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BQD  青岛银行

Bank of Qingdao Co., Ltd.*

青島銀行股份有限公司*

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

(Stock Code: 3866)

**PROPOSED ISSUANCE OF
U.S.\$1,203,000,000 5.50% NON-CUMULATIVE PERPETUAL
OFFSHORE PREFERENCE SHARES**

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

CITIC CLSA Securities

Haitong International

AMTD

CMB International

CCB International

Deutsche Bank

Joint Bookrunners and Joint Lead Managers

SPDB International

Huarong Financial

Orient Securities (Hong Kong)

**China Industrial Securities
International**

Zhongtai International

CNCB HK Capital

Standard Chartered Bank

**China Silk Road
International**

BOC International

ABC International

UBS

Guotai Junan International

Citi

HSBC

**China Securities
International**

The Bank has entered into the Subscription Agreement with the Joint Global Coordinators and the Joint Bookrunners and Joint Lead Managers pursuant to which, the Joint Bookrunners and Joint Lead Managers have severally and not jointly agreed to subscribe, or procure purchasers or subscribers to subscribe, for the Offshore Preference Shares to be issued by the Bank on the terms of the Subscription Agreement.

The Offshore Preference Shares will have a par value of RMB100 each. Subject to the conditions described in the Subscription Agreement, the Offshore Preference Shares will be subscribed at a price equal to 100% of the Liquidation Preference (U.S.\$20 each). The Offshore Preference Shares will be issued fully paid in U.S. dollars.

The Offshore Preference Shares will be issued pursuant to the Articles of Association, the Shareholders Resolutions passed on 15 March 2017 and 11 May 2017, respectively, and the delegated authority of the Board and its authorised persons relating to the Offshore Preference Shares. The Offshore Preference Shares when issued will qualify as Additional Tier 1 Capital of the Bank pursuant to the Capital Management Rules issued by the CBRC.

Upon the Winding-Up of the Bank, the rights and claims of the Offshore Preference Shareholders shall rank: (a) junior to the rights and claims of holders of (i) all liabilities of the Bank including subordinated liabilities and (ii) obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the Offshore Preference Shares; (b) equally in all respects with each other and without preference among themselves and with the holders of Parity Obligations; and (c) in priority to Ordinary Shareholders. On such Winding-Up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the Conditions have been made, be applied to the claims of the Shareholders so that the claims of the Offshore Preference Shareholders shall be *pari passu* with the claims of holders of any Parity Obligations and in priority to the claims of the Ordinary Shareholders.

The Offshore Preference Shares are perpetual and have no maturity date. The Offshore Preference Shares are not redeemable at the option of the Offshore Preference Shareholders, and the Offshore Preference Shareholders do not have the right to put back the Offshore Preference Shares to the Bank. However, the Bank may, subject to obtaining the CBRC Approval and compliance with the conditions to the distribution of dividends set out in the Conditions and the Redemption Preconditions, upon not less than 30 nor more than 60 days' notice to the Offshore Preference Shareholders and the Fiscal Agent, redeem in whole or in part of the Offshore Preference Shares on the First Reset Date and on any Dividend Payment Date thereafter. The redemption price for each Offshore Preference Share so redeemed shall be the aggregate of an amount equal to its Liquidation Preference plus any declared but unpaid dividends in respect of the period from (and including) the immediately preceding Dividend Payment Date to (but excluding) the date scheduled for redemption. Further details are described in the Conditions.

Subject as provided in the Conditions, each Offshore Preference Share shall entitle the Offshore Preference Shareholders thereof to receive non-cumulative dividends. Each dividend will be payable annually in arrear on 19 September in each year when, as and if declared by the Board subject to certain conditions being met in the Conditions, and the first such Dividend Payment Date will be 19 September 2018. The Offshore Preference Shares will accrue Dividends on their Liquidation Preference during the period from and including the Issue Date and to but excluding the First Reset Date, at the Initial Dividend Rate, and thereafter at the relevant Reset Dividend Rate (in accordance with the definition as set out in the Conditions). The Bank may elect to cancel (in whole or in part) any Dividends otherwise scheduled to be paid on a Dividend Payment Date in accordance with certain conditions.

If any Trigger Event occurs, subject to the conditions described in the Conditions, the Bank shall (having notified and obtained the consent of the CBRC but without the need for the consent of the Preference Shareholders or the Ordinary Shareholders) cancel any Dividend that is unpaid, irrevocably and compulsorily convert all or some only of the Offshore Preference Shares on the Conversion Date.

Based on the CNY central parity rate published by the China Foreign Exchange Trading Centre on 12 September 2017, the gross proceeds from the offering of the Offshore Preference Shares will be approximately RMB7.85 billion. The Bank expects the proceeds raised from the Offshore Preference Shares issuance, after deduction of the expenses relating to the issuance, to be approximately RMB7.82 billion and, subject to applicable laws and regulations and the approvals by the relevant regulatory authorities such as the CBRC and the CSRC, will be used to replenish the Bank's Additional Tier 1 Capital.

There are restrictions on the offer and sale of the Offshore Preference Shares in certain jurisdictions including, but not limited to, the United States, the PRC, Hong Kong, Japan, Singapore, Taiwan and the United Kingdom. The Offshore Preference Shares or the H Shares issuable upon Conversion have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Accordingly, the Offshore Preference Shares are being offered and sold only outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S.

The Offshore Preference Shares are not intended to be sold and should not be sold to retail clients in the European Economic Area, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (as amended or replaced from time to time) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. The Offshore Preference Shares are offered to professional investors only and are not suitable for retail investors. Investors should not purchase the Offshore Preference Shares in the primary or secondary markets unless they are professional investors. The Offshore Preference Shares will be issued in registered form and issued and transferable only in minimum amounts of U.S.\$200,000 (or 10,000 Offshore Preference Shares) and integral multiples of U.S.\$1,000 (or 50 Offshore Preference Shares) in excess thereof.

An application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Offshore Preference Shares and the H Shares to be issued upon Conversion. A further announcement will be made before listing of and dealings in the Offshore Preference Shares commence.

Completion of the Subscription Agreement and issue of the Offshore Preference Shares is subject to the satisfaction or waiver of the conditions precedent therein. In addition, the Subscription Agreement and issue of the Offshore Preference Shares may be terminated in certain circumstances. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the H Shares.

The Bank has entered into the Subscription Agreement with the Joint Global Coordinators and the Joint Bookrunners and Joint Lead Managers pursuant to which, the Joint Bookrunners and Joint Lead Managers have severally and not jointly agreed to subscribe, or procure purchasers or subscribers to subscribe, for the Offshore Preference Shares to be issued by the Bank on the terms of the Subscription Agreement.

The Offshore Preference Shares will be issued pursuant to the Articles of Association, the Shareholders Resolutions passed on 15 March 2017 and 11 May 2017, respectively, and the delegated authority of the Board and its authorised persons relating to the Offshore Preference Shares. The Offshore Preference Shares when issued will qualify as Additional Tier 1 Capital of the Bank pursuant to the Capital Management Rules issued by the CBRC.

There are restrictions on the offer and sale of the Offshore Preference Shares in certain jurisdictions including, but not limited to, the United States, the PRC, Hong Kong, Japan, Singapore, Taiwan and the United Kingdom. The Offshore Preference Shares or the H Shares issuable upon Conversion have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Accordingly, the Offshore Preference Shares are being offered and sold only outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S.

The Offshore Preference Shares are not intended to be sold and should not be sold to retail clients in the European Economic Area, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (as amended or replaced from time to time) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. The Offshore Preference Shares are offered to professional investors only and are not suitable for retail investors. Investors should not purchase the Offshore Preference Shares in the primary or secondary markets unless they are professional investors. The Offshore Preference Shares will be issued in registered form and issued and transferable only in minimum amounts of U.S.\$200,000 (or 10,000 Offshore Preference Shares) and integral multiples of U.S.\$1,000 (or 50 Offshore Preference Shares) in excess thereof.

THE SUBSCRIPTION AGREEMENT

Date

12 September 2017

Parties

- (i) the Bank (as issuer);
- (ii) CLSA Limited, Haitong International Securities Company Limited, AMTD Asset Management Limited, CMB International Capital Limited, CCB International Capital Limited and Deutsche Bank AG, Singapore Branch (as the Joint Global Coordinators); and
- (iii) CLSA Limited, Haitong International Securities Company Limited, AMTD Asset Management Limited, CMB International Capital Limited, CCB International Capital Limited, Deutsche Bank AG, Singapore Branch, SPDB International Capital Limited, Huarong International Securities Limited, Orient Securities (Hong Kong) Limited, China Industrial Securities International Brokerage Limited, Zhongtai International Securities Limited, CNCB (Hong Kong) Capital Limited, Standard Chartered Bank, China Silk Road International Capital Limited, BOCI Asia Limited, ABCI Capital Limited, UBS AG Hong Kong Branch, Guotai Junan Securities (Hong Kong) Limited, Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and China Securities (International) Corporate Finance Company Limited (as the Joint Bookrunners and Joint Lead Managers)

Subscription

Subject to the fulfilment of the conditions set out below in the section headed “Conditions Precedent to the Subscription”, the Joint Bookrunners and Joint Lead Managers severally and not jointly agree to subscribe or procure purchasers or subscribers to subscribe for the Offshore Preference Shares on the Closing Date on the terms of the Subscription Agreement.

Subscribers

To the best of the Bank’s knowledge, information and belief, the Joint Global Coordinators and the Joint Bookrunners and Joint Lead Managers are not Connected Persons of the Bank.

The Joint Bookrunners and Joint Lead Managers have informed the Bank that no less than six qualified placees are intended to be procured by them for the Offshore Preference Shares but subject to a maximum limit of 200 qualified investors for the Offshore Preference Shares. The Offshore Preference Shares are not intended to be initially placed and may not be initially placed to Connected Persons of the Bank as defined in the Hong Kong Listing Rules. To the best of the Bank’s knowledge, information and belief, each of the placees (and its respective ultimate beneficial owners) intended to be procured by the Joint Bookrunners and Joint Lead Managers are not Connected Persons of the Bank.

Conditions Precedent to the Subscription

The obligation of the Joint Bookrunners and Joint Lead Managers to subscribe or procure purchasers or subscribers to subscribe and pay for the Offshore Preference Shares is conditional upon:

1. **The Contracts:** the execution and delivery of the Agency Agreement, the Receiving Agent Agreement, the Payment Side Agreement and the Deed of Covenant and the Global Certificate by the parties thereto on or before the Closing Date;
2. **Auditor’s Letter:** on each of the date of the Offering Circular and the Closing Date, there having been delivered to the Joint Bookrunners and Joint Lead Managers a letter, in the form agreed between the Bank and the Joint Bookrunners and Joint Lead Managers, dated the date of the Offering Circular and the Closing Date (as the case may be) and addressed to the Joint Bookrunners and Joint Lead Managers from KPMG, auditor of the Bank;
3. **Internal Authorisations of the Bank:** the delivery of (i) copies of the Articles of Association and (ii) copies or extracts of internal authorisations and the resolution of the shareholders of the Bank (or announcements of the Bank published on the Hong Kong Stock Exchange evidencing such authorisations and resolutions) authorising the issue of the Offshore Preference Shares and the new H Shares issuable upon Conversion of the Offshore Preference Shares and the execution of the Contracts;

4. **Compliance:** (a) the representations and warranties of the Bank in the Subscription Agreement being true, accurate and correct at, and as if made on, the Closing Date; and (b) on the Closing Date, the Bank having performed all of its obligations under the Subscription Agreement to be performed on or before the Closing Date and there having been delivered to the Joint Bookrunners and Joint Lead Managers a certificate, substantially in the form set out in the Subscription Agreement, dated the Closing Date, signed by an authorised signatory of the Bank to such effect;
5. **Material Adverse Change:** after the date hereof and up to and at the Closing Date, there shall not have occurred any change, or any development involving a prospective change (of which the Bank is, or might reasonably be expected to be, aware) which is materially adverse to the condition (financial or other), prospects, results of operations or general affairs of the Bank or of the Group;
6. **Legal Opinions:** on or before the Closing Date, there having been delivered to the Joint Bookrunners and Joint Lead Managers, in form reasonably satisfactory to the Joint Bookrunners and Joint Lead Managers, dated the Closing Date:
 - (a) opinion as to Hong Kong law from Linklaters, legal advisers to the Joint Bookrunners and Joint Lead Managers;
 - (b) opinion as to PRC law from Commerce & Finance Law Offices, PRC legal advisers to the Joint Bookrunners and Joint Lead Managers; and
 - (c) opinion as to PRC law from King & Wood Mallesons, PRC legal advisers to the Bank;
7. **Listing:** the Hong Kong Stock Exchange having agreed, subject to any conditions reasonably satisfactory to the Joint Bookrunners and Joint Lead Managers, to list the Offshore Preference Shares, and upon conversion of any such Offshore Preference Shares to new H Shares, such new H Shares;
8. **Officer's Certificates:** on each of the date of the Offering Circular and the Closing Date, there having been delivered to the Joint Bookrunners and Joint Lead Managers certificates substantially in the form set out in the Subscription Agreement dated the date of the Offering Circular and the Closing Date, respectively and signed by an authorised officer of the Bank; and
9. **Approvals:** the approval of the CBRC on 2 June 2017, the approval of the CSRC on 25 August 2017, and the Enterprise Foreign Debt Pre-Issuance Registration Certificate dated 25 July 2017, in respect of the issue of the Offshore Preference Shares from the NDRC pursuant to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) prior to the date of the Subscription Agreement have been obtained and remain in full force and effect,

provided, however, the Joint Bookrunners and Joint Lead Managers may, at their discretion and upon such terms as they think fit, waive compliance with the whole or any part of the conditions precedents specified in the paragraphs above apart from paragraphs 1, 7 and 9.

Termination of the Subscription

Notwithstanding anything contained in the Subscription Agreement, the Joint Bookrunners and Joint Lead Managers may give a termination notice to the Bank at any time prior to the payment of the gross proceeds of the issue of the Offshore Preference Shares of the Bank on the Closing Date if:

1. any of the warranties and representations contained in the Subscription Agreement is or is proved to be untrue or incorrect on the date of the Subscription Agreement or on any date on which it is deemed to be repeated;
2. the Bank fails to perform any of its obligations under the Subscription Agreement;
3. any of the conditions specified in the section headed “Conditions Precedent to the Subscription” above has not been satisfied or waived by the Joint Bookrunners and Joint Lead Managers on or prior to the Closing Date;
4. in the opinion of the Joint Bookrunners and Joint Lead Managers, there shall have been, since the date of the Subscription Agreement, any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions (including any disruption to trading generally, or trading in any securities of the Bank on any stock exchange or in any over-the-counter market) or currency exchange rates or foreign exchange controls such as would in their view, be likely to prejudice materially the success of the issue and distribution of the Offshore Preference Shares or dealings in the Offshore Preference Shares in the secondary market;
5. if in the opinion of the Joint Bookrunners and Joint Lead Managers, there shall have occurred any of the following events since the date of the Subscription Agreement: (i) a suspension or a material limitation in trading in securities generally on the New York Stock Exchange, the London Stock Exchange plc, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and/or the Hong Kong Stock Exchange and/or any other stock exchange on which the Bank’s securities are traded (if any); (ii) a suspension or a material limitation in trading of the Bank’s securities on the Hong Kong Stock Exchange and/or any other stock exchange on which the Bank’s securities are traded (if any); (iii) a general moratorium on commercial banking activities in the United States, the PRC, Hong Kong and/or the United Kingdom declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States, the PRC, Hong Kong or the United Kingdom; or (iv) a change or development involving a prospective change in taxation affecting the Bank, the Offshore Preference Shares or the transfer thereof; and
6. if, in the opinion of the Joint Bookrunners and Joint Lead Managers, there shall have occurred any event or series of events (including the occurrence of any local, national or international outbreak or escalation of disaster, hostility, insurrection, armed conflict, act of terrorism, act of God or epidemic) as would in their view be likely to prejudice materially the success of the issue and distribution of the Offshore Preference Shares or dealings in the Offshore Preference Shares in the secondary market.

PRINCIPAL TERMS OF THE OFFSHORE PREFERENCE SHARES

The Articles of Association and the Conditions are written in Chinese. In the event of any inconsistency between (i) on the one hand, the Articles of Association and the Conditions in Chinese and (ii) on the other hand, any translations of the Articles of Association and the Conditions in other languages, the Chinese versions of the Articles of Association and the Conditions shall prevail. In addition, in the event of any inconsistency between the Articles of Association and the Conditions, the Articles of Association shall prevail.

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| <i>Issuer</i> | Bank of Qingdao Co., Ltd. (Stock Code: 3866.HK) |
| <i>Offering</i> | U.S.\$1,203,000,000 5.50% Non-Cumulative Perpetual Offshore Preference Shares |
| <i>Issue Price</i> | 100% |
| <i>Liquidation Preference</i> | The Offshore Preference Shares will have a par value of RMB100 each and will be issued as fully paid-up capital in U.S. dollars so that the total issuance price of the Offshore Preference Shares will be U.S.\$20 each. The Offshore Preference Shares will be issued in registered form and issued and transferable only in minimum amounts of U.S.\$200,000 (or 10,000 Offshore Preference Shares) and integral multiples of U.S.\$1,000 (or 50 Offshore Preference Shares) in excess thereof (each an “ Authorised Denomination ”). |
| <i>Issue Date</i> | 19 September 2017 |
| <i>Maturity Date</i> | The Offshore Preference Shares are perpetual and have no maturity date. The Bank will only have the right to redeem the Offshore Preference Shares as described in the Conditions. The Offshore Preference Shares are not redeemable at the option of the Offshore Preference Shareholders, and the Offshore Preference Shareholders do not have the right to put back the Offshore Preference Shares to the Bank. |
| <i>Book-entry and Denomination</i> | <p>The Offshore Preference Shares will initially be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream.</p> <p>While the Offshore Preference Shares are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear, Clearstream or any Alternative Clearing System (as defined in the Conditions), the Offshore Preference Shares will be recorded, transferred and/or converted on the basis of an Authorised Denomination and not number of Offshore Preference Shares.</p> |

*Status and Rights upon
Liquidation*

Upon the Winding-Up of the Bank, the rights and claims of the Offshore Preference Shareholders shall rank:

- (a) junior to the rights and claims of holders of (i) all liabilities of the Bank including subordinated liabilities and (ii) obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the Offshore Preference Shares;
- (b) equally in all respects with each other and without preference among themselves and with the holders of Parity Obligations; and
- (c) in priority to the Ordinary Shareholders.

Upon the Winding-Up of the Bank, the assets of the Bank shall be distributed in the following order of priority:

- (i) payment of the liquidation costs;
- (ii) payment of employees' salaries, social insurance and statutory compensation;
- (iii) payment of the principal and legal interest of personal savings deposits;
- (iv) payment of all outstanding taxes;
- (v) settlement of the Bank's other debts; and
- (vi) distribution to the Shareholders according to their respective class of shares and shareholding ratio.

On such Winding-Up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with items (i) to (v) above have been made, be applied to the claims of the Shareholders so that the claims of the Offshore Preference Shareholders shall be *pari passu* with the claims of holders of any Parity Obligations and in priority to the claims of the Ordinary Shareholders. On such Winding-Up of the Bank, the Offshore Preference Shareholders shall be entitled to an amount in respect of each Offshore Preference Share which will be equal to the Liquidation Preference together with any declared but unpaid Dividends for the then current period in respect of that Offshore Preference Share.

If there are insufficient remaining assets upon such Winding-Up of the Bank to cover the amounts payable in full on the Offshore Preference Shares and all Parity Obligations, the Offshore Preference Shareholders and the holders of such Parity Obligations will share rateably in the distribution of such remaining assets (if any) of the Bank in proportion to the full amounts to which they are respectively entitled. After payment of the full amounts to which the Offshore Preference Shareholders are entitled on a Winding-Up of the Bank, such Offshore Preference Shareholders will have no right or claim to any of the Bank's remaining assets.

Rights to Dividends

Subject as provided in Conditions, each Offshore Preference Share shall entitle the Holder thereof to receive non-cumulative dividends which have not been otherwise cancelled payable annually in arrear.

Each Dividend will be payable, subject as provided in Conditions, annually in arrear on the Dividend Payment Date. Subject as provided in Conditions, the first Dividend Payment Date will be 19 September 2018. The period from and including the Issue Date and to but excluding the next succeeding Dividend Payment Date and each successive period from and including a Dividend Payment Date and to but excluding the next succeeding Dividend Payment Date is called a Dividend Period.

The applicable Dividend Rate shall not contain any step up nor contain any other incentive to redeem any Offshore Preference Shares. The applicable Dividend Rate is not linked to any credit rating of the Bank and shall not be adjusted based on changes in the credit rating of the Bank in the future.

Dividend Rate

The Offshore Preference Shares will accrue Dividends on their Liquidation Preference at the relevant Dividend Rate below:

- (a) from and including the Issue Date to but excluding the First Reset Date, at the Initial Dividend Rate; and
- (b) thereafter, in respect of the period from and including the First Reset Date and each Reset Date falling thereafter to but excluding the immediately following Reset Date, at the relevant Reset Dividend Rate,

provided that the Dividend Rate shall not at any time exceed 13.46% per annum, being the mean of the weighted average return on equity of the Bank (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 Ordinary Shareholders) for the two most recent financial years prior to the Issue Date.

*Conditions to Distribution
of Dividends*

Notwithstanding any other provision in Conditions, the payment of any Dividend on any Dividend Payment Date is subject to:

- (a) the Board (or within the delegated authorisation of the Board) having passed a resolution to declare such Dividend in accordance with the Articles of Association;
- (b) the Bank having distributable after-tax profit (which is the undistributed profit as shown in the financial statements of the parent company prepared in accordance with the Chinese Accounting Standards for Business Enterprises or the International Financial Reporting Standards, whichever amount is lower), after making up for the previous years' losses and contributing to the statutory reserve funds and general reserves in accordance with law; and
- (c) the relevant capital adequacy ratios of the Bank meeting the requirements of the relevant regulatory authorities.

Further, subject to a resolution to be passed at a Shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) the Dividends otherwise scheduled to be paid on a Dividend Payment Date in the manner set out in the Conditions. The Bank may at its discretion use the funds arising from the cancellation of such Dividend to repay other debts that are due. Save as provided in Conditions, the Offshore Preference Shareholders shall not be entitled to convene, attend or vote at such Shareholders' general meeting.

The Bank shall give notice of any cancellation (in whole or in part) of any Dividend scheduled to be paid to the Offshore Preference Shareholders (in the manner specified in Conditions) and the Fiscal Agent as soon as possible after a resolution has been passed at the Shareholders' general meeting described above to cancel (in whole or in part) such Dividend, and in any event at least 10 Payment Business Days prior to the relevant Dividend Payment Date, provided that any failure to give such notice shall not affect the cancellation of (in whole or in part) such Dividend by the Bank and shall not constitute a default for any purpose.

The cancellation of any amount of the Dividend (in whole or in part) in accordance with the Conditions shall not constitute a default for any purpose by the Bank. Dividend payments are non-cumulative. Under the circumstances where the Bank cancels a Dividend (in whole or in part) in accordance with such Shareholder resolution and the Conditions, any amount of Dividend that has not been fully distributed to the Offshore Preference Shareholders during the current Dividend Period will not be accumulated to the following Dividend Periods.

Following payment by the Bank of the relevant Dividends at the prescribed Dividend Rate as set forth in Conditions, the Offshore Preference Shareholders shall not be entitled to receive any distribution of residual profits of the Bank together with the Ordinary Shareholders.

*Restrictions Following
Cancellation of Dividends*

If the Bank elects to cancel (in whole or in part) any Dividend scheduled to be paid on a Dividend Payment Date (but not where such Dividend has been cancelled pursuant to the Conditions upon the occurrence of a Trigger Event), the cancellation of such Dividend (in whole or in part) on the Offshore Preference Shares will require a resolution to be passed at a Shareholders' general meeting. The Bank undertakes that any resolution passed at a Shareholders' general meeting that cancels a Dividend (in whole or in part) on the Offshore Preference Shares will be a Parity Obligation Dividend Cancellation Resolution and undertakes that it will not propose to any Shareholders' general meeting a resolution to cancel any Dividend on the Offshore Preference Shares that is not a Parity Obligation Dividend Cancellation Resolution. Save as provided in the Conditions, the Offshore Preference Shareholders shall not be entitled to convene, attend or vote at such Shareholders' general meeting.

From the day immediately following the Parity Obligation Dividend Cancellation Resolution being approved at the Shareholders' general meeting, the Bank shall not make any distribution or dividend in cash or otherwise on, and will procure that no distribution or dividend in cash or otherwise is made on, any Ordinary Shares or on any other class of shares or obligations that ranks or is expressed to rank junior to the Offshore Preference Shares, unless or until the earlier of: (i) the Dividend scheduled to be paid on any subsequent Dividend Payment Date is paid in full to the Offshore Preference Shareholders; or (ii) the redemption or purchase and cancellation or the Conversion of all outstanding Offshore Preference Shares.

Conversion

If any Trigger Event occurs, the Bank shall (having notified and obtained the consent of the CBRC but without the need for the consent of the Preference Shareholders or the Ordinary Shareholders):

- (a) cancel any Dividend in respect of the relevant Loss Absorption Amount that is unpaid accrued up to and including the Conversion Date; and
- (b) irrevocably and compulsorily convert with effect from the Conversion Date all or some only of the Offshore Preference Shares into such number of H Shares as is equal to (i) the Loss Absorption Amount held by the Offshore Preference Shareholders (as converted into Hong Kong dollars at the fixed exchange rate of U.S.\$1.00 to HK\$7.7574) divided by (ii) the effective Conversion Price rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H Shares (such conversion to H Shares being referred to as a “**Conversion**”, and “**Converted**” shall have a corresponding meaning), and any fractional share less than one H Share resulting from the Conversion will not be issued and no cash payment or other adjustment will be made in lieu thereof.

A Trigger Event may occur on more than one occasion, and the Offshore Preference Shares may be subject to a Conversion on more than one occasion.

*Consequences of
a Conversion*

Once an Offshore Preference Share has been Converted as described in the Conditions, it will not be restored in any circumstances, including where the relevant Trigger Event ceases to continue.

The Bank will, with effect from the relevant Conversion Date, enter such number of H Shares issuable under the Conditions in the Bank’s register of holders of H Shares and such H Shares shall be initially registered in the name of a nominee appointed by the Bank (the “**Share Nominee**”). The Bank will, no later than 20 Trading Days following the Conversion Date (or such other period as the relevant authorities may require) (the “**Share Delivery Date**”), issue to the Share Nominee to hold on behalf of the Offshore Preference Shareholders such number of H Shares as is described under the Conditions to be issued to the Offshore Preference Shareholders. If the Bank fails to issue such H Shares, or there is any delay in the issue or delivery of such H Shares to the Share Nominee, the only right of the Offshore Preference Shareholders in respect of such failure or delay (subject as is described in the Conditions) will be to claim against the Bank to have such H Shares so issued to the Share Nominee.

The Offshore Preference Shareholders shall be deemed to have waived all rights and claims in respect of the Offshore Preference Shares that have been Converted and shall be deemed irrevocably to have directed and authorised the Bank to apply (on behalf of the Offshore Preference Shareholders) the Liquidation Preference representing such Offshore Preference Shares to fully pay up the H Shares to be issued and delivered to the Share Nominee.

The issue of such number of H Shares as is described under the Conditions to the Share Nominee will satisfy all obligations of the Bank in connection with the issue of H Shares to the Offshore Preference Shareholders in respect of the relevant Conversion, and with effect from the issue of such H Shares to the Share Nominee, the rights of such Offshore Preference Shareholders in respect of such H Shares will be limited to their rights in respect of the H Shares as described in the Conditions.

Conversion Price

The initial conversion price for the Offshore Preference Shares is HK\$4.76 per H Share, subject to adjustment as described in the Conditions (the “**Conversion Price**”).

The initial Conversion Price is equal to the net asset value per share as at 30 June 2016 disclosed in the Bank’s 2016 interim report and denominated in Hong Kong dollars, which has been converted with reference to the central parity rate of RMB to Hong Kong dollars used by the interbank foreign exchange market as published by the China Foreign Exchange Trade System on the Trading Day prior to the date of announcement of the Board resolution in respect of the issuance plan of the Offshore Preference Shares (rounded up to the nearest two decimal places).

Optional Redemption

The Bank may, subject to obtaining the CBRC Approval and compliance with the conditions to the distribution of Dividends set out in the Conditions and the Redemption Preconditions, upon not less than 30 nor more than 60 days’ notice to the Offshore Preference Shareholders and the Fiscal Agent, redeem in whole or in part of the Offshore Preference Shares on the First Reset Date and on any Dividend Payment Date thereafter. The redemption price for each Offshore Preference Share so redeemed shall be the aggregate of an amount equal to its Liquidation Preference plus any declared but unpaid Dividends in respect of the period from (and including) the immediately preceding Dividend Payment Date to (but excluding) the date scheduled for redemption.

“Redemption Preconditions” means, in relation to any redemption of the Offshore Preference Shares, the Bank’s compliance of the following conditions:

- (a) the Bank shall use capital instruments of the same or superior quality to replace the Offshore Preference Shares to be redeemed and such replacement shall only be made at a time at which the Bank has a sustainable income generating capability; or
- (b) the capital position of the Bank immediately after redemption of the Offshore Preference Shares will remain significantly higher than the regulatory capital requirements prescribed by the CBRC.

Taxation and Withholding

All payments of Liquidation Preference and/or Dividends in respect of the Offshore Preference Shares will be made free and clear of, and without withholding or deduction for or on account of, any present or future tax, duty, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the PRC or any political subdivision or any authority thereof or therein having power to levy tax in the PRC, unless such withholding or deduction is required by the law of the PRC.

Unless the events as otherwise provided in the Conditions, the Bank shall pay such additional amounts as will result in the receipt by the Offshore Preference Shareholders of such amounts as would have been received by them if no such withholding or deduction had been required.

Limited Voting Rights

Pursuant to the Articles of Association, Offshore Preference Shareholders shall not be entitled to convene, attend or vote at any Shareholders’ general meeting, other than in the following circumstances:

- (a) amendments to the Articles of Association that relate to preference shares;
- (b) reduction of the registered capital of the Bank by more than 10%, on a single or aggregate basis;
- (c) merger, division, dissolution or change of corporate form of the Bank;
- (d) issuance of preference shares by the Bank; and
- (e) other events specified in laws, rules and departmental regulations and the Articles of Association,

(each, a “**Special Resolution**”) in which case the Offshore Preference Shareholders will be entitled to attend the Shareholders’ general meeting and vote only upon such Special Resolution. The Offshore Preference Shareholders will be entitled to one vote in respect of each outstanding Offshore Preference Share and vote together with other Preference Shareholders as a separate class from the Ordinary Shareholders. The Offshore Preference Shares held by, or on behalf of, the Bank shall have no voting rights.

Passing of the Special Resolutions shall require (a) more than two-thirds of votes held by the Ordinary Shareholders present at the meeting (including Preference Shareholders with voting rights restored) and (b) by more than two-thirds of votes held by the Preference Shareholders present at the meeting (excluding Preference Shareholders with voting rights restored).

Restoration of Voting Rights Subject to the cancellation of restored voting rights as described in the Conditions, if:

- (a) the Bank fails to pay the Dividends in full on the Offshore Preference Shares in accordance with the Conditions for two consecutive financial years; or
- (b) the Bank fails to pay the Dividends in full on the Offshore Preference Shares in accordance with the Conditions for three financial years in aggregate since the Issue Date, or, if restored voting rights have been cancelled pursuant to the Conditions, the most recent date on which restored voting rights were cancelled pursuant thereto,

then, as from the day immediately after the date on which the Shareholders’ general meeting resolves that the Bank will not pay in full, in the case of paragraph (a) above, the second such Dividend or, in the case of paragraph (b) above, the third such Dividend, each Offshore Preference Shareholder shall, to the extent permitted under Applicable Shareholding Law, be entitled to attend and vote upon any resolution proposed at any Shareholders’ general meeting as if he or she was the holder of such number of Ordinary Shares as is equal to the aggregate Liquidation Preference of the Offshore Preference Shares (as converted into Hong Kong dollars at the fixed exchange rate of U.S.\$1.00 to HK\$7.7574) divided by the then effective Conversion Price (subject to the adjustment in accordance with the Conditions) rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H Shares.

The above fixed exchange rate has been calculated with reference to the central parity rate of Renminbi to Hong Kong dollars and U.S. dollars used by the interbank foreign exchange market as published by the China Foreign Exchange Trade System on the Trading Day prior to the announcement date of the Board resolution in respect of the issuance plan for the Offshore Preference Share (rounded up to the nearest four decimal places).

Governing Law

The Offshore Preference Shares and the rights and obligations attached to them are governed by, and shall be construed in accordance with, the PRC law.

Arbitration

If any disputes or claims in relation to the Bank's business, with respect to any rights or obligations under the Articles of Association, Company Law or any other relevant laws and administrative regulations, arise between an Offshore Preference Shareholder and the Bank, between an Offshore Preference Shareholder and the Bank's directors, supervisors or members of senior management of the Bank, or between an Offshore Preference Shareholder and other Shareholders of the Bank, the parties concerned shall submit such disputes or claims to arbitration.

APPLICATION FOR LISTING

An application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Offshore Preference Shares and the H Shares to be issued upon Conversion. A further announcement will be made before listing of and dealings in the Offshore Preference Shares commence.

REASONS FOR THE ISSUANCE AND USE OF PROCEEDS

Based on the CNY central parity rate published by the China Foreign Exchange Trading Centre on 12 September 2017, the gross proceeds from the offering of the Offshore Preference Shares will be approximately RMB7.85 billion. The Bank expects the proceeds raised from the Offshore Preference Shares issuance, after deduction of the expenses relating to the issuance, to be approximately RMB7.82 billion and, subject to applicable laws and regulations and the approvals by the relevant regulatory authorities such as the CBRC and the CSRC, will be used to replenish the Bank's Additional Tier 1 Capital.

The Board considers that the proposed issuance of the Offshore Preference Shares is in the interests of the Bank and the Shareholders as a whole.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Bank held a general meetings of Shareholders on 14 October 2016, at which the proposal for initial public offering of no more than 1,000,000,000 A Shares to be issued was considered and adopted. The matters relating to the proposed issuance by the Bank of its A Shares are set out in the circular and the announcement issued by the Bank dated 19 August, 27 September and 14 October 2016.

The Bank submitted to the CSRC an application for initial public offering of A Shares (including the prospectus for initial public offering of A Shares) which was accepted by the CSRC on 9 December 2016. The Prospectus for initial public offering of A Shares was posted on the CSRC's website (www.csrc.gov.cn) on 16 December 2016 and, on the same day, was posted on the website of Hong Kong Stock Exchange (www.hkexnews.hk) in accordance with Rule 13.10B of the Hong Kong Listing Rules.

Apart from the above, the Bank has not carried out any issue of equity securities for fund-raising purposes during the 12 months immediately preceding the date of this announcement.

CAPITAL POSITION OF THE BANK

Impact on the Bank's Share Capital

If there is no Trigger Event for Conversion, the issuance of the Offshore Preference Shares will not affect the ordinary share capital of the Bank. However, if Conversion is triggered, the Bank's ordinary share capital will be increased.

For illustrative purposes only, the table below sets forth the impact on the Bank's share capital structure if all the Offshore Preference Shares were converted into H Shares pursuant to the Conversion at the initial Conversion Price:

| Share Capital | As at 30 June 2017 | | After Conversion of all the Offshore Preference Shares upon the occurrence of a Trigger Event | |
|-----------------|----------------------|-----------------------------|---|-----------------------------|
| | Number of shares | Percentage of share capital | Number of shares | Percentage of share capital |
| | (share) | (%) | (share) | (%) |
| Domestic shares | 2,295,677,769 | 56.56 | 2,295,677,769 | 38.14 |
| H Shares | 1,763,034,980 | 43.44 | 3,723,571,156 | 61.86 |
| Total | <u>4,058,712,749</u> | <u>100</u> | <u>6,019,248,925</u> | <u>100</u> |

Impact of the Issuance of the Offshore Preference Shares on the Bank's Regulatory Capital Indicators

The Capital Management Rules were implemented on 1 January 2013, which required commercial banks to satisfy the stipulated regulatory requirements on Capital Adequacy Ratio, including the minimum capital requirement, the reserve capital requirement, the countercyclical capital requirement, the supplementary capital requirement on systemically important banks and the pillar 2 capital requirement, as detailed in the following table:

| Regulatory Requirements | Minimum capital requirement |
|---|---|
| Core Tier 1 Capital Adequacy Ratio | 5% |
| Tier 1 Capital Adequacy Ratio | 6% |
| Capital Adequacy Ratio | 8% |
| Reserve Capital Requirement | The reserve capital requirement will be gradually introduced during the transition period, which is 0.5% at the end of 2013, 0.9% at the end of 2014, 1.3% at the end of 2015, 1.7% at the end of 2016, 2.1% at the end of 2017 and 2.5% at the end of 2018. It is satisfied through Core Tier 1 Capital. |
| Countercyclical Capital Requirement | In certain circumstances, commercial banks are required to set aside funds for the account of the countercyclical capital beyond the minimum capital requirement and the reserve capital requirement. The countercyclical capital requirement is equal to 0-2.5% of the risk-weighted assets and it is satisfied through Core Tier 1 Capital. |
| Supplementary capital requirement on PRC systemically important banks | 1% of the risk-weighted assets and to be satisfied through Core Tier 1 Capital. |
| Pillar 2 capital requirement | To be determined by the CBRC under the pillar 2 framework. |

Pursuant to the aforesaid requirements, the Core Tier 1 Capital Adequacy Ratio, the Tier 1 Capital Adequacy Ratio and the Capital Adequacy Ratio requirements for PRC commercial banks are 7.5%, 8.5% and 10.5%, respectively, at the end of 2018. As at 30 June 2017, the Bank achieved a Core Tier 1 Capital Adequacy Ratio, Tier 1 Capital Adequacy Ratio and Capital Adequacy Ratio of 10.16%, 10.17% and 13.67%, respectively.

Impact of the Issuance of the Offshore Preference Shares on the Bank's Share Capital and Certain Financial Data and Indicators of the Bank

The following table sets out, for illustrative purposes only, information on the Bank's share capital and certain financial data and indicators of the Group on an actual basis and as adjusted to give effect to the following assumptions: (i) that the issuance of the Offshore Preference Shares was completed on 1 January 2017 with an issue size equivalent to RMB8 billion, (ii) that Dividends at (a) an Indicative Dividend Rate of 5%, or (b) an Indicative Dividend Rate of 6% (such Indicative Dividend Rate under scenario (a) and (b) is only for the purpose of illustrative calculation and is not the Bank's expected Dividend Rate of the Offshore Preference Shares to be issued), or (c) the actual Dividend Rate of 5.50% fully paid, without taking into account any gains that may be generated from the use of proceeds or deducting any Dividends paid to Offshore Preference Shareholders before tax.

| | As at 30 June 2017 | | | |
|---|---|---|---|--|
| | Actual | As adjusted | | |
| | | Based on Indicative Dividend Rate of 5% | Based on Indicative Dividend Rate of 6% | Based on Actual Dividend Rate |
| | (in RMB millions, unless otherwise specified) | | | |
| Share capital ⁽¹⁾ | 4,058.7 | 4,058.7 | 4,058.7 | 4,058.7 |
| Net assets ⁽²⁾ | 18,188.5 | 25,788.5 | 25,708.5 | 25,748.5 |
| Net profits attributable to equity shareholders of the Bank (for the six months ended 30 June 2017) | 1,275.8 | 1,275.8 | 1,275.8 | 1,275.8 |
| Return on average equity (%) ⁽³⁾ | 14.44 | 10.03 | 9.13 | 9.58 |
| Basic earnings per Ordinary Share ⁽⁴⁾ (RMB yuan) | 0.31 | 0.22 | 0.20 | 0.21 |

Notes:

- (1) Share capital refers to the ordinary share capital of the Bank.
- (2) As adjusted net assets = net assets + RMB8 billion in gross proceeds from the issuance of the Offshore Preference Shares – Dividends on the Offshore Preference Shares for a one-year period.
- (3) As adjusted return on average equity = (Net profits attributable to equity shareholders of the Bank – Dividends on the Offshore Preference Shares for a one-year period)/(Average net assets attributable to equity shareholders of the Bank – Average effect of Dividends on the Offshore Preference Shares for a one-year period), on an annualized basis.
- (4) As adjusted basic earnings per Ordinary Share = (Net profits attributable to equity shareholders of the Bank – Dividends on the Offshore Preference Shares for a one-year period)/Weighted average ordinary share capital.

Other than the information disclosed above, there has not been any material change in the Bank's total capital as at 30 June 2017.

WAIVER FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

In connection with the listing of the Offshore Preference Shares, the Bank has applied to, and has been granted applicable waivers by, the Hong Kong Stock Exchange from strict compliance with a number of provisions of the Hong Kong Listing Rules.

Those waivers are applied on the following basis:

- The Offshore Preference Shares are more akin to fixed income products such as quasi-debt securities and they have more characteristics in common with debt securities than with equity securities. In particular, the Offshore Preference Shares have a fixed dividend rate and in the event of a redemption, the Offshore Preference Shares will be redeemed at 100% of their issue price. The Offshore Preference Shares may be converted to H Shares but such conversion will be mandatory and will only occur when there is an Additional Tier 1 Capital Instrument Trigger Event or if the Bank reaches a point of financial non-viability.
- The Offshore Preference Shares will be offered to institutional and professional investors only by way of a private placement and will not be made accessible to retail investors. The Offshore Preference Shares are structured in a way that they will not be “Eligible Securities” under the Hong Kong Listing Rules and will not be admitted to the Central Clearing and Settlement System for clearance and settlement. Trading of the Offshore Preference Shares is not expected to take place on the Hong Kong Stock Exchange either on issue or in the secondary market. Instead, the Offshore Preference Shares will be cleared and settled through Euroclear and Clearstream which is similar to other professionals-only debt securities listed under Chapter 37 of the Hong Kong Listing Rules.

The waivers being sought by and granted to the Bank are broadly classified into the following categories:

- those waivers in relation to qualifications of listing that are required due to the fact that the Offshore Preference Shares are fixed income securities offered only to professional investors;
- those waivers that are required to enable the Offshore Preference Shares to be offered only to institutional and professional investors and not retail investors;
- those waivers that are required to enable the Offshore Preference Shares to be structured to meet the expectations of institutional and professional investors for these type of securities and therefore allow for an offering of such securities; and
- those waivers that are required in order to enable the Bank to not be subject to compliance obligations that are not commensurate with the offering and listing of securities similar to debt securities that are offered only to institutional and professional investors.

The waivers being sought by and granted to the Bank are listed below:

- Rule 2.07A(2): Requirements for an express, positive confirmation in writing from each Offshore Preference Shareholder that corporate communications may be made available using electronic means, and all corporate communications be sent to the Offshore Preference Shareholders
- Rule 2.07A(3): Requirement for providing the right of the Offshore Preference Shareholders to request corporation communications in printed hardcopy form
- Rules 2.07C(1)(b)(i), 2.07C(4)(b), 2.07C(6) and 11.14: Requirements that the listing document should be made available to the public and be accompanied by a Chinese translation
- Rule 7.10: Placing guidelines in respect of placements of the Offshore Preference Shares to the general public
- First part of paragraph 3 and paragraphs 4, 5, 6, 8 and 10 of Appendix 6: Placing guidelines in respect of placements of the Offshore Preference Shares to the general public
- Rule 8.07: Requirement of adequate market and sufficient public interest for the Offshore Preference Shares
- Rule 8.08: Requirement of an open market for the Offshore Preference Shares
- Rules 8.13A and 9.21(2): Admission of the Offshore Preference Shares as Eligible Securities (as defined in the Hong Kong Listing Rules) by Hong Kong Securities Clearing Company Limited
- Rules 8.16 and 19A.13(3)(a): Appointment of an approved share registrar to maintain the register of members for the Offshore Preference Shares in Hong Kong
- Rule 9.23(2)(a): Requirement for marketing statements from the lead broker, any distributors and every Exchange Participant (as defined in the Hong Kong Listing Rules) with the Offshore Preference Shares to be placed
- Rule 9.23(2)(b) and paragraph 11 of Appendix 6: Submission of placee lists in respect of the Offshore Preference Shares
- Rules 11.12, 19A.26(1) and paragraph 2 of Appendix 1B: Requirement for a directors' statement of responsibility in respect of information contained in the listing document
- Rules 12.03, 12.04, 12.05 and 12.07: Requirements in respect of the timing, publication format and information to be disclosed in the formal notice for placing of the Offshore Preference Shares, and that the formal notice should be made available to the public and be made in both English and Chinese language

- Paragraphs 6(1), 6(3), 13, 30, 32, 39, 40(1) and 40(2) of Appendix 1B: Certain specific disclosure requirements in the listing document:
 - Paragraphs 6(1) and 6(3): details of the exchanges on which other debt securities are listed, and particulars of the dealing and settlement arrangements on each such exchange and between such exchanges
 - Paragraph 13: a statement of the net tangible asset backing for the Offshore Preference Shares
 - Paragraph 30: a working capital statement by the directors in respect of a period of at least 12 months
 - Paragraph 32: a statement of no material adverse change provided by the directors
 - Paragraph 39: particulars of directors' service contracts
 - Paragraphs 40(1) and 40(2): particulars of interests of directors in assets of the Bank and contracts or arrangements of significance
- Paragraph 5 of Appendix 8: Payment of transaction levy on the issuance of the Offshore Preference Shares
- Paragraph 6 of Appendix 8: Payment of trading fee on the issuance of the Offshore Preference Shares

Completion of the Subscription Agreement and issue of the Offshore Preference Shares is subject to the satisfaction or waiver of the conditions precedent therein. In addition, the Subscription Agreement and issue of the Offshore Preference Shares may be terminated in certain circumstances. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the H Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings when used herein:

| | |
|--|--|
| Additional Tier 1 Capital | has the meaning given to Additional Tier 1 Capital (“其他一級資本”) (or any equivalent or successor term) in the Capital Management Rules |
| Additional Tier 1 Capital Instrument Trigger Event | the Core Tier 1 Capital Adequacy Ratio of the Bank has fallen to 5.125% or below |
| Additional Tier 1 Capital Instrument Trigger Event Effective Date | in respect of any Additional Tier 1 Capital Instrument Trigger Event, the date (whichever occurs later) on or by which (i) the CBRC has decided such Additional Tier 1 Capital Instrument Trigger Event has occurred and notified the Bank of such Additional Tier 1 Capital Instrument Trigger Event and (ii) any of the CBRC or the Bank has made a public announcement of such Additional Tier 1 Capital Instrument Trigger Event |

| | |
|--|---|
| Agency Agreement | the fiscal agency agreement in respect of the Offshore Preference Shares to be entered into between the Bank, The Bank of New York Mellon (Luxembourg) S.A. as registrar and as transfer agent and The Bank of New York Mellon, London Branch as fiscal agent, paying agent and calculation agent |
| Applicable Shareholding Law | the relevant rules of the CSRC, the CBRC, the Hong Kong Securities & Futures Commission or the Stock Exchange and any other law in force in the PRC or Hong Kong that limits or restricts the number of Ordinary Shares that a person may have an interest in or over which it may have a right or power |
| Articles of Association or Articles | the articles of association (as amended from time to time) of the Bank |
| Bank | Bank of Qingdao Co., Ltd. (青島銀行股份有限公司, Stock Code: 3866.HK), a joint stock company incorporated on 15 November 1996 in Qingdao, Shandong Province, PRC with limited liability in accordance with PRC laws |
| Benchmark Rate | the rate per annum (expressed as a percentage) as determined by the Calculation Agent that is equal to the yield (under the heading that represents the average for the week immediately prior to the relevant Reset Determination Date) appearing in the most recently published statistical release designated “H.15 (519)” or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption “Treasury constant maturities” for the maturity corresponding to the Comparable Treasury Issue. If there is no Comparable Treasury Issue with a maturity within three months before or after the next succeeding Reset Date, yields for the two published maturities most closely corresponding to such next succeeding Reset Date will be determined and the Benchmark Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month). If such release (or any successor release) is not published during the week preceding the relevant Reset Determination Date or does not contain such yields, “Benchmark Rate” shall mean the rate per annum (expressed as a percentage) notified by the Bank to the Calculation Agent equal to the yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the relevant Reset Determination Date. The Benchmark Rate will be calculated on the relevant Reset Determination Date |

If there is no Comparable Treasury Price for the relevant Reset Determination Date, “Benchmark Rate” means the rate per annum (expressed as a percentage) notified by the Calculation Agent to the Bank and the Holders equal to the yield (under the heading that represents the average for the week that was last available prior to the relevant Reset Determination Date) appearing in the most recently published statistical release designated “H.15(519)” or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption “Treasury constant maturities” for the maturity corresponding to Comparable Treasury Issue

| | |
|----------------------------------|---|
| Board | the board of directors of the Bank |
| Calculation Agent | The Bank of New York Mellon, London Branch |
| Calculation Business Day | a day, excluding a Saturday and a Sunday, on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and the city in which the specified office of the Calculation Agent is located |
| Capital Adequacy Ratio | has the meaning given to it in the Capital Management Rules |
| Capital Management Rules | the Measures on Capital Management of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》) issued by the CBRC on 7 June 2012 and which became effective on 1 January 2013 (as amended from time to time) |
| CBRC | the China Banking Regulatory Commission (“中國銀行業監督管理委員會”) or its China banking regulatory affiliates or any successor entity |
| CBRC Approval | such approval, consent or non-objection from, or notification required to, the CBRC, or such waiver required in relation to the Capital Management Rules from the CBRC |
| Clearstream | Clearstream Banking S.A. |
| Closing Date | 19 September 2017 or such later date, not being later than 3 October 2017, as the Bank and the Joint Bookrunners and Joint Lead Managers may agree to postpone |
| Company Law | the Company Law of the PRC (《中華人民共和國公司法》), as amended from time to time |
| Comparable Treasury Issue | means the U.S. Treasury security selected by the Bank as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years |

| | |
|---|---|
| Comparable Treasury Price | means, with respect to the relevant Reset Determination Date, the average of three Reference Treasury Dealer Quotations (or such lesser number as is received by the Bank) for such Reset Determination Date |
| Conditions | the terms and conditions of the Offshore Preference Shares |
| Connected Persons | has the meaning given to it in the Hong Kong Listing Rules |
| Contracts | the Subscription Agreement, the Agency Agreement, the Receiving Agency Agreement, the Payment Side Agreement and the Deed of Covenant |
| Conversion Date | the day immediately following the Additional Tier 1 Capital Instrument Trigger Event Effective Date or the Non-Viability Trigger Event Effective Date as the case may be |
| Conversion or Converted | irrevocably and compulsorily convert with effect from the Conversion Date all or some only of the Offshore Preference Shares into such number of H Shares as is equal to (i) the Loss Absorption Amount held by the Offshore Preference Shareholders (as converted into Hong Kong dollars at the fixed exchange rate of U.S.\$1.00 to HK\$7.7574), divided by (ii) the effective Conversion Price rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H Shares |
| Conversion Price | the initial conversion price for the Offshore Preference Shares is HK\$4.76 per H Share, subject to adjustment as described in the Condition |
| Core Tier 1 Capital | has the meaning given to Core Tier 1 Capital (“核心一級資本”) (or any equivalent or successor term) in the Capital Management Rules |
| Core Tier 1 Capital Adequacy Ratio | as at any date has the meaning given to Core Tier 1 Capital Adequacy Ratio (“核心一級資本充足率”) (or any equivalent or successor term) in the Capital Management Rules, being the ratio of Core Tier 1 Capital of the Bank as at such date to the Risk-Weighted Assets of the Bank as at the same date, expressed as a percentage |
| CSRC | the China Securities Regulatory Commission or any successor entity |
| Deed of Covenant | the deed of covenant in respect of the Offshore Preference Shares entered into by the Bank on 19 September 2017 (as amended or supplemented from time to time) |
| Director(s) | the Bank’s director(s) |

| | |
|---|--|
| Dividend | non-cumulative dividends that each Offshore Preference Shareholder shall be entitled to receive |
| Dividend Payment Date | 19 September in each year |
| Dividend Period | the period from and including the Issue Date and to but excluding the next succeeding Dividend Payment Date and each successive period from and including a Dividend Payment Date and to but excluding the next succeeding Dividend Payment Date |
| Dividend Rate | the Initial Dividend Rate and/or the applicable Reset Dividend Rate, as the case may be |
| Domestic Share(s) | ordinary share(s) issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in RMB |
| Euroclear | Euroclear Bank SA/NV |
| First Reset Date | 19 September 2022 |
| Fiscal Agent or Paying Agent | The Bank of New York Mellon, London Branch |
| Global Certificate | the global certificate representing the Offshore Preference Shares which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream |
| Group | the Bank and all its subsidiary(ies) |
| H Shares | the overseas listed ordinary share(s) of par value RMB1.00 each in the share capital of the Bank, which are listed on the Hong Kong Stock Exchange under the stock code 3866 and traded in Hong Kong dollars |
| Hong Kong | the Hong Kong Special Administrative Region of the PRC |
| Hong Kong dollars, HK dollars, HK\$ or HKD | the lawful currency of Hong Kong |
| 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 |
| Initial Dividend Rate | 5.50% per annum |
| Issue Date | 19 September 2017 |

| | |
|--|--|
| Issue Price | means a price equal to 100% of the aggregate Liquidation Preference plus any adjustment for accrued interest as the Bank and the Joint Bookrunners and Joint Lead Managers may agree |
| Joint Bookrunners and Joint Lead Managers | CLSA Limited, Haitong International Securities Company Limited, AMTD Asset Management Limited, CMB International Capital Limited, CCB International Capital Limited, Deutsche Bank AG, Singapore Branch, SPDB International Capital Limited, Huarong International Securities Limited, Orient Securities (Hong Kong) Limited, China Industrial Securities International Brokerage Limited, Zhongtai International Securities Limited, CNCB (Hong Kong) Capital Limited, Standard Chartered Bank, China Silk Road International Capital Limited, BOCI Asia Limited, ABCI Capital Limited, UBS AG Hong Kong Branch, Guotai Junan Securities (Hong Kong) Limited, Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and China Securities (International) Corporate Finance Company Limited |
| Joint Global Coordinators | CLSA Limited, Haitong International Securities Company Limited, AMTD Asset Management Limited, CMB International Capital Limited, CCB International Capital Limited and Deutsche Bank AG, Singapore Branch |
| Liquidation Preference | the total issuance price of each Offshore Preference Share, which will be U.S.\$20 |
| Loss Absorption Amount | <p>the aggregate Liquidation Preference of the Offshore Preference Shares to be Converted, with such aggregate number of Offshore Preference Shares to be Converted being:</p> <ul style="list-style-type: none"> (a) in respect of an Additional Tier 1 Capital Instrument Trigger Event: <ul style="list-style-type: none"> (i) the number of Offshore Preference Shares that (together with the write-off and/or conversion of any Loss Absorbing Instruments) would be sufficient to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above 5.125%; or (ii) if the Conversion of all the Offshore Preference Shares (together with the write-off and/or conversion of any Loss Absorbing Instruments) would be insufficient to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above 5.125%, all of the Offshore Preference Shares; and (b) in respect of a Non-Viability Trigger Event, all of the Offshore Preference Shares |

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| Loss Absorbing Instrument | <p>in respect of any Trigger Event, any instrument or other obligation (other than the Offshore Preference Shares):</p> <p>(a) issued directly or indirectly by the Bank that contains provisions relating to a write-off and/or conversion into Ordinary Shares of the principal amount or liquidation preference value or equivalent amount of such instrument or other obligation on the occurrence, or as a result, of such Trigger Event and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice that is capable of being given by the Bank, would be) satisfied; and</p> <p>(b) which qualifies as Additional Tier 1 Capital of the Bank</p> |
| NDRC | the PRC National Development and Reform Commission |
| Non-Viability Trigger Event or Tier 2 Capital Instrument Trigger Event | <p>the earlier of:</p> <p>(a) the CBRC having decided that without a conversion or write-off, the Bank would become non-viable; and</p> <p>(b) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable</p> |
| Offering Circular | an offering circular dated 12 September 2017 for use in connection with the offer of the Offshore Preference Shares and the listing of the Offshore Preference Shares on the Hong Kong Stock Exchange |
| Offshore Preference Shareholders or Holders | holders of any Offshore Preference Shares |
| Offshore Preference Shares | the U.S.\$1,203,000,000 5.50% Non-Cumulative Perpetual Offshore Preference Shares |
| Ordinary Shareholders | the holders of the Ordinary Shares |
| Ordinary Shares | the H Shares and any other ordinary shares of the Bank in issue from time to time |
| Parity Obligation Dividend Cancellation Resolution | a resolution of the Shareholders that resolves irrevocably to cancel payment (and if in part, then in proportion to the full amounts payable) of each dividend or distribution falling due or scheduled for payment on the Offshore Preference Shares and any Parity Obligations outstanding on the date the resolution is passed, in each case for a period of 12 months (or such longer period as such resolution specifies which is in integral multiples of 12 months in excess thereof) following the date of such resolution |

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| Parity Obligations | any other class of preference shares in the capital of the Bank from time to time and any other obligations that rank, or are expressed to rank equally, with the Offshore Preference Shares (either issued directly by the Bank or by a subsidiary where the terms of such obligations benefit from a guarantee or support agreement whereby obligations therein rank, or are expressed to rank equally, to the Offshore Preference Shares), whether issued in or outside the PRC |
| Payment Business Days | a day other than a Saturday or Sunday on which commercial banks are open for business in New York City, Beijing and Hong Kong and the city in which the specified office of the Fiscal Agent is located |
| Payment Side Agreement | the payment side agreement entered into between the Bank, the Receiving Agent and the Fiscal Agent in respect of the Offshore Preference Shares to be entered into between the Bank, the Fiscal Agent, the Paying Agent and the Receiving Agent |
| PRC | the People's Republic of China, excluding, for the purposes of this announcement, only the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC, and Taiwan |
| Preference Share | the Offshore Preference Share and any other preference shares issued by the Bank from time to time |
| Receiving Agent | Bank of China (Hong Kong) Trustees Limited |
| Receiving Agent Agreement | the receiving agency agreement dated 18 May 2016, as supplemented by a supplemental receiving agency agreement in respect of the Offshore Preference Shares to be entered into between the Bank and the Receiving Agent |
| Redemption Preconditions | <p>in relation to any redemption of the Offshore Preference Shares, the Bank's compliance of the following conditions:</p> <ul style="list-style-type: none"> (a) the Bank shall use capital instruments of the same or superior quality to replace the Offshore Preference Shares to be redeemed and such replacement shall only be made at a time at which the Bank has a sustainable income generating capability; or (b) the capital position of the Bank immediately after redemption of the Offshore Preference Shares will remain significantly higher than the regulatory capital requirements prescribed by the CBRC |
| Regulation S | Regulation S under the Securities Act |

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| Renminbi, RMB or CNY | the lawful currency of the PRC |
| Reset Date | the First Reset Date and each date that falls five, or a multiple of five, years following the First Reset Date |
| Reset Determination Date | in relation to a Reset Period, the day falling two Calculation Business Days prior to the Reset Date on which such Reset Period commences |
| Reset Dividend Rate | the dividend rate per annum (expressed as a percentage) representing the sum of the Benchmark Rate as at the relevant Reset Determination Date in relation to that Reset Period and a fixed margin of 3.761% per annum, as determined by the Calculation Agent |
| Reset Period | the period from and including the First Reset Date to but excluding the next succeeding Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date |
| Securities Act | the U.S. Securities Act of 1933, as amended |
| Shares | any class of shares of the Bank |
| Shareholders | the holders of any class of shares of the Bank in issue from time to time |
| Shareholders Resolutions | the resolutions of the Shareholders of the Bank |
| Special Resolution | the resolution in which case the Offshore Preference Shareholders will be entitled to attend the Shareholders' general meeting and vote only upon |
| Subscription Agreement | the subscription agreement in respect of the Offshore Preference Shares entered into between the Bank, the Joint Global Coordinators and the Joint Bookrunners and Joint Lead Managers on 12 September 2017 |
| Tier 1 Capital Adequacy Ratio | has the meaning given to Tier 1 Capital Adequacy Ratio (“一級資本充足率”) (or any equivalent or successor term) in the Capital Management Rules |
| Trigger Event | an Additional Tier 1 Capital Instrument Trigger Event or a Non-Viability Trigger Event (or otherwise referred to as a Tier 2 Capital Instrument Trigger Event), as the case may be |
| Trading Day | any day (other than a Saturday or a Sunday) on which the Hong Kong Stock Exchange is open for business and the H Shares may be traded |

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| U.S. or United States | the United States of America, its territories and possessions, any State of the United States, and the District of Columbia |
| U.S.\$ | the lawful currency of the United States of America |
| Winding-Up | proceedings in respect of the Bank for liquidation, dissolution, insolvency or other similar proceeding in respect of the Bank (except for the purposes of a reconstruction, consolidation, amalgamation, merger or reorganisation the terms of which have previously been approved by a Special Resolution of the Offshore Preference Shareholders) |

By order of the Board
Bank of Qingdao Co., Ltd.*
Guo Shaoquan
Chairman

Shandong, PRC, 12 September 2017

As at the date of this announcement, the Board comprises Mr. Guo Shaoquan, Mr. Wang Lin, Mr. Yang Fengjiang and Ms. Lu Lan as executive directors; Mr. Zhou Yunjie, Mr. Rosario Strano, Mr. Wang Jianhui, Ms. Tan Lixia, Mr. Marco Mussita and Mr. Choi Chi Kin, Calvin as non-executive directors; Mr. Wang Zhuquan, Mr. Wong Tin Yau, Kelvin and Mr. Chen Hua, Ms. Dai Shuping and Mr. Simon Cheung as independent non-executive directors.

* *Bank of Qingdao Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.*