招商銀行
CHINA MERCHANTS BANK

招商銀行股份有限公司
CHINA MERCHANTS BANK CO., LTD.
(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 03968)

OVERSEAS REGULATORY ANNOUNCEMENT

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

Reference is made to China Merchants Bank's Capital Management Plan for 2015-2017 published by China Merchants Bank Co., Ltd. on the website of Shanghai Stock Exchange for information purpose only.

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

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.

China Merchants Bank's Capital Management Plan for 2015-2017

To further enhance the light bank-oriented strategy and facilitate the dynamic balanced development between efficiency, quality and scale of the Bank, the capital management plan of China Merchants Bank Co., Ltd. (hereinafter referred to as the "Company or the "Bank") for 2015-2017 has been formulated according to the trends of regulatory reform in the global financial industry and the capital regulatory policy standards in the PRC banking industry taking into consideration the changes in the internal and external operating environment.

I. Consideration factors of capital planning

1. China's economy signals a new normal

In the coming few years, the global economy will continue to reveal signs of instability and imbalance and China's external environment will remain challenging with mixed structural conflicts and cyclical difficulties where the "superimposition of the three periods" (三期叠加) continues to take effect. China's economy signals a new normal. Targeted easing measures will remain the major trend of austerity measures in the coming few years. While the pace of economic growth is expected to slow down in general, the economy will evolve towards higher and more reasonable model and structure. The government is developing new growth points through key reforms and innovative strategies and has taken a series of measures to adapt to the new normal. Various economic stimuli and reformative strategies will generate opportunities to the development of the banking industry.

2. Accelerated restructuring of China's financial environment

In recent years, China's financial environment has experienced earth-turning changes. With the acceleration in the financial disintermediation and diversification, the position of direct financing has greatly enhanced. While interest rate marketization is taking a fast lane, liquidity shocks are common with highly volatile exchange rates, gradual liberalization of the capital market, further progress of Renminbi internationalization as well as highly innovative interbank business, increasingly challenging balance sheet management. Financial institutions compete fiercely and closely cooperate with each other. With the increased development of the big asset management platform and global management layout, internet finance is a strong driver for reform of the operating model among traditional commercial banks. In view of the ever-changing financial sector in China, the market potential for commercial banks has quickly increased. As the scope of operations gradually expands, commercial banks continue to evolve and excel by transforming their operating model and introducing innovative products, which in turn promote the sustainable development of the financial system and financial environment as a whole.

3. Continuing impact of the international financial regulatory reform

The Basel Committee's capital regulatory reform never ends. Upon refining the numerator standards, the committee's major focus in recent years is on the denominator for the purpose of increasing the accuracy of the results of risk weighted assets and the risk sensitivity and solving the measurement problem of internal model to set a permanent bottomline① for the internal models approach and strengthen information disclosure and market discipline for Pillar 3. As at the end of 2014, the Basel Committee has issued exposure drafts on capital regulatory guidelines on credit risks, market risks, operational risks, bank account interest rate risks, liquidity risks, asset securitization and counterparty credit risks, capital bottomline and information disclosure. Compared with the prevailing regulatory standards implemented in China, the amendments to the international capital regulatory reform are comprehensive with more stringent measurement rules and significantly higher standards on capital provision. Upon amendment, the new regulatory standards will have far reaching implications on the operating model, business structure, risk management and internal control of the commercial banks in China.

II. Capital planning target

The Company's principle for capital planning target is: to set aside capital as buffer and determine the optimal capital target according to the minimum regulatory requirements and the actual conditions of the Bank. Based on the above reasons, when determining the capital adequacy ratio target, the following principal factors are taken into consideration.

1. Minimum regulatory requirements. Pursuant to the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)

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① Regulatory requirements: with respect to the banks that adopt the internal ratings-based approach (the "IRB"), the capital requirements under the IRB shall not no less than a certain percentage (or parameter, such as 95%) for the capital requirements under the weight approach. Where it falls below the above percentage, the quotient of the capital requirements under the weight approach and such percentage will be used directly as the capital requirements under IRB. Such percentage (parameter) may be cancelled after a certain period of time, i.e. the capital bottomline requirement. However, in recent years, the Basel Committee has revised such rule and it is proposed that such bottomline parameter shall remain permanently. That means, the weight approach will permanently become the basis for arriving at the IRB. Currently, the CBRC has also made such amendments.

(CBRC 2012 No.1) (hereinafter referred to as the “Capital Measures”), under normal circumstances, the minimum regulatory requirements for core tier 1 capital, tier 1 capital and total capital of non-systematic important banks are 7.5%, 8.5% and 10.5% respectively, representing one percentage point higher than those of systematic important banks. Prior to the finalization of additional capital requirements on systematic important banks by regulatory authorities, the Company at least still has to satisfy the regulatory performance requirements of non-systematic important banks, i.e. the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and total capital adequacy ratio each year during the transitional period shall be no less than 7.5%, 8.5% and 10.5% respectively.

2. Range of capital buffer. Reasonable capital buffer is essential for sound operations. Taking into account the prevailing regulatory actual and operating environment, buffer should be set aside for the following factors during the planning period: i) additional capital requirements on systematic important banks in China. As of today, despite that the CBRC has not finalized the list of systematic important banks in China, it is necessary for the medium- to large-sized banks in China to set aside capital buffer in advance in this regard; ii) capital plus point requirements on internal capital adequacy assessment procedures. The CBRC shall determine the capital plus point for Pillar 2 according to the assessment procedures of the internal capital adequacy of commercial banks and the assessment of the report. Despite uncertainties and individual differences exist in the plus point, it is difficult to mark estimates. However, it is also necessary to set aside buffer in advance in this regard; iii) uncertainties of and stress test on the macroeconomy in the future. In view of the ongoing downward trend in macroeconomic growth and the increasing uncertainties in the external operating environment of the banking industry, the passing of stress test is a must to assess the risk and capital adequacy conditions of the banks in face of macroeconomic downturn in order to determine and set aside capital buffer.

Based on the foregoing requirements, the Bank’s capital adequacy ratio target for 2015-2017 is: core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and total capital adequacy ratio of 9%, 10% and 12% above respectively by the end of 2017. During the planning period, in the event of macroeconomic downturn and finalization of Pillar 2 and additional capital requirements on systematic important banks in China by the regulatory authorities, the setting aside of 1.5 percentage points as buffer can ensure that the Bank maintains a relatively sound capital adequacy ratio to satisfy the minimum regulatory requirements.

III. Capital replenishment planning

Under the principle of internal replenishment as supplemented by external sources, the Bank strives to maintain a sufficient level of capital through multi-channel and multi-method fundraising sources. In the coming few years, the Bank will continue to strengthen capital capabilities and optimize capital structure to drive organic and balanced growth.

(1) Endogenous replenishment

1. Strengthen the profitability and returns. Profit creation is crucial to accumulation of endogenous capital. During the planning period, the Bank will insist on taking the light bank-oriented and service upgrade strategy to create differentiated comparative advantages and build a “one body two wings” business model focusing on retail finance as supported by corporate finance and interbank finance to further optimize asset mix and client mix, enhance risk pricing ability, maintain continuous growth of non-interest income as a percentage to total income, rationalize the finance cost and improve cost effectiveness to ensure sustainable replenishment of endogenous capital.

2. Make full impairment provision. Uncertainties exist in future macroeconomic trends. These are expected to add pressure on the asset quality of the Bank for a period of time in the future. Under sound and prudent operation strategies, during the planning period, the Bank will continue to strengthen risk management and maintain fairly adequate provision to satisfy the regulatory performance requirements. Not only does it help enhance the risk resistance, it also further increases the capital adequacy level.

3. Maintain a sound dividend distribution policy. The Bank will formulate a reasonable dividend distribution policy. To maximize shareholders’ interests, the Bank will enlarge capital base as appropriate to satisfy the capital adequacy needs. Subject to prevailing laws and regulations and the regulatory authorities’ requirements on capital adequacy ratio, the cash dividends to be distributed by the Company each year in principle shall not be less than 30% of the net profit after taxation audited in accordance with PRC accounting standards for that year with a view to enhancing the reasonable returns to investment of the investors and maintaining continuity and stability of such dividend distribution policies.

(II) External replenishment

Under the current total capital and capital structure and based on the target core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and total capital adequacy ratio of 9%, 10% and 12% respectively, by the end of 2017, substantially all (approximately 96%) of the capital gap will be offset by the retained profit and overprovision. For the remaining capital gap that cannot be solved by endogenous capital, there is still the need for external financing (as appropriate). In addition to endogenous replenishment, the Bank plans to take the following measures for capital replenishment:

1. Consider various capital tools for capital replenishment. The Bank focuses on profits generated internally as one of the diversified means of capital replenishment. While endeavoring to expand the capital financing channels, the Bank continues to drive the expansion of total capital and optimization of capital structure across the Bank. During the planning period, according to regulatory requirements and capital market conditions, the Bank will continue to closely follow the policies and practices in relation to capital tools domestically and abroad and consider the implementation of various financing methods when opportunities arise, including but not limited to tier 1 capital or tier 2 capital tools namely ordinary shares, preference shares, tier 2 capital bonds to form a diversified capital replenishment mechanism and enhance the loss absorption capacity of the capital.

2. Strive to secure commitment and support from substantial shareholders on capital replenishment. Under the regulatory requirements and the Articles of Association of the Bank, shareholders, especially the substantial Shareholders shall support the reasonable capital plans formulated by the Board of Directors to enable the Bank to meet regulatory capital requirements constantly. Shareholders shall support the reasonable measures suggested by the Board of Directors to raise the capital adequacy ratio of the Bank when the ratio is lower than the statutory standard, where the capital adequacy ratio can meet regulatory requirements within prescribed period through replenishing capital by way of increasing core tier 1 capital or taking other measures.

IV. Capital management strategy

During the planning period, the Bank will continue to take the light bank-oriented strategy subject to capital control with a view to enhancing capital returns. To achieve this, the Bank will rationalize the growth rate for the interim period, actively optimize the business mix, promote the reform of operating model and enhancement of professional capability and comprehensively implement the light bank-oriented strategy to achieve efficient, quality, scale dynamic and balanced development. The details of the capital management strategy are as follows:

Firstly, the Bank shall prepare the capital plan for the interim period on a rolling basis to strengthen the convergence mechanism for capital planning and comprehensive budget management. According to the changes in the external operating environment and the operational management practices, the Bank will prudently assess the asset quality, profit growth and volatility of the capital market to prepare and implement the capital management plan for the interim period on a rolling basis, dynamically strike a balance between the capital demand and supply and enhance the capital risk resistance. With respect to strengthening the convergence mechanism for capital planning and comprehensive budget management, the Bank will breakdown the requirements of the planning targets and implement the same in the operational management for the year. Through comprehensive budget management, the Bank guides, adjusts and controls the balance sheet and financial resources allocation to maximize capital allocation and cost effectiveness, and ensures the fulfilment of capital management targets for the year.

Secondly, the Bank shall optimize economic and capital management and give full play to the crucial role of capital management in the course of implementation of strategies. Adhering to the light bank-oriented strategy, the Bank shall maintain moderate expansion of risk assets and exercise control on total capital. In addition to optimizing the internal measurement standards, the Bank shall ensure unified coordination with the external regulatory authorities. While applying a more sophisticated way to measure capital, the Bank shall look into and enhance the use value of risk parameters. The Bank also shall flexibly formulate capital allocation strategies, fully utilize capital resources, provide stronger support to strategic core businesses and customer groups, strengthen differentiated resource allocation management and facilitate structural adjustment. Apart from exploring innovative capital saving methods, the Bank shall optimize business mix, explore risk alleviation potential, promote low capital consumption business development and enhance capital utilization rate at large. The Bank shall encourage its subsidiaries to enhance capital allocation and measurement standards to help optimize the resource allocation at group level.

Thirdly, the Bank shall strengthen capital performance assessment to effectively enhance the concepts of capital returns and risk pricing. Taking a customer-oriented approach, the Bank shall continue to improve the capital return management system to strengthen the concept of value creation. While adhering to the assessment and appraisal system that focuses on customers' consolidated returns, the Bank shall explore the value and potential in the resource portfolio for overall operations. In addition to improving the comprehensive pricing system based on customers' relationship, the Bank shall focus on the long-term mechanism and process management of risk pricing. The Bank shall also increase the degree of sophistication through identifying niche customers and promote the level of integrated financial services and non-price related factor competitiveness.

Fourthly, the Bank shall uphold the Capital Measures to improve the internal capital adequacy assessment mechanism. While closely following the progress of capital regulatory reforms locally and abroad, the Bank shall accurately seize the regulatory policy standards and directions to ensure that the capital adequacy ratio is sound. Reinforcing the foundation of capital management work, the Bank shall promote the optimization of and integration between management process and information system to maintain high efficiency and sophistication of capital measurement, monitoring and analysis. By improving the management system for Pillar 2, the Bank shall optimize the internal capital adequacy assessment procedures. While fully identifying, measuring and assessing various major risks, the Bank shall regularly assess and timely monitor the capital adequacy and risk resistance conditions. The Bank shall also optimize the stress test management system and timely adopt preventive measures to ensure adequate capital to cope with adverse market changes.

Fifthly, the Bank shall push ahead asset securitization and capital tools innovation to build a diversified capital replenishment and capital diversion mechanism. Given that current asset securitization is adapting to new normal, the Bank shall gradually expand the issue size and amount of asset securitization, introduce innovative product types and structures, develop multi-market issue channels, expand the scope of investors, improve internal procedures, strengthen team building and capitalize on the key role of asset securitization in the areas of capital, liquidity and balance sheet management. Stressing on the primary position of endogenous capital replenishment, the Bank shall expand and develop diversified financing channels inside and outside China, utilize a number of capital tools including debt financing and equity financing as appropriate when opportunities arise, continue to strengthen capital capabilities and optimize capital structure. The Bank shall also actively follow the progress of regulatory policies and look into the innovative application of various risk alleviation tools.