Gram Capital Limited
嘉林資本有限公司

31 March 2025

To: The independent board committee and the independent shareholders of Bank of Communications Co., Ltd.

Dear Sir/Madam,

**PROPOSED ISSUANCE OF A SHARES UNDER SPECIFIC MANDATE AND RELATED MATTERS;
AND
APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the MOF Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 31 March 2025 issued by the Bank to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 30 March 2025, the Board considered and approved (among other things) the proposal regarding the Issuance. The Issuance targets shall be the Ministry of Finance, CNTC and CDIC (i.e. the Subscribers). The proceeds from the Issuance shall be no more than RMB120 billion (inclusive) which, after deducting the relevant issuance expenses, will be used to replenish the core tier-1 capital of the Bank.

On the same day, in accordance with the A Share Issuance Plan, the Bank entered into the Share Subscription Agreements in relation to the MOF Subscription, the CNTC Subscription and the CDIC Subscription, respectively. The Share Subscription Agreements are not inter-conditional.

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With reference to Board Letter, as at the Latest Practicable Date, the Ministry of Finance held a total of 13,178,424,446 A Shares and 4,553,999,999 H Shares, representing approximately 23.88% of the issued Shares. Upon completion of the Issuance, the shareholding of the Ministry of Finance is expected to increase to more than 30% of the enlarged issued share capital of the Bank. As such, under Rule 26.1 of the Takeovers Code, the allotment and issuance of A Shares under the MOF Subscription will give rise to an obligation on the part of the Ministry of Finance to make a mandatory general offer for all H Shares (other than those already owned or agreed to be acquired by the Ministry of Finance and parties acting in concert with it (if any)), unless the Whitewash Waiver is granted by the Executive.

Accordingly, a submission has been made to the Executive for the Whitewash Waiver to waive compliance with the obligation on the part of the Ministry of Finance to make a mandatory general offer for all H Shares (other than those already owned or agreed to be acquired by the Ministry of Finance and parties acting in concert with it (if any)) under Rule 26.1 of the Takeovers Code as a result of the MOF Subscription. The Executive has indicated it is minded to grant the Whitewash Waiver, subject to, among other things, the approval by at least 75% of the votes cast by the Independent Shareholders in respect of the Whitewash Waiver and more than 50% of the votes cast by the Independent Shareholders in respect of the MOF Subscription, respectively, at the EGM.

The Independent Board Committee comprising all non-executive Directors who are not interested or involved in the MOF Subscription and the Whitewash Waiver, namely Mr. Liao, Yi Chien David, Mr. Chan Siu Chung, Mr. Mu Guoxin, Mr. Luo Xiaopeng, Mr. Shi Lei, Mr. Zhang Xiangdong, Ms. Li Xiaohui, Mr. Ma Jun, Mr. Wong Tin Chak and Mr. Xiao Wei (excluding Mr. Li Longcheng, Mr. Wang Linping and Mr. Chang Baosheng who are nominated by the Ministry of Finance and Mr. Chen Junkui is a director of companies related to CNTC), has been formed to advise the Independent Shareholders on the terms of, and voting in respect of, the MOF Subscription and the Whitewash Waiver. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser (with the approval of the Independent Board Committee) to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Bank, or any of the parties as prescribed under Rule 2.6 of the Takeovers Code during the past two years immediately preceding the commencement of the Offer Period up to and including the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

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BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Bank, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Issuance and the Whitewash Waiver. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "Responsibility Statement" of Appendix VII to the Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Bank, the Ministry of Finance or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Issuance and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Bank.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources, while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the MOF Subscription and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

A. MOF Subscription

1. Information on the Bank

With reference of the Bank's interim report for the six months ended 30 June 2024, the Bank is a national state-owned joint-stock commercial bank, headquartered and registered in Shanghai, which was reorganized on 1 April 1987 upon the approval of Notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and Notice Yin Fa (1987) No. 40 issued by the People's Bank of China. The principal activities of the Group include corporate and personal banking services, interbank and financial market business, financial leasing, fund management, wealth management, trustees, insurance, overseas securities, debt-to-equity swap and other related financial services.

Financial performance

Set out below is a summary of the consolidated financial performance of the Group for the three years ended 31 December 2024, which was prepared in accordance with International Financial Reporting Standards, as extracted from the Bank's annual results announcement for the year ended 31 December 2024 (the "**2024 AR Announcement**") and annual report for the year ended 31 December 2023 (the "**2023 Annual Report**"):

	For the year ended 31 December 2024 ("FY2024") *RMB million* *(audited)*	For the year ended 31 December 2023 ("FY2023") *RMB million* *(audited)*	For the year ended 31 December 2022 ("FY2022") *RMB million* *(audited and restated)*	Changes from FY2023 to FY2024 *%*	Changes from FY2022 to FY2023 *%*
Net operating income	260,269	258,014	257,346	0.87	0.26
– Net interest income	*169,832*	*164,123*	*169,882*	*3.48*	*(3.39)*
– Net non-interest income	*90,437*	*93,891*	*87,464*	*(3.68)*	*7.35*
Profit before tax	103,475	99,698	98,115	3.79	1.61
Net profit for the year	94,229	93,252	91,955	1.05	1.41

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According to the above table, the Group's net interest income was a major component of the Group's net operating income, accounted for approximately 66.01%, 63.61% and 65.25% of the Group's net operating income for FY2022, FY2023 and FY2024, respectively.

The Group's net interest income decreased from approximately RMB169.88 billion for FY2022 to approximately RMB164.12 billion for FY2023, representing a decrease of approximately 3.39%; while the Group's net non-interest income increased from approximately RMB87.46 billion for FY2022 to approximately RMB93.89 billion for FY2023, representing an increase of approximately 7.35%. With reference to the 2023 Annual Report, (i) the aforesaid decrease in net interest income was mainly due to the multiple reductions in loan prime rate and the adjustment in outstanding mortgage rates; and (ii) the aforesaid increase in net non-interest income was mainly attributable to increase in related income from investments in subsidiaries' equity, increase in gains and losses on debt and interest-rate derivatives as affected by the increased scale, the fluctuation of market interest rates and the decline in the gains and losses on the transaction of US dollar (long position) and the increasing costs on certain currency swap products.

Driven by the increase in net non-interest income as mentioned above and the decrease in credit impairment losses (i.e. from approximately RMB60.41 billion for FY2022 to RMB56.91 billion for FY2023), the Group's profit before tax and net profit for FY2023 increased by approximately 1.61% and 1.41% respectively as compared to the respective items for FY2022.

The Group recorded net interest income of approximately RMB169.83 billion for FY2024, representing an increase of approximately 3.48% as compared to that for FY2023; while the Group's net non-interest income was approximately RMB90.44 billion for FY2024, representing a decrease of approximately 3.68% as compared to that for FY2023. With reference to the 2024 AR Announcement, (i) the increase in net interest income was mainly due to greater year-on-year decrease in interest expense than that of interest income as results of the Group's strengthened portfolio management of assets and liabilities, optimised assets business structure, and improved cost control of liabilities; and (ii) the decrease in net non-interest income was mainly due to the decrease in net fee and commission income for FY2024 (mainly due to the year-on-year decrease in bank cards revenue as a result of residents' insufficient willingness to consume and active optimization of customer structure; and the year-on-year decrease in agency services revenue as results of policy factors of fee rate reduction).

Driven by the aforesaid increase in the Group's net operating income and decrease in credit impairment losses (i.e. from approximately RMB56.91 billion for FY2023 to RMB52.57 billion for FY2024), as partially offset by increase in other operating expenses (i.e. from approximately RMB100.35 billion for FY2023 to RMB102.59 billion for FY2024), the Group's profit before tax and net profit for FY2024 increased by approximately 3.79% and 1.05% respectively as compared to the respective items for FY2023.

Financial position

Set out below is a summary of the consolidated financial position of the Group as at each of 31 December 2022, 31 December 2023 and 31 December 2024, as extracted from the 2023 Annual Report and 2024 AR Announcement:

	As at 31 December 2024 *RMB million* *(audited)*	As at 31 December 2023 *RMB million* *(audited)*	As at 31 December 2022 *RMB million* *(audited and restated)*	Changes from 31 December 2023 to 31 December 2024 %	Changes from 31 December 2022 to 31 December 2023 %
Total assets	14,900,717	14,060,472	12,991,571	5.98	8.23
– Loans and advances to customers	*8,351,131*	*7,772,060*	*7,135,454*	*7.45*	*8.92*
– Financial investments (Note)	*4,320,089*	*4,104,142*	*3,955,207*	*5.26*	*3.77*
– Others	*2,229,497*	*2,184,270*	*1,900,910*	*2.07*	*14.91*
Total liabilities	13,745,120	12,961,022	11,958,049	6.05	8.39
– Deposits from customers	*8,800,335*	*8,551,215*	*7,949,072*	*2.91*	*7.58*
– Others	*4,944,785*	*4,409,807*	*4,008,977*	*12.13*	*10.00*
Net assets	1,155,597	1,099,450	1,033,522	5.11	6.38
Net assets attributable to Shareholders	1,144,306	1,088,030	1,022,024	5.17	6.46

Note: The item included financial investments at fair value through profit or loss, financial investments at amortised cost and financial investments at fair value through other comprehensive income.

According to the above table, the Group's loans and advances to customers and financial investments were major components of the Group's total assets, and in aggregate accounted for approximately 85.37%, 84.47% and 85.04% of the Group's total assets as at 31 December 2022, 31 December 2023 and 31 December 2024, respectively; while the Group's deposits from customers was a major component of the Group's total liabilities, accounted for approximately 66.47%, 65.98% and 64.03% of the Group's total liabilities as at 31 December 2022, 31 December 2023 and 31 December 2024, respectively.

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The Group's loans and advances to customers increased from approximately RMB7,135.45 billion as at 31 December 2022 to approximately RMB7,772.06 billion as at 31 December 2023, and further increased to approximately RMB8,351.13 billion as at 31 December 2024. With reference to the 2023 Annual Report and 2024 AR Announcement, the aforesaid increases were mainly due to the increase in balances of corporate loans and personal loans issued to customers (before expected credit loss allowances and excluding interest receivables).

The Group's financial investments increased from approximately RMB3,955.21 billion as at 31 December 2022 to approximately RMB4,104.14 billion as at 31 December 2023, and further increased to approximately RMB4,320.09 billion as at 31 December 2024. With reference to the 2023 Annual Report and the 2024 AR Announcement, the aforesaid increases in the Group's financial investments were primarily attributable to the changes in the Group's bonds investments.

The Group's deposits from customers increased from approximately RMB7,949.07 billion as at 31 December 2022 to approximately RMB8,551.22 billion as at 31 December 2023, and further increased to approximately RMB8,800.34 billion as at 31 December 2024. With reference to the 2023 Annual Report and 2024 AR Announcement, the aforesaid increases were mainly due to the increase in personal deposits, particularly for time deposits in terms of deposit tenure.

As at 31 December 2024, the Group's net assets attributable to Shareholders after deduction of other equity instruments ("NAV") were approximately RMB969.51 billion, representing the NAV per Share of approximately RMB13.06 (as at 31 December 2023: approximately RMB12.30).

Capital adequacy indicators

Sets out below are the capital adequacy ratio of the Group as at 31 December 2022, 31 December 2023 and 31 December 2024, as extracted from the 2023 Annual Report and the 2024 AR Announcement:

	As at 31 December 2024 %	**As at 31 December 2023** %	**As at 31 December 2022** % *(Restated)*
Core tier-1 capital adequacy ratio	10.24	10.23	10.06
Tier-1 capital adequacy ratio	12.11	12.22	12.18
Capital adequacy ratio	16.02	15.27	14.97

The Bank recorded increases in core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as at 31 December 2023 as compared to those as 31 December 2022 respectively. With reference to the 2023 Annual Report, the aforesaid increases in aforesaid ratios were mainly due to a larger growth rate in net core tier-1 capital, net tier-1 capital (calculated by the summation of net core tier-1 capital and net other tier-1 capital) and net capital (calculated by the summation of net tier-1 capital and net tier-2 capital) than growth rate in risk-weighted assets as at end of the corresponding period.

The Bank recorded increases in core tier-1 capital adequacy ratio and capital adequacy ratio as at 31 December 2024 as compared to those as at 31 December 2023, which were mainly due to a larger growth in net core tier-1 capital and net capital than growth in risk-weighted assets as at end of the corresponding period. As the growth rate in the Group's risk-weighted assets as at 31 December 2024 as compared to 31 December 2023 was larger than that in net tier-1 capital as at end of the corresponding period, tier-1 capital adequacy ratio decreased from 12.22% as at 31 December 2023 to 12.11% as at 31 December 2024.

As at 31 December 2022, 31 December 2023 and 31 December 2024, the Group's core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio complied with the capital adequacy requirements under the Administrative Measures for Capital Management of Commercial Banks (for Trial Implementation)* (《商業銀行資本管理辦法(試行)》) (effective from 1 January 2013 up to 31 December 2023) and the Administrative Measures for Capital Management of Commercial Banks (《商業銀行資本管理辦法》) (effective from 1 January 2024 onward).

Loan quality analysis

The non-performing loan ratios of the Bank decreased from 1.35% as at 31 December 2022 to 1.33% as at 31 December 2023, and further decreased to 1.31% as at 31 December 2024. With reference to the 2023 Annual Report and 2024 AR Announcement, this was mainly due to the Bank adheres to the regulatory requirements and maintains strict asset risk classification standards and the foundation of asset quality has been continuously strengthened and the level of asset quality has improved steadily.

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Dividend distribution

The Bank announced to distribute (i) final dividend for FY2022 of RMB0.373 per Share (the ex-dividend date of A Share was 12 July 2023 and ex-dividend date of H Share was 4 July 2023); (ii) final dividend for FY2023 of RMB0.375 per Share (the ex-dividend date of A Share was 10 July 2024 and ex-dividend date of H Share was 2 July 2024) (the "**2023 Final Dividend**"); (iii) interim dividend for 1H2024 of RMB0.182 per Share (the ex-dividend date of A Share was 24 January 2025 and ex-dividend date of H Share was 16 January 2025) (the "**2024 Interim Dividend**"); and (iv) final dividend for FY2024 of RMB0.197 per Share (the ex-dividend date of A Share and H Share was not announced as at the Latest Practicable Date) (the "**2024 Final Dividend**").

Industry overview

According to the National Bureau of Statistics of the PRC, the gross domestic products of the PRC grew continuously over the last five full years (2020 to 2024), and reaching approximately RMB134,908 billion in 2024. This represented a compound annual growth rate ("**CAGR**") of approximately 6.9% for the corresponding period.

From 2020 to 2024, in line with the continuous development of national economy, the PRC's disposable income per capita grew from RMB32,189 in 2020 to RMB41,314 in 2024, representing a CAGR of approximately 6.4%.

We also conducted research on relevant statistics and governmental policies related to the PRC banking industry, as summarised below.

Set out below are the total loans and total deposits of depository financial institutions in the PRC from 2020 to 2024 (as at the end of period), published by the People's Bank of China:

	As at the end of				
	2024	**2023**	**2022**	**2021**	**2020**
Total loans					
(RMB' billion)	260,122	237,712	220,011	198,838	178,409
CAGR			*9.89%*		
Total deposits					
(RMB' billion)	309,109	285,034	265,043	239,242	218,895
CAGR			*9.01%*		

As shown in the table above, the total loans and total deposits of depository financial institutions in the PRC increased continuously from 2020 to 2024, with CAGR of approximately 9.89% and 9.01% respectively. This indicated a continuous expansion in the business scale of depository financial institutions in the PRC.

Set out below are the total assets of the PRC's commercial banks and PRC's joint stock commercial banks from 2020 to 2024 (as at the end of period), published by the NFRA of the PRC:

	As at the end of				
	2024	**2023**	**2022**	**2021**	**2020**
Total assets of the PRC's commercial banks *(RMB' billion)*	372,525	347,493	312,752	281,766	258,998
CAGR			*9.51%*		
Total assets of the PRC's joint stock commercial banks *(RMB' billion)*	72,779	69,661	65,315	61,197	56,867
CAGR			*6.36%*		

Note: The above figures were extracted from monthly statistics as set out in 銀行業總資產、總負債(月度) (Monthly total assets and total liabilities of Banking Industry*) for 2020 to 2024

As shown in the table above, the total assets of the PRC's commercial banks increased from approximately RMB258,998 billion as at the end of 2020 to approximately RMB372,525 billion as at the end of 2024, representing a CAGR of approximately 9.51%. Among the PRC's commercial banks, the PRC's joint stock commercial banks recorded total assets of approximately RMB72,779 billion as at the end of 2024, representing a CAGR of approximately 6.36% as compared to that as at the end of 2020. The PRC's joint stock commercial banks in terms of total assets (as at the end of period) followed the same trend as those of PRC's commercial banks from 2020 to 2024. However, the CAGR of total assets of the PRC's joint stock commercial banks was lower than that of the PRC's commercial banks for the corresponding period.

Set out below are the net profit of the PRC's commercial banks and PRC's joint stock commercial banks on a full-year basis from 2020 to 2024, published by the NFRA of the PRC:

	2024	**2023**	**2022**	**2021**	**2020**
Net profit of the PRC's commercial banks *(RMB' billion)*	2,324	2,378	2,303	2,184	1,939
CAGR			*4.62%*		
Net profit of the PRC's joint stock commercial banks *(RMB' billion)*	499	488	506	466	411
CAGR			*4.99%*		

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As shown in the table above, the net profit of the PRC's commercial banks moved in a generally increasing trend with a CAGR of approximately 4.62% from 2020 to 2024. Among the PRC's commercial banks, the PRC's joint stock commercial banks recorded net profit of approximately RMB499 billion for 2024, representing a CAGR of approximately 4.99% as compared to that for 2020.

Banking related matters

In recent years, the PRC government issued various policies or made several decisions affecting the PRC banking industry. Relevant and material government-issued policies and decisions regarding the PRC banking industry are set out below:

- In November 2021, the China Banking and Insurance Regulatory Commission of the PRC (being replaced by NFRA of the PRC in 2023) promulgated《關於銀行業保險業支持高水平科技自立自強的指導意見》(the Guidance on Supporting High-level Technological Self-reliance for the Banking and Insurance Industry*), pursuant to which the PRC government indicated that commercial banks should prioritize high-level technology companies as key service recipients and strive for continuous growth in the balance of loans to technology enterprises.

- In July 2022, the China Banking and Insurance Regulatory Commission of the PRC (which was replaced by NFRA of the PRC in 2023) issued《關於進一步推動金融服務製造業高質量發展的通知》(the Notice on Further Promoting High-quality Development of Financial Services for the Manufacturing Industry*), which outlined that banking institutions should enhance their financial support, and strategically align with, key sectors such as advanced manufacturing, strategic emerging industries, and the transformation and upgrading of traditional industries.

- In December 2022, the China Banking and Insurance Regulatory Commission of the PRC (being replaced by NFRA of the PRC in 2023) issued《銀行保險機構消費者權益保護管理辦法》(the Measures for the Protection of Consumer Rights and Interests in Banking and Insurance Institutions*), which indicated that banking and insurance institutions should integrate consumer rights protection into corporate governance, corporate culture development, and business development strategies to ensure that consumer rights protection are integrated throughout all stages of the operation.

- In March 2023, the PRC's national legislature approved a plan to reform the institutions of the State Council of the PRC. The State Council of the PRC announced that it would abolish the CBIRC and move its functions, powers and responsibilities to a national financial regulator (i.e. NFRA). Certain functions of the People's Bank of China and the CSRC will be transferred to the NFRA as well.

- In November 2023, the NFRA of the PRC published 《商業銀行資本管理辦法》 (the Commercial Bank Capital Management Measures*), which outlined that commercial banks should develop differentiated capital regulatory systems to align capital regulations with the size and complexity of their operations, thereby reducing compliance costs for small and medium-sized banks.

- In November 2023, the People's Bank of China, the NFRA of the PRC, the China Securities Regulatory Commission, the State Administration of Foreign Exchange of the PRC, the National Development and Reform Commission of the PRC, the Ministry of Industry and Information Technology of the PRC, the Ministry of Finance of the PRC and the All-China Federation of Industry and Commerce collectively issued 《關於強化金融支持舉措助力民營經濟發展壯大的通知》 (the Notice on Strengthening Financial Support Measures to Promote the Growth and Development of the Private Economy*), which stipulated that banking institutions should set annual service objectives for private enterprises, intensify their financial support to private enterprises, and gradually increase the share of loans provided to private enterprises.

Our conclusion

In conclusion, the PRC's banking industry has experienced remarkable growth in recent years, which was driven by the national economic development, urbanization and growing middle class. Key indicators such as total loans and deposits of depository financial institutions and total assets of the PRC's commercial banks have shown consistent upward trends from 2020 to 2024. Similarly, the net profit of the PRC's commercial banks has followed a generally increasing trajectory. Government initiatives, such as the promotion of high-level technological self-reliance, support for the manufacturing sector, and enhanced consumer protection measures, have further strengthened the industry's foundation. The establishment of the NFRA in 2023 has also streamlined regulatory oversight, fostering a more structured and efficient banking environment.

Looking ahead, while challenges such as regulatory compliance and market competition persist, the long-term prospects of the PRC's banking industry (which is supported by urbanization, a growing middle class, and ongoing economic reforms and underpinned by its critical role in supporting the nation's economic development) remain positive.

2. *Information on Ministry of Finance*

With reference to the Circular, the Ministry of Finance, which was established in October 1949, is a component department of the State Council of the PRC and is responsible for matters including national fiscal revenue and expenditure, fiscal and taxation policies.

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As at the Latest Practicable Date, the Ministry of Finance held a total of 13,178,424,446 A Shares and 4,553,999,999 H Shares, representing approximately 23.88% of the issued Shares. Ministry of Finance is the largest shareholder of the Bank.

3. Reasons for and benefits of the MOF Subscription

The MOF Subscription is part of the A Share Issuance Plan.

With reference to the Board Letter, to further strengthen the Bank's capital and enhance capital adequacy, it is necessary for the Bank to take advantage of external financing tools to supplement its core tier-1 capital. This will better meet domestic and international capital regulatory requirements, further enhance risk resilience, and solidify the capital foundation for the sustainable development of the Bank's various businesses. This will, in turn, provide strong support for the Bank to respond to the ever-changing domestic and international economic landscape and maintain its own high-quality growth in the future. To further consolidate and enhance the Bank's capability for stable operational development and better fulfil its role as a mainstay in serving the real economy, it is important for Bank to integrate capital through various internal and external channels.

As mentioned below, core tier-1 capital constitutes, among other things, paid-in capital or ordinary share. Accordingly, we concur with the Bank that the core tier-1 capital adequacy ratio of the Bank will be further enhanced after the completion of the Issuance, which is beneficial for enhancing the ability to resist various risks and ensuring healthy development of the Bank's business.

In addition, pursuant to the A Share Issuance Plan, the proceeds from the Issuance of A Shares shall be no more than RMB120 billion (inclusive) which, after deducting the relevant issuance expenses, will be fully used to replenish the core tier-1 capital of the Bank.

As at 31 December 2024, the Bank recorded net core tier-1 capital of approximately RMB964.57 billion and risk-weighted assets of approximately RMB9,416.87 billion. As at 31 December 2024, the Bank's core tier-1 capital adequacy ratio (which was calculated by net core tier-1 capital over risk-weighted assets) was 10.24%. According to 「2024年商業銀行主要監管指標情況表(季度)」(2024 Commercial Banks Major Regulatory Indicators Table (Quarterly)*) published by NFRA, the average core tier-1 capital adequacy ratio of the PRC commercial banks was 11.00% in the fourth quarter of 2024. The Bank's core tier-1 capital adequacy ratio was lower than the industry average of that of PRC commercial banks. Assuming total proceeds from the Issuance amounting to RMB120 billion and all of which being used to replenish the Bank's core tier-1 capital and based on the Bank's financial information as at 31 December 2024, the Bank's core tier-1 capital adequacy ratio would increase to approximately 11.52%.

Based on the above, we are of the view that the proposed use of proceeds from the Issuance is fair and reasonable.

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Financing methods available to the Bank

As advised by the Directors, the Bank conducted relevant research and compared various re-financing plans which are commonly used to replenish the core tier-1 capital of the Bank before determining the Issuance.

- According to the Administrative Measures for Capital, core tier-1 capital constitutes (i) paid-in capital or ordinary shares (實收資本或普通股); (ii) capital reserve (資本公積); (iii) surplus reserve (盈餘公積); (iv) general risk reserve (一般風險準備); (v) retained earnings (未分配利潤); (vi) accumulated other comprehensive income (累計其他綜合收益); and (vii) qualified portion of non-controlling interests (少數股東資本可計入部分). Accordingly, we concur with the Bank that it is not applicable to replenish the core tier-1 capital of the Bank by pure debt financing.

- We noted that rights issue, public offer and subscription/issuance to specific targets are common adopted equity raising activities. Save as relevant requirements/guidance from Shanghai Stock Exchange and/or CSRC, we further understood the following:

  – the rights issue is targeted at the Bank's existing shareholders and shall be implemented to the holders of A Shares and H Shares simultaneously at the same price. The average closing price of A Shares during the Shares Review Period (as defined below) represented premiums ranging from approximately 10% to 46% to the closing price of H Shares during the same period. Given the premiums of the price of A Shares over the price of H Shares during the aforesaid period and that the Initial Issue Price (as defined below) represented additional premiums to recent closing prices of A Shares, the Bank did not consider rights issue as an appropriate fund-raising method for the Group under the current market condition.

  – the public issuance is the issuance of shares to unspecific investors. We could not find any listed company (which listed in the Shanghai Stock Exchange) conducted equity fund raising by way of public issuance of new shares for re-financing in 2024.

- In relation to convertible bonds, it is a financing instrument combining characteristics of both equity and debts and normally have a long conversion period, allowing the investors to have a longer period to decide whether to (i) convert the convertible bonds into shares; or (ii) hold to maturity. Comparing with issuance of A Shares, the Bank might take a longer time to replenish its core tier-1 capital by way of issuance of convertible bonds as the core tier-1 capital will be replenished upon the conversion of such convertible bonds.

Based on the above, we are of the view that the Issuance is an appropriate fund raising method for the Bank to replenish core tier-1 capital under the current market condition.

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Taking into account (i) the aforesaid reasons for and benefits of the Issuance (including the MOF Subscription); (ii) the proposed use of proceeds from the Issuance; (iii) that the MOF Subscription indicated Ministry of Finance's proposed support on the large state-owned commercial banks to replenish core tier-1 capital and enhance their ability to withstand risks and extend credit; and (iv) that the Issuance is an appropriate fund raising method for the Bank to replenish core tier-1 capital under the current market condition, we are of the view that although the MOF Subscription is not conducted in the ordinary and usual course of business of the Bank, the MOF Subscription is in the interests of the Bank and the Shareholders as a whole.

4. *Principal terms of the Issuance and the MOF Subscription*

Set out below are the principal terms of the Issuance and the MOF Subscription, details of which are set out under the sections headed "A. A Share Issuance Plan" and "9. Resolution in relation to the execution of the Conditional Share Subscription Agreement between the Bank and the Ministry of Finance" in the Board Letter and Appendix II to the Circular:

Type and nominal value of securities to be issued

The A Shares to be issued under the Issuance are the Bank's domestically listed ordinary shares denominated in RMB with a nominal value of RMB1.00 per Share.

Method and time of issuance

The Issuance shall proceed by way of issue of A Shares to the Subscribers. The Bank will issue A Shares at an appropriate time after approval by the Shanghai Stock Exchange and within the validity period upon obtaining approval of the registration of the Issuance from the CSRC.

Scale and use of proceeds

The proceeds from the Issuance shall be no more than RMB120 billion (inclusive) which, after deducting the relevant issuance expenses, will be used to replenish the core tier-1 capital of the Bank. The amount of proceeds will depend on the final issuance plan approved by the relevant approval authorities and regulatory authorities.

Subscribers and subscription method

The Issuance targets shall be the Ministry of Finance, CNTC and CDIC, i.e. the Subscribers. The Subscribers shall subscribe for the A Shares issued pursuant to the Issuance in cash.

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Subject to the registration of the CSRC of the Issuance, the Board shall, as authorized at the EGM and Class Meetings, authorize the relevant persons to implement the Issuance according to the requirements of relevant laws, administrative regulations and normative documents.

Number of Shares to be issued

The number of A Shares under the Issuance will be 13,777,267,506, representing approximately 18.55% of the total issued share capital of the Bank as of the Latest Practicable Date and approximately 15.65% of the issued share capital of the Bank as enlarged by the Issuance. The number of Shares to be subscribed = the subscription money / the issue price, rounded down to the nearest digit. Any surplus of subscription money from the rounding will be paid towards the capital reserve of the Bank.

The number of A Shares to be issued to specific targets pursuant to the Issuance will be adjusted accordingly in the event that there are ex-right or ex-dividend activities relating to dividend distribution, bonus issue or conversion of capital reserve into share capital causing adjustment to the share prices between the date of announcement regarding the Board resolution in respect of the Issuance to the date of Issuance.

The final number of A Shares under the Issuance will be determined by the Board and its authorized persons after approval by the Shanghai Stock Exchange and discussion with the sponsors in respect of the Issuance. If the total proceeds of, or the total number of Shares pursuant to, the Issuance is adjusted due to changes in regulatory policies or the requirements of registration documents, the subscription monies to be paid by the Subscribers and the number of A Shares to be subscribed shall be adjusted accordingly.

The proposed subscription amount under the MOF Subscription was RMB112,420.06 million, representing 12,907,010,332 A Shares based on the initial issue price of RMB8.71 per A Share (the "**Initial Issue Price**").

Pricing Benchmark Date, issue price and pricing principle

The Pricing Benchmark Date shall be the date of the announcement regarding the Board resolution in respect of the Issuance (i.e. 31 March 2025). The Initial Issue Price of A Shares to be issued under the Issuance is RMB8.71 per A Share, which shall be not lower than 80% of the average trading price of A Shares for the 20 trading days prior to the Pricing Benchmark Date. The average trading price of A Shares in the 20 trading days prior to the Pricing Benchmark Date = the total trading value of A Shares in the 20 trading days prior to the Pricing Benchmark Date ÷ the total trading volume of A Shares in the 20 trading days prior to the Pricing Benchmark Date.

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In the event that there are ex-right or ex-dividend activities relating to dividend distribution, bonus issue or conversion of capital reserve into share capital between the Pricing Benchmark Date and date of completion of the Issuance (i.e. the Adjustment Events), the subscription price will be adjusted accordingly (the "**Adjustment Arrangement**"). The specific adjustment formula is set forth below:

Distribution of cash dividend: $P_1=P_0-D$

Distribution of scrip dividend or conversion of capital reserve into share capital by the Bank: $P_1=P_0/(1+N)$

If both types of aforesaid activities are conducted simultaneously: $P_1=(P_0-D)/(1+N)$

In particular, P_1 is the adjusted issue price, P_0 is the initial issue price, D is the cash distribution per Share and N is the number of bonus shares or conversion shares to be issued per Share.

During the period between the Pricing Benchmark Date and date of completion of the Issuance, if there is any change in respect of the relevant laws, administrative regulations or normative documents or the CSRC determines otherwise and adjusts its policy towards matters such as the issue price or the pricing method and such changes apply to the Issuance, the issue price pursuant to the Issuance shall be adjusted accordingly.

The Initial Issue Price represents:

(i) a premium of approximately 18.34% over the closing price of RMB7.36 per A Share as quoted on the Shanghai Stock Exchange as at the Latest Practicable Date;

(ii) a premium of approximately 18.34% over the closing price of RMB7.36 per A Share as quoted on the Shanghai Stock Exchange as at the last trading day immediately before the Pricing Benchmark Date (the "**LTD Premium**");

(iii) a premium of approximately 17.39% over the average closing price of RMB7.42 per A Share as quoted on the Shanghai Stock Exchange for the last five trading days immediately before the Pricing Benchmark Date (the "**5 Days Premium**");

(iv) a premium of approximately 20.14% over the average closing price of RMB7.25 per A Share as quoted on the Shanghai Stock Exchange for the last 20 trading days immediately before the Pricing Benchmark Date (the "**20 Days Premium**");

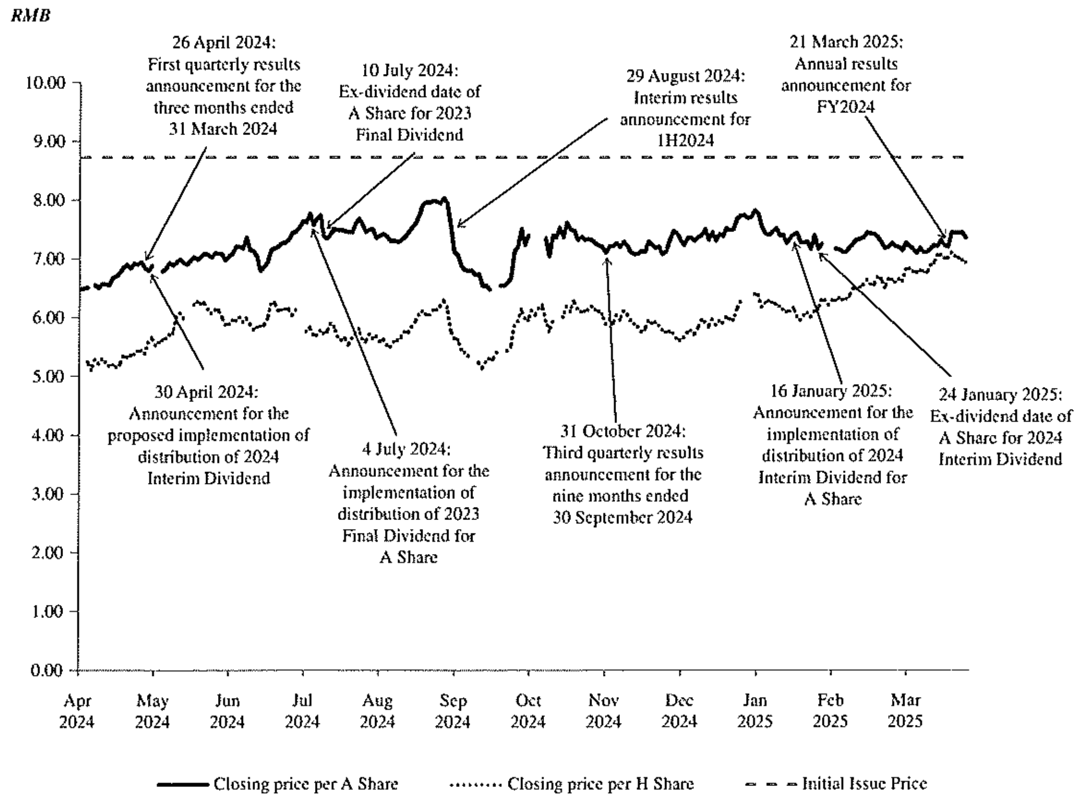
(v) a premium of approximately 18.99% over the average closing price of approximately RMB7.32 per A Share as quoted on the Shanghai Stock Exchange for the last 60 trading days immediately before the Pricing Benchmark Date (the "**60 Days Premium**"); and

(vi) a discount of approximately 33.31% to the NAV per Share of approximately RMB13.06 as at 31 December 2024, calculated based on the Group's audited NAV of RMB969.51 billion as at 31 December 2024 and 74,262,726,645 Shares in issue as at the Latest Practicable Date (the "**NAV Discount**").

Historical price performance of A Shares

In order to assess the fairness and reasonableness of the Initial Issue Price, we reviewed the daily closing price of the A Shares and H Shares from 1 April 2024, being approximately one year prior to the Latest Practicable Date, up to and including the Latest Practicable Date (the "**Shares Review Period**"), which is commonly adopted for analysis and the duration of such period (number of trading days) is sufficient for us to perform a thorough analysis on the historical closing price of Shares. The comparison of the daily closing price of Shares and the Initial Issue Price is illustrated as follows:

Historical daily closing price per A Share and H Share



Note: The daily closing price of H Shares was presented in RMB equivalent based on the exchange rate of RMB1.00 to HKD1.08.

Source: Wind Financial Terminal

During the Shares Review Period, the highest and lowest closing prices of A Shares were RMB8.03 per A Share recorded on 27 August 2024 and RMB6.48 per A Share recorded on 1 April 2024 and 13 September 2024, respectively. The Initial Issue Price of RMB8.71 per A Share is above the A Shares' closing price range during the Shares Review Period.

From the start of the Shares Review Period, the closing prices of A Shares formed a general increasing trend from the lowest closing price in Share Review Period of RMB6.48 per A Share on 1 April 2024 and reached the highest closing price of RMB8.03 per A Share on 27 August 2024. Thereafter, the closing prices of A Shares decreased sharply and reached the lowest closing price in Share Review Period of RMB6.48 per A Share again on 13 September 2024. The closing prices of A Shares recovered and fluctuated between RMB6.55 per A Share to RMB7.82 per A Share from 18 September 2024 up to and including the Latest Practicable Date.

During the Shares Review Period where both the A Shares and H Shares were concurrently traded on the respective market, the closing price of A Shares represented premium ranging from approximately 10% to 46% over the closing price of H Shares.

Comparison with other issuance of A shares to specific targets

To further assess the fairness and reasonableness of the Issue Price, we attempted to search for standalone issuance of A shares by banks (which were listed on the main board of Shanghai Stock Exchange) for comparison purposes. However, we could not identify any standalone issuance of A shares by the listed banks for last one year prior to the Latest Practicable Date. Instead, we searched for transactions with the following criteria: (i) standalone issuance of A shares to specific targets by companies listed on the main board of Shanghai Stock Exchange (which are not involving in delisting risk caution or other risks caution raised by Shanghai Stock Exchange); (ii) the pricing benchmark date is the date of board resolution in relation to the relevant issuance to specific targets; and (iii) the transactions were first announced by the relevant listed companies from 1 October 2024, being approximately six months prior to the Latest Practicable Date, up to and including the Latest Practicable Date that were not lapsed up to the Latest Practicable Date, for comparison purpose. We identified 12 transactions (the "**Comparable Transactions**") which met our aforesaid criteria and they are exhaustive.

As (a) the transaction structures of Comparable Transactions with the aforesaid criteria (i) and criteria (ii) above were similar to the Issuance (i.e. standalone issuance of A shares to specific targets with pricing benchmark date being the date of board resolution in relation to the issuance); (b) the criteria (iii) above allowed us to compare recent standalone issuance of A shares transactions, which could illustrate recent market practice of issuance of A shares to specific targets by companies listed on the main board of Shanghai Stock Exchange; and (c) the number of the Comparable Transactions are sufficient, we are therefore of the view that the selection criteria is fair and reasonable for identifying Comparable Transactions and the Comparable Transactions are fair and representative. Despite that the businesses, operations and prospects of the Group are not exactly the same as the listed companies involving in the Comparable Transactions, the Comparable Transactions are adequate and appropriate to demonstrate the market practices regarding issuance of A shares to specific targets by companies listed on main board of Shanghai Stock Exchange.

Company name (stock code)	Pricing benchmark date	Premium/(discount) of the issue price over/to the closing price per share on the last trading day immediately preceding the pricing benchmark date in relation to the respective issuance (the "Comparable Transactions LTD Premium/Discount") (%)	Premium/(discount) of the issue price over/to the average closing price per share for the last five trading days immediately preceding the pricing benchmark date in relation to the respective issuance (the "Comparable Transactions 5 Days Premium/Discount") (%)	Premium/(discount) of the issue price over/to the average closing price per share for the last 20 trading days immediately preceding the pricing benchmark date in relation to the respective issuance (the "Comparable Transactions 20 Days Premium/Discount") (%)	Premium/(discount) of the issue price over/to the average closing price per share for the last 60 trading days immediately preceding the pricing benchmark date in relation to the respective issuance (the "Comparable Transactions 60 Days Premium/Discount") (%)
Fiberhome Telecommunication Technologies Co., Ltd. (烽火通信科技股份有限公司) (600498.SH)	12 October 2024	(21.03)	(25.21)	(14.85)	(13.63)
Xilinmen Furniture Co., Ltd. (喜臨門家具股份有限公司) (603008.SH)	14 October 2024	(27.91)	(29.81)	(16.79)	(14.99)
Shanghai CDXJ Digital Technology Co., Ltd. (上海城地香江數據科技股份有限公司) (603887.SH)	15 October 2024	(32.34)	(24.54)	(18.21)	(12.04)
Tianjin You Fa Steel Pipe Group Stock Co., Ltd. (天津友發鋼管集團股份有限公司) (601686.SH)	18 October 2024	(16.25)	(17.29)	(16.22)	(13.57)
Yiwu Huading Nylon Co., Ltd. (義烏華鼎錦綸股份有限公司) (601113.SH)	12 November 2024	(26.11)	(23.68)	(18.58)	(11.29)
Jiaze Renewables Corporation Limited (嘉澤新能源股份有限公司) (601619.SH)	13 November 2024	(22.78)	(23.14)	(19.64)	(13.52)
SHANGHAI CHUANGLI GROUP CO., LTD. (上海創力集團股份有限公司) (603012.SH)	14 November 2024	(22.84)	(22.84)	(19.65)	(12.70)
Xuancheng Valin Precision Technology Co., Ltd. (宣城市華菱精工科技股份有限公司) (603356.SH)	10 December 2024	(22.82)	(24.01)	(18.99)	(13.27)
Nanjing Chervon Auto Precision Technology Co., Ltd. (南京泉峰汽車精密技術股份有限公司) (603982.SH)	13 December 2024	(24.37)	(22.62)	(18.93)	(11.41)

Company name (stock code)	Pricing benchmark date	Premium/(discount) of the issue price over/to the closing price per share on the last trading day immediately preceding the pricing benchmark date in relation to the respective issuance (the "Comparable Transactions LTD Premium/Discount")	Premium/(discount) of the issue price over/to the average closing price per share for the last five trading days immediately preceding the pricing benchmark date in relation to the respective issuance (the "Comparable Transactions 5 Days Premium/Discount")	Premium/(discount) of the issue price over/to the average closing price per share for the last 20 trading days immediately preceding the pricing benchmark date in relation to the respective issuance (the "Comparable Transactions 20 Days Premium/Discount")	Premium/(discount) of the issue price over/to the average closing price per share for the last 60 trading days immediately preceding the pricing benchmark date in relation to the respective issuance (the "Comparable Transactions 60 Days Premium/Discount")
		(%)	(%)	(%)	(%)
Metro Land Corporation Ltd. (京投發展股份有限公司) (600683.SH)	1 January 2025	17.63	15.56	3.02	1.42
Anhui Wanwei Updated High-Tech Material Industry Co., Ltd (安徽皖維高新材料股份有限公司) (600063.SH)	21 January 2025	2.56	2.99	1.82	(2.99)
Youon Technology Co., Ltd (永安行科技股份有限公司) (603776.SH)	17 March 2025	(23.43)	(20.43)	(19.97)	(18.37)
Maximum		17.63	15.56	3.02	1.42
Minimum		(32.34)	(29.81)	(19.97)	(18.37)
Average		(18.31)	(17.92)	(14.75)	(11.36)
Median		(22.83)	(22.99)	(18.40)	(12.99)
The Bank	31 March 2025	18.34	17.39	20.14	18.99

Source: Wind Financial Terminal

As depicted in the above table:

(i) the Comparable Transactions LTD Premium/Discount ranged from discount of approximately 32.34% to premium of approximately 17.63%, with average discount of approximately 18.31% and median discount of approximately 22.83%;

(ii) the Comparable Transactions 5 Days Premium/Discount ranged from discount of approximately 29.81% to premium of approximately 15.56%, with average discount of approximately 17.92% and median discount of approximately 22.99%;

(iii) the Comparable Transactions 20 Days Premium/Discount ranged from discount of approximately 19.97% to premium of approximately 3.02%, with average discount of approximately 14.75% and median discount of approximately 18.40%; and

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(iv) the Comparable Transactions 60 Days Premium/Discount ranged from discount of approximately 18.37% to premium of approximately 1.42%, with average discount of approximately 11.36% and median discount of approximately 12.99%.

The LTD Premium, 5 Days Premium, 20 Days Premium and 60 Days Premium are all above the relevant ranges of the Comparable Transactions. It is also worth mentioning that issue price of most of the Comparable Transactions represented discount to their respective closing prices, which was mainly due to the fact that CSRC allowed a discount of not more than 20% to the average trading price of such A shares for the 20 trading days preceding the pricing benchmark date (exclusive of the date of benchmark date).

The NAV Discount

As mentioned above, the Initial Issue Price represented a discount of approximately 33.31% to the NAV per Share of approximately RMB13.06 as at 31 December 2024 (i.e. the NAV Discount).

Given the industry in which the Bank involved was different from the industries in which the listed issuer of Comparable Transactions were involved, we consider that comparison with the NAV Discount to the issue price to NAV of the Comparable Transactions were not appropriate. Instead, we performed the comparison of NAV Discount with the Group's historical NAV per Share to historical closing prices of A Shares for our NAV Discount analyses. Based on the Group's NAV per Share as at 31 December 2023 (i.e. approximately RMB12.30), 31 March 2024 (i.e. approximately RMB12.65), 30 June 2024 (i.e. approximately RMB12.56), 30 September 2024 (i.e. approximately RMB12.83) and 31 December 2024 (i.e. approximately RMB13.06) as disclosed in the Bank's relevant financial results announcements, the closing price of the A Shares has historically been traded at substantial discount ranged from approximately 36.52% to approximately 49.19% to the Group's NAV per Share during the Shares Review Period.

The NAV Discount is less than the aforesaid NAV discount range during the Shares Review Period. Given that the NAV Discount is less than the Group's discount of historical NAV per Share to historical closing prices of A Shares during the Shares Review Period, we are of the view that the NAV Discount is justifiable.

Our conclusion on the Initial Issue Price

Although the Initial Issue Price represented discount to NAV per Share as at 31 December 2024, having considered that:

(i) the Initial Issue Price was above the closing price of the A Shares during the Shares Review Period and represents premiums over the recent daily closing price of the A Shares (including the Last Trading Day, last 5/20/60 trading days immediate before the price benchmark date);

(ii) the LTD Premium, 5 Days Premium, 20 Days Premium and 60 Days Premium are all above the relevant ranges of the Comparable Transactions; and

(iii) the NAV Discount is justifiable as the NAV Discount is less than the Group's discount of NAV per Share to historical closing prices of A Shares during the Shares Review Period,

we are of the view that the Initial Issue Price is fair and reasonable.

Adjustment arrangement for issue price

In respect of the Adjustment Arrangement, we reviewed and noted from the Comparable Transactions that the issue price thereunder will also be adjusted subject to the abovementioned circumstances (i.e. in the event there are ex-right or ex-dividend activities causing adjustment to the share price between the pricing benchmark date and the date of issuance). Therefore, we consider the Adjustment Arrangement is on normal commercial term and fair and reasonable.

According to the 2024 AR Announcement and the Bank's announcement dated 21 March 2025 in respect of the annual profit distribution for the year of 2024, the Bank announced to distribute a final dividend for FY2024 of RMB0.197 per Share (i.e. the 2024 Final Dividend). In the event that the 2024 profit distribution plan is approved by the Shareholders and the ex-dividend date of 2024 Final Dividend falls within the period between the Pricing Benchmark Date and the date of completion of the Issuance, the Initial Issue Price of RMB8.71 per A Share will be adjusted to RMB8.51 per A Share. Given (i) our analyses on the Initial Issue Price and the adjustment mechanism above; and (ii) the Initial Issue Price was adjusted according to relevant adjustment formula (i.e. distribution of cash dividend: $P1=P0-D$) and rounded to nearest two decimal places, we are of the view that the adjusted issue price of RMB8.51 per A Share is fair and reasonable.

Lock-up period

The A Shares to be subscribed by the Subscribers pursuant to the Issuance shall not be transferred within five years from the date when the equity is acquired. If the relevant regulatory authorities impose additional restrictions to the lockup period and the transfer after the lock-up period, such relevant restrictions shall prevail. Shares which may be issued to the Subscribers arising from events such as distribution of scrip dividend and conversion of capital reserve into share capital by the Bank are also subject to the above-mentioned lock-up arrangement. If the above lock-up period is inconsistent with the latest regulatory opinion of the securities regulatory authorities, the above arrangement shall be adjusted accordingly. Any transfer after the aforementioned lock-up period must also comply with the relevant requirements under the relevant laws, rules, regulations and normative documents such as the Company Law of the PRC, the Securities Law of the PRC, the Shanghai Stock Exchange Listing Rules and the Articles of Association.

According to the Interim Measures for the Equity Management of Commercial Banks* (《商業銀行股權管理暫行辦法》) (the "**Banks Equity Management Measures**"), any major shareholders of commercial banks (shareholders holding or controlling 5% or more of shares or voting rights of the commercial banks, or any shareholders who do not hold 5% of total capital or equity but have significant influence over the business management of the commercial banks) are subject to the lock-up period of five years from the date of obtaining the relevant equity of the commercial banks.

The lock-up period applicable to the Ministry of Finance is consistent with the relevant regulatory requirements.

Having considered that the lock-up arrangement is required by relevant PRC regulation, we consider that such arrangement is on normal commercial term and fair and reasonable.

Furthermore, the Ministry of Finance has committed not to transfer any shares of the Bank it holds within eighteen months from the completion of the Issuance.

Arrangement of accumulated undistributed profits

Upon the completion of the Issuance, the Shareholders will be entitled to the accumulated undistributed profits of the Bank prior to the Issuance in proportion to their respective shareholdings in the Bank upon the completion of the Issuance.

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Our conclusion on terms of the MOF Subscription

Having considered our analyses above (including the Initial Issue Price being fair and reasonable, the lock-up arrangement and issue price adjustment arrangement is on normal commercial term and fair and reasonable; and no abnormal term observed) and that the MOF Subscription is part of the A Share Issuance Plan, we are of the view that the terms of the Issuance (including the MOF Subscription) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

5. *Dilution effect on the shareholding interests of the existing public Shareholders*

As illustrated by the table under the sub-section headed "Effect of the Issuance of A Shares on the shareholding structure of the Bank" of the Board Letter, on the assumption that (i) the Ministry of Finance, CNTC and CDIC will subscribe for 13,777,267,506 A Shares in total; and (ii) there will be no Adjustment Events and no further change in the shareholding structure of the Bank until the completion of the Issuance, the shareholding interests of the existing public Shareholders (including all of the public A Shareholders and H Shareholders but excluding CNTC and CDIC) in the Bank would be diluted by approximately 5.9 percentage points immediately after completion of the Issuance. Nonetheless, in view of (i) the reasons for and the benefits of the Issuance (including the MOF Subscription); (ii) the terms of the MOF Subscription being on normal commercial terms and fair and reasonable; and (iii) our assessment and independent work done (including our summaries of financial information of the Bank and related industry overview, our analyses on financing methods available to the Bank, use of proceeds from the issuance and the key terms of the Issuance (e.g. the Initial Issue Price, lock-up arrangement, adjustment mechanism)) on points (i) and (ii) as mentioned above, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

6. *Recommendation on the MOF Subscription*

Having taken into consideration the factors and reasons as stated above, including:

- that the MOF Subscription is in the interests of the Bank and the Shareholders as a whole after considering (a) that it is important for Bank to integrate capital through various internal and external channels and the core tier-1 capital adequacy ratio of the Bank will be further enhanced after the completion of the Issuance, which is beneficial for enhancing the ability to resist various risks and ensuring healthy development of the Bank's business; (b) the proposed use of proceeds from the Issuance being fair and reasonable; (c) that the MOF Subscription indicated Ministry of Finance's proposed support on the large state-owned commercial banks to replenish core tier-1 capital and enhance their ability to withstand risks and extend credit; and (d) that the Issuance is an appropriate fund raising method for the Bank to replenish core tier-1 capital under the current market condition; and

- our analyses on terms of the MOF Subscription (including the Initial Issue Price being fair and reasonable (after considering (i) the comparison of Initial Issue Price with the relevant daily closing prices of A Shares; (ii) the further comparison of results of above (i) with the Comparable Transactions; and (iii) that the NAV Discount is justifiable), the lock-up arrangement and issue price adjustment arrangement is on normal commercial term and fair and reasonable; and no abnormal term observed) and that the MOF Subscription is part of the A Share Issuance Plan,

we are of the opinion that (i) the terms of the MOF Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the MOF Subscription is not conducted in the ordinary and usual course of business of the Bank, it is in the interests of the Bank and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM and H Share Class Meetings to approve the MOF Subscription and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

B. Whitewash Waiver

According to the Board Letter, as at the Latest Practicable Date, the Ministry of Finance held a total of 13,178,424,446 A Shares and 4,553,999,999 H Shares, representing approximately 23.88% of the issued Shares. To the best of the knowledge of the Board, the Ministry of Finance has no parties acting in concert with it who are interested in the Shares. Upon completion of the Issuance, the shareholding of the Ministry of Finance is expected to increase to more than 30% of the enlarged issued share capital of the Bank. As such, under Rule 26.1 of the Takeovers Code, the allotment and issuance of A Shares under the MOF Subscription will give rise to an obligation on the part of the Ministry of Finance to make a mandatory general offer for all H Shares (other than those already owned or agreed to be acquired by the Ministry of Finance and parties acting in concert with it (if any)), unless the Whitewash Waiver is granted by the Executive.

Accordingly, a submission has been made to the Executive for the Whitewash Waiver to waive compliance with the obligation on the part of the Ministry of Finance to make a mandatory general offer for all H Shares (other than those already owned or agreed to be acquired by the Ministry of Finance and parties acting in concert with it (if any)) under Rule 26.1 of the Takeovers Code as a result of the MOF Subscription. The Executive has indicated it is minded to grant the Whitewash Waiver, subject to, among other things, the approval by at least 75% of the votes cast by the Independent Shareholders in respect of the Whitewash Waiver and more than 50% of the votes cast by the Independent Shareholders in respect of the MOF Subscription, respectively, at the EGM.

For the avoidance of doubt, the Issuance will not proceed if the Whitewash Waiver is not granted or approved.

In view of (i) the reasons for and benefits of the Issuance (including the MOF Subscription) as set out under the sub-section headed "Reasons for and benefits of the MOF Subscription" of this letter; (ii) the terms of the MOF Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Issuance will not proceed if the Whitewash Waiver is not granted or approved, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Issuance (including the MOF Subscription), is in the interests of the Bank and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Issuance (including the MOF Subscription).

Recommendation on the Whitewash Waiver

Having taken into consideration the reasons for and benefits of the Issuance (including the MOF Subscription) and that the Issuance (including the MOF Subscription) will not proceed if the Whitewash Waiver is not granted or approved, we are of the view that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Bank and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited

Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.

* *For identification purposes only*

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