4 February 2016

MESSAGE FROM ELLIOTT TO FELLOW SHAREHOLDERS OF BANK OF EAST ASIA, LIMITED (HKEx stock code: 23) (“BEA”) – ELLIOTT’S PERSPECTIVES ON BEA

Dear Fellow Shareholders

Introduction

We hold over 7% of the ordinary issued share capital of BEA and have been a shareholder for several years.

We believe that BEA shareholders have suffered over many years from an entrenched executive management team which has mismanaged the business, resulting in its weak underlying financial and operating performance and poor returns for independent minority shareholders. We consider that BEA has now reached a stage where the cumulative damage to shareholders’ interests must be stopped.

The current BEA board should finally focus on delivering proper value for BEA shareholders – and in our assessment the only responsible way for the board to do that is to conduct an auction process to explore the scope for a sale of BEA at an appropriate premium.

Underperformance and mismanagement at BEA

BEA shareholders have long suffered from poor returns:

- BEA: Total Annualised Return (“TAR”) of just 2.7% since 1997

- Leading Hong Kong listed banks: TAR of 8.6% since 1997

- Family-run Hong Kong listed banks: TAR of 12.8% since 1997

Based upon TAR over the past 1, 3 and 5 years, BEA has underperformed an index of its peer group Family-run Hong Kong listed banks by 28.1%, 28.8% and 13.1%, respectively.

In our view, this chronic underperformance is attributable to the long-term mismanagement of BEA, combined with the entrenchment of the current executive management team, all of which

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1 TAR for the period from 9 April 1997 to 3 February 2016 (Source: Bloomberg).
2 Market capitalization weighted index TAR for Hang Seng Bank and Bank of China (HK) for the period from 9 April 1997 to 3 February 2016 (Source: Bloomberg).
3 Market capitalization weighted index TAR for Dao Heng Bank, Wing Lung Bank, Chong Hing Bank, Wing Hang Bank and Dah Sing Bank for the period from 9 April 1997 to the earlier of one day following the respective takeover announcement dates and 3 February 2016 (Source: Bloomberg).
has come at the expense of BEA's independent minority shareholders and has prevented BEA from being sold at an appropriate premium to its market value, for the benefit of all shareholders.

The serial usage by the BEA board of the general mandate to place new shares on a selective basis to CaixaBank, S.A. (“CaixaBank”) and Sumitomo Mitsui Banking Corporation (and the related agreements between BEA and those shareholders) from 2007 onwards, for “strategic” purposes has, we believe, assisted in entrenching the incumbent BEA management and led to BEA’s chronic underperformance.

Scope for a sale of BEA at an appropriate premium

BEA has failed to demonstrate that it can remain competitive and generate healthy returns for shareholders as an independent bank, in a market where the best performing banks are backed by large foreign or PRC financial institutions. In stark contrast to BEA, most other family-run Hong Kong listed banks were able to provide attractive returns for their shareholders over the last several years, including by way of an opportunity for those shareholders to sell their shares at a significant premium into a takeover offer. Those takeover transactions were priced at an average of 2.0x book value, which for BEA would equate to approximately HK$60 per share, or around 185% above the current share price.

Regardless of poor performance and poor corporate governance, the scale and profile of BEA’s banking platform is attractive to any potential acquiror who wants to expand its banking operations in the Greater China region. In addition, BEA finally announced on 19 January 2016 that the long-standing lock-in agreement, which had prevented CaixaBank (one of BEA’s largest shareholders) from accepting any non-recommended takeover offer for BEA without BEA board approval, had been removed.

BEA’s management can no longer rely on contractual lock-in arrangements to assist them in preventing a suitably-priced takeover offer for BEA from succeeding.

CaixaBank is clearly willing to sell its 17% BEA shareholding, because it has currently conditionally agreed to sell it to its parent company, Criteria, at just HK$24.25 per BEA share. Consequently, CaixaBank and Criteria may now have an opportunity to agree to put that related party transaction aside and instead sell the BEA stake at a significantly better price, into a takeover offer for BEA made by a third party, thereby strengthening CaixaBank’s capital base.

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4 Elliott is also a CaixaBank shareholder.
5 Based on Hong Kong banking acquisition transactions over the past three years: Chong Hing Bank, Wing Hang Bank and Nanyang Commercial Bank, which had an average last 12 months ROE of 8.6% prior to being sold and were taken over at an average P/B ratio of 2.0x.
6 Based on CaixaBank’s announcement of 3 December 2015, adjusted for recent share price movements.
7 We estimate that a sale of the BEA stake at HK$60 per share in cash in place of the announced intended share sale could enhance CaixaBank’s CET1 ratio by up to 200 basis points.
In our view this would be a win-win outcome for CaixaBank’s shareholders as well as BEA’s shareholders.

Conclusions

In our view, the BEA board should now finally focus on delivering proper value for BEA shareholders, by conducting an auction process to explore the scope for a sale of BEA at an appropriate premium. We have asked the BEA board to do this, but they have so far not responded to our request.

We urge all shareholders, large and small, to also call on the BEA board to act now, to provide all shareholders with an opportunity to earn a meaningful return on their investment in BEA, through a sale of BEA.

Key shareholders of BEA:

Shareholdings source information: HKEx website and filings; BEA annual reports and share register; Bloomberg and other market intelligence databases.
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 will shortly be launching a dedicated website, www.fairdealforbea.com, on which it will post information, including press statements and presentations.