holders of Preference Shares

Except for matters required to be approved by holders of Preference Shares according to laws, regulations or the Articles of Association, the holders of Preference Shares shall have no right to request to convene, convene, chair and attend, in person or by proxy, the General Meetings and shall have no voting rights.

If the Company fails to pay the prescribed dividend to holder of Preference Shares for three financial years in aggregate or two consecutive financial years, the voting rights shall be restored and the holders of Preference Shares shall have the right to attend and vote at the shareholders' general meetings as if they are holders of Ordinary Shares from the day immediately after the shareholders' general meetings resolves that the Company will not pay the prescribed dividend for the current dividend period. The voting right to which each of the Preference Shares is entitled is calculated based on the agreed conversion ratio under issuance conditions.

The restoration of voting rights of holders of Preference Shares in paragraph 2 of this article will remain valid until the full payment of the agreed dividend for the year by the Company.

IV. Specific conditions on repurchase of Preference Shares; specific conditions on conversion of Preference Shares to Ordinary Shares

(I) Redemption of Preference Shares

To clarify in the Articles of Association that: the repurchase of the Preference Shares of the Bank is applicable to the laws, administrative regulations, rules, the Articles of Association and the Plan for Issuance of Preference Shares in relation to the repurchase of Preference Shares.

(II) Conversion of Preference Shares

According to the relevant provisions of the banking regulatory authority under the State Council, the Company formulates terms governing the mandatory conversion of the Preference Shares into Ordinary Shares, namely, upon the occurrence of certain trigger events, the Company may convert the Preference Shares of corresponding class and numbers into Ordinary Shares in accordance with the conversion price and conversion amount as determined at the time of issuance of the Preference Shares.

Ordinary Shares converted from Preference Shares due to mandatory conversion shall have same rankings as the original Ordinary Shares of the Company.

V. Other provisions regarding rights and obligations of Holders of Preference Shares

Holders of Preference Shares shall enjoy the corresponding rights and assume the obligations in accordance with the laws, administrative regulations, departmental rules or the Articles of Association and the specific issuance terms. Holders of Preference Shares issued in the same batch with the same terms shall have the same rights and obligations.

The holders of Preference Shares of the Company shall have the following rights:

1. class voting rights for specific resolutions of the General Meetings;

2. priority in profit distribution;

3. priority in receiving distribution of the remaining assets of the Company;

4. right to request to convene, convene, chair and attend, in person or by proxy, the General Meetings for holders of Preference Shares with restored voting rights;

5. other rights provided by laws, administrative regulations, departmental rules or the Articles of Association.

For details about the amendments to the Articles of Association, please refer to the Articles of Association of China Merchants Bank Co., Ltd. (applicable after issuance of the Preference Shares) published of the Company together with this Plan.