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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)

**PROPOSED NON-PUBLIC ISSUANCE OF DOMESTIC
PREFERENCE SHARES
PROPOSED NON-PUBLIC ISSUANCE OF OFFSHORE
PREFERENCE SHARES
AND
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

PROPOSED NON-PUBLIC ISSUANCE OF DOMESTIC AND OFFSHORE PREFERENCE SHARES

The Board approved the proposals on the non-public issuance of Domestic and Offshore Preference Shares on 24 March 2017. The Company proposes to conduct a non-public issuance of Preference Shares in domestic and offshore markets with an aggregate size of not more than RMB35 billion or its equivalent to replenish its Additional Tier-1 Capital, of which, the value of Preference Shares proposed to be issued in the offshore market will not exceed RMB7.5 billion or its equivalent while the value of Preference Shares proposed to be issued in the domestic market will not exceed RMB27.5 billion.

The issuance of Domestic and Offshore Preference Shares will be conducted by way of non-public issuance. The issuance of Domestic and Offshore Preference Shares is subject to certain conditions precedent including, among other things, (i) the passing of relevant resolutions in respect of proposed non-public issuance of Domestic and Offshore Preference Shares by Shareholders at the General Meeting, by A Shareholders at the A Shareholders Class Meeting and by H Shareholders at the H Shareholders Class Meeting, in each case, as special resolution(s); and (ii) the approval(s) by or filing with competent regulators regarding the proposed issuance of Domestic and Offshore Preference Shares.

The non-public issuance of Offshore Preference Shares and non-public issuance of Domestic Preference Shares are independent from, and are not conditional upon, each other. If any of the Domestic Issuance Plan, relevant proposals (including but not limited to relevant sub-proposals) and other relevant matters is not approved by the Board, the General Meeting, the Class Meetings (if necessary) or the CBRC and/or the CSRC or other competent authorities, it shall not affect the approval and implementation of the Offshore Issuance Plan, relevant proposals (including but not limited to relevant sub-proposals) and other relevant matters and vice versa.

PROPOSED SUBSCRIPTION OF OFFSHORE PREFERENCE SHARES UNDER NON-PUBLIC ISSUANCE BY COSCO SHIPPING FINANCIAL

The Company entered into the Subscription Agreement with COSCO Shipping Financial on 24 March 2017. Pursuant to the Subscription Agreement, COSCO Shipping Financial proposes to subscribe for no more than 5 million Offshore Preference Shares under this Issuance, with a total amount of no more than RMB500 million or its equivalent, and the final number of Preference Shares subscribed shall not exceed the total number of Offshore Preference Shares to be issued by the Company under the approval of competent authorities. COSCO Shipping Financial has undertaken not to participate in the price inquiry process for determining the dividend rate of Preference Shares in this Issuance and will accept the dividend rate to be determined by the Company and the lead underwriter by a book-building procedure or through other approaches recognized by the CSRC.

COSCO Shipping Financial is a wholly-owned company under COSCO. Up to now, COSCO and its associates (which directly or indirectly holding 2,515,193,034 Ordinary Shares or 9.97% of the Company in aggregate, of which 54,721,930 Ordinary Shares or 0.22% of the Company is held through COSCO Shipping Financial) do not constitute connected persons of the Company under the Rule 14A of the Hong Kong Listing Rules. However, COSCO is a related party of the Company under the Listing Rules of the Shanghai Stock Exchange and Mr. Wang Daxiong, the president of COSCO Shipping Financial, holds the position of non-executive Director of the Company. Pursuant to the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders issued by CBRC, the Guidelines of Shanghai Stock Exchange on Related Party Transactions of Listed Companies, the Articles of Association, as well as relevant requirements as set out in Regulations on Related Party Transactions of the Company, the subscription of Preference Shares by COSCO Shipping Financial under this Issuance constitutes a related party transaction of the Company under the Listing Rules of Shanghai Stock Exchange, and shall be subject to relevant approval procedures.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Given that the Company proposes to make non-public issuance of Domestic and Offshore Preference Shares, the Company has proposed certain amendments to the current Articles of Association in accordance with the State Council Guidance Opinion, the Joint Guidance Opinion and relevant laws and regulations and other normative documents, and with reference to the Trial Administrative Measures and taking into account its actual situation. Details of the proposal on amendments to the Articles of Association will be set out in the circular to be dispatched to the Shareholders.

GENERAL

The Company will convene the General Meeting, A Shareholders Class Meeting and H Shareholders Class Meeting. At the General Meeting, special resolutions will be proposed for the Shareholders to consider and, if thought fit, to approve, among other things, the proposed non-public issuance of Domestic Preference Shares, proposed non-public issuance of Offshore Preference Shares, proposed amendments to the Articles of Association, and ordinary resolutions will be proposed for the Shareholders to consider and, if thought fit, to approve, among other things, the related party transaction regarding non-public issuance of Offshore Preference Shares by the Company to COSCO Shipping Financial, the Subscription Agreement between the Company and COSCO Shipping Financial for the conditional subscription of Offshore Preference Shares, analysis of impact of dilution of current returns by non-public issuance of Preference Shares and the remedial measures, capital management plan for 2017-2019, shareholders' return plan for 2017-2019, report on the use of proceeds raised in the previous issuance by the Company. At the A Shareholders Class Meeting and H Shareholders Class Meeting, special resolutions will be proposed for the Shareholders to consider and, if thought fit, to approve the proposed non-public issuance of Domestic Preference Shares and proposed non-public issuance of Offshore Preference Shares.

As COSCO Shipping Financial is a related party of the Company under the Listing Rules of Shanghai Stock Exchange and its ultimate controlling shareholder, COSCO, has material interests in the proposed subscription of Offshore Preference Shares by COSCO Shipping Financial under this Issuance, the associates of COSCO (including COSCO Shipping Financial) will abstain from voting on resolutions on the proposed non-public issuance of Offshore Preference Shares, the related party transaction regarding non-public issuance of Offshore Preference Shares by the Company to COSCO Shipping Financial, and the Subscription Agreement between the Company and COSCO Shipping Financial for the conditional subscription of Offshore Preference Shares at the General Meeting, and will abstain from voting on the resolution on proposed non-public issuance of Offshore Preference Shares at the Class Meetings.

DISPATCH OF CIRCULAR

Pursuant to Rules 14A.46(1) and 19A.39A of the Hong Kong Listing Rules and requirements under the Company Law, a circular containing, among other things, particulars on the proposed non-public issuance of Domestic Preference Shares, proposed non-public issuance of Offshore Preference Shares, the Subscription Agreement between the Company and COSCO Shipping Financial for the conditional subscription of Offshore Preference Shares, and the proposed amendments to the Articles of Association and other relevant resolutions, is required to be dispatched to the Shareholders as soon as practical but no later than 19 April 2017.

Shareholders and potential investors should be aware that the proposed non-public issuance of Domestic and Offshore Preference Shares is subject to fulfillment of certain conditions precedent. As the proposed non-public issuance of Domestic and Offshore Preference Shares may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

I. PROPOSED NON-PUBLIC ISSUANCE OF DOMESTIC AND OFFSHORE PREFERENCE SHARES

In order to improve the capital structure of the Company, further enhance the overall competitiveness of the Company, continue to promote the business transformation and upgrading of the Company, enhance the Capital Adequacy Ratio level of the Company, and strengthen the sustainable development and risk resistance of the Company as well as provide financial support for the effective implementation of the strategies of the Company, the Board approved, among other things, the proposals on the non-public issuance of Domestic and Offshore Preference Shares on 24 March 2017 in accordance with the relevant provisions of the Company Law, the Securities Law, the State Council Guidance Opinion, the Trial Administrative Measures, the Administrative Measures for Capital of Commercial Banks and the Joint Guidance Opinion and other laws and regulations and normative documents.

The Company proposes to conduct a non-public issuance of Preference Shares in domestic and offshore markets with an aggregate size of not more than RMB35 billion or its equivalent to replenish its Additional Tier-1 Capital, of which, the value of Preference Shares proposed to be issued in the offshore market will not exceed RMB7.5 billion or its equivalent while the value of Preference Shares proposed to be issued in the domestic market will not exceed RMB27.5 billion.

PROPOSED NON-PUBLIC ISSUANCE OF DOMESTIC PREFERENCE SHARES

The aggregate number of Domestic Preference Shares on non-public issuance will not exceed 275 million, with an aggregate amount of the Domestic Preference Shares to be issued not exceeding RMB27.5 billion. The actual issue size is to be determined by the Board within the above scope in accordance with the authorization (subject to subsequent delegation) granted at the General Meeting. The issuance of Domestic Preference Shares will be conducted by way of non-public issuance to qualified investors and the Domestic Preference Shares shall be issued in a single or multiple tranches in accordance with the relevant procedures after being approved by regulatory authorities including the CBRC and the CSRC. In respect of the Domestic Preference Shares issued in multiple tranches, the terms of issue of such Domestic Preference Shares (other than the dividend rates) will be the same. If the Domestic Preference Shares are to be issued in multiple tranches, no separate approval shall be required to be obtained from Shareholders of issued and outstanding Preference Shares for each such issuance. The Domestic Preference Shares upon its issuance may be transferred on the trading platform as designated by the Shanghai Stock Exchange and the investors' eligibility for the transfer shall comply with relevant rules of the CSRC. The Company shall have the right to mandatorily convert all or part of the Domestic Preference Shares into A Shares upon the occurrence of certain prescribed events.

PROPOSED NON-PUBLIC ISSUANCE OF OFFSHORE PREFERENCE SHARES

The aggregate number of Offshore Preference Shares on non-public issuance will not exceed 75 million, with an aggregate amount of the Offshore Preference Shares to be issued not exceeding RMB7.5 billion or its equivalent. The actual issue size is to be determined by the Board within the above scope in accordance with the authorization (subject to subsequent delegation) granted at the General Meeting. The issuance of Offshore Preference Shares will be conducted by way of non-public placement in accordance with the issuance rules and the Offshore Preference Shares shall be issued in a single or multiple tranches in accordance with the relevant procedures after being approved by regulatory authorities such as the CBRC, the CSRC, and the Hong Kong Stock Exchange. In respect of the Offshore Preference Shares to be issued in multiple tranches, the terms of issue of such Offshore Preference Shares (other than the dividend rates) will be the same. If the Offshore Preference Shares are to be issued in multiple tranches, no separate approval shall be required to be obtained from Shareholders of issued and outstanding Preference Shares for each such issuance. Applications will be made for the listing of the Offshore Preference Shares on the Hong Kong Stock Exchange in accordance with the relevant regulatory rules and the Offshore Preference Shares will be transferred in accordance with the relevant trading and settlement rules. The Company shall have the right to mandatorily convert all or part of the Offshore Preference Shares into H Shares on the occurrence of certain prescribed events.

The issuance of Domestic and Offshore Preference Shares is subject to certain conditions precedent including, among other things, (i) the passing of relevant resolutions in respect of proposed non-public issuance of Domestic and Offshore Preference Shares by Shareholders at the General Meeting, by A Shareholders at the A Shareholders Class Meeting and by H Shareholders at the H Shareholders Class Meeting, in each case, as special resolution(s); and (ii) the approval(s) by or filing with competent regulators regarding the proposed issuance of Domestic and Offshore Preference Shares.

The Board has resolved to submit the proposals regarding (among others) the non-public issuance of Domestic Preference Shares and the non-public issuance of Offshore Preference Shares to the General Meeting, A Shareholders Class Meeting and H Shareholders Class Meeting for consideration. Full texts of the Domestic Issuance Plan and the Offshore Issuance Plan are set out Appendix I and Appendix II to this announcement, respectively.

The non-public issuance of Offshore Preference Shares and non-public issuance of Domestic Preference Shares are independent from, and are not conditional upon, each other. If any of the Domestic Issuance Plan, relevant proposals (including but not limited to relevant sub-proposals) and other relevant matters is not approved by the Board, the General Meeting, the Class Meeting (if necessary) or the CBRC and/or the CSRC or other competent authorities, it shall not affect the approval and implementation of the Offshore Issuance Plan, relevant proposals (including but not limited to relevant sub-proposals) and other relevant matters and vice versa.

II. PROPOSED SUBSCRIPTION OF OFFSHORE PREFERENCE SHARES UNDER NON-PUBLIC ISSUANCE BY COSCO SHIPPING FINANCIAL

Basic information about the related party transaction

The Company entered into the Subscription Agreement with COSCO Shipping Financial on 24 March 2017. Pursuant to the Subscription Agreement, COSCO Shipping Financial intends to subscribe for no more than 5 million Offshore Preference Shares under this Issuance, with a total amount of no more than RMB500 million or its equivalent, and the final number of Preference Shares subscribed shall not exceed the total number of Offshore Preference Shares to be issued by the Company under the approval of competent authorities. COSCO Shipping Financial has undertaken not to participate in the price inquiry process for determining the dividend rate of Preference Shares in this Issuance and will accept the dividend rate to be determined by the Company and the lead underwriter by a book-building procedure or through other approaches recognized by the CSRC.

Pricing policies and basis of the related party transaction

(i) Pricing method

The Offshore Preference Shares under this Issuance have a nominal value of RMB100 each and the issuance price will be calculated in foreign currency and/or Renminbi. Such Offshore Preference Shares are proposed to be issued at nominal value or premium price.

The dividend rate of the Offshore Preference Shares will be adjusted in stages and an adjusted dividend rate period will be set from the closing day of issuance payment. During the adjusted dividend rate period, dividends shall be paid at the same agreed dividend rate and subsequently reset on a regular basis. The dividend rate at the time of issuance shall be determined by the Board as authorized by the General Meeting (such authorization may be sub-delegated by the Board) through market pricing with reference to factors including market conditions, the practical situation of the Company and investors' demands at the time of the issuance, and the dividend rate shall not be higher than the mean of annual return on weighted average net assets of the Company for the two most recent financial years¹.

The dividend rate consists of the benchmark rate and the fixed premium. The fixed premium is determined by deducting the benchmark rate at the time of issuance of a tranche of the Offshore Preference Shares from the dividend rate determined at the time of issuance of such tranche of the Offshore Preference Shares. The fixed premium shall not be adjusted once determined.

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.

On the benchmark rate adjustment date, the dividend rate level shall be determined for the next new adjusted dividend rate period, which is calculated by adding the benchmark rate on the benchmark rate adjustment date and the fixed premium as determined at the time of issuance pricing.

COSCO Shipping Financial has undertaken not to participate in the price inquiry process for determining the dividend rate of Preference Shares in this Issuance and will accept the dividend rate to be determined by the Company and the lead underwriter by a book-building procedure or through other approaches recognized by the CSRC.

(ii) Pricing and analysis of fairness and reasonableness

The pricing principle of the Preference Shares under the non-public issuance is in compliance with the relevant provisions and requirements of the Company Law, Securities Law, Trial Administrative Measures and other laws and regulations. The pricing of this related party transaction will be determined at conditions that are not more favourable than those of comparable transactions of non-related parties and its trading conditions are fair and reasonable.

(iii) Principal terms of the Subscription Agreement

1 Type of shares under this subscription

The type of shares subscribed for by COSCO Shipping Financial is Offshore Preference Shares issued by the Company which comply with the relevant requirements of the State Council Guidance Opinion, Trial Administrative Measures, Administrative Measures for Capital of Commercial Banks, Joint Guidance Opinion and other laws, regulations and normative documents.

2 Number of shares under this subscription

COSCO Shipping Financial agrees to subscribe for no more than 5 million Offshore Preference Shares under this Issuance, and the final number of Preference Shares subscribed shall not exceed the total number of Offshore Preference Shares to be issued by the Company under the approval of competent authorities. The specific number of shares subscribed shall be otherwise determined by both parties.

3 Nominal value and price per share under this subscription

The nominal value of the Preference Shares subscribed for by COSCO Shipping Financial is RMB100 per share, and the issuance price shall be calculated in foreign currency and/or Renminbi. The Preference Shares may be subscribed for at the nominal value or premium price.

4 Subscription monies under this subscription

COSCO Shipping Financial shall pay all subscription monies of no more than RMB500 million or its equivalent under this subscription (namely, the number of shares subscribed for by COSCO Shipping Financial multiplied by the subscription price per share) to the Company.

5 Method of subscription and payment

- (i) COSCO Shipping Financial agrees to subscribe for the Offshore Preference Shares under this Issuance by the Company in cash as agreed in the Subscription Agreement.
- (ii) COSCO Shipping Financial agrees to remit the lump-sum subscription monies in cash into receiving account(s) designated in the transaction document at the time of participating in the issuance for a specific tranche of the Preference Share after the Subscription Agreement comes into effect.

6. Formation and execution of the Subscription Agreement

- (i) The Subscription Agreement shall be formed from the date of signing by the legal representative(s), director(s) or authorised representative(s) and affixed with the seals of both parties.
- (ii) The Subscription Agreement shall take effect immediately upon all of the following conditions are satisfied:
 - (1) the Issuance having been approved by the Board, General Meeting, A Shareholders Class Meeting, H Shareholders Class Meeting of the Company and the Subscription Agreement having been approved by the Board and General Meeting;
 - (2) the CBRC having approved this Issuance and other administrative matters involved in performing this Issuance;
 - (3) the CSRC having approved this Issuance;
 - (4) the National Development and Reform Commission of the state and its authorized authorities having issued the filing and registration certificate, approvals of the Issuance;
 - (5) the Hong Kong Stock Exchange having approved this Issuance.
- (iii) Upon the formation of the Subscription Agreement, both parties shall make proactive efforts to satisfy the conditions precedent for effecting the Subscription Agreement, and any party who fails to comply with the requirements of the Subscription Agreement and makes the other party suffers from any loss shall assume liability for such loss. Neither party shall assume any liability if the Subscription Agreement fails to come into effect due to reasons not arising from both parties.

7. Liabilities for breach

- (i) The Company shall not assume any liability for insufficient offering where there is any difference (insufficiency) between the final number subscribed for by COSCO Shipping Financial and the amount as agreed in the announcement of the Board resolutions of the Company or the Subscription Agreement due to the approval by competent authorities.

- (ii) If a party to the Subscription Agreement defaults or the Subscription Agreement is not performed or fully performed due to its mistake, the liability thereby incurred shall be borne by the party in default. If a party to the Subscription Agreement breaches the representation or undertaking made in the Subscription Agreement which makes the other party suffer from any loss, the party in default shall assume corresponding liability for such damages. If both parties default the Subscription Agreement, they shall assume their respective liabilities incurred due to their own defaults.
- (iii) Neither party shall assume any legal liabilities for failing to perform the Subscription Agreement due to force majeure. However, the party who suffers the force majeure shall inform other party in a timely manner and take necessary measures to minimize the loss as much as possible.

Relationship between the Company and its related party

COSCO Shipping Financial is wholly-owned company under COSCO Shipping. Up to now, COSCO and its associates (which directly or indirectly holding 2,515,193,034 Ordinary Shares or 9.97 % of the Company in aggregate, of which 54,721,930 Ordinary Shares or 0.22% of the Company is held through COSCO Shipping Financial) do not constitute connected persons of the Company under the Rule 14A of the Hong Kong Listing Rules. However, COSCO is a related party of the Company under the Listing Rules of the Shanghai Stock Exchange and Mr. Wang Daxiong, the president of COSCO Shipping Financial, holds the position of non-executive Director of the Company. Pursuant to the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders issued by the CBRC, the Guidelines of Shanghai Stock Exchange on Related Party Transactions of Listed Companies, the Articles of Association, as well as relevant requirements as set out in Regulations on Related Party Transactions of the Company, the subscription of Preference Shares by COSCO Shipping Financial under this Issuance constitutes a related party transaction of the Company under the Listing Rules of Shanghai Stock Exchange and shall be subject to relevant approval procedures.

Purpose of the related party transaction and its impact on the Company

(I) Purpose of the related party transaction

The Company intends to replenish its Additional Tier-1 Capital, meet the increasingly stringent capital regulatory requirements and optimize the capital structure of the Company, strengthen its capacity of risk resistance and provide support for the continued healthy development of various operations of the Company through this non-public issuance of Preference Shares.

(II) Impact on the operation and financial position of the Company

Upon the completion of this Issuance, the capital structure of the Company will be improved and its overall competitiveness will be further enhanced. This Issuance will also help continue to promote the business transformation and upgrading of the Company, enhance the Capital Adequacy Ratio level of the Company, and strengthen its abilities in sustainable development and risk resistance as well as provide capital support for the effective implementation of the Company's strategies.

(III) Impact on related party transaction

The pricing of this related party transaction will be determined at conditions that are not more favourable than those of comparable transactions of non-related parties, the determination procedures are in line with relevant regulatory requirements and the provisions of the Articles of Association and its trading conditions are fair and reasonable, which will not prejudice the interests of the Company and other Ordinary Shareholders, especially the minority shareholders or affect the independence of the Company.

III. VOTING BY THE BOARD

On 24 March 2017, the Company convened the Tenth Meeting of the Tenth Session of the Board to consider and approve the resolutions regarding the issuance plans. The related Directors Ms. Sun Yueying and Mr. Wang Daxiong have abstained from voting on resolutions regarding the related party transaction involved in the Issuance when such resolutions were considered by the other members of the Board.

The issuance plans are subject to the approval at the General Meeting, A Shareholders Class Meeting and H Shareholders Class Meeting. The associates of COSCO (including COSCO Shipping Financial) will abstain from voting on, among others, resolutions regarding the related party transaction involved in the Issuance when such resolutions are considered at the General Meeting and the Class Meetings.

Voting and opinions of independent non-executive Directors

Prior approval has been obtained from the independent non-executive Directors with respect to the above-mentioned related party transaction before it was submitted to the Board for consideration. The independent non-executive Directors have voted in favor of such resolution and expressed independent opinions to approve such related party transaction:

- (i) This Issuance complies with the provisions of the relevant laws and regulations and normative documents as well as the requirements of the Articles of Association.
- (ii) The proceeds raised in this Issuance, after deducting the issuance expenses, will be used to replenish the Additional Tier-1 Capital of the Company. This Issuance will help the Company to further improve the capital supplement mechanism, optimize its capital structure, enhance the Capital Adequacy Ratio level, strengthen the continued and stable development of the Company, which is in the interest of the Company and all of its Ordinary Shareholders.
- (iii) After this Issuance, as the Preference Shareholders have priority rights to receive profits allocated by the Company than the Ordinary Shareholders, without taking into account the returns on use of proceeds raised, the net profit attributable to the Ordinary Shareholders and therefore the earnings per share attributable to the Ordinary Shareholders will be reduced, which will result in the risk of dilution of current returns attributable to the Ordinary Shareholders and also a reduction in dividends attributable to the Ordinary Shareholders. In addition, under the circumstance where the whole or part of dividends of Preference Shares are cancelled by the Company, it would not allocate any profit to the Ordinary Shareholders 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 to the Preference Shareholders by the Company.
- (iv) When the mandatory conversion conditions are satisfied, the Preference Shares issued in this Issuance and subsisting will be wholly or partly converted into Ordinary 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 Ordinary Shareholders as well as some of the financial indicators including earnings per share.
- (v) Except for circumstances as required in the issuance plans, the Preference Shareholders

under this Issuance are not entitled to attend any general meeting and Preference Shares held by them shall have no voting right. However, under any special circumstances specified by laws and regulations and the resolutions, the Preference Shareholders are entitled to attend general meetings and exercise their voting rights the same way as the Ordinary Shareholders, which will affect the voting rights of the original Ordinary Shareholders to a certain extent.

- (vi) COSCO Shipping Financial entered into the Subscription Agreement with conditions precedent with the Company on 24 March 2017. Pursuant to the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders and the relevant regulatory rules of the Shanghai Stock Exchange, COSCO Shipping Financial is a related party of the Company, and therefore its subscription of Preference Shares in this Issuance by the Company constitutes a related party transaction. COSCO Shipping Financial has undertaken not to participate in the price inquiry process for determining the dividend rate of Preference Shares in this Issuance and will accept the dividend rate determined based on the procedures and requirements as specified by competent authorities. The trading conditions of the related party transaction involved in this Issuance are fair and reasonable, and the terms and execution procedures of the Subscription Agreement are in legal compliance, which will not prejudice the interests of the Company and other Ordinary Shareholders, especially the minority shareholders.
- (vii) The Company informed the independent non-executive Directors of this Issuance and the related party transaction involved in advance, communicated with the independent non-executive Directors when necessary with the relevant information provided to them, and obtained the approval of the independent non-executive Directors with respect to the related party transaction plan. The independent non-executive Directors agreed unanimously to submit the relevant resolutions to the Board to consider. The related Directors have abstained from voting when such resolutions are considered at the Board of the Company. The convening, holding and voting procedures of the Board Meeting conform to the relevant requirements of the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Guidelines of Shanghai Stock Exchange on Related Party Transactions of Listed Companies and the Articles of Association of the Company, and the resolution made at which is legal and valid.
- (viii) This Issuance and the related party transaction involved shall be still subject to approval by the General Meeting of the Company, of which, the Issuance Plans shall be still approved at the A Shareholders Class Meeting, the H Shareholders Class Meeting of the Company and by the relevant regulatory authorities. The related Shareholder(s) shall abstain from voting when such relevant resolutions are considered at the General Meeting and Class Meetings.

In conclusion, proceeds raised from this Issuance by the Company are proposed to replenish its Additional Tier-1 Capital in accordance with the relevant requirements, so as to improve its capital adequacy level, better meet the capital regulatory requirements and the Company's development needs, but also help the Company to further improve its ability of risk resistance. In the long term, this Issuance is conducive to the improvement of the Company's sound operation and continuous profitability, which is in line with the long-term interests of the Company and all Ordinary Shareholders and will be beneficial to better return the Ordinary Shareholders of the Company. This Issuance and the related party transaction involved are in line with the principles of openness, fairness and justice with fair pricing, which will not damage the interests of the minority shareholders. The voting procedures of the related party transaction involved in this Issuance comply with the relevant laws and the Company's related Directors have abstained from voting with respect to such relevant resolutions, which are in line with the relevant laws, regulations and the Articles of Association of the Company.

IV. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Given the contemplated non-public issuance of Domestic and Offshore Preference Shares, the Company has proposed certain amendments to the current Articles of Association in accordance with the State Council Guidance Opinion, the Joint Guidance Opinion and relevant laws and regulations and other normative documents, and with reference to the Trial Administrative Measures and taking into account its actual situation. Details of the proposal on amendments to the Articles of Association will be set out in the circular to be dispatched to the Shareholders.

The proposed amendments to the Articles of Association shall be considered and approved by the Shareholders at the General Meeting by way of special resolution(s).

V. EQUITY FUND-RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund-raising activities during the past twelve months immediately preceding the date of this announcement.

VI. GENERAL

The Company will convene the General Meeting, A Shareholders Class Meeting and H Shareholders Class Meeting. At the General Meeting, special resolutions will be proposed for the Shareholders to consider and, if thought fit, to approve, among other things, the proposed non-public issuance of Domestic Preference Shares, proposed non-public issuance of Offshore Preference Shares, proposed amendments to the Articles of Association, and ordinary resolutions will be proposed for the Shareholders to consider and, if thought fit, to approve, among other things, the related party transaction regarding non-public issuance of Offshore Preference Shares by the Company to COSCO Shipping Financial, the Subscription Agreement between the Company and COSCO Shipping Financial for the conditional subscription of Offshore Preference Shares, analysis of impact of dilution of current returns by non-public issuance of Preference Shares and the remedial measures, capital management plan for 2017-2019, shareholders' return plan for 2017-2019, report on the use of proceeds raised in the previous issuance by the Company. At the A Shareholders Class Meeting and H Shareholders Class Meeting, special resolutions will be proposed for the Shareholders to consider and, if thought fit, to approve the proposed non-public issuance of Domestic Preference Shares and proposed non-public issuance of Offshore Preference Shares.

Full text of analysis of Impact of Dilution of Current Returns by Non-public Issuance of Preference Shares and the Remedial Measures is set out in Appendix III to this announcement.

Full text of Capital Management Plan for 2017-2019 is set out in Appendix IV to this announcement.

Full text of Shareholders' Return Plan for 2017-2019 is set out in Appendix V to this announcement.

Full text of Report on the Use of Proceeds Raised in the Previous Issuance by the Company is set out in Appendix VI to this announcement.

As COSCO Shipping Financial is a related party of the Company under the Listing Rules of Shanghai Stock Exchange and its ultimate controlling shareholder, COSCO, has material interests in the proposed subscription of Offshore Preference Shares by COSCO Shipping Financial under this Issuance, the associates of COSCO (including COSCO Shipping Financial) will abstain from voting on resolutions on the proposed non-public issuance of Offshore Preference Shares, the related party transaction regarding non-public issuance of Offshore Preference Shares by the Company to COSCO Shipping Financial, and the Subscription Agreement between the Company and COSCO Shipping Financial for the conditional subscription of Offshore Preference Shares at the General Meeting and will abstain from voting on the resolution on proposed non-public issuance of Offshore Preference Shares at the Class Meetings.

VII. DISPATCH OF CIRCULAR

Pursuant to Rules 14A.46(1) and 19A.39A of the Hong Kong Listing Rules and requirements under the PRC Company Law, a circular containing, among other things, details of the proposed non-public issuance of Domestic Preference Shares, proposed non-public issuance of Offshore Preference Shares, the Subscription Agreement between the Company and COSCO Shipping Financial for the conditional subscription of Offshore Preference Shares, and the proposed amendments to the Articles of Association and other relevant resolutions, is required to be dispatched to the Shareholders as soon as practical but no later than 19 April 2017.

Shareholders and potential investors should be aware that the proposed non-public issuance of Domestic and Offshore Preference Shares is subject to fulfillment of certain conditions precedent. As the proposed non-public issuance of Domestic and Offshore Preference Shares may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

VIII. DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“A Share(s)”, “Domestic Share(s)”	ordinary domestic share(s) in the Company’s ordinary share capital, with a nominal value of RMB1.00 each, which is (are) denominated in RMB and listed on the Shanghai Stock Exchange
“A Shareholder(s)”	holder(s) of A Shares
“A Shareholders Class Meeting”	the first class meeting for A Shareholders for 2017 to be held on the date of the 2016 AGM immediately following the conclusion of the 2016 AGM or any adjournment thereof, for the purpose of considering and, if thought fit, approving resolutions on the proposed non-public issuance of Domestic Preference Shares and proposed non-public issuance of Offshore Preference Shares
“Additional Tier-1 Capital”	has the meaning ascribed to it in the Capital Administrative Measures

“Articles of Association”	the articles of association (including the Rules of Procedures for Meetings of the Board of Directors, the Rules of Procedures for Shareholders’ General Meetings, and the Rules of Procedures for Meetings of the Board of Supervisors) of the Company, as amended, modified or otherwise supplemented from time to time
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board of Directors” or “Board”	the board of Directors of the Company
“Capital Administrative Measures”	the Administrative Measures for the Capital of Commercial Banks (Trial) promulgated by the CBRC and effective from 1 January 2013
“CBRC”	China Banking Regulatory Commission
“Class Meetings”	collectively, the A Shareholders Class Meeting and the H Shareholders Class Meeting
“Company”	China Merchants Bank Co., Ltd. (招商銀行股份有限公司), a joint stock limited company incorporated under the laws of the PRC, the A Shares of which are listed on the Shanghai Stock Exchange and the H Shares of which are listed on the main board of the Hong Kong Stock Exchange
“Company Law”	the Company Law of the People’s Republic of China (as amended from time to time)
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“COSCO”	China COSCO Shipping Corporation Limited
“COSCO Shipping Financial”	COSCO SHIPPING Financial Holdings Co., Limited
“CSRC”	China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“Domestic Issuance Plan”	the Plan for Non-public Issuance of Domestic Preference Shares of China Merchants Bank Co., Ltd., as set out in Appendix I to this announcement
“Domestic Preference Share(s)”	the preference shares of an aggregate amount of not more than RMB27.5 billion, proposed to be issued by the Company in the domestic market pursuant to the Domestic Issuance Plan
“Domestic Preference Shareholder(s)”	holder(s) of the Domestic Preference Shares

“General Meeting”, “2016 AGM”	the 2016 annual general meeting of the Company or any adjournment thereof to consider and, if thought fit, and approve the special resolutions regarding, among other things, the proposed non-public issuance of Domestic Preference Shares, proposed non-public issuance of Offshore Preference Shares, proposed amendments to the Articles of Association, as well as ordinary resolutions regarding, among other things, the related party transaction regarding non-public issuance of Offshore Preference Shares by the Company to COSCO Shipping Financial, the Subscription Agreement between the Company and COSCO Shipping Financial for the conditional subscription of Offshore Preference Shares, dilution of current returns by non-public issuance of Preference Shares and the remedial measures, capital management plan for 2017-2019, shareholders’ return plan for 2017-2019, report on the use of proceeds raised in the previous issuance by the Company and other relevant matters
“H Share(s)”	overseas listed foreign share(s) in the Company’s ordinary share capital, with a nominal value of RMB1.00 each, which are listed on the main board of the Hong Kong Stock Exchange
“H Shareholder(s)”	holder(s) of the H Shares
“H Shareholders Class Meeting”	the 2017 first class meeting for H Shareholders of the Company to be held on the date of the 2016 AGM immediately following the conclusion of the 2016 AGM and A Shareholders Class Meeting or any adjournment thereof, for the purpose of considering and, if thought fit, approving resolutions on the proposed non-public issuance of Domestic Preference Shares and proposed non-public issuance of Offshore Preference Shares
“HK\$”, “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Shareholder(s)”	Shareholder(s) other than those who have a material interest in the relevant resolutions to be proposed at the General Meeting and the Class Meeting
“Issuance”	the Preference Shares to be issued by the Company under the Domestic Issuance Plan and the Offshore Issuance Plan
“Joint Guidance Opinion”	the Guidance Opinion on Issuance of Preference Shares by Commercial Banks for Replenishing Tier-1 Capital jointly issued by the CBRC and the CSRC on 3 April 2014

“Listing Rules of Shanghai Stock Exchange”	the Rules Governing the Listing of Securities on Shanghai Stock Exchange
“Offshore Issuance Plan”	the Plan for Non-public Issuance of Offshore Preference Shares of China Merchants Bank Co., Ltd., as set out in Appendix II to this announcement
“Offshore Preference Share(s)”	the preference shares of an aggregate amount of not more than RMB7.5 billion or its equivalent, proposed to be issued by the Company in the offshore market pursuant to Offshore Issuance Plan
“Offshore Preference Shareholder(s)”	holder(s) of the Offshore Preference Shares
“Ordinary Share(s)”	Domestic Share(s) and H Share(s) of the Company
“PRC”, “China”	the People’s Republic of China, and for the purposes of this announcement only, excluding Hong Kong, the Macau Special Administrative Region, and Taiwan
“Preference Share(s)”	collectively, the Domestic Preference Shares and Offshore Preference Shares
“RMB”	Renminbi, the lawful currency of the PRC
“Securities Law”	The Securities Law of the People’s Republic of China
“Shanghai Stock Exchange”	Shanghai Stock Exchange
“Shareholder(s)”	holder(s) of Ordinary Shares
“State Council Guidance Opinion”	the Guidance Opinion on the Launch of Preference Shares Pilot Scheme (《國務院關於開展優先股試點的指導意見》) promulgated by the State Council on 30 November 2013
“Subscription Agreement”	the share subscription agreement with conditions precedent in relation to Offshore Preference Shares entered into between China Merchants Bank Co., Ltd. and COSCO SHIPPING Financial Holdings Co., Limited on 24 March 2017
“Trial Administrative Measures”	the Trial Administrative Measures on Preference Shares promulgated by the CSRC on 21 March 2014

By Order of the Board
China Merchants Bank Co., Ltd.
Chairman
Li Jianhong

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.

Appendix I

Non-public Issuance of Domestic Preference Shares Plan of China Merchants Banks Co., Ltd.

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.

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.

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 on the basis of the adjustment in compliance with the requirements of the regulatory authorities.

(2) Conditions of dividend distribution

1. The Company shall distribute dividends to holders of Domestic Preference Shares if there are distributable profits after tax¹ 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 payment² to the holders of Preference Shares.

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: $P_1 = P_0 \times (N+S \times (A/M)) / (N+S)$;

Where: “P₀” 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 “P₁” 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/or 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); and
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.

Appendix II

Non-public Issuance of Offshore Preference Shares Plan of China Merchants Banks Co., Ltd.

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

The type of this issuance of Offshore Preference Shares (the “Offshore Preference Shares”) will comply with the requirements of relevant provisions of laws, regulations and normative documents, including *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 Offshore Preference Shares will not exceed 75 million, the proceeds of the Offshore Preference Shares will not exceed RMB7.5 billion or its equivalent. 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 Offshore Preference Shares to be issued is perpetual.

III. Method of issuance

All Offshore Preference Shares will be issued through private placement in compliance with relevant regulations on issuance. 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”), The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Hong Kong Stock Exchange”) and other regulatory authorities and in accordance with relevant procedures. Except for dividend rates, the terms of Offshore Preference Shares issued in different tranches are identical.

In the event that the Offshore 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 Offshore Preference Shares will be issued in compliance with relevant regulations on issuance, to offshore investors whom are eligible and meet the regulatory stipulations and relevant laws and regulations. The Offshore Preference Shares shall be subscribed by the issue targets in cash.

COSCO SHIPPING Financial Holdings Co., Limited (“COSCO Shipping Financial”) intends to subscribe for Offshore Preference Shares under this issuance of no more than 5 million shares for a total amount not exceeding RMB500 million or its equivalent. COSCO Shipping Financial has undertaken not to participate in the price inquiry process for determining the dividend rate of Preference Shares in this Issuance and will accept the dividend rate to be determined by the Company and the lead underwriter by a book-building procedure or through other approaches recognized by the CSRC. COSCO Shipping Financial is a related party of the company and shall be subject to approval by non-connected shareholders at the shareholders’ general meeting of the Company for its subscription of the Offshore Preference Shares under this issuance.

In addition to COSCO Shipping Financial, the target investors will be determined by the Board of the Company in accordance with the authorization (such authorization may be sub-delegated by the Board) granted at the shareholders’ general meeting, the relevant requirements of regulatory authorities and the issuance rules in the offshore market.

V. Nominal value and issue price

The nominal value of the Offshore Preference Shares will be RMB100 per share and the issue price will be denominated in foreign currencies and/or RMB. The Offshore Preference Shares will be issued at or above par value. The actual issue price is proposed to be determined by the Board with reference to market conditions and in accordance with relevant laws, regulations and market practice, subject to the authorization at the shareholders’ general meeting (which authorization can be further sub-delegated).

VI. Lock-up period

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

VII. Dividend Distribution Terms

(1) Principles for determining the dividend rate

The dividend rate of the Offshore Preference Shares will be adjusted in stages and an adjusted dividend rate period will be set from the closing day of issuance payment. During the adjusted dividend rate period, dividends shall be paid at the same agreed dividend rate and subsequently reset on a regular basis. The dividend rate at the time of issuance shall be determined by the Board authorized by the shareholders’ general meeting through market pricing with reference to factors including market conditions, the practical situation of the Company and investors’ demands at the time of the issuance, and the dividend rate shall not be higher than the mean of annual return on weighted average net assets of the Company for the two most recent financial years¹.

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.

The dividend rate consists of the benchmark rate and the fixed premium. The fixed premium is determined by deducting the benchmark rate at the time of issuance of a tranche of the Offshore Preference Shares from the dividend rate determined at the time of issuance of such tranche of the Offshore Preference Shares. The fixed premium shall not be adjusted once determined.

On the benchmark rate adjustment date, the dividend rate level shall be determined for the next new adjusted dividend rate period, which is calculated by adding the benchmark rate on the benchmark rate adjustment date and the fixed premium as determined at the time of issuance pricing.

(2) Conditions of dividend distribution

1. The Company shall distribute dividends to holders of Offshore Preference Shares if there are distributable profits after tax¹ after making up losses and contributing 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 Offshore Preference Shares and Domestic Preference Shares of the Company shall have the same priority of distribution of dividends. Dividend payment of the Offshore 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 Offshore 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 Offshore Preference Shares to repay other debts when due at its sole discretion. Cancellation on part or all of the dividend distribution on Offshore 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 Offshore 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 Offshore 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 Offshore 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 Offshore 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 payment² to the holders of Preference Shares.

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 Offshore Preference Shares are non-cumulative; hence, the Company will not distribute dividends cancelled in previous years.

(3) Method of dividend payment

Dividends on the Offshore Preference Shares shall be payable in cash. The dividend bearing principal amount shall be the aggregate value of the relevant tranche of Offshore Preference Shares then issued and outstanding, being the product of the issue price of the Offshore Preference Shares times the total number of Offshore Preference Shares of the relevant tranche issued and outstanding during the period, same as below. Dividends on the Offshore Preference Shares shall be paid annually and denominated and declared in RMB. Dividends will accrue from the due date for payment for the issuance of the relevant tranche of Offshore Preference Shares.

(4) Method of dividend accumulation

The dividends on the Offshore 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 Offshore 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 Offshore 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 Offshore 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 Offshore 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 Offshore Preference Shares. In case of partial redemption, the Offshore Preference Shares shall be redeemed on a pro rata basis and on the same conditions.

The redemption period for the Offshore Preference Shares begins on the date on which redemption begins and ends on the conversion or redemption of all the Offshore 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 Offshore 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 Offshore Preference Shares which have not been converted, at the issuing price of the Offshore 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 Offshore Preference Shares then issued and outstanding into Ordinary H Shares based on the total value of such Offshore 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 Offshore 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 Offshore Preference Shares then issued and outstanding into Ordinary H Shares based on the total value of such Offshore 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 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 Offshore Preference Shares shall be the average trading price of Ordinary H 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 Offshore Preference Shares.

The average trading price of Ordinary H 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 H Shares in these 20 trading days/the total trading volume of Ordinary H Shares in these 20 trading days (i.e. HKD21.06 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 value of the Offshore Preference Shares for mandatory conversion and implement mandatory conversion of the Offshore 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: $Q^* = V^*/P^* \times$ exchange rate for calculation. Any fractional of Offshore 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 H Shares that shall be converted from the Offshore Preference Shares held by each holder of Offshore Preference Shares; "V*" denotes the total par value of Offshore Preference Shares held by each holder of Offshore Preference Shares for the mandatory conversion as determined under the principle that the losses will be absorbed in equal proportion among the Offshore Preference Shares and the Offshore Preference Shares; "P*" denotes the mandatory conversion price of the Offshore Preference Shares under the issuance; and the "exchange rate for calculation" denotes the exchange rates for Hong Kong dollar and the foreign currency in which the Offshore Preference Shares are denominated based on the RMB Central Parity Rate published by the China Foreign Exchange Trading Centre on the trading date immediately preceding the date of announcement of the Board resolution in respect of the issuance plan of the Offshore Preference Shares.

Upon the occurrence of a trigger event, the Offshore Preference Shares then issued and outstanding will be converted into corresponding number of Ordinary H 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 Offshore Preference Shares to Ordinary H Shares, or relevant shareholders of the Company, its associates and persons 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 Offshore Preference Shares held by them to Ordinary Shares resulting in the relevant shareholders are liable for any mandatory general offer, or the conversion of Offshore Preference Shares to

Ordinary H 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 Offshore Preference Shares to Ordinary H 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 Offshore 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 H 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 Offshore 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:
 $P_1^* = P_0^* \times (N^*+S^* \times (A^*/M^*)) / (N^*+S^*)$;

Where: "P₀^{*}" denotes the effective mandatory conversion price before adjustment; "n^{*}" denotes the ratio of the bonus issuance for Ordinary H Shares or the capital conversion or increase; "N^{*}" denotes the total Ordinary Shares capital of the Company prior to the issuance of new H Shares or placement; "S^{*}" denotes the amount of the issuance of new H Shares or placement; "A^{*}" denotes the price for the issuance of the new H Shares or placement; "M^{*}" denotes the closing price of Ordinary H Shares on the trading date immediately prior to the date of registration of issuance or placement of new H Share; and "P₁^{*}" denotes the effective mandatory conversion price after adjustment.

In the event that the rights and benefits of the holders of the Offshore 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 H Shares to be issued as a result of the mandatory conversion of the Offshore Preference Shares will rank pari passu with the existing Ordinary H Shares, and all holders of Ordinary Shares (including the holders of Ordinary H Shares due to the mandatory conversion of the Offshore 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 Offshore Preference Shares to Ordinary H 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 Offshore 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 Offshore 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 Offshore 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.

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 Offshore 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 Offshore 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 Offshore Preference Shares with restored voting rights is as follows:

$R^* = W^*/P^* \times \text{exchange rate}$ in calculation, with any fractional restored voting right rounded down to the nearest whole number.

Where: "R*" denotes the Ordinary H Shares voting rights restored from the Offshore Preference Shares held by each holder of Offshore Preference Shares; "W*" denotes the value of the Offshore Preference Shares with restored voting rights held by each holder of Offshore Preference Shares; "P*" denotes the conversion price, refers to the average trading price (i.e. HKD21.06 per share) of Ordinary H 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 Offshore Preference Shares issuance plan; and the "exchange rate for calculation" denotes the exchange rates for Hong Kong dollar and the foreign currency in which the Offshore Preference Shares are denominated based on the RMB Central Parity Rate published by the China Foreign Exchange Trading Centre on the trading date immediately preceding the date of announcement of the Board resolution in respect of the issuance plan of the Offshore Preference Shares. 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". Nevertheless, the relevant shareholders, associates and parties acting in concert obtain the voting rights of 30% or above of the Company as a result of restoring the voting rights of Preference Shares, the concerned voting rights shall be restored only when relevant shareholders have complied with the requirements of relevant laws and regulations and obtain exemption or agreement of all the competent regulatory authorities.

(2) Cancellation of restoration of voting rights

Upon the full payment of the dividends on the Offshore Preference Shares for the current dividend period, the voting rights granted to holders of the Offshore 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 Offshore 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 Offshore Preference Shares of this issuance will be entitled to an amount on liquidation equals to the total par value of the Offshore 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 Offshore Preference Shares and the holders of Offshore Preference Shares.

Holders of Offshore 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 Offshore Preference Shares shall be determined in accordance with relevant foreign laws and regulations and financial market conditions.

XIV. Guarantee

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

XV. Use of proceeds

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

XVI. Transferability

Applications will be made for the listing of the Offshore Preference Shares on the Hong Kong Stock Exchange in accordance with the relevant regulatory rules and will be transferred in accordance with the relevant trading and settlement rules.

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 Offshore Preference Shares, the Company has the right to modify the issuance of the Offshore 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 Offshore 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 Offshore Preference Shares

The resolution in respect of the issuance of Offshore 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 Offshore Preference Shares in a multiple tranche shall not require the voting approval of the issued and outstanding holders of Preference Shares.

XIX. Issuance of Offshore and Domestic Preference Shares

The non-public issuance of Offshore Preference Shares and non-public issuance of Domestic 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 Domestic 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 Offshore 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 Offshore Preference Shares

To ensure smooth implementation for the matters relating to the issuance of the Offshore 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 Offshore 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 Offshore 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 Offshore Preference Shares;

2. to complete the formulation, amendment and implementation of the issuance plan of the Offshore 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 Offshore Preference Shares;
3. to make appropriate amendments, adjustments and supplements to the issuance plan and relative documents of Offshore 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 Offshore 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 Offshore 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 Offshore Preference Shares with relevant domestic and foreign regulatory authorities and make adjustment to the issuance of the Offshore 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 Offshore 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 Offshore Preference Shares issuance plans under force majeure or other situations make the issuance of Offshore 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 Offshore 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 Offshore 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 Offshore 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 Offshore Preference Shares based on the market conditions during the redemption period of the preference shares under the issuance and to, at its sole discretion, decide on 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 Offshore 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 Offshore 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 Offshore 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 Offshore Preference Shares being issued to be not qualified as additional Tier-1 capital, to modify the contractual terms of the Issuance so that the Offshore Preference Shares shall be qualified as additional Tier-1 capital instruments in compliance with the regulatory requirements.

Appendix III

CHINA MERCHANTS BANK CO., LTD.

Impact of Dilution of Current Returns by Non-Public Issuance of Preference Shares and the Remedial Measures

In accordance with the *Opinions of the General Office of the State Council on Further Strengthening the Protection of Legitimate Rights and Interests of Small and Medium Investors in Capital Market* (Guo Ban Fa [2013] No. 110), *Certain Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market* (Guo Fa [2014] No. 17) and the *Guidelines on the Impacts on Dilution of Current Returns of the Initial Offering and Refinancing and Major Asset Reorganization* (CSRC Notice [2015] No.31) issued by China Securities Regulatory Commission as well as other requirements, the Company hereby prepares the following analysis on the impact on dilution of the Company's current returns by the proposed non-public issuance of preference shares (hereinafter referred to as "the Issuance") and provides explanations to the relevant remedial measures.

I. Impact of the Issuance on Current Earnings per Share (EPS) of the Company

The proceeds raised, after deducting the listing expenses, will be entirely used to supplement the Additional Tier-1 Capital to further consolidate the capital strength of the Company and to improve the risk resistance capacity and profitability of the Company. After 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 of any return generated from the proceeds raised in this Issuance, the dividend payouts of the issuance of preference shares will reduce the net profit attributable to holders of ordinary shares of the Company. The probable change in trend of the current EPS of the Company after the issuance of preference shares is analyzed as follows:

(I) Assumptions

The following assumptions are only for calculating the impact of the Issuance on the current EPS of the Company, and they shall not be indicative of the judgment of the future operation situation and prospects of the Company, nor does it constitute a profit forecast. Investors shall not make any investment decisions based thereon. The Company shall not be responsible for any losses caused from the investment decision so made.

1. It is assumed that there would be no material and adverse change in the general economic situation, industrial development trend and the Company's operation.
2. The net profit (i.e. the net profit after deducting the non-recurring gains and losses, the same below) attributable to holders of ordinary shares of the parent company for 2016 was RMB61.142 billion. It is assumed that in 2017 the net profit attributable to holders of Ordinary Shares of the parent company would rise by 0%, 5%, 10% and 15% respectively compared with the same periods of the previous year. The above mentioned amount of the net profit shall not constitute a profit forecast of the future net profit of the Company and be only used for calculating the impact of the dilution of current returns by this Issuance on the main indicators. Investors shall not make any investment decisions based thereon. The Company shall not be responsible for any losses caused from the investment decision so made.
3. It is assumed that the total proceeds to be raised from this non-public issuance of Preference Shares would be RMB35 billion or its equivalent (without taking into account the effect of the Issuance expenses).

4. It is assumed that the impact on the operating and financial position of the Company after the receipt of proceeds raised from this Issuance would not be taken into account. The final amount of proceeds raised from this Issuance will be subject to the approval of the regulators, the Issuance and subscription situation and the Issuance expenses, etc.
5. It is assumed that Preference Shares in this Issuance had been existing at the beginning of 2017 (such assumption is for illustration only and shall not represent the actual issue time of the Preference Shares of the Company; the issue time will be subject to the actual time of the completion of this Issuance approved by the regulators), and the dividends would be paid in full for the full interest-bearing year of 2017 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).
6. The anticipated total share capital of the Company is based on the total share capital of 25.22 billion shares immediately before this non-public issuance of Preference Shares (without taking into account changes in share capital resulting from any other factors).
7. The anticipation only takes account of the impact on dilution of current returns by this non-public issuance of Preference Shares, and no impact on other capital instruments issued or to be issued would be taken into consideration.

(II) Analysis of Impacts on Current EPS of the Company by the Issuance

Given the above-mentioned assumptions, upon completion of this Issuance, the impact on the current EPS of the Company in 2017 is as follows:

Unit: RMB0.1 billion, unless otherwise specified

Item	Year 2016	Year 2017							
		0%		5%		10%		15%	
Assumed net profit growth rate (Note 1)		0%		5%		10%		15%	
Net profit attributable to holders of ordinary shares of the Company (after deducting the non-recurring gains and losses) (without considering this Issuance)	611.42	611.42	641.99	672.56	703.13				
Net profit attributable to holders of ordinary shares of the Company (after deducting the non-recurring gains and losses) (with considering this Issuance) (Note 2)	-	593.92	624.49	655.06	685.63				
Whether or not has considered this Issuance		No	Yes	No	Yes	No	Yes	No	Yes
Basic earnings per share after deducting the non-recurring gains and losses (RMB/share)	2.42	2.42	2.35	2.55	2.48	2.67	2.60	2.79	2.72
Diluted earnings per share after deducting the non-recurring gains and losses (RMB/share)	2.42	2.42	2.35	2.55	2.48	2.67	2.60	2.79	2.72

Note 1: Net profit growth rate refers to the year-on-year growth rate of the net profit attributable to holders of ordinary shares of the Company after deducting the non-recurring gains and losses in 2017;

Note 2: Net profit attributable to holders of ordinary shares of the Company (after deducting the non-recurring gains and losses) (without considering the Issuance) = Net profit attributable to holders of ordinary shares of the Company (after deducting the non-recurring gains and losses) (without considering the Issuance) – dividends declared in respect of preference shares for the current period;

Note 3: Basic and diluted earnings per share were calculated in accordance with the *Rules on Disclosure and Reporting of Information of Public Listing Companies No. 9 – Calculation and Disclosure of ROE and Earnings per Share* (revised in 2010).

II. Risk Warning on the Impacts on Dilution of Current Returns of the Proposed Non-public Issuance of Preference Shares

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 proceeds raised will be used to replenish the Additional Tier-1 Capital; under the premise that the Company maintains the current capital operating efficiency, the Company's revenue and net profit levels will be improved, which will bring positive effects to the return on equity of the holders of ordinary shares and EPS attributable to the ordinary equity holders. The Company will continue to disclose in periodical reports the completion status of remedial measures of dilution of current returns and the performance of the commitments of the relevant promisors.

III. Necessity and Reasonableness of such Proposed Non-public Issuance of Preference Shares

(I) Further improving the level of Capital Adequacy Ratio and enhancing the ability in risk resistance

In recent years, the China Banking Regulatory Commission has continued to strengthen the prudent supervision. According to *Administrative Measures for the Capital of Commercial Banks* (for Trial Implementation) and other 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. There may also be additional capital requirements for systemically important banks and for the second pillar. In addition, international financial regulatory reform has significantly raised capital requirements, which puts pressure on the domestic commercial banks' satisfying the capital standards in the future. Meanwhile, there are still some contradictions and problems in the macroeconomic operation of our country; the objective situation also urges commercial banks to strengthen their own strength and improve the ability to resist risks. Therefore, in order to ensure to meet regulatory requirements, the Company needs to further enrich the capital base, to improve the capital strength and enhance the ability to resist risks.

(II) Ensuring the sustainable development of the Company’s business, and further supporting the real economy

The current economic situation at home and abroad generally shows a slow but steady performance with strong momentum for growth, and the social economy maintains steady and healthy development, but there is obvious contradiction between the excess capacity and upgrade of demand structure and the endogenous power for driving the economic growth is insufficient. In the meanwhile, as interest rate liberalization has basically completed, the peer competition becomes fiercer, the domestic banks are facing more opportunities and greater challenges. Under this background, the Company adheres to service the real economy, to carry out the “Light-operation Bank” strategy and increase integrated layout to promote the overall service upgrading and reengineer differentiated competitive advantage so as to promote the sustainable development of each business, and consolidate and improve the market position and its core competitiveness. Therefore, this issuance will further enhance the Company’s capital strength, enhance the ability of resisting substantial risks, reserve momentum for future development, and provide strong support for the sustainable development of the business to create good conditions for grasping the market opportunities in the future and further strengthening the ability to service the real economy.

(III) Broadening the long-term capital replenishment channel and perfecting capital replenishment mechanism

Preference share is an innovative financial instrument launched currently by the State Council and the domestic regulatory authority, which can satisfy a bank’s requirements for replenishment of its Tier-1 Capital, and preference share is restricted in terms of the distribution of the rest of the profits and vote right, etc. at the same time, which can reduce the influence on the equity of the original holders of ordinary shares. Through the reasonable use of the proceeds raised from the preference shares of this Issuance, the capital operation efficiency of the Company will be improved, which can promote the market value and overall value of the Company. This Issuance will further enrich the market-oriented source of the long-term capital of the Company, contributing to the flexible and efficient implementation of capital replenishment of the Company by considering the future development demand of the Company as well as the market environment.

(IV) Optimizing capital structure, maintaining the equity structure stability

For a long time, the Company has been adhering to the principle of placing endogenous accumulation primarily assisted by exogenous supplement to raise capital through multi-channel and multimode, trying to maintain sufficient capital levels. According to *Administrative Measures for the Capital of Commercial Banks* (for Trial Implementation), 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. Meanwhile, given the special nature of the preference shares (e.g., in general, the holders of preference shares do not have voting rights), this Issuance is conducive to keeping the stability of the Company’s shareholding structure.

IV. Connection between the Project to be Invested in with the Proceeds Raised and the Existing Businesses of the Company, and the Company's Reserve on the Aspects of Staff, Technology and Market for Engaging in the Project to be Invested in with the Proceeds Raised

(I) Connection between the proceeds raised in this Issuance and existing businesses of the Company

The total proceeds raised in this non-public issuance of Preference Shares will not exceed RMB35 billion or its equivalent. According to the applicable laws and regulations, after deducting the issuance expenses, the proceeds raised in this Issuance will be entirely used to replenish the Additional Tier-1 Capital of the Company, which can help the Company to uplift the capital adequacy ratio and perform better in meeting the capital regulatory requirements, reinforce risk-resisting ability, and achieve stable and sustainable business development and strengthen the ability to serve the real economy, and is also beneficial for the Company to expand long-lasting channels for capital replenishment, improve the capital replenishment mechanism and reduce financing cost, conforming to the interests of the Company and the shareholders.

(II) The Company's reserve on the aspects of staff, technology and market for engaging in the project to be invested in with the proceeds raised

As of the end of 2016, the Company had set up service outlets in over 130 cities in mainland China and owned 5 overseas branches and 3 overseas representative offices, with over 70,000 employees. In addition, in China, the Company also wholly owned CMB Financial Leasing Co., Ltd., controlled China Merchants Fund Management Co., Ltd. and possessed 50% equity interests in both Cigna & CMB Life Insurance Co., Ltd. and Merchants Union Consumer Finance Company Limited; and wholly owned Wing Lung Bank Ltd. and CMB International Capital Corporation Limited in Hong Kong. It is a bank group owing various financial licenses for commercial banking, financial leasing, fund management, life insurance, overseas investment banking, etc.

The Company formulates different employee training plans for different levels of employees with full coverage on all the employees, and the contents focus on business and product knowledge, professional integrity and safety, management skills and leadership, highlighting the key training points for various employees according to the requirements of the transformation strategy on the post abilities and qualifications of all the employees, so as to strengthen the capabilities of all the employees as a whole from front-line grass-root employees and professional technicians to operation management employees.

Since its establishment, the Company has been persisting in continuous innovation, and has launched "All-in-one Card" (一卡通), which is the milestone and first domestic debit card managed based on customer numbers, "All in One Net", which is the first 100% on-line bank, the first dual-currency credit card with international standards, and "Sunflower Wealth Management", which is the first wealth management product for high-end customers. The Company also took the lead in offering offshore business, buyer's credit business, domestic letter of credit business, enterprise annuity business, cash management business, banks and customs interconnection business, corporate wealth management and on-line bill acceptance business and so on in the domestic banking industry. In recent years, the Company has established the internet finance development strategy of "internal platform construction, external flow connection, flow operation", and has taken the lead in launching innovative services such as Peer to Peer, withdrawal by face recognition, "Flash Pass" payment and Machine Gene Investment, pre-empting the new heights in the mobile Internet era. For years, the brand image has

been widely recognized by the market, and the Company has become the benchmark for domestic commercial banks in multiple business fields and has won various honors such as “The Best Retail Bank in China”, “The Best Private Bank in China”, “The Best Cash Management Bank in China” from various authoritative media at home and abroad for consecutive years.

Supported by outstanding employees and innovative technologies, the Company has been standing at the front of the industry in various aspects, such as the proportion of retail profit, credit card and private banking customers and scale, assets under management, assets under custody as well as the proportion of revenue from financial market business and overseas business, earning itself a road of differentiated development towards “Light-operation Bank”.

V. Remedial Measures for the Dilution of Current Returns caused by this Non-Public Issuance of Preference Shares

(I) 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.

(II) 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.

VI. 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.

Appendix IV

Capital Management Plan for 2017-2019 of China Merchants Bank Co., Ltd.

To constantly deepen the “Light-operation Bank” strategy and improve dynamic balanced development on benefit, quality and scale of the China Merchants Bank Co., Ltd. (hereinafter referred to as the “Company” or the “Bank”) and according to international financial regulatory reform trend and capital regulatory policy standards of Chinese banking industry, the Company has prepared the Capital Management Plan for 2017-2019 of China Merchants Bank Co., Ltd. by taking consideration of internal and external operation environment variations.

I. Considerations for capital planning

1. Complicated and volatile external operation situation

Over the next few years, it will be difficult for the world economy to get over the pressure from profound adjustment, and the economic environment in China will become more complicated and volatile with overlapped structural contradictions and periodic dilemmas. The feature of “shifting the gears of the pace of economic development” of Chinese economy has been confirmed, the economic growth inclines to a downward tendency, and monetary policies tend to be more neutral, with the keynote gradually turning to “initiative structural adjustment, initiative deleveraging and initiative bubble prevention” and the long-term market interest rate beginning to rise. Meanwhile, impacted by such factors as the different economic growth in China and foreign countries and the expected overshooting in the market, short-term exchange rates and interest rates fluctuate more significantly, great challenges are faced for liquidity risk and interest rate risk management, and it will become more difficult to conduct asset and liability management. The credit risk that the banking industry is exposed to is becoming increasingly stable, but the industry remains under pressure in terms of the asset quality, and the profit growth speed remains relatively stable. Financial institutions compete fiercely and cooperate closely with each other, and have shown a noticeable trend of developing large asset management transaction platforms and striving for globalized business layout, which, together with the rapid development of Internet finance, are compelling traditional commercial banks to speed up the process of reform. The external operation situation is becoming increasingly complicated, which brings both opportunities and challenges for the development of domestic banks.

2. Gradually tightened prudential regulation

In recent years, the China Banking Regulatory Commission (“CBRC”) has been attaching increasing importance to operation compliance and prudential regulation, and more stringent requirements have been imposed via various policies and regulations and for on-site inspections to promote the deleveraging of commercial banks with the aid of monetary policies in the meantime. Various documents have been promulgated successively in recent years, including the Administrative Punishment Measures of the China Banking Regulatory Commission ([2015] No. 8) (《中國銀監會行政處罰辦法》

(2015年第8號)), Notice on Regulating the Inter-bank Business of Financial Institutions (Yin Fa [2014] No.127) (《關於規範金融機構同業業務的通知》(銀發[2014]127號)), Notice of the General Administration Department of the CBRC on Standardizing the Governance of Inter-bank Business of Commercial Banks (Yin Jian Ban Fa No.140, 2014) (《中國銀監會辦公廳關於規範商業銀行同業業務治理的通知》(銀監辦發[2014]140號)) and Notice on Regulating the Transfer of Usufruct for Credit Assets of the Financial Institutions in the Banking Industry (Yin Jian Ban Fa [2016] No.82) (《關於規範銀行業金融機構信貸資產收益權轉讓業務的通知》(銀監辦發[2016]82號)), to overhaul and standardize interbank business. In 2016, the CBRC step up efforts on the inspection of interbank, bill and other businesses, as a result of which, the uncertainty of capital charge was further increased. Simultaneously, the government has taken continuous measures to reduce corporate financing costs and relieve service charges, and introduced phased and unexpected policies to eliminate non-standard operations, which has also affected banks' earnings growth to a certain extent. In addition, the central bank introduced the Macro Prudential Assessment System (MPA) in 2016, in which, the macro prudential capital adequacy ratio, as the "one-vote veto" indicator, is one of the core indicators that determine the assessment results. Starting from 2017, the central bank will include off-balance-sheet wealth management assets in the statistical range of credit business in a broad sense to reinforce the requirements on macro prudential capital adequacy ratio. In order to ensure the satisfaction of the indicators, it is necessary for the banks to maintain a relatively high level of capital adequacy ratio.

3. Inevitable trend of integrated operation

Recently, in line with the prudent monetary policy, the regulatory policies on mixed operation have been tightened to promote the deleveraging of the financial sector, as result of which, the mixed operation aiming at leverage expansion is suppressed to a certain degree. But in the long term, under the situation that the market-oriented reform of interest rate has been basically completed, the profitability of the traditional bank deposit and loan business will show a downward tendency, and expanding the layout of integrated operation will be a crucial method to satisfy the all-round financial needs of the customers and upgrade the capability in customer service, so as to drive value creation and improve overall performance. As such, financial integration has become inevitable. Integrated operation layout of the Bank was initiated at an earlier time, and in the future, it is necessary for the Bank to continue to seize strategic opportunities and select good opportunities to acquire other necessary non-banking financial licenses and optimize subsidiary framework to reinforce strategic collaboration functions at the group level. Meanwhile, during the period of post-financial crisis, global economic and financial turbulence as well as domestic economic downturn also can bring some opportunities for mergers and acquisitions, which can be captured by the Bank to enlarge the customer base and strengthen the advantaged business sectors. Integrated operation will result in direct consumption of the bank capital, so it is necessary for the Bank to prepare sufficient capital reserve in order to make timely investment decisions and seize opportunities.

4. Upcoming new international capital rules

The Basel Committee on Banking Supervision (the “Basel Committee”) has never stopped promoting the reform on capital regulation. After tightening the standards for the numerator, the Basel Committee has mainly been focusing on the regulation of the denominator and global systemically important banks (“G-SIBs”) in recent years, aiming to enhance the prudence of the results of and the risk sensitivity of risk-weighted asset calculation, eliminate the defects on the measurements of internal models, establish the permanent bottom line for the internal model approach, reinforce the information disclosure and market discipline of the third pillar, and resolve the issue that systemically important financial institutions are too big to fail. The Basel Committee has published various drafts of capital regulation guidance for credit risk, market risk, operational risk, interest rate risk for bank accounts, liquidity risk, asset-backed securitization, counterparty credit risk, capital bottom line, information disclosure and total loss absorbing capacity (TLAC) to seek public opinions, most of which are expected to be finalized within 2017. Compared with current domestic regulatory standards, the amendment scope is extensive in the international regulatory reform, and the measurement rules are stricter and the capital charge standards are substantially lifted. The new regulatory standards as amended will produce profound impact on the operation model, business structure, risk management, internal control management of domestic commercial banks.

II. Capital planning targets

The Company has set the capital planning targets based on the following principles: to take the minimum capital regulatory requirements as starting point to reserve space for capital buffer and set the optimal capital targets with consideration of the actual situations of the Bank. For the above reasons, the Bank mainly considered the following factors when setting the capital adequacy ratio targets:

1. **Minimum regulatory requirements.** According to the Administrative Measures for Capital of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》), under normal circumstances, the minimum regulatory requirements on the Core Tier-1 Capital, Tier-1 Capital and total capital of non-systemically important banks are 7.5%, 8.5% and 10.5%, respectively, while those of systemically important banks are 8.5%, 9.5% and 11.5%, respectively, and the deadline for meeting such standards is the end of 2018. However, according to current regulatory requirements, within the period prior to such deadline, the Bank still needs to at least meet the regulatory standard requirements of non-systemically important banks before the capital surcharge requirements for systemically important banks are clarified, which means that, the Core Tier-1 Capital adequacy ratio, Tier-1 Capital adequacy ratio and total capital adequacy ratio of the Bank for each year within the transitional period shall not be below 7.5%, 8.5% and 10.5%, respectively.

2. **Capital buffer.** Reasonable capital buffer is a necessary guarantee for stable operation. With comprehensive consideration of the current regulatory practice and operation environment, the buffer space must be reserved for the following factors during the plan period of 2017-2019 (the “Plan Period”). Firstly, the capital surcharge requirements for domestic systemically important banks: up to now, although the CBRC has not provided a clear list of domestic systemically important banks yet, the Bank has been a bank that participates in the quantitative measurement of the Basel Committee for systemically important banks and needs to disclose systemically important indexes according to the domestic regulatory requirements. In the future, there is a possibility that the Bank will bear the capital requirements of one-percentage point higher because of the status of the Bank determined to be a domestic or global systemically important bank. Secondly, high capital requirements on the internal assessment procedures for capital adequacy: the CBRC will comprehensively decide how much higher the capital requirements will be according to the assessment on internal assessment procedures and reports of commercial banks for internal capital adequacy. Although there are uncertainties and individual differences as to how much higher the capital requirements will be and it is hard to predict accurately, it is also necessary to reserve capital buffer in this regard in advance. Thirdly, the uncertainties and pressure tests of the macro economy in the future: there are great uncertainties in the external operation environment of the banking industry, and pressure tests are needed to assess the risks and capital adequacy of banks under negative macroeconomic impact to establish and reserve capital buffer and take measures for management and response in advance.

Taking the above requirements into consideration, for 2017 to 2019, the Bank’s capital adequacy ratio targets are: by the end of 2018, Core Tier-1 Capital adequacy ratio, Tier-1 Capital adequacy ratio and Total Capital adequacy ratio shall reach and maintain at above 9.5%, 10.5% and 12.5% respectively. During the Plan Period, in case of continuous macroeconomic meltdown and the clarification of capital surcharge requirements for the second pillar and domestic systemically important banks, the Bank can maintain relatively stable capital adequacy ratios and meet the minimum regulatory requirements by reserving the capital buffer of 2.0 percentage points. After that, the Bank will continuously conduct back testing and dynamic assessment on the impact of risk situation, model adjustment or regulatory policies when preparing capital planning on a rolling basis, and adjust measurement standards and planning targets when it considers fit.

III. Capital replenishment planning

The Bank always adheres to the principle of replenishing capital mainly through endogenous supply and through exogenous supply to a lesser extent to raise capital from multi-channels in multiple ways, so as to maintain capital adequacy. In the next few years, the Bank will continue to reinforce capital strength and optimize capital structure to promote balanced organic growth.

(I) Endogenous supply

1. **Enhancement of profitability.** Profit-making ability is the key factor for the accumulation of self-generated capital. During the Plan Period, the Bank will follow the strategy of becoming a “Light-operation Bank” and upgrading services to create differentiated competitive advantages and establish the business system of “One Body with Two Wings”, where “One Body” refers to retail finance and “Two Wings” refer with to corporate finance and interbank finance, and further optimize the business structure and customer structure. With importance attached to the further exploration on existing customers and the growth quality, the Bank exerts great efforts on the management and control of liabilities and costs, improves risk pricing ability and continuously increases the proportion of non-interest income to reasonably control financial costs and improve cost-effectiveness, maintain relatively sufficient provision and ensure the sustainable supply of self-generated capital.
2. **Sufficient provision for impairment.** Although the macroeconomic trend gradually becomes stable and banking industry credit risk tends to be stable, capital quality continues to be under stress. According to the prudential operation strategy, during the Plan Period, the Bank will continue to defend the bottom line for risk management, enhance the ability for and get better prepared for risk resistance, maintain relatively sufficient provision level and constantly meet regulatory standard requirements to further improve capital adequacy level in the meantime of enhancing risk resistance ability.
3. **Maintaining stable dividend distribution policy.** The Bank will formulate reasonable dividend policies to properly enhance capital accumulation, on the premise of ensuring maximum shareholders’ interests, to meet the need for maintaining capital adequacy. On the premise of complying with the then prevailing laws and regulations as well as the regulatory authorities’ requirements on capital adequacy ratio, the Company’s annual cash dividend will, in principle, not be lower than 30% of net profit after tax attributable to holders of ordinary shares after audited pursuant to Chinese Accounting Standards in the same year to practically enhance the reasonable investment returns of shareholders and keep the consistency and stability of the dividend distribution policy.

(II) Exogenous supply

While keeping the existing gross capital amount and structure, the Bank also needs to conduct proper external financing for the gap that cannot be settled by endogenous capital. In addition to endogenous supply, the Bank plans to take the following measures to replenish capital:

1. **To take comprehensive consideration of various capital instruments for capital replenishment.** The Bank always takes advantage of diversified ways of capital replenishment mainly represented by endogenous profits, and makes efforts to broaden capital financing channels to constantly promote continuous enlargement of gross capital amount of the Bank as a whole as well as the optimization and improvement of capital structure. During the Plan Period, according to the regulatory requirements and capital market situations, the Bank will continue to closely follow up policies and practices related to capital instruments at home and abroad, and consider to take opportunities to implement various financing modes, including but not limited to common shares, preference shares, perpetual bonds, Tier-2 Capital debentures and other Tier-1 Capital or Tier-2 Capital instruments, to form a diversified capital replenishment mechanism for enhancing the capacity for absorbing capital losses.
2. **Seeking major shareholders' promises on and support for capital replenishment.** According to regulatory requirements and the Articles of Association of the Bank, shareholders, especially major shareholders, shall support the Board of Directors to prepare a reasonable capital planning to make the Bank's capital constantly meet the regulatory requirements. When the Bank's capital adequacy ratio is below the statutory standards, shareholders shall support the measures that the Board of Directors proposed for improving the capital adequacy ratios, to make the capital adequacy ratios meet the regulatory requirements within the time limit by increasing Tier-1 Capital and other ways of capital replenishment.

IV. Capital management strategy

During the Plan Period, the Bank will continue to take "Light-operation Bank" as the strategic orientation, the capital constraints as the premise and increasing capital return as the target, to reasonably set medium-term business growth speed and actively optimize business structure and promote the transformation of operation models and the enhancement of professional capabilities, for the overall embodiment of strategic orientation on "Light-operation Bank" and realization of dynamic and balanced development in terms of effectiveness, quality and scale. The specific capital management strategies are as follows:

Firstly, to prepare medium-term capital planning on a rolling basis, and reinforce the connection mechanism between capital planning and comprehensive budget management. According to the changes in external business environment and business management practice, to prudently assess asset quality, profit growth and the volatility of the capital market, and prepare and implement medium-term planning of capital management on a rolling basis, and dynamically balance capital demand and capital supply and enhance risk-resisting ability by leveraging on capital. To reinforce the connection mechanism between capital planning and comprehensive budget management, and realize optimized capital allocation and maximum cost efficiency, by the guidance and regulation on, controlling over and restraint on the allocation of assets and liabilities and financial resources through comprehensive budget management, and ensure the realization of annual capital management targets.

Secondly, to optimize economic capital management, and take full advantage of the critical role of capital management in strategy implementation. To adhere to the strategic orientation of “Light-operation Bank”, maintain reasonable growth speed for risk-weighted assets and follow the constraint on gross amount; apply the advanced measurement approach method in depth to study and improve the application value of risk parameters; flexibly prepare capital allocation strategy with full use of capital resources to promote optimization and adjustment of structure; combine and optimize business structure and exploit potentialities of capital saving to drive development of business with consumption of low capital or no capital and fully promote the capital use efficiency; urge subsidiaries to improve the level of capital management to propel the optimization of resource allocation across the Group.

Thirdly, to reinforce capital performance examination and effectively spread the concepts of capital return and risk pricing in depth. To center on customers, continue to improve capital return management mechanism and reinforce the concept of value creation; adhere to the comprehensive customer contribution assessment system focused on EVA and RAROC and the performance examination mechanism, accelerate value exploration and potential demonstration of the management resources as a whole; improve the comprehensive pricing mechanism based on customer relationships and pay attention to the long-term mechanism and the refinement degree of risk-based pricing to promote the comprehensive financial service level and non-price factor competitiveness.

Fourthly, to master the essence of regulation and strengthen and perfect the internal capital adequacy assessment mechanism. To closely follow up the progress of international and domestic capital regulatory reform and accurately master the standards and directions of regulatory policies; deploy and adopt responsive measures in advance to guarantee the smoothness of capital adequacy ratio; compact the basic works for capital measurement, and maintain accuracy and high efficiency of monitoring and analysis of capital adequacy ratio; regulate and perfect the management process and mechanism of the second pillar, optimize internal capital adequacy assessment procedures, fully identify, meter and assess various major risks and regularly assess the capital adequacy situation and the risk-resistant ability, and monitor risks, capital and liquidity situation on a timely basis.

Fifthly, to promote asset-backed securitization and capital instrument innovation, and establish diversified capital replenishment and asset operation mechanism. To adhere to the market-oriented, branded and internationalized development strategy, escalate the size of issuance of asset-backed securitization, innovate and explore varieties and structures, promote and expand issuing market and scale of investors, improve internal process, reinforce team construction; take advantage of the critical role of asset-backed securitization in the aspects of capital, liquidity as well as asset and liability management, provide larger space for strategic transformation; persist in the main body status of endogenous capital replenishment, broaden diversified financing channels at home and abroad and closely follow up the policies and market development of innovative capital instruments, take opportunities to make use of debts, equity and various other capital instruments properly to continuously reinforce capital strength and optimize capital structure.

Appendix V

CHINA MERCHANTS BANK CO., LTD.

Shareholders' Return Plan for 2017-2019

In accordance with the *Company Law of the People's Republic of China*, the *Security Law of the People's Republic of China*, the *Listed Companies Regulatory Guidance No. 3 – Cash Dividends Distribution of Listed Companies*, the *Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies issued by CSRC* and the *Articles of Association of China Merchants Bank Co., Ltd.* (hereinafter referred to as “Articles of Association of the Company”) as well as other stipulations and regulatory requirements, the Board of Directors of the Bank formulated the *China Merchants Bank Co., Ltd. Shareholders' Return Plan for 2017-2019* (hereinafter referred to as “the Plan”) in conjunction with the Bank's actual operating conditions and requirements of long-term development to protect the rights and interests of shareholders of China Merchants Bank Co., Ltd. (hereinafter referred to as “the Company” or “the Bank”), provide sustained, stable and rational investment return and further improve the mechanism of profit distribution.

I. Background and principles of the Plan

1. Proactively adapting to new normal of economic transformation and deepening of financial reforms, seizing new opportunities where necessary on the premise of keeping sustained and stable operation. In recent years, the operating environment of China's banking industry has experienced profound changes: China implemented supply reform and reform of interest rate and exchange rate, financial disintermediation was aggravated; fierce fluctuation in capital market, overcapacity to be cleared; pressure from downward growth of profit of banking industry, prominence of risk of asset quality. Complicated domestic and international economic and financial situation will bring the Company more challenge and uncertainty in the future, thus the Company will take the protection of shareholders' long-term benefits as our principle, react to the challenge actively and flexibly and pursue prudent and stable business operation.
2. Effectively implementing industry regulatory standards, promote balanced growth of endogenous capital and paying attention to new capital instrument. We will effectively implement the *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*, persist in the operation concept of Light-operation Bank, increase asset-light business, maintain rational growth of risk weighted assets, continue to focus on new capital instrument and improve capital structure.
3. Fulfilling legal obligation and social responsibility pursuant to law and making the elevation of shareholders' return our value orientation. Pursuant to relevant requirements of the *Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies* issued by CSRC, we will take elevating shareholders' return as our core objective and value orientation of business operation and management, and on the premise of meeting capital adequacy ratio stipulated by regulators, balance the Company's long-term benefits, all the shareholders' overall benefits and the Company's sustainable development.
4. Profit distribution policy will be formulated based on the opinions of the shareholders (especially small shareholders) of the Company, institutional investors and Independent Directors; we will enhance transparency of cash dividends and protect the legitimate rights and interests of investors.
5. Any related parties is not allowed to damage the legitimate rights and interests of the Company and public shareholders by means such as profit distribution.

II. Considerations of Shareholders' Return Plan

Based on comprehensive analysis of operation environment of banking industry, requirements and desire of the shareholders, cost of social fund, external financial environment, regulatory policies and other factors, for the long-term and sustainable development of the Company, we will take consideration of capital, business development, profitability, development stage, demand for investment fund and the needs for normal operation, balance the sustained and sound development of business and comprehensive return for shareholders and formulate the Plan.

III. Cash dividends policy and decision-making procedure of the Company

As for the cash dividends policy of the Company, provisions of Article 260 of the Articles of Association regulate that: The profit distribution of the Bank shall focus on rational investment return for investors and the policy on profit distribution shall maintain its consistency and stability; the Bank may distribute profit to its shareholders in cash or in shares or in a combination of both cash and shares, the Bank will mainly adopt the mode of cash dividends. On the premise of complying with the provisions of current laws and regulations, capital adequacy ratio stipulated by regulators and meeting our capital needs for daily operation, business development, major investments and mergers and acquisition opportunities, the Bank's principle of distributing cash dividends each year for the holders of ordinary shares is that the cash dividends will not be less than 30% of net profit after tax attributable to holders of ordinary shares after audited pursuant to Chinese Accounting Standards. The bank may pay semiannual cash dividends. Unless otherwise stipulated by the Shareholders' General Meeting, the Shareholders' General Meeting authorizes the Board of Directors to approve semiannual profit distribution plan. If the Bank makes profit in the last financial year during last accounting year but Board of Directors does not propose cash dividend distribution plan, the Bank shall explain in details the reason of not distributing dividend and the purpose of reserved fund, and Independent Directors shall express their independent opinions on the Plan.

As for the decision-making procedure on profit distribution policy of the Company, provisions of Article 259 of the Articles of Association regulate that: the profit distribution policy and profit distribution proposal of the Bank are formulated by the Board of Directors and are approved by the Shareholders' General Meeting. On formulating dividend distribution plan, the Board of Directors and the Shareholders' General Meeting shall accept the opinions from Independent Directors, Supervisors and public investors, communicate with public investors via various channels and accept supervision from Independent Directors, Supervisors and public investors. Independent Directors shall review the profit distribution policy and profit distribution proposal to be submitted to the Shareholders' General Meeting and present written opinions.

If it is necessary for the Bank to adjust profit distribution policy in accordance with the needs of industry regulatory policy, change of external regulatory environment, business operation and long-term development, the adjusted profit distribution policy shall not infringe laws, regulations and relevant provisions from regulators at places where the Bank's shares are listed. For the proposal of profit distribution policy, the Bank shall gather opinions from Independent Directors and Board of Supervisors in advance. After reviewed by the Board of Directors, the Plan shall be submitted to the Shareholders' General Meeting for review and shall be approved by more than two thirds of voting rights represented by the voting shareholders present at the Shareholders' General Meeting. During the period of review of the amendment of the profit distribution policy, the Bank provides online voting.

IV. 2017-2019 shareholders' return plan

Based on the prediction of market situation in the next three years, the Company's strategy and operation and capital, the Company formulated 2017-2019 (hereinafter referred to as "Plan Period") Shareholders' Return Plan as follow:

1. Maintaining stable profit distribution policy

In accordance with the spirit of profit distribution of the *Proposal Regarding Increase of Proportion of Cash Dividends Distribution from 2012* reviewed and approved at the 28th meeting of the eighth session of the Board of Directors of the Company convened on March 28, 2012, under the premise of complying with the provisions of current laws and regulations, capital adequacy ratio stipulated by regulators, the Company's principle of distributing cash dividends each year for the shareholders is that the cash dividends will not be less than 30% of the net profit after tax attributable to holders of ordinary shares after audited pursuant to Chinese Accounting Standards since 2017. Within the Plan Period, on the premise of meeting the required capital adequacy ratio, **for the net profit after tax realized in each year, after used to cover losses, provide for statutory surplus reserve and regulatory general reserve, distribute dividends to holders of preference shares (if any) and discretionary reserve in line with the proposal of the Shareholders' General Meeting, be distributed in proportion to shares held by holders of ordinary shares.** The bank will effectively improve rational investment return for all investors and maintain the consistency and stability of dividend distribution policy.

2. Maintain rational level of investment return

Within the Plan Period, the Company will, on the premise of pursuing sound and lawful business operation and improving the quality of development, making the forging of light-operation bank its strategic direction, facilitate overall service upgrading, rational development speed, make great efforts to promote sustainable development, improve capital use efficiency and consolidate capital foundation through adjustment of business system, improvement of customer structure, change of business model and improvement of professional capacity to secure the completion of profit target and development objectives and constantly improve core competitiveness.

Within the Plan Period, if there is no major change in internal or external environment, the Company will maintain rational and stable investment return level.

V. Formulation of profit distribution plan and the decision-making procedure:

The Bank may make appropriate adjustment to the profit distribution policy according to the operation conditions, cash flow and other factors and make new Shareholders' Return Plan and submit it to the Shareholders' General Meeting for review.

The Shareholders' Return stated in this plan is for holders of ordinary shares' return and the holders of preference shares' return will be subject to the *Articles of Association of the Company* and relevant content in its issuance plan. For the matters not covered in this plan, they will be subject to relevant provisions of laws, regulations, regulatory documents and *Articles of Association of the Company*. The Board of Directors of the Company will be responsible for the explanation of the Plan and it will take effect from the date when being approved at the Shareholders' General Meeting of the Company.

Appendix VI

CHINA MERCHANTS BANK CO., LTD.

Report on the Use of Proceeds Raised in the Previous Issuance by the Company (As at 31 December 2016)

I. Amount, Time of Receipt, Allocation of the Proceeds from the Previous Issuance

Upon obtaining the approval by the China Banking Regulatory Commission on *Approval on Relevant Matters relating to the Rights Issue of China Merchants Bank* (CBRC[2011] No. 395), China Securities Regulatory Commission on *Approval on Relevant Matters relating to the Rights Issue of Shares by China Merchant Bank Company Limited* (Zheng Jian Xu Ke (2013) No. 950) and *Approval on Relevant Matters relating to the Rights Issue of Foreign Listed Shares by China Merchant Bank Company Limited* (Zheng Jian Xu Ke (2013) No. 1072), and the Hong Kong Stock Exchange, China Merchant Bank Company Limited (herein referred to as “**the Company**”) placed its share, in proportionally, to the Shareholders whose names appear in the register of members for the A Shareholders on Shanghai Stock Exchange at the close of business on the record date on 27 August 2013 and whose names appear in the register of members for the H Shareholders at the close of business on the record date on 27 August 2013, distributing at 1.74 share of every 10 shares. The Company’s actual final Placing amounted to 2,962,813,544 A shares and 680,423,172 H shares.

The Company raised total proceeds of RMB27,524,537,823.76 on the rights issue of A Shares. The net proceeds of the rights issue A Shares whereby after deducting charges of commission, transaction taxes, banking fees and other issuance costs of RMB81,481,186.92, amounted to RMB27,443,056,636.84. The Company also raised total proceed of HKD7,947,530,217.86 (equivalent to RMB6,301,278,829.18) on the rights issue of H Shares. The net proceeds of the rights issue of H Shares, after deducting commission, transaction taxes, banking charges and other issuance expenses of HKD108,195,369.10 (equivalent to RMB85,784,862.30), amounted to HKD7,839,334,848.76 (equivalent to RMB6,215,493,966.88) on the Placing of H Shares. The above exchange rate of Hong Kong Dollar to RMB was calculated based on the RMB middle remittance rate of the date on which the proceeds were received.

As at 3 September 2013, the Company received in full the above proceeds raised by the aforementioned issuance of A Shares. The proceeds were deposited into bank account No. 910051020629040010, which is a bank account opened by the Company designated for fund raising proceeds. After deducting the issuance charges, the above net proceeds from A Shares placement have been verified by KPMG Huazhen Special General Partnership, who issued a capital verification report (KPMG Huazhen Yan Zi No. 1300211) on 5 September 2013.

As at 30 September 2013, the Company received in full the above proceeds raised by the aforementioned issuance of H Shares. The proceeds were deposited into bank account No. 20529776, which is a bank account opened by the Company designated for fund raising proceeds. After deducting the issuance charges, the above net proceeds from H Shares placement have been verified by KPMG Huazhen Special General Partnership, who issued a capital verification report (KPMG Huazhen Yan Zi No. 1400444) on 10 March 2014.

II. The Use of the Proceeds from the Previous Issuance

As at 31 December 2016, consistent with the disclosure made at the placement on the use of the proceeds, the aforementioned proceeds from the previous issuance were used, after the deduction of issuance fees, to replenish the capital base of the Company and put into operation together with other capital of the Company and support of the business development of the Company. The following table on the “Breakdown of the Use of Proceeds from the Previous Issuance (A Shares and H Shares)” shows the use of the proceeds from the previous issuance.

Breakdown of the Use of Proceeds from the Previous Issuance (A Shares and H Shares)

Unit: RMB

Total amount of proceeds raised from A Shares and H Shares:		33,825,816,652.94									
Deducting commission, transaction taxes, bank charges and other issuance expenses		167,266,049.22		Aggregate total amount of proceeds used:						33,658,550,603.72	
Net amount of proceeds raised from A Shares and H Shares:		33,658,550,603.72									
Total amount of proceeds with altered usage:		-		Proportion of proceeds used in each year/period							
Proportion of proceeds used with altered usage:		-		2013:						33,658,550,603.72	
				2014:						-	
				2015:						-	
				2016:						-	
Investment projects			Total amount of proceeds invested			Aggregate amount of proceeds invested as at 31 December 2016				Progress of the project as at 31 December 2016	
Number	Investment project undertaken	Actual investment project	Amount undertaken to be invested prior to proceeds raised	Amount of investment undertaken after the proceeds raised	Actual amount invested	Amount of investment undertaken prior to proceeds raised	Amount of investment undertaken after the proceeds raised	Actual amount invested	Difference between the actual amount invested and amount undertaken to be invested after proceeds raised		
1	Replenishment of capital	Replenishment of capital	33,658,550,603.72	33,658,550,603.72	33,658,550,603.72	33,658,550,603.72	33,658,550,603.72	33,658,550,603.72	-	100%	

III. Conclusion

This report was prepared in accordance with the requirements of the *Rules Governing the Utilization Report in respect of the Proceeds from the Previous Fund Raising Activity and the Listed Companies Regulatory Guidance No.2 – Regulatory Requirements on the Management and Use of Proceeds of Listed Companies* issued by the China Securities Regulatory Commission and the *Administrative Measures for Raising Proceeds by Companies Listed on the Shanghai Stock Exchange (2013 Revision)* issued by the Shanghai Stock Exchange. The Company has performed an itemised cross-checking on the actual use of the aforementioned proceeds from the previous issuance against the relevant information disclosed in annual reports and interim reports and other disclosure documents since 2013 and concludes that the actual usage is consistent with the relevant information disclosed.

China Merchants Bank Co., Ltd.

24 March 2017