

*The Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

*This announcement does not constitute or form a part of any offer of securities for sale in the United States or elsewhere. The securities have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act. No public offering of the securities will be made in the United States.*



**BEA 東亞銀行**

**The Bank of East Asia, Limited**

*(Incorporated in Hong Kong with limited liability in 1918)*

**(Stock Code: 23)**

**PROPOSED ISSUE OF STEP-UP SUBORDINATED NOTES DUE 2059,  
NON-CUMULATIVE INNOVATE PREFERENCE SHARES  
AND  
NON-CUMULATIVE SUBSTITUTE PREFERENCE SHARES**

This announcement is made by the Bank pursuant to Rule 13.09 of the Listing Rules.

The Board is currently considering a proposal for the offering and issue of Hybrid Tier 1 capital instruments comprising the Notes to be issued by the Bank and the Innovate Preference Shares to be issued by Innovate. The Notes and the Innovate Preference Shares are proposed to be offered as, and will only be capable of being transferred as, non-detachable units each comprising one Note and one Innovate Preference Share.

The pricing of each unit comprising a Note and an Innovate Preference Share, including the aggregate principal amount, the subscription price and the interest rate (and hence the dividend rate) will be determined by reference to the prevailing market terms and rates and through a book building exercise by the Joint Lead Managers.

Upon finalising the terms and conditions of the Notes, the Innovate Preference Shares, the Substitute Preference Shares and the guarantee to be provided by the Bank, the Bank, Innovate, UBS Limited as the initial purchaser, and the Joint Lead Managers will enter into a conditional subscription agreement in respect of the subscription of the Notes and the Innovate Preference Shares. A further announcement in respect of the Proposed Issue will be made by the Bank should the Proposed Issue proceed and such subscription agreement and other related transaction documents be executed.

The Bank intends to seek approval from the Shareholders to issue the Substitute Preference Shares in accordance with the terms and conditions of the Proposed Issue. Accordingly, if the Proposed Issue proceeds, the Bank will convene an extraordinary general meeting of the Shareholders to consider, and if thought fit, approve such issue. In this connection, the Bank will make further announcement(s) and despatch a circular to the Shareholders as required under the Listing Rules.

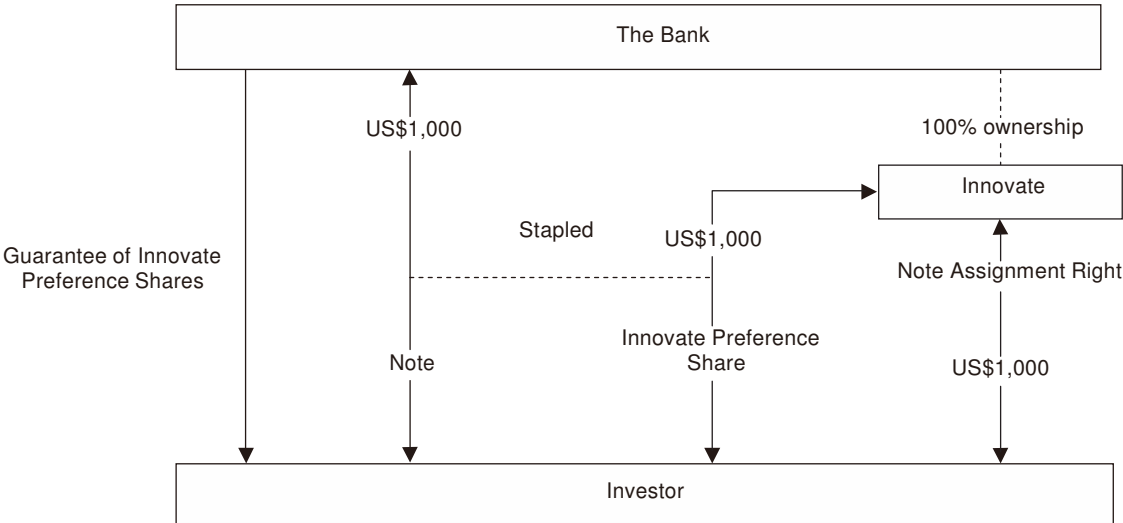
**As the Bank may or may not proceed with the Proposed Issue, Shareholders and prospective investors are advised to exercise caution when dealing in the securities of the Bank.**

**PROPOSED ISSUE OF THE NOTES, THE INNOVATE PREFERENCE SHARES AND THE SUBSTITUTE PREFERENCE SHARES**

This announcement is made by the Bank pursuant to Rule 13.09 of the Listing Rules.

The Board is currently considering a proposal for the offering and issue of Hybrid Tier 1 capital instruments comprising the Notes to be issued by the Bank and the Innovate Preference Shares to be issued by Innovate. The Notes and the Innovate Preference Shares are proposed to be offered as, and will only be capable of being transferred as, non-detachable units each comprising one Note and one Innovate Preference Share. It is intended that the initial purchaser of the Notes will grant to Innovate a right to have assigned to it all rights, title and interest in the Notes and all amounts deriving therefrom, effective upon the occurrence of certain events (which include deferral of interest payment on the Notes by the Bank, default in payment of principal amount in respect of the Notes by the Bank, upon maturity of the Notes in 2059, upon request from the HKMA or any Substitution Event). Each subsequent holder of the Notes will be required to agree that it holds the Notes subject to this assignment. Further, on the occurrence of certain of these events (each a Substitution Event), in addition to the assignment of the Notes to Innovate, the Innovate Preference Shares will be cancelled and substituted by the Substitute Preference Shares.

The diagram below depicts a simplified structure for the proposed issue of the Notes and the Innovate Preference Shares:



## **PROPOSED PRINCIPAL TERMS OF THE INSTRUMENTS**

The Notes, the Innovate Preference Shares and the Substitute Preference Shares will be denominated in U.S. dollars. The Notes will bear interest at an annual fixed rate for ten years with such interest payable semi-annually in arrears. After ten years, the Notes will bear a step-up floating rate with such interest payable quarterly in arrears. The Notes will be unsecured and subordinated in right of payment to the claims of senior creditors of the Bank. As part and parcel of the non-detachable units, the Innovate Preference Shares will initially not be entitled to any dividend until the Notes have been transferred to Innovate under the assignment described above, and upon such a transfer, the holders of the Innovate Preference Shares will be entitled to a non-cumulative preferential dividend at the same rate as the applicable interest rate on the Notes, in preference to the holders of ordinary shares of Innovate.

As a term of the Proposed Issue, the Bank intends to unconditionally and irrevocably guarantee the payment of dividends (if any) by Innovate and the liquidation preference on the Innovate Preference Shares. If the Innovate Preference Shares were to be substituted by the Substitute Preference Shares upon the occurrence of a Substitution Event as described above, the holders of the Substitute Preference Shares will be entitled to a non-cumulative preferential dividend at the same rate as the applicable interest rate on the Notes, in preference to the holders of ordinary shares of the Bank. It is also proposed that, commencing from the tenth anniversary of the Notes in 2019, Innovate and the Bank will have an option, subject to the prior approval of the HKMA, to redeem the Innovate Preference Shares and (if issued) the Substitute Preference Shares, respectively at par plus any accrued but unpaid dividend on those shares.

Both the Innovate Preference Shares and, if issued, the Substitute Preference Shares will be non-voting except in very limited circumstances including the non-payment of preference dividend that has become due and payable and the passing of a resolution to consider a winding-up proceeding, and they will have liquidation preference over the holders of the ordinary shares of Innovate and the Bank respectively.

The pricing of each unit comprising a Note and an Innovate Preference Share, including the aggregate principal amount, the subscription price and the interest rate (and hence the dividend rate) will be determined by reference to the prevailing market terms and rates and through a book building exercise by the Joint Lead Managers.

It is intended that the Notes and the Innovate Preference Shares will be offered and sold as stapled units by the Joint Lead Managers to certain non-U.S. persons outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended. None of the Notes and none of the Innovate Preference Shares will be offered to the public in Hong Kong or in any other jurisdiction where action would be required for such purposes.

Upon finalising the terms and conditions of the Notes, the Innovate Preference Shares, the Substitute Preference Shares and the guarantee to be provided by the Bank, the Bank, Innovate, UBS Limited as the initial purchaser, and the Joint Lead Managers will enter into a conditional subscription agreement in respect

of the subscription of the Notes and the Innovate Preference Shares. A further announcement in respect of the Proposed Issue will be made by the Bank should the Proposed Issue proceed and such subscription agreement and other related transaction documents be executed.

## **REASONS FOR THE PROPOSED ISSUE AND PROPOSED USE OF PROCEEDS**

The global financial economy underwent a volatile and difficult period over the past year and we have seen the tightening of credit, reduced market liquidity and weakened market sentiment. Nonetheless, central banks globally have implemented a series of quantitative easing measures which have led to stabilisation in the financial markets with better liquidity and improved sentiments. On the back of the improved market sentiment, the Bank believes the current environment presents an opportunity for the Bank to steer towards a more optimal capital mix in a relatively cost-efficient manner. Furthermore, as the proposed Substitute Preference Shares, if issued pursuant to the terms of the Proposed Issue, are non-cumulative and generally non-voting, the Bank believes that their issuance will not create any material dilutive effect on, nor affect the voting right of, the Shareholders of the Bank. Given the Proposed Issue comprises perpetual preference shares with non-cumulative distributions, the proposed Hybrid Tier 1 instruments of the Bank have been approved by the HKMA to qualify as Tier 1 capital of the Bank. If the Bank proceeds with the Proposed Issue, the Tier 1 capital of the Bank will be strengthened. Being the first bank to launch a Hybrid Tier 1 capital issue in Hong Kong, the Bank believes that this exercise will offer investors an attractive investment opportunity in one of the leading franchises in Hong Kong.

The Bank intends to use the net proceeds from the Proposed Issue in respect of the Notes for general working capital purposes.

## **LISTING**

Approval-in-principle has been received for the listing of the Notes and the Innovate Preference Shares on the SGX-ST upon their issue. The Bank also intends to undertake, if the Substitute Preference Shares are issued, to use all reasonable endeavours to obtain and maintain a listing of the Substitute Preference Shares on either the SGX-ST or the Stock Exchange of Hong Kong Limited.

## **PROPOSED CONVENING OF AN EXTRAORDINARY GENERAL MEETING OF THE SHAREHOLDERS**

According to the terms of the Proposed Issue, it is proposed that the final terms of the Substitute Preference Shares which may be issued in substitution of the Innovate Preference Shares be entrenched into the Articles of Association of the Bank. Furthermore, the Bank intends to seek approval from the Shareholders to issue the Substitute Preference Shares in accordance with the terms and conditions of the Proposed Issue. Accordingly, if the Proposed Issue proceeds, the Bank will convene an extraordinary general meeting of the Shareholders to consider, and if thought fit, approve these matters. In this connection, the Bank will make further announcement(s) and despatch a circular to the Shareholders as required under the Listing Rules.

**As the Bank may or may not proceed with the Proposed Issue, Shareholders and prospective investors are advised to exercise caution when dealing in the securities of the Bank.**

## **DEFINITIONS**

In this announcement, the following terms have the meanings set out below unless the context requires otherwise:

“Bank”	The Bank of East Asia, Limited;
“Board”	the board of directors of the Bank or a duly authorised committee thereof;
“HKMA”	The Hong Kong Monetary Authority or such other governmental authority in Hong Kong (or if the Bank becomes domiciled in a jurisdiction other than Hong Kong, in such jurisdiction) having primary supervisory authority with respect to the Bank;
“Innovate”	Innovate Holdings Limited, a wholly owned subsidiary of the Bank to be incorporated in the British Virgin Islands with limited liability;
“Innovate Preference Shares”	the perpetual non-cumulative step-up preference shares of no par value with a liquidation preference of US\$1,000 each to be issued by Innovate as part of the Proposed Issue;
“Joint Lead Managers”	UBS AG and Deutsche Bank AG, Singapore Branch, the joint bookrunners and joint lead managers for the Proposed Issue;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Notes”	the step-up subordinated notes due 2059 in the principal amount of US\$1,000 each to be issued by the Bank as part of the Proposed Issue;
“Proposed Issue”	the proposed issue of the Notes by the Bank, the Innovate Preference Shares by Innovate, and the Substitute Preference Shares by the Bank;
“SGX-ST”	Singapore Exchange Securities Trading Limited;
“Shareholders”	holders of the Shares of the Bank;

“Shares”	fully paid ordinary shares of HK\$2.50 each of the Bank (or such nominal amount prevailing from time to time);
“Substitute Preference Shares”	the perpetual non-cumulative step-up preference shares having a par value of US\$1,000 each to be created, and issued upon the occurrence of a Substitution Event, by the Bank as part of the Proposed Issue;
“Substitution Events”	if (i) the HKMA determines that the Bank has a capital adequacy ratio of less than 8% or such other percentage as stipulated by the HKMA from time to time; (ii) a winding-up proceeding is instituted against the Bank and is not discharged after a certain grace period; or (iii) a manager has been appointed by the HKMA pursuant to the Banking Ordinance (Chapter 155 of the Laws of Hong Kong);
“U.S. person(s)”	any person or entity deemed to be a U.S. person for the purposes of Regulation S under the U.S. Securities Act of 1933, as amended; and
“US\$”	U.S. dollars, the lawful currency of the United States of America.

By the Order of the Board  
**The Bank of East Asia, Limited**  
**David LI Kwok-po**  
*Chairman & Chief Executive*

Hong Kong, 23rd October, 2009

*As at the date of this announcement, the Executive Director of the Bank is: Dr. The Hon. Sir David LI Kwok-po (Chairman & Chief Executive); Non-executive Directors of the Bank are: Professor Arthur LI Kwok-cheung (Deputy Chairman), Mr. Aubrey LI Kwok-sing, Dr. William MONG Man-wai, Tan Sri Dr. KHOO Kay-peng, Mr. Richard LI Tzar-kai, Mr. Eric LI Fook-chuen, Mr. Stephen Charles LI Kwok-sze and Dr. Isidro FAINÉ CASAS; and Independent Non-executive Directors are: Dr. Allan WONG Chi-yun (Deputy Chairman), Mr. WONG Chung-hin, Dr. LEE Shau-kee, Mr. Winston LO Yau-lai, Mr. Thomas KWOK Ping-kwong, Mr. Kenneth LO Chin-ming, Mr. William DOO Wai-hoi, Mr. KUOK Khoon-ean and Mr. Valiant CHEUNG Kin-piu.*