

29 February 2016

MESSAGE FROM ELLIOTT TO FELLOW SHAREHOLDERS OF BANK OF EAST ASIA, LIMITED (HKEx stock code: 23) (“BEA” or the “Bank”)

ELLIOTT’S FURTHER PERSPECTIVES AND CALL TO ACTION ON BEA

Dear Fellow Shareholders

Introduction

On 16 February 2016, the Chairman and Chief Executive of BEA provided a disappointingly predictable response to our earlier letter to BEA shareholders.

Contrary to what he suggested:

- Elliott has in fact been invested in BEA for over 5 years - BEA is a unique business which has been undervalued by the market because of what we believe to be terrible long term mismanagement.
- There is in our view no real prospect of BEA’s current executive management team generating proper value for you by following its own plans for running the business.
- The series of dilutive share placements to the so-called “strategic shareholders” (CaixaBank and SMBC, the two largest shareholders of BEA) and the control-related standstill arrangements which bind those shareholders are in fact entirely inconsistent with the BEA board’s professed commitments to maximizing shareholder value and good corporate governance.

We call on the BEA board to remove the wholly unjustifiable restrictions on CaixaBank and SMBC as regards selling and buying BEA shares, to provide the conditions whereby the market is allowed freely to assess the real value of BEA.

We also call on the BEA board to reverse its unreasonable refusal to provide all shareholders with an opportunity to earn a meaningful return on their investments in BEA, through a sale of BEA.

Long-term poor corporate governance and poor performance

BEA’s recently-published financial results for the year ended 31 December 2015 are a sad continuation of the BEA board’s poor performance record and an obvious symptom of poor corporate governance at BEA which has persisted for years.

The BEA board’s references to future business and operational initiatives are in our view just hollow words which will not deliver the shareholder value you deserve. The initiatives outlined

and recent board changes are too little, too late and are simply not a credible or sufficient solution after so many years of mismanagement, poor corporate governance and poor performance.

The charts in **Appendix 1** below show just how bad the BEA board's performance record is and how that has negatively impacted your investment returns as an owner of BEA.¹

Capital mismanagement

We are concerned about the manner in which the BEA board has managed the Bank's capital in recent years - the high density level of risk weighted assets² and the BEA board's seeming unwillingness to increase capital efficiently by disposing of non-core, capital-punitive assets such as investment properties are some of our key concerns. Our analysis shows that if BEA had managed its capital more efficiently, then its Common Equity Tier 1 ("CET1") capital ratio³ could today be 390 basis points higher.⁴ This makes it even more obvious that the dilutive share placements were wholly unnecessary.

We are also concerned that the claimed need for new equity capital every 2-3 years by way of repeated share placements to the two "strategic" shareholders has led to significant dilution to BEA's earnings per share and share price performance compared to its peers and has had the effect of entrenching BEA's current executive management team.

CaixaBank and SMBC - dilutive share placements and restrictions on BEA shareholdings

We challenge the BEA board to quantify any meaningful financial benefits which have accrued to BEA's shareholders as a result of the so-called strategic relationships with CaixaBank and SMBC, BEA's two largest shareholders. We and other shareholders have not seen any evidence of any such supposed benefits - and the woolly descriptions provided in the Chief Executive's response are utterly unconvincing.

The heavy level of dilution suffered by BEA shareholders as a result of these share placements simply cannot be justified, whether in terms of the claimed "strategic" benefits or as an appropriate way to raise capital. To add insult to injury, while BEA's independent shareholders have suffered **dilution** of about 23%⁵, BEA's Chief Executive has benefited from BEA share option awards which have contributed to an **increase** in his ownership level by around 5% over the same period.⁶

¹ See Charts A and B, Appendix 1

² See Chart C, Appendix 1. "High density level of risk weighted assets ("RWA")" means a high percentage ratio of RWA over total assets

³ The CET1 capital ratio is a measure of a bank's financial strength calculated by dividing the bank's CET1 capital by its RWA. "CET1 capital" means called-up share capital and eligible reserves plus non-controlling equity interests, less intangible assets and regulatory deductions (such as cumulative fair value gain on revaluation of properties and shareholders' equity of subsidiaries which are not included in consolidation for regulatory purposes (such as Tricor)). "RWA" means a bank's assets or off-balance-sheet exposures, weighted according to risk

⁴ See Chart D, Appendix 1

⁵ From share issuances and option awards between 31 December 1997 to 26 February 2016

⁶ Excludes open market purchases and other share transfers between 31 December 1997 to 26 February 2016

Our concerns are heightened by recent press comments concerning a possible share placement to a new “strategic” investor in BEA⁷. In light of the matters mentioned above, shareholders rightly expect the BEA directors to ensure that (i) there is no improper use of the board’s general mandate to issue new BEA shares; and (ii) any new equity issuances by BEA are undertaken solely for proper purposes, on a fair basis and permitting where at all possible the participation of existing BEA shareholders on a fully pre-emptive basis (e.g. by way of a rights issue).

In any event, the BEA board should now release CaixaBank and SMBC from the remaining sale and purchase restrictions on their shareholdings in BEA. We can see no benefit to BEA’s independent shareholders from these restrictions, because they serve only to prevent there being a fully free market in BEA shares, obscuring the proper market value of BEA, to the detriment of BEA’s independent shareholders, and assisting in entrenching BEA’s current executive management.

Based on BEA’s public announcements, those restrictions are:

- **CaixaBank:** (i) Not to increase its current shareholding without BEA board prior approval; (ii) shareholding capped at 20% of BEA’s issued shares; and (iii) not to dispose of interests in BEA shares except through institutional placings in a manner which will ensure that significant numbers of BEA shares are not placed to a single placee (or a group of placees acting in concert).
- **SMBC:** Shareholding capped at 19.9% of BEA’s issued shares.

Both CaixaBank and SMBC are key BEA shareholders - see **Appendix 2** below for details of other key BEA shareholders.

Potential sale of BEA

The BEA board appears to be still stubbornly closed-minded about providing you, as one of BEA’s owners, with what we believe to be the only realistic route to meaningful returns, namely an auction process to explore the possibility of a sale of BEA.

Citing long-term strategy and current economic conditions as reasons for not contemplating a sale of BEA are convenient but wholly unconvincing excuses for management’s pursuit of independence at any cost. Given its poor track record, the BEA board can make no credible claim to the possibility of future long-term success.

The evidence shows that current market conditions are not a bar to achieving good value for shareholders through a sale of the Bank. For example (i) even in weakening market conditions at the start of the 2008 global financial crisis⁸, the sale of Wing Lung Bank was announced at a price of approximately 2.91x its book value; and (ii) the sale of Nanyang Commercial Bank was announced just over two months ago when the Hang Seng Index was around 10% higher than now, at a price of approximately 1.88x its book value.

⁷ “BEA looking for help from China government”, Hong Kong Economic Journal, 24 February 2016

⁸ At the date of the sale announcement on 2 June 2008, the Hang Seng Index had declined by 21.5% from a 52 week high. In addition, Wing Lung Bank’s LTM 1H 2008 reported net income had declined by 45% on a year-on-year basis

There is continued strong strategic interest in Hong Kong banks regardless of market conditions and we believe a responsible board should be open minded about exploring the real value of the Bank, which can only be what the market would pay for it. As we have said previously, most other takeovers of family-run Hong Kong listed banks in recent years were priced at a range of 1.77x – 2.35x book value. We note that the BEA board has not indicated that this price range would be inappropriate for BEA.

Our call for action now by the BEA board

In light of the BEA Chief Executive's persistent refusal to deal properly with the issues outlined in this letter, we call on the BEA board to provide the conditions whereby the market is allowed to freely assess the real value of BEA, by immediately:

- releasing both CaixaBank and SMBC from any and all current contractual restrictions in favour of BEA, which prevent either of those shareholders from freely selling or buying BEA shares or any interests therein; and
- beginning an auction process by means of which the BEA board can explore the scope for a sale of BEA at an appropriate premium.

About Elliott

Founded in 1977, Elliott manages two funds, Elliott Associates, L.P. and Elliott International, L.P., with assets under management totaling more than US\$26 billion. Elliott's investment strategies include actively-managed equity investments in relation to which Elliott's objectives include promoting shareholder value and good corporate governance for the benefit of all shareholders.

In order to enable shareholders of BEA to understand the issues more fully, Elliott has made available a dedicated website, www.fairdealforbea.com, on which it has posted further information, including press statements and presentations.

Appendix 1

BEA’s current executive management team – Failings which have negatively impacted your investment returns as an owner of BEA

Chart A: Most family-run HK Banks⁽¹⁾ have achieved strong shareholder returns through a sale of the bank⁽⁶⁾

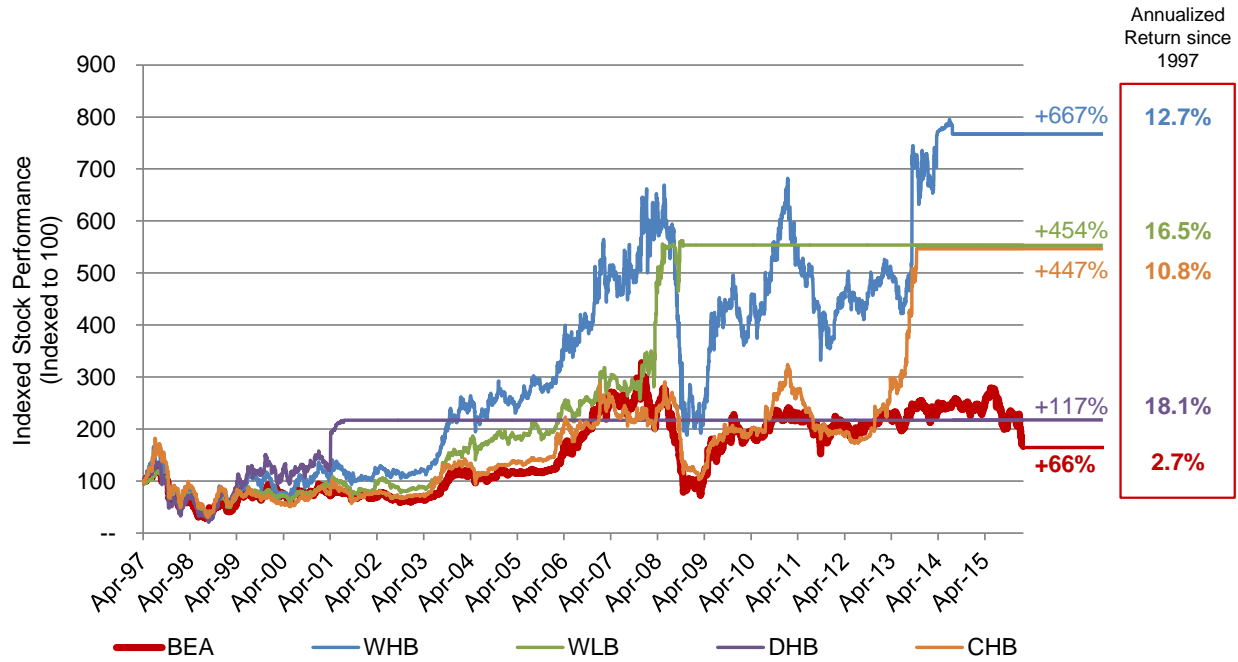


Chart B: Negative EPS growth between 2007 to 2015 despite net profit growth in line with peers⁽²⁾

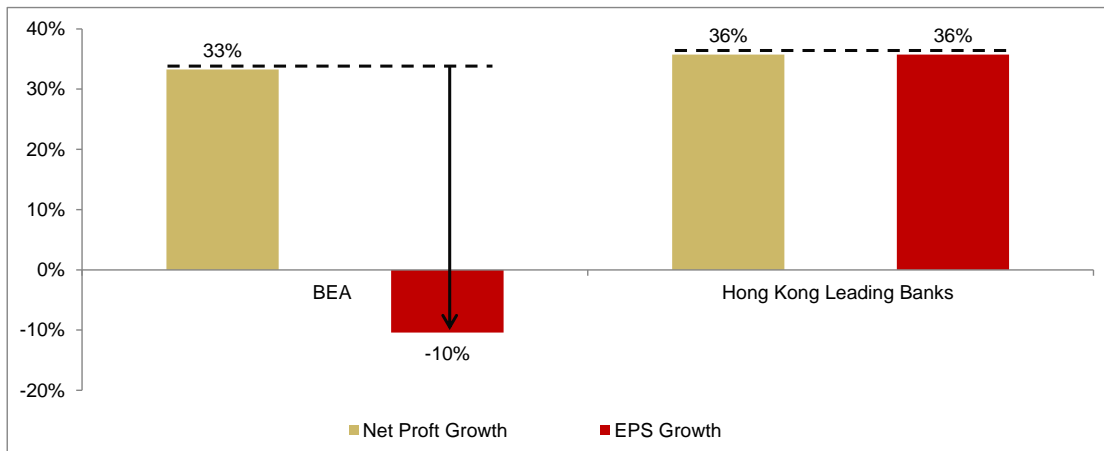


Chart C: Sub-optimal Risk Weighted Assets (% of total assets) impacting capital

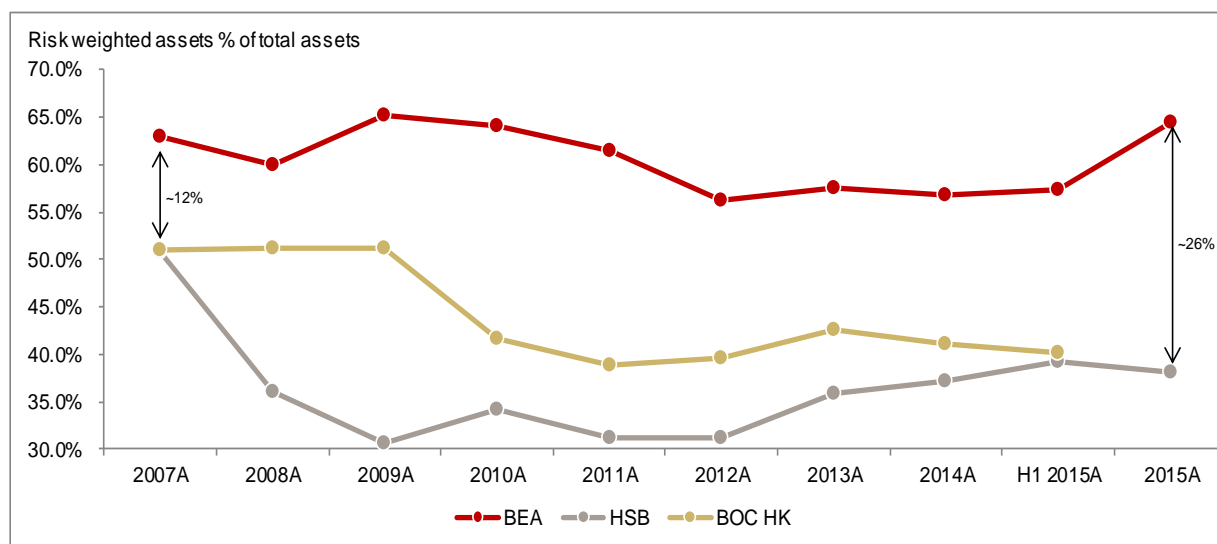
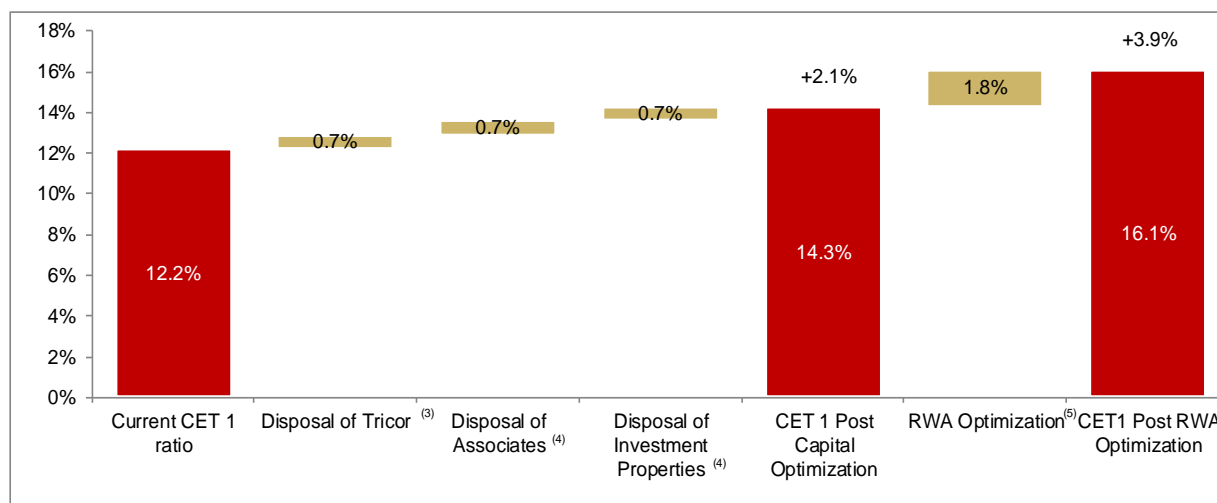


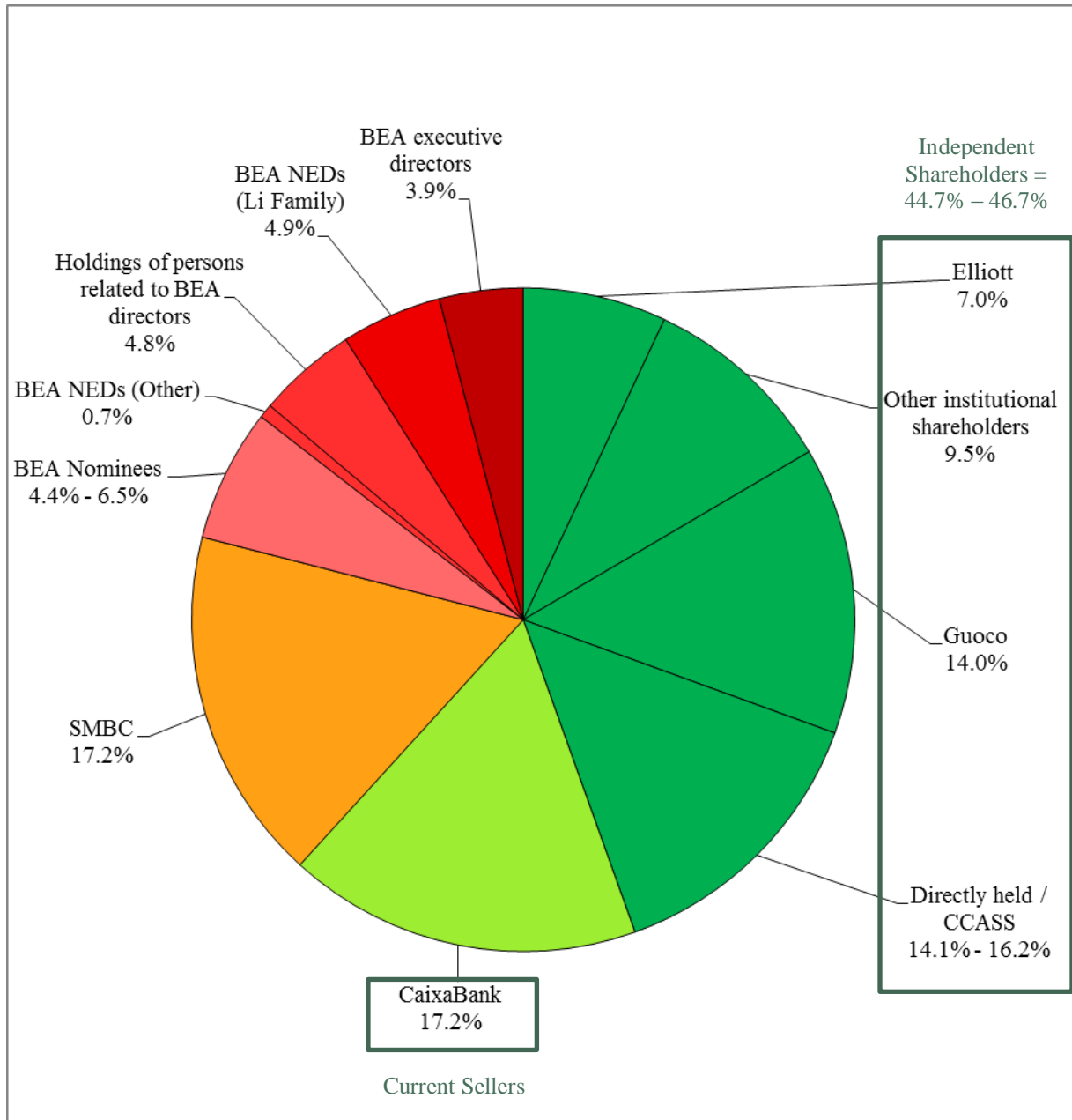
Chart D: Significant room for CET1 ratio improvement through non-core asset disposals and RWA optimization



1. Family-run HK Banks consists of: Wing Hang Bank ("WHB"), Wing Lung Bank ("WLB"), Dao Heng Bank ("DHB"), Chong Hing Bank ("CHB") and Dah Sing Bank ("DSB")
2. BEA 2007 EPS adjusted to reflect the impact of bonus share issuance; for HSB, figures adjusted to exclude the financial impact of its stake in Industrial Bank Co., Ltd. Hong Kong Leading Banks consists of Hang Seng Bank ("HSB") and Bank of China Hong Kong ("BOC HK"). BOC HK 2015 net income and EPS based on Bloomberg estimates
3. Disposal consideration based on mid-point estimate from Citi report dated 16 February 2016
4. Disposal consideration based on book value as at 31 December 2015
5. Optimisation of RWA weighting back to the H1 2015 level
6. Total returns with dividends reinvested. Shown from appointment of current Chairman (on 9 April 1997) to 3 February 2016

Appendix 2

Key shareholders of BEA



Shareholdings source information: HKEx website and filings; BEA annual reports and share register; Bloomberg and other market intelligence databases.