Elliott’s perspectives on Bank of East Asia, Limited ("BEA")

4 February 2016
Additional information

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or indicated by the forward-looking statements.
BEA shareholders have long suffered from poor returns as a result of an entrenched executive management team which has mismanaged the business

- Despite BEA having an extensive banking platform in the Greater China region\(^1\), it has achieved a total annualised return ("TAR") of just 2.7% since 1997. This compares with:
  - 8.6% for leading Hong Kong listed banks ("Leading HK Banks")\(^2\)
  - 12.8% for family-run Hong Kong listed banks ("Family-run HK Banks")\(^3\)

- BEA has underperformed Family-run HK Banks on TAR over the past, 1, 3 and 5 years by 28.1%, 28.8% and 13.1%, respectively.

- BEA has failed to demonstrate that it can remain competitive and generate healthy returns for shareholders as an independent bank in Hong Kong, where the best performing banks are backed by large foreign or PRC financial institutions.
  - BEA's Hong Kong banking business ("BEA HK") records one of the lowest Return On Assets ("ROA") and Return On Equity ("ROE") among the leading banks in Hong Kong, due to weak operating performance as measured by its Net Interest Margin ("NIM"), Net Fee Income ("NFI") and Cost/Income ("C/I") ratios\(^4\)
  - BEA's China banking business ("BEA China") has a meaningfully lower ROE than its China peers\(^5\)\(^6\) (3.7% for BEA China vs. 6.0% for peers in 2014), which has been a drag on BEA's consolidated ROE.

- Most other family-run Hong Kong listed banks which were not able to compete effectively on an independent basis were able to provide an opportunity for shareholders to realise a proper return on their investment by selling 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\(^7\).

- In stark contrast, the series of dilutive BEA share placements to CaixaBank and SMBC ("Strategic Shareholders") and the related "strategic" agreements have resulted in substantial EPS dilution and until recently have made a change of control over BEA without the consent of its entrenched executive management team highly unlikely.

Note:
1. BEA is the third largest bank in Hong Kong and the second largest foreign bank in Mainland China (by number of branches)
2. Leading HK Banks consists of Hang Seng Bank ("HSB") and Bank of China Hong Kong ("BOCHK")
3. 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")
4. Calculations based upon BEA's consolidated financial statements adjusted to exclude BEA China (based on PRC filings, adjusted to align with HK GAAP) and Tricor
5. Calculations based upon PRC filings
6. Peers include The Hongkong and Shanghai Banking Corporation ("HSBC"), Citibank ("Citi"), Standard Chartered Bank ("SCB"), Development Bank of Singapore ("DBS"), Nanyang Commercial Bank ("NCB") and HSB
7. Based on Hong Kong banking takeover transactions over the past three years: CHB, WHB and NCB, which had an average last 12 months ROE of 8.6% prior to being sold, and were acquired at an average P/B ratio of 2.0x
The cumulative damage to shareholders’ interests must now be stopped – the BEA board needs to finally focus on delivering proper value for BEA shareholders

- Regardless of its 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 operations in the Greater China region.

- In addition, there has been ongoing strong strategic interest, from a broad range of potential buyers, in acquiring Hong Kong banks – meaning that BEA shareholders could achieve an exit at a level of between HK$52.97 to HK$70.33 per share (based on the average price for Hong Kong banking M&A transactions over the past 3 years, of between 1.77x and 2.35x P/B), representing a potential upside of between 153% to 236% to BEA’s current market price.

- BEA 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.

- CaixaBank is clearly willing to sell its stake, because it has currently conditionally agreed to sell it to its parent company, Criteria, at just HK$24.25(1) per BEA share - CaixaBank and Criteria could now agree to put that related party transaction aside and instead sell the BEA stake at a significantly better price if a takeover offer was to be made for BEA: a win-win outcome for the shareholders of both BEA and CaixaBank. 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.

- BEA has reached the stage where the cumulative damage to shareholders’ interests must now be stopped and the BEA board needs to 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.

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Note:

1. Based on CaixaBank’s announcement of 3 December 2015, adjusted for recent share price movements.
I. Underperformance and mismanagement at BEA
BEA shareholders have since 1997 suffered much poorer returns compared with shareholders of Leading HK Banks and Family-run HK Banks

- Despite a period of outperformance during the years prior to the appointment of the current Chairman in April 1997, BEA has since significantly underperformed its peers and has generated a negative shareholder return since 2011
- Based upon TAR over the past 1, 3 and 5 years, BEA has underperformed an index of its peer group Family-run HK listed Banks by 28.1%, 28.8% and 13.1%, respectively

**Indexed total returns since April 1997**

![Indexed total returns chart]

**Total Annualised Returns**

<table>
<thead>
<tr>
<th></th>
<th>19-Year</th>
<th>10-Year</th>
<th>5-Year</th>
<th>3-Year</th>
<th>1-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEA</td>
<td>2.7%</td>
<td>3.0%</td>
<td>(7.0%)</td>
<td>(9.7%)</td>
<td>(32.0%)</td>
</tr>
<tr>
<td>Leading HK Banks Index</td>
<td>8.6%</td>
<td>7.2%</td>
<td>1.9%</td>
<td>0.0%</td>
<td>(12.3%)</td>
</tr>
<tr>
<td>BEA (Under) / Over Performance</td>
<td>(5.9%)</td>
<td>(4.2%)</td>
<td>(8.9%)</td>
<td>(9.8%)</td>
<td>(19.7%)</td>
</tr>
<tr>
<td>Family-run HK Banks Index</td>
<td>12.8%</td>
<td>11.3%</td>
<td>6.1%</td>
<td>19.1%</td>
<td>(3.9%)</td>
</tr>
<tr>
<td>BEA (Under) / Over Performance</td>
<td>(10.0%)</td>
<td>(8.3%)</td>
<td>(13.1%)</td>
<td>(28.8%)</td>
<td>(28.1%)</td>
</tr>
<tr>
<td>Hang Seng Index</td>
<td>5.8%</td>
<td>5.6%</td>
<td>(1.1%)</td>
<td>(3.7%)</td>
<td>(20.0%)</td>
</tr>
<tr>
<td>BEA (Under) / Over Performance</td>
<td>(3.0%)</td>
<td>(2.6%)</td>
<td>(6.0%)</td>
<td>(6.0%)</td>
<td>(12.0%)</td>
</tr>
</tbody>
</table>

**Source:** Bloomberg

**Note:**
1. Shown from the date of appointment of BEA’s current Chairman on 9 April 1997
2. Total Annualised Returns up to 3 February 2016, with dividends reinvested
3. Leading HK Banks Index consists of HSBC and BOC HK
4. Family-run HK Banks Index consists of the following banks: WHB, WLB, DHB, CHB and DSB. Index returns calculated to the day following takeover/sale announcement.
Share price underperformance has been driven by poor consolidated ROE and low Book Value Per Share ("BPS") growth compared with Leading HK Banks

Although prior to 1997, BEA performed well compared to its listed peers and the Hong Kong retail banking sector, in recent years it has underperformed significantly in terms of both ROE and BPS growth

Source: Company disclosures
Note:
1. ROE figures are based on reported net profit and book value of equity (H1 2015 annualised); for HSB, figures adjusted to exclude the financial impact of its stake in Industrial Bank Co., Ltd. ("Industrial Bank")
2. Compound Annual Growth Rate ("CAGR") for H1 2015 shown as year on year growth
In addition, repeated share issuances to “Strategic” Shareholders have increased BEA’s share count by ~37%, leading to stagnant EPS growth since 2007

- BEA undertook dilutive share issuances to “Strategic” Shareholders in 2008, 2010, 2012 and, most recently, in H1 2015 (totaling ~37% of the 2007 share count) on a selective, non-pre-emptive, basis
- These share issuances, when combined with the associated “strategic” agreements, have had the effect of entrenching BEA’s executive management and have further weighed on performance
- Any increases in BEA’s capital should have been achieved by way of pre-emptive share issuances and/or disposals of assets, in the same manner in which other Hong Kong listed banks have raised capital

**Increase in share count since FY 2007**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Issuance for Dividends</th>
<th>Bonus Share Issue</th>
<th>Issuance for Option Exercises (dilutive)</th>
<th>Issuance to Strategic Investor (dilutive)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEA</td>
<td>16.8%</td>
<td>10.6%</td>
<td>36.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>HSB</td>
<td>66.1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOCHK</td>
<td>38.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Effect of Dilutive Share Placement on EPS Growth**

Net profit and EPS growth between 2007 to LTM H1 15 (2)

- BEA: 55% Net Profit Growth, 5% EPS Growth
- Hong Kong Leading Banks: 41% Net Profit Growth, 41% EPS Growth

Source: Broker research; Company disclosures

1. Total dilutive issuance of 36.8% from issuance to “Strategic” Shareholders and 1.8% from issuance for Option Exercises
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
Most Family-run HK Banks have achieved strong shareholder returns through a sale of the bank

BEA has only managed to achieve a TAR of 2.7% since 1997, in contrast to an average TAR of 14.5% for Family-run HK Banks

- Given its poor long term return performance as an independent bank, the BEA board cannot claim that a sale of BEA would not be in the best interests of all shareholders

- It would take BEA shareholders 39 years to generate the same absolute return as an exit at 2.0x P/B today (assuming an equivalent ongoing TAR of 2.7%)

### Total returns for divested family-run banks since April 1997

<table>
<thead>
<tr>
<th>Bank</th>
<th>Indexed Stock Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEA</td>
<td>+667%</td>
</tr>
<tr>
<td>WHB</td>
<td>+454%</td>
</tr>
<tr>
<td>WLB</td>
<td>+117%</td>
</tr>
<tr>
<td>CHB</td>
<td>+66%</td>
</tr>
</tbody>
</table>

### Total Annualised Return (Since April 1997)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Average of divested family banks</th>
<th>BEA (Under) / Over Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEA</td>
<td>2.7%</td>
<td>(11.8%)</td>
</tr>
<tr>
<td>Average of divested family banks</td>
<td>14.5%</td>
<td></td>
</tr>
<tr>
<td>BEA (Under) / Over Performance</td>
<td>(10.0%)</td>
<td></td>
</tr>
<tr>
<td>WHB</td>
<td>12.7%</td>
<td></td>
</tr>
<tr>
<td>CHB</td>
<td>10.8%</td>
<td>(8.1%)</td>
</tr>
<tr>
<td>WLB</td>
<td>16.5%</td>
<td>(13.7%)</td>
</tr>
<tr>
<td>BEA (Under) / Over Performance</td>
<td>(15.3%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bloomberg

1. Shown from appointment of current Chairman (on 9 April 1997) to 3 February 2016
2. For divested Banks, index returns calculated to the day following takeover/sale announcement
3. TARs up to 3 February 2016, with dividends reinvested
BEA HK’s profitability lags behind its peers due to lower NIM, lower NFI and a higher C/I ratio

An analysis of BEA HK’s operations compared to its industry peers indicates clear weakness on all relevant metrics

1. **Hong Kong NIM**
   - BEA: 1.53%
   - DBS: 1.48%
   - SCB: 1.46%
   - ICBC: 1.30%
   - HSBC: 1.30%
   - Avg. 1.62%

2. **Hong Kong NFI / average assets**
   - BEA: 0.42%
   - SCB: 0.31%
   - ICBC: 0.27%
   - Avg. 0.53%

3. **Hong Kong C/I ratio**
   - BEA: 52.0%
   - DBS: 51.0%
   - SCB: 54.2%
   - Avg. 50.1%

Source: Company disclosures
Note: 1. BEA refers to BEA HK; HSBC refers to HSBC HK excluding HSBC HK; HSB refers to consolidated HSBC financials adjusted to exclude the financial impact of its stake in Industrial Bank
BEA HK’s consistently weak NIM is primarily a result of its inability to compete on funding costs, which remain higher than its peers.

BEA HK has a relatively lower proportion of customer deposits as compared with its peers, the bulk of which are more expensive time deposits, which in turn leads to a higher cost-of-funding.

Hong Kong Asset yield

**Hong Kong Liabilities composition**

<table>
<thead>
<tr>
<th>(HK$ Billion)</th>
<th>DBS</th>
<th>SCB</th>
<th>DSB</th>
<th>WLB</th>
<th>CITIC</th>
<th>HSB</th>
<th>BOC</th>
<th>HSBC</th>
</tr>
</thead>
<tbody>
<tr>
<td>281</td>
<td>976</td>
<td>165</td>
<td>222</td>
<td>229</td>
<td>1,132</td>
<td>1,917</td>
<td>476</td>
<td>3,078</td>
</tr>
</tbody>
</table>

- **Customer Deposit**
- **CDs issued**
- **Deposits of banks**
- **Subordinated liabilities**
- **Other liabilities**

**Hong Kong Cost of funding**

<table>
<thead>
<tr>
<th>(HK$ Billion)</th>
<th>HSBC</th>
<th>SCB</th>
<th>HSB</th>
<th>DSB</th>
<th>BOC</th>
<th>ICBC</th>
<th>CITIC</th>
<th>BEA</th>
<th>WLB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,173</td>
<td>897</td>
<td>851</td>
<td>1,480</td>
<td>248</td>
<td>344</td>
<td>143</td>
<td>421</td>
<td>183</td>
<td>189</td>
</tr>
</tbody>
</table>

- **Time deposit**
- **Current/savings deposit**

Source: Company disclosures
Note: Averages exclude BEA; figures based on Hong Kong segments only
1. BEA refers to BEA HK, HSBC refers to HSBC HK excluding HSBC HK, HSB refers to consolidated HSBC financials adjusted to exclude the financial impact of its stake in Industrial Bank.
2. Cost of funding calculated based on group funding structure.
BEA’s fee income is also below par – performance has at best been mixed

Notwithstanding the strategic benefit of an extensive branch network across Hong Kong and China, BEA HK’s fee income business falls below its peer group average, on both a gross and a net basis.

As % of total assets

<table>
<thead>
<tr>
<th>Category</th>
<th>SCB</th>
<th>HSBC</th>
<th>BOC</th>
<th>DBS</th>
<th>HSB</th>
<th>DSB</th>
<th>BEA</th>
<th>CITIC</th>
<th>WLFB</th>
<th>ICBC</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total HK fee income</td>
<td>1.00%</td>
<td>0.84%</td>
<td>0.67%</td>
<td>0.65%</td>
<td>0.62%</td>
<td>0.57%</td>
<td>0.56%</td>
<td>0.40%</td>
<td>0.35%</td>
<td>0.25%</td>
<td>0.60%</td>
</tr>
<tr>
<td>Credit card spend</td>
<td>0.18%</td>
<td>0.18%</td>
<td>0.17%</td>
<td>0.11%</td>
<td>0.08%</td>
<td>0.07%</td>
<td>0.06%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.01%</td>
<td>0.10%</td>
</tr>
<tr>
<td>Trade finance (fees)</td>
<td>0.18%</td>
<td>0.11%</td>
<td>0.09%</td>
<td>0.06%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.02%</td>
<td></td>
<td></td>
<td>0.06%</td>
</tr>
<tr>
<td>Loan related fees</td>
<td>0.17%</td>
<td>0.12%</td>
<td>0.12%</td>
<td>0.10%</td>
<td>0.10%</td>
<td>0.09%</td>
<td>0.08%</td>
<td>0.05%</td>
<td>0.05%</td>
<td>0.05%</td>
<td>0.09%</td>
</tr>
<tr>
<td>Securities brokerage</td>
<td>0.14%</td>
<td>0.13%</td>
<td>0.12%</td>
<td>0.11%</td>
<td>0.07%</td>
<td>0.06%</td>
<td>0.05%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.01%</td>
<td>0.08%</td>
</tr>
<tr>
<td>Others</td>
<td>0.49%</td>
<td>0.26%</td>
<td>0.25%</td>
<td>0.24%</td>
<td>0.22%</td>
<td>0.22%</td>
<td>0.13%</td>
<td>0.05%</td>
<td>0.04%</td>
<td></td>
<td>0.23%</td>
</tr>
</tbody>
</table>

Source: Company disclosures

Note: Fee income expressed on a gross basis; averages exclude BEA; BEA refers to BEA HK; HSBC refers to HSBC HK excluding HSB HK; HSB refers to consolidated HSB financials adjusted to exclude the financial impact of its stake in Industrial Bank; SCB fee income breakdown unavailable.

1. Includes import/export fees for HSBC
2. Includes loans, overdrafts and guarantee fees for BEA; includes credit facilities and guarantee fees for HSBC and HSB
3. Low productivity per branch is the root cause of BEA HK’s high C/I ratio

Based on a variety of metrics, productivity across BEA HK’s branch network is approaching worst in class

### Productivity per branch

<table>
<thead>
<tr>
<th>Operating Income(^{(1)}) (HK$ Million)</th>
<th>Loans per branch (HK$ Billion)</th>
<th>Deposits per branch (HK$ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC</td>
<td>815</td>
<td>11.4</td>
</tr>
<tr>
<td>SCB</td>
<td>363</td>
<td>6.0</td>
</tr>
<tr>
<td>HSB</td>
<td>225</td>
<td>5.2</td>
</tr>
<tr>
<td>DBS</td>
<td>223</td>
<td>4.9</td>
</tr>
<tr>
<td>ICBC</td>
<td>180</td>
<td>4.5</td>
</tr>
<tr>
<td>BOC</td>
<td>142</td>
<td>3.3</td>
</tr>
<tr>
<td>CITIC</td>
<td>141</td>
<td>3.1</td>
</tr>
<tr>
<td>WLB</td>
<td>114</td>
<td>2.6</td>
</tr>
<tr>
<td>BEA</td>
<td>99</td>
<td>2.8</td>
</tr>
<tr>
<td>Avg. HK$265M</td>
<td></td>
<td>Avg. HK$4.9BN</td>
</tr>
<tr>
<td>DSB</td>
<td>62</td>
<td>1.6</td>
</tr>
<tr>
<td>Avg. HK$8.3BN</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Company disclosures
Note: BEA refers to BEA HK; HSBC refers to HSBC HK excluding HSB HK; HSB refers to consolidated HSB financials adjusted to exclude the financial impact of its stake in Industrial Bank
1. Operating income includes NII, NFI and other operating income
BEA China has been a drag on BEA’s consolidated ROE

Despite its extensive nationwide branch network – which, based upon BEA’s recent branch rollout, could take at least 10 years to replicate – BEA China has recorded weak results, in particular in its ROE and ROA, which are well below the average of its peers.

### ROE (recurring)

- HSBC: 14.3%
- Citi: 12.5%
- SCB: 8.0%
- DBS: 4.5%
- NCB: 9.9%
- BEA: 3.7%
- Avg: 6.0%

### NIM

- SCB: 3.09%
- HSBC: 2.49%
- Citi: 2.45%
- BEA: 2.22%
- DBS: 2.14%
- NCB: 1.85%
- HSB: 0.99%
- Avg: 2.13%

### NFI / average assets

- Citi: 0.60%
- SCB: 0.53%
- DBS: 0.42%
- HSBC: 0.40%
- NCB: 0.37%
- BEA: 0.37%
- HSB: 0.12%
- Avg: 0.41%

### ROA (recurring)

- HSBC: 1.21%
- Citi: 0.99%
- SCB: 0.68%
- DBS: 0.39%
- NCB: 0.35%
- BEA: 0.30%
- Avg: 0.51%

### C/I ratio

- HSBC: 43.7%
- NCB: 52.4%
- SCB: 57.3%
- BEA: 57.4%
- Citi: 62.4%
- DBS: 62.9%
- HSB: 99.3%
- Avg: 63.0%

### Impairment cost / average assets

- Citi: 0.09%
- HSBC: 0.36%
- DBS: 0.63%
- NCB: 0.69%
- BEA: 0.71%
- SCB: 0.77%
- HSB: 0.96%
- Avg: 0.60%

Source: Company disclosures, based on PRC filings for respective China subsidiaries and excluding extraordinary and non-recurring items; averages exclude BEA.
These chronic performance shortcomings are attributable to the long-term mismanagement of BEA by its entrenched executive management team

- On top of the multiple long-running performance shortcomings, shareholders of BEA have been heavily and unjustifiably diluted
- The BEA board has approved a total of **five** selective and highly dilutive share placements to the “Strategic” Shareholders since 2007, resulting in a **36.8%** increase in share count over the past **eight** years
  - No other Hong Kong listed banks have raised capital during this period by issuing shares in this manner. Dah Sing Bank raised capital by means of fully pre-emptive rights issuances, thereby providing all of its shareholders with an opportunity to participate and avoid dilution
  - BEA shareholders have suffered substantial EPS dilution from these share placements to the “Strategic” Shareholders without it being apparent that any of the claimed commercial benefits have resulted from the associated “strategic” agreements – and without any premium being paid by the “Strategic” Shareholders for these control-like stakes, or any change of control exit opportunities being provided to BEA's shareholders
  - These “strategic” agreements are defensive in nature and have apparently yielded little or no commercial benefit for BEA or its shareholders
- Meanwhile BEA’s senior executives have been generously compensated:
  - Over the period from 2007 to 2014, the top five executive management team members at BEA (by pay level) were paid an average of HK$79m per year (representing an average of 1.81% of reported annual net profit). This compares unfavourably with the Leading HK Banks - HSB (HK$46m or 0.28% of reported net profit) and BOC HK (HK$40m or 0.23% of reported net profit)

Source: Company disclosures
III. Scope for a sale of BEA at an appropriate premium
BEA has the third largest branch network and a top five market share position across key banking products in Hong Kong

<table>
<thead>
<tr>
<th>Product</th>
<th>BEA Share</th>
<th>BEA Ranking</th>
<th>Branches</th>
<th>Loans</th>
<th>Deposits</th>
<th>Mortgage</th>
<th>Consumer Finance</th>
<th>SME Loan</th>
<th>Corporate Loans</th>
<th>Trade Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.4%</td>
<td>#3</td>
<td></td>
<td>4.2%</td>
<td>3.4%</td>
<td>3.3%</td>
<td>5.6%</td>
<td>3.5%</td>
<td>4.6%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Source: Company disclosures; HKMA data; 2014 Hong Kong Government Financial Services Fact Sheet
Note: Figures for deposits calculated based on Company disclosures.
BEA has one of the most extensive foreign bank branch networks in China

**BEA has the second largest branch network in China...**

(No. of branches)

<table>
<thead>
<tr>
<th></th>
<th>HSBC</th>
<th>BEA</th>
<th>SCB</th>
<th>CITI</th>
<th>HSB</th>
<th>NCB</th>
<th>DBS</th>
<th>Avg. 71</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>173</td>
<td>127</td>
<td>104</td>
<td>55</td>
<td>50</td>
<td>38</td>
<td>28</td>
<td></td>
</tr>
</tbody>
</table>

**...and one of the largest retail deposit bases**

(RMB Billion)

<table>
<thead>
<tr>
<th></th>
<th>HSBC</th>
<th>BEA</th>
<th>SCB</th>
<th>CITI</th>
<th>DSB</th>
<th>WHB</th>
<th>NCB</th>
<th>CHB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>251</td>
<td>164</td>
<td>139</td>
<td>119</td>
<td>100</td>
<td>62</td>
<td>57</td>
<td>42</td>
</tr>
<tr>
<td>Total</td>
<td>275</td>
<td>187</td>
<td>135</td>
<td>119</td>
<td>100</td>
<td>62</td>
<td>57</td>
<td>42</td>
</tr>
</tbody>
</table>

**BEA also has one of the most comprehensive sets of commercial banking licenses compared with other foreign banks**

<table>
<thead>
<tr>
<th></th>
<th>BEA</th>
<th>HSBC</th>
<th>HSB</th>
<th>Citi</th>
<th>SCB</th>
<th>DSB</th>
<th>DSB</th>
<th>WLB</th>
<th>WHB</th>
<th>NCB</th>
<th>CHB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One of the first foreign banks to get a license for credit card and mutual fund sales</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Commercial banking</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Credit Card</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Mutual fund sales</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Investment management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities – Underwriting</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual fund mgmt.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other financial</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: 2014 Company disclosures; publicly available official sources
Note: includes structural deposits
**BEA is an ideal acquisition target for a larger PRC or foreign financial institution**

- Recent Hong Kong banking M&A transactions demonstrate that bidders are primarily interested in: (1) a retail network in China; (2) a HKD and USD deposit funding platform in Hong Kong; and (3) the potential to capitalise on clients’ China/Hong Kong cross-border trade, capital, wealth and investment flows.
- BEA should have strong strategic value to a potential acquirer given its meaningful market share in Hong Kong and extensive nationwide branch network in China (and related licences), all of which exceed those of other family-run (or formerly family-run) banks and which should justify a comensurate premium in a change of control scenario.

### Benchmark Analysis (1)

<table>
<thead>
<tr>
<th>Financial Year End</th>
<th>Remaining family bank</th>
<th>Disposed Banks</th>
<th>Avg. of disposed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BEA</td>
<td>DS B</td>
<td>N CB</td>
</tr>
<tr>
<td>ROE reported (%)</td>
<td>8.9</td>
<td>11.1</td>
<td>7.6</td>
</tr>
<tr>
<td>Acquisition P/B multiple</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1.88x</td>
</tr>
</tbody>
</table>

### Global
- **Branches**: 231
- **Scale**
  - Loan (HKDm): 452,889, 108,231
  - Operating Profit (HKDm): 17,729, 4,412

### Hong Kong
- **Branches**: 89
- **Scale**
  - Loan (HKDm): 199,733, 72,199
  - Operating Profit (HKDm): 9,647, 4,019

### China
- **Branches**: 127
- **Geographical footprint**
  - National: 7
  - South East: 16
  - East / South East: 38
  - Pear River Delta: 3
  - East: 19
- **Scale**
  - Loan (HKDm): 215,545, 7,893
  - Operating Profit (HKDm): 6,789, n.a.

### China Banking Licenses Held
- Commercial banking - Banking: ✔
- Commercial banking - Credit Card: ✔
- Commercial banking - Public fund sales: ✔
- Investment management - Trust: ✔
- Other - Insurance: ✔

### Sources:
- Company filings; publicly available official sources
- Based on geographical segmental data for Operating Profit

---

1. Based on geographical segmental data for Operating Profit
The full value of BEA’s banking platform can only properly be realized through the acquisition by, and subsequent integration with, a larger institutional owner.

Wing Lung Bank ("WLB") represents an example of a Hong Kong bank which was formerly family-owned, the performance of which has substantially improved after being acquired at the end of 2008 by a larger financial group, namely China Merchants Bank. Following its acquisition, and based upon all key metrics, WLB’s performance has improved significantly.

---

**2008-2010 ROA Expansion (1)**

<table>
<thead>
<tr>
<th>Year</th>
<th>ROA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>0.94%</td>
</tr>
<tr>
<td>2008</td>
<td>1.20%</td>
</tr>
<tr>
<td>2010</td>
<td>1.48%</td>
</tr>
</tbody>
</table>

**2008-2010 ROE Expansion (1)**

<table>
<thead>
<tr>
<th>Year</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>7.0%</td>
</tr>
<tr>
<td>2008</td>
<td>12.6%</td>
</tr>
<tr>
<td>2010</td>
<td>21.3%</td>
</tr>
</tbody>
</table>

**2008-2010 Growth (2)**

<table>
<thead>
<tr>
<th>CAGR</th>
<th>Loan Book (%)</th>
<th>Deposits (%)</th>
<th>Operating Income (%)</th>
<th>Gross Fee Income (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>62.4%</td>
<td>31.1%</td>
<td>26.4%</td>
<td>26.8%</td>
</tr>
<tr>
<td>2009</td>
<td>26.4%</td>
<td>17.4%</td>
<td>26.8%</td>
<td>18.0%</td>
</tr>
<tr>
<td>2010</td>
<td>143.9%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

**2008-2010 C/I Ratio (3)**

<table>
<thead>
<tr>
<th>Year</th>
<th>C/I Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>89.9%</td>
</tr>
<tr>
<td>2009</td>
<td>36.2%</td>
</tr>
<tr>
<td>2010</td>
<td>45.3%</td>
</tr>
</tbody>
</table>

---

Note:
1. Based on Company disclosures
2. Based on HKMA data for HK retail banks
3. WLB operating income calculated net of insurance claims
There has been continuing strong strategic interest in Hong Kong banks - transaction pricing could reach 1.77x to 2.35x P/B

- The average of the P/B multiples for precedent Hong Kong banking transactions is 2.6x P/B for control transactions worth over US$1bn
- There has been a surge in banking transactions over the past 3 years – Chong Hing Bank, Wing Hang Bank and Nanyang Commercial Bank, which group had an average LTM ROE of 8.6% prior to being sold and were acquired at an average of 2.0x P/B (within a range of 1.77x to 2.35x P/B)
- Each sale auction generated strong interest from multiple bidders, including both foreign banking institutions and corporates in China, such as life insurance companies, asset management organisations, other financial institutions and conglomerates

### Precedent Banking Control Transactions since 2000

<table>
<thead>
<tr>
<th>Ann. Date</th>
<th>Buyer</th>
<th>Bank bought</th>
<th>Transaction</th>
<th>% secured from</th>
<th>Amount (US$m)</th>
<th>controlling SH</th>
<th>Disinterested Tender %</th>
<th>Tender Amount (HK$bn)</th>
<th>Price/trailing ROE of target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-00</td>
<td>STAN</td>
<td>Chase HK Retail Bank + Card</td>
<td>Division acquisition</td>
<td>100.0%</td>
<td>1,320</td>
<td>n.a.</td>
<td>n.a.</td>
<td>10.3</td>
<td>4.50x</td>
</tr>
<tr>
<td>Apr-01</td>
<td>DBS Bank</td>
<td>Dao Heng Bank</td>
<td>Voluntary conditional offer</td>
<td>100.0%</td>
<td>5,478</td>
<td>71.30%</td>
<td>99.60%</td>
<td>99.88%</td>
<td>42.7</td>
</tr>
<tr>
<td>Aug-06</td>
<td>CCB</td>
<td>Bank of America (Asia)</td>
<td>Division acquisition</td>
<td>100.0%</td>
<td>1,249</td>
<td>n.a.</td>
<td>n.a.</td>
<td>9.7</td>
<td>1.32x</td>
</tr>
<tr>
<td>Jun-08</td>
<td>China Merchants Bank</td>
<td>Wing Lung Bank</td>
<td>Mandatory general cash offer</td>
<td>100.0%</td>
<td>4,666</td>
<td>53.12%</td>
<td>95.35%</td>
<td>97.82%</td>
<td>36.3</td>
</tr>
<tr>
<td>Oct-13</td>
<td>Yue Xie Group</td>
<td>Chong Hing Bank (2)</td>
<td>Voluntary partial conditional offer</td>
<td>75.0%</td>
<td>1,502</td>
<td>50.72%</td>
<td>94.96%</td>
<td>97.51%</td>
<td>11.6</td>
</tr>
<tr>
<td>Apr-14</td>
<td>OCBC</td>
<td>Wing Hang Bank</td>
<td>Voluntary conditional offer</td>
<td>100.0%</td>
<td>4,991</td>
<td>48.23%</td>
<td>94.92%</td>
<td>97.52%</td>
<td>38.7</td>
</tr>
<tr>
<td>Jul-15</td>
<td>China Cinda Asset Management</td>
<td>Nanyang Commercial Bank</td>
<td>Division acquisition</td>
<td>100.0%</td>
<td>8,774</td>
<td>n.a.</td>
<td>n.a.</td>
<td>68.0</td>
<td>1.88x</td>
</tr>
</tbody>
</table>

| Past 3 years average | 94.93% | 97.51% | 2.00x | 8.6% |

Source: Company disclosures

Note:
1. P/B multiples shown on a reported basis
2. Transaction multiple includes special dividend paid to Chong Hing Bank shareholders as part of the total consideration
Over 60% of BEA's shareholders are Independent Shareholders or Current Sellers (whom the BEA board cannot prevent from accepting a takeover offer)

**BEA’s Shareholders**

- Directly held / CCASS: 14.2%
- Guoco: 14.0%
- Other institutional shareholders: 9.5%
- Elliott: 7.0%
- SMBC: 17.2%
- BEA NEDs (Other): 0.7%
- BEA NEDs (Li Family): 4.9%
- Holdings of persons related to BEA directors: 4.8%
- BEA executive directors: 3.9%
- BEA Nominees: 6.5%
- CaixaBank: 17.2%

Current Sellers

Source: Company disclosures, HKEx filings, BEA share register
Conclusions

- BEA shareholders have suffered over many years from poor returns on their investment – BEA has clearly failed to demonstrate that it can be competitive and generate healthy returns for shareholders as an independent bank in Hong Kong

- Given the historic and current state of affairs, the board of BEA cannot claim that a sale of BEA would not be in the best interests of all shareholders

- BEA’s Hong Kong and China based banking networks are of great strategic value to potential acquirors and 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

- The BEA board should, in the best interests of BEA shareholders, conduct an auction process to explore the scope for a sale of BEA at an appropriate premium

- We urge all BEA shareholders 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, through a sale of BEA - the cumulative damage to shareholders’ interests has gone on for long enough