招商銀行
CHINA MERCHANTS BANK

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

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 03968)

ANALYSIS ON THE DILUTIVE IMPACT OF PRIVATE PLACEMENT OF A SHARES ON IMMEDIATE RETURNS AND STOPGAP MEASURES

Reference is made to the announcement of China Merchants Bank Co., Ltd. (the "Company") dated 10 April 2015 in relation to, inter alia, the Scheme (the "Announcement"). Unless otherwise stated, terms used in this announcement shall have the same meanings as those defined in the Announcement.

Pursuant to relevant requirements of the "Opinions of the General Office of the State Council on Further Strengthening the Protection of Legitimate Rights and Interests of Small- and Medium-sized Investors in the Capital Markets" (Guobanfa [2013] No.110), an analysis with respect to the dilutive impact of the Private Placement (the "Private Placement") on immediate returns had been conducted and explanations were given on relevant stopgap measures.

I. DILUTIVE IMPACT OF THE PRIVATE PLACEMENT ON IMMEDIATE RETURNS

According to the Company's audited financial report, in 2014, the Company's EPS was RMB2.22 and (annualized) weighted average return on net assets was 19.28%.

Based on the Private Placement, the Company plans to place not more than 434,782,608 shares in the amount of not exceeding RMB6 billion at the issue price of RMB13.80 per share (which shall be no less than 90% of the average trading price of the Company's A Shares over 20 trading days before the date of announcement of resolutions of the 31st Meeting of the Ninth Session of the Board of the Company) to the current Employee Stock Ownership Scheme and, when it is completed, the scale of the Company's share capital and net assets are expected to increase.

Given the particularity of commercial banks, proceeds of the Private Placement will be used upon receipt together with the existing capital and thus it is rather difficult to separately measure the income contribution brought by the proceeds of the Private Placement. Under normal circumstances, investing the proceeds in the current term would produce some benefits but, in the short run, a certain period of time is still needed for asset size expansion after the completion of placement and the earnings and benefits directly generated cannot be reflected immediately. As a result, the increase in share capital will lead to the dilution of EPS and the growth in net assets will also dilute the return on net assets. Without taking into consideration the use of the Private Placement's proceeds to produce benefits, the impacts of the Private Placement on the Company's key financial indicators in line with the audited financial figures of the Group in 2014 on a static basis are as follows:

Indicators	**2014 before Placement**	**2014 after Placement**	**Change**
Total share capital (in 100 million shares)	252.2	256.5	4.3
Net assets (in RMB100 million)	3,144.0	3,204.0	60.0
Weighted average return on net assets	19.28%	19.09%	-0.20%
Fully diluted return on net assets	17.78%	17.45%	-0.33%
Basic EPS (RMB)	2.22	2.18	-0.04
Diluted EPS (RMB)	2.22	2.18	-0.04

Note: The above estimates do not constitute a profit forecast of the Company and investors should not make their investment decisions based on it. The Company does not assume responsibility to compensate for any losses due to investor decision made on such basis. The above estimates have not taken into consideration benefits of using the Private Placement's proceeds upon receipt; items including the number of shares to be offered in the Private Placement and the issue price are estimates only and they shall be subject to examination and approval by the China Securities Regulatory Commission and the number of shares and issue price shall depend on the actual subscription under the Employee Stock Ownership Scheme. When estimating net assets before and after the Private Placement, the impact of other factors, except proceeds and net profit, on net assets has not been taken into consideration.

II. THE COMPANY'S STOPGAP MEASURES

Given that the Private Placement may lead to a decline in financial indicators, such as EPS for ordinary shareholders and the return on net assets, the Company will adopt a number of measures to ensure the effective use of proceeds of the Private Placement to reduce the risk of diluting immediate returns and to improve the capability for future earnings and returns.

1. Adhering to the "light bank"-oriented strategy

We adhere to the "light bank" strategy to create differentiated competitive advantages. With prudent capital arrangements as the basic constraints, we strengthen control on overall volume, determine business growth in a reasonable manner and implement flexible and sound management of growing risk assets to ensure coordination and balance among business plans, capital constraints and macroeconomic situations. With asset management determining liability sources as the basic logic, we oversee the arrangement of balance-sheet and off-balance-sheet resources, striving to achieve an asset-liability structural balance and efficiency improvement. We pay attention to growth quality and structural optimization with emphasis on stock potential tapping and intrinsic balance to promote the coordinated development of quality, effectiveness and scale. Through integrated use of management tools such as interest rates, exchange rates, liquidity and capital, we maintain leverage and mismatch at an appropriate level to ensure a structural balance of assets and liabilities and a steady improvement of benefits and returns for building a strong income statement and balance sheet.

2. Continuously improving the level of capital return

We strengthen the awareness toward capital constraints and returns and make efforts to reduce the level of capital consumption to improve capital efficiency. We adhere to EVA and RAROC as the valuation benchmarks for a full reflection of the requirements for a light bank-oriented strategy in terms of risk pricing, net interest and non-interest income, cost efficiency and other aspects to continuously promote the change from a scale-driven to a value-tapping earnings model. We improve risk pricing standards and reinforce proactive interest rates management to maintain the growth in net interest income; consolidate traditional advantages and explore blue ocean as well as strengthen integrated marketing and service value-adding to improve contribution to intermediary income; increase the input-output ratio to maintain a relatively stable cost efficiency; strengthen the group's administration of consolidated financial statements and gradually improve the profit contribution of subsidiaries to bring into play the advantages of integrated operation, hence enhancing the Group's overall returns.

3. Building a "one body two wings" business model

We build a "one body two wings" business model with retail finance as the main body and corporate finance and interbank finance as the supports to promote the mutual unity, coordination and facilitation of "one body" and "two wings" for creating three profit pillars of the bank. In the area of retail finance, we need to build into the best bank with our three major businesses, wealth management, small- and micro finance and consumer finance, as the breakthroughs in order to continue to enhance the value contribution of retail finance. For corporate finance, we need to build into a specialized bank with focus on our four key business areas, namely, cash management, trade finance, cross-border finance and M&A finance, in order to form business features with significant advantages. For interbank finance, we need to build into a boutique bank driven by the two wheels of large assets management and financial markets trading in order to form new profit growth points.

4. Optimizing business and customer structures

We reasonably construct business structure and moderately reduce the proportion of relatively capital-intensive businesses with additional resources inclining toward areas of low capital consumption focusing on providing support to the development of strategic, emerging and key businesses. We step up the multi-dimensional hierarchical and differentiated management of customer base to provide customers with whole-life-cycle differentiated service through products, channels, services, technologies and other means for the formation of a customer base structure characterized by sufficient quantity, reasonable structure, gradient growth and full value. We construct a highly-specialized customer service system, quicken the transformation and hierarchical management of the retail customer base structure and establish a comprehensive customer service model to fully enhance customer service capabilities; strengthen the classified and hierarchical management of corporate finance customers to promote innovative modes of operation with respect to customer base in key business segments; construct the exclusive "great interbank" customer system and innovate the comprehensive customer base value assessment system to intensify specialized interbank customer base management.

5. Creating a light and effective operating model

In the area of corporate finance, we make ourselves into an integrator and provider of various financing channels and products to achieve the change from a loan provider to a financing organizer through the integrated use of models such as "commercial banking + investment banking", "financing + financial wisdom", "balance sheet + off balance sheet" and "wholesale + retail". In the area of retail finance, we make ourselves into a customer needs coordination manager to achieve the change from a single product provider to an integrated financial service provider by creating a comprehensive service model covering the complete balance sheet of customers throughout the entire customer life cycle. In the area of interbank finance, we make ourselves into a large asset management platform constructor to achieve the change from an asset holder to an asset manager and trader under an optimal asset and liability management model through the creation of a fund chain management and closed-loop operating model.

6. **Upholding stable and prudent risk appetite**

We strengthen the management of asset quality, keep new non-performing loans in strict control and increase efforts to recover and dispose the stock of non-performing assets. We build a long-term risk management mechanism to improve capabilities for effective prevention, identification, measurement and management of risks. We push forward asset portfolio allocation and management, intensify the application of big data and quantitative tools, improve the ability to withstand the extended release of risk loss, establish a risk management warning system and enhance the three risk management defenses to build a comprehensive risk management system characterized by a complete framework, clear responsibilities and a unified view. Centering on efficiency improvement, marketing support, innovation encouragement and effective control, we effectively oversee and coordinate the relationship of risk management with customer service and business innovation, manage risks in a prudent manner and build risk management value-creating capabilities to increase rate of risked return and capital return.

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

22 April 2015

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