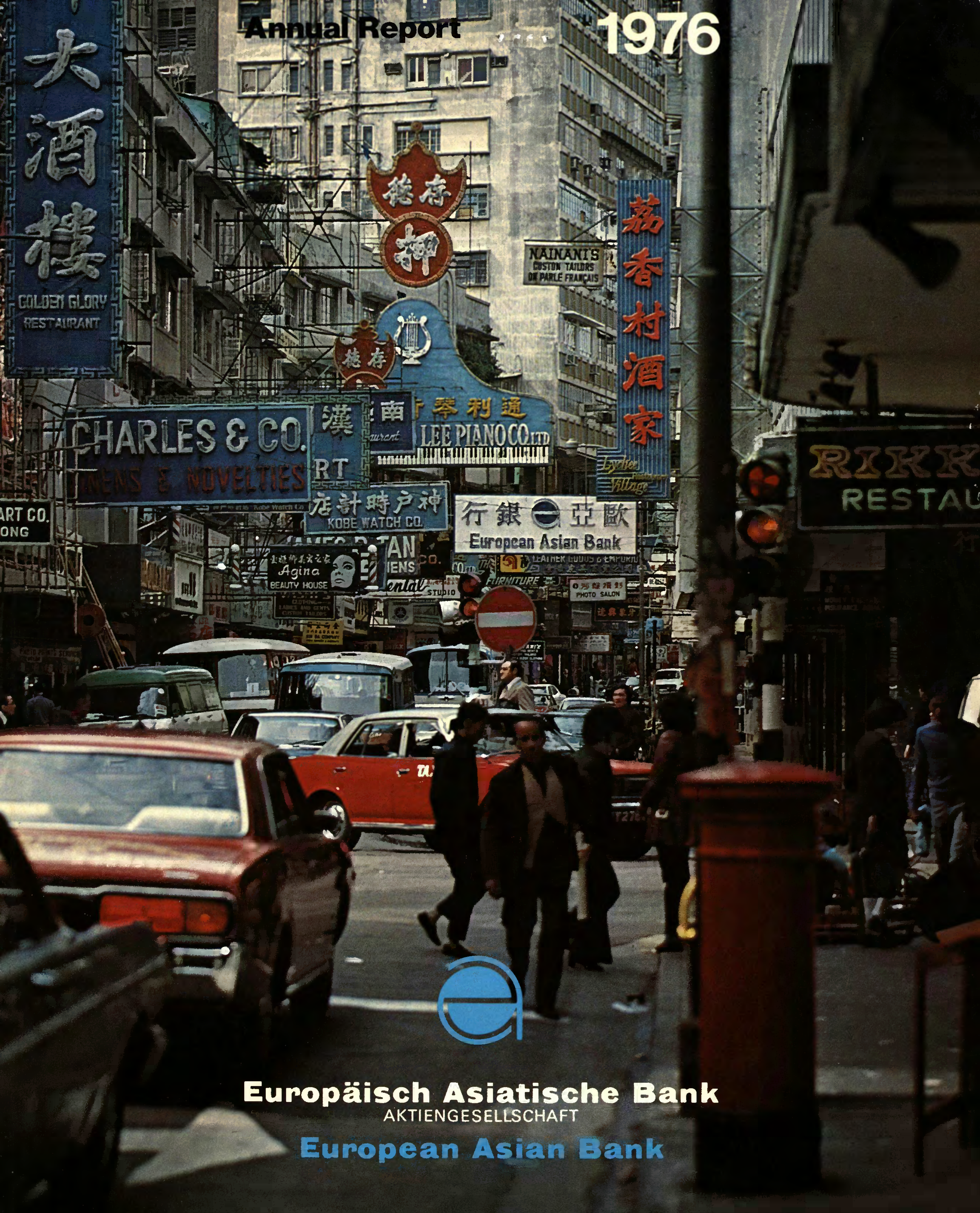
Annual Report 1976



Europäisch Asiatische Bank

AKTIENGESELLSCHAFT

European Asian Bank

Contents

Cover:
Hongkong – view of Cameron Road in Tsimshatsui, a prime location for local and international trading companies, as well as Kowloon's busiest tourist shopping area. Early in 1977 our bank opened a new sub-branch in this important business district.

Our Report for 1976 is published in English, French, German and Italian. Printed in West Germany.

Report for the Year 1976

Europäisch Asiatische Bank
AKTIENGESELLSCHAFT
European Asian Bank

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from April 29, 1976	**Dr. Guido Schmidt-Chiari, Wien** Mitglied des Vorstandes der Creditanstalt-Bankverein
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* elected by the staff

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until December 31, 1976	Jean Zahlen
from January 1, 1977	Bernard Stentzel
from February 1, 1977	Michael Böhm

EURASBANK
Five Years at a Glance

in millions of DM	1972*	1973	1974	1975	1976
Total assets	240	522	665	896	1,088
Business volume (Balance sheet total plus endorsement liabilities on rediscounted bills and liabilities arising from guarantees and warranty contracts)	300	618	796	1,117	1,392
Credit volume	132	370	572	720	845
Deposits	199	471	607	832	969
Capital and reserves	27	36	38	39	95
Net interest income	5.4	10.7	15.4	19.4	23.1
Taxes	1.5	2.1	5.1	6.5	6.5
Net profit	–.–	1.0	2.1	3.8	5.6
Dividend	–.–	–.–	–.–	2.8 (10 %)	5.6 (10 %)
Staff	377	389	443	457	482

* Partial business year.

South-East Asia in 1976 – Development and Prospects

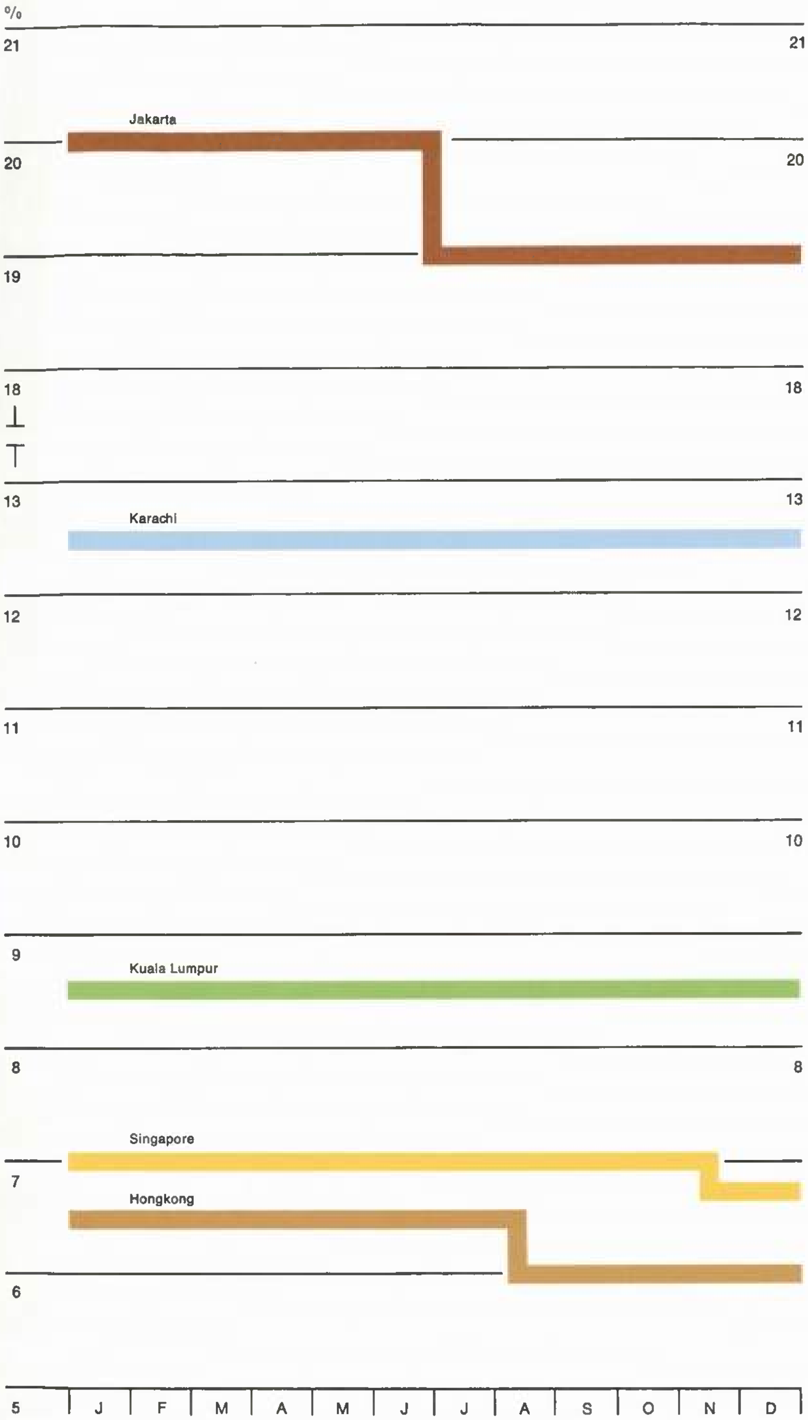
In 1976, the first year after the end of the Vietnam war, there were no dramatic changes in the balance of power or in international relations in South-East Asia. Nevertheless, it was a year marked by unrest. Only the future will show whether expectations are to be fulfilled with regard to the stabilisation of the situation in Thailand after the upheaval in October, the cease-fire negotiations between the Philippine government and the Muslim rebels in the south of the country, in which Libya is acting as an intermediary, the suppression of communist guerilla activity in Malaysia and the announcements from Hanoi that they want to develop the country with the aid of the World Bank, the Asian Development Bank and private foreign investors. The summit meeting of the ASEAN heads of state in Bali in February also raised hopes that this loose organisation of states might develop into a new factor in South-East Asia making for economic and political stability.

As far as the economic situation is concerned, 1976 fully came up to expectations. The international recovery brought considerable increases in production and exports in most of the countries of the area, particularly during the first six months. Malaysia and Indonesia, and to a lesser extent the Philippines, profited from the increase in commodity prices. Hongkong and Singapore derived considerable benefits from their growing industrial and service potential. In many cases, the increases in exports were extremely large. The exporters of industrial products in South-East Asia appear to have taken full advantage of the opportunities for achieving greater access to the markets of the industrialised countries which are provided in the form of tariff preference schemes for developing countries.

Improved export/import ratios have alleviated balance of payments problems. Even in the case of those countries in the area which have recently borrowed considerable funds on the international market the debt service ratio has not, according to the latest estimates, come dangerously close to the critical 20% of export receipts. The floating exchange rates in the area against the US dollar have remained relatively stable. At the same time, the reduction in price inflation continued in all countries. On the whole, the balance sheet for the region for 1976 shows a more favourable picture than that for other developing areas in the world, apart from the rich oil states.

However, in 1976 there was an undeniable weak spot in the region in the overall economic situation. Domestic and foreign investors continued to regard new projects with caution. This was due to various factors, in particular uncertainty regarding the development of the world economy. One reason for the present reluctance of foreign investors is probably the fact that expansion in the industrialised countries has not yet been strong enough to sufficiently reduce the underutilisation of industrial capacity. On the

Development of prime lending rates during 1976



other hand, there has been no change whatever in the attractiveness of South-East Asia in general as a location for investment.

The economic situation in Japan, the USA and, to a lesser extent in the EEC countries, has a considerable effect on the prospects for the economic development of South-East Asia in 1977, since 60% of the exports of the ASEAN group of countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) go to those markets. The growth curve for exports from South-East Asia showed signs of flattening out in the second half of 1976 in line with the decline in the rate of economic recovery in Japan and the USA.

Since it is doubtful whether the world economy will resume the strong growth of previous years in which South-East Asia participated to an above-average extent the export-orientated economies of the area are now faced with a new challenge. If the weaker commercial and investment impetus coming from outside the area is not to curb future development a strengthening of co-operation within the region may provide a solution. We trust that the present initiatives for a free trade zone within ASEAN will assume a more concrete form since intra-regional trade, representing as it does less than 15% of the total foreign trade volume of the ASEAN countries, in no way fully realises the potential which we feel undoubtedly exists.

Hongkong

Hongkong's economy, which had been hit harder by the recession than its competitors in the region during 1974 and 1975, made a *strong comeback* in 1976, far surpassing the somewhat pessimistic expectations. A substantial increase in orders from abroad led to rises in production, employment and exports month after month and in almost all sectors production was approaching full capacity. This surge of activity produced an increase of about 16 % in the real gross domestic product which meant not only that Hongkong enjoyed the highest rate of growth in South-East Asia in 1976 but also counted amongst top performers in the world. Confidence in the economy also influenced prices on the Hongkong stock exchanges. The Hang Seng Index at the end of the year was 28 % higher than at the end of 1975 – the best performance of any international stock market for 1976.

Consumer goods "Made in Hongkong" – from inexpensive and stylish clothes to pocket calculators – have become standard items in the catalogues of European mail-order houses. Pictured above in front of an airfreight consignment destined for the biggest European mail-order house, the Quelle group, are Heinz Wiens, Chief Manager of Eurasbank Hongkong, H. Braun, General Manager of Quelle Far East and Co., and Dr. K. Ambrosius, General Manager, Far East and Australasia, of Lufthansa (from left to right).

This economic success was due largely to three factors:

(1) The relatively small family businesses continued to dominate the industrial sector. The official statistics for June 1976 showed 31,972 industrial enterprises with less than 100 employees, and only 1,332 enterprises employing more than this figure. This unique *industrial structure* enabled the economy to react extremely quickly to increased demand, especially as the larger enterprises were able to resort to subcontractors as and when they experienced production bottlenecks. When the Americans started to replenish their extremely low stocks in the second half of 1975 Hongkong was in a position to swiftly boost production in order to meet the upswing in market demand. In addition to which further progress was made in the field of quality. The label "Made in Hongkong" was no longer automatically associated with cheapness. This applied particularly to the products of the *clothing industry* which switched in good time to medium-priced fashion goods. It turned out that demand for these products was greater than for mass-produced goods and the employment of fashion

designers from Europe has obviously paid off.

Despite all efforts to diversify the industrial structure the clothing industry is still the backbone of the economy. Together with the textile industry it again accounted for more than half the total exports in 1976. Well behind were toys, transistor radios, clocks and watches, household utensils, travel goods, electronic components and computer parts, each making up only a few percent of total exports. *Exports* to the USA showed a well above-average increase of 53 %. This arrested the trend of recent years towards a slight reduction in the importance of the USA as Hongkong's leading export market. Among the smaller customers France and Austria showed sizable increases. This surge in Hongkong exports was partly due to the worldwide "denim boom" which, however, seemed to have already passed its peak by the end of the year. A few of the smaller new factories specialising in this field have already had to close.

(2) An important factor in the speedy recovery of the Hongkong economy from the recession was the *wage restraint* exercised by workers in 1974 and 1975. This strengthened Hongkong's competitiveness in the world and paid off in 1976 for the broad mass of the population in the form of an appreciable increase in wages. The average daily industrial wage rose in real terms by over 10 % between March 1975 and March 1976. Due to the stable prices of imported foodstuffs Hongkong was relatively well protected against inflationary pressures from abroad.

(3) In addition to export demand, the growth in Hongkong's economy in 1976 also owed a great deal to the building sector. Of the government's numerous *infrastructural projects* the largest is the construction of the 15.6 km. underground railway. This project, which is perhaps the most important project ever to be undertaken in Hongkong, has strengthened the confidence of private investors in general. Other projects which will help to support or increase demand in the economy as a whole, depending on the economic situation in the rest of the world, are the planned construction in the next few years of various satellite towns and a large sewage treatment plant in the New Territories. According to a study carried out by the American Chamber of Commerce there are now 27 large development projects under execution or at the planning stage in Hongkong. The capital investment involved is estimated at over HK$ 15,000 million, including about HK$ 6,000 million for the underground railway.

With Hongkong standing directly in the shadow of *China* the death of Chairman Mao naturally caused certain shock waves to reverberate through the Colony, but these quickly passed. There is no indication that the economic benefits which China derives from the present situation are decreasing or are regarded less favourably in Peking; indeed, the most recent developments show the reverse to be the case. The construction of new oil storage tanks and petrol stations in Hongkong by China indicates that she intends to increase her share of the local market. China's interest in the economic prosperity of Hongkong was also underlined when the Chinese recently stated that they were prepared to increase supplies of water to Hongkong, and at a price which is considerably lower than that for water supplied from Hongkong's own reservoirs or from a desalination plant. Even greater interest was aroused by Peking's plan to set up, through a local firm which has strong connections with China, a machine-tool factory on the island of Tsing Yi which is incidentally situated in the vicinity of the Dow Chemical polystyrene plant which commenced operations in 1976. This new Chinese investment fits in well with the Hongkong government's policies of encouraging the development of capital-intensive industries.

In addition to the HK$ 160 million invested in the above-mentioned polystyrene plant by Dow Chemical, *foreign investors* injected a further HK$ 90 million into other enterprises during the first ten months of 1976. The total industrial assets owned by foreigners in Hongkong probably amounted to about HK$ 2,000 million at the end of 1976.

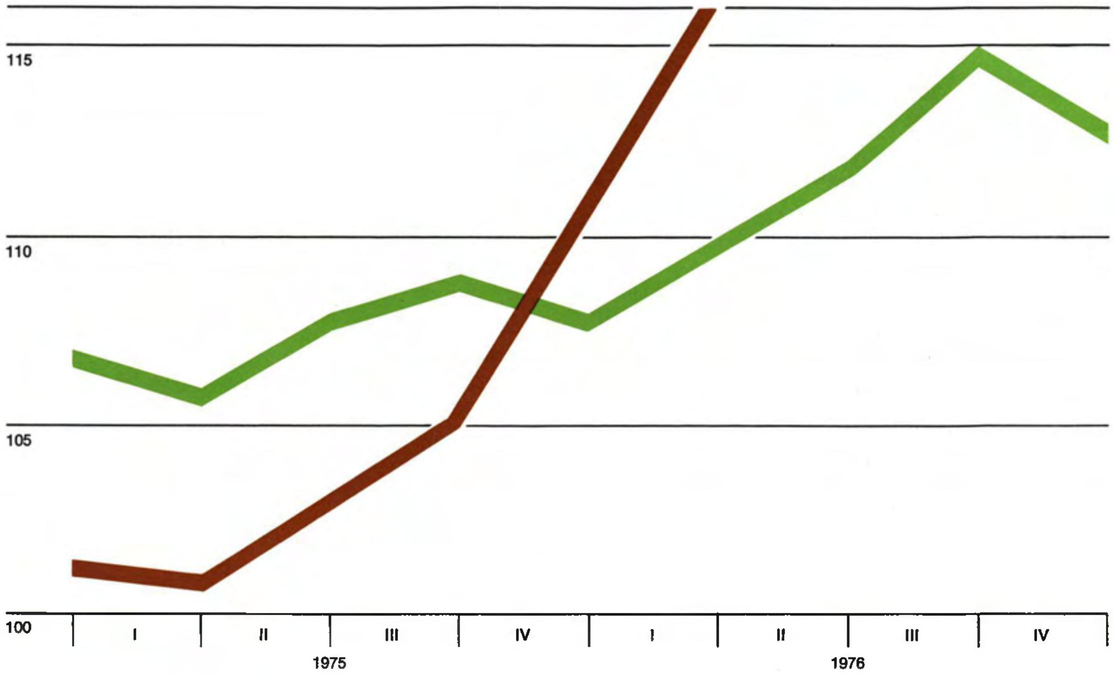
Early in 1977 our Hongkong branch opened its second sub-branch in Mongkok, the up-and-coming "Wall Street" of Kowloon. This is also where the head offices of many textile and industrial companies are located.

Wages and prices

New Consumer Price Index (B) – July 73 – June 74 = 100; derived from the pattern of households with monthly expenditure between HK$ 1,500 and HK$ 2,999 at the time of the survey.

Index of nominal average daily wages for industrial workers incl. fringe benefits – July 73 – June 74 = 100.

Source: Hongkong Monthly Digest of Statistics.



Hongkong's position as an *international financial centre* was further consolidated in 1976. Offshore loans again showed above-average growth. This business now constitutes over 30 % of the total funds lent by the 74 licensed commercial banks. The large reduction in Hongkong's trade deficit and the continued inflow of foreign funds brought a high degree of liquidity to the economy in 1976. In order to curb any further rise in the value of the local currency against the US dollar, which would have been undesirable for Hongkong's exports, the commercial banks once again lowered their lending and deposit rates during the first few days of the new year. The prime rate, at present 5½ %, is among the lowest in the world.

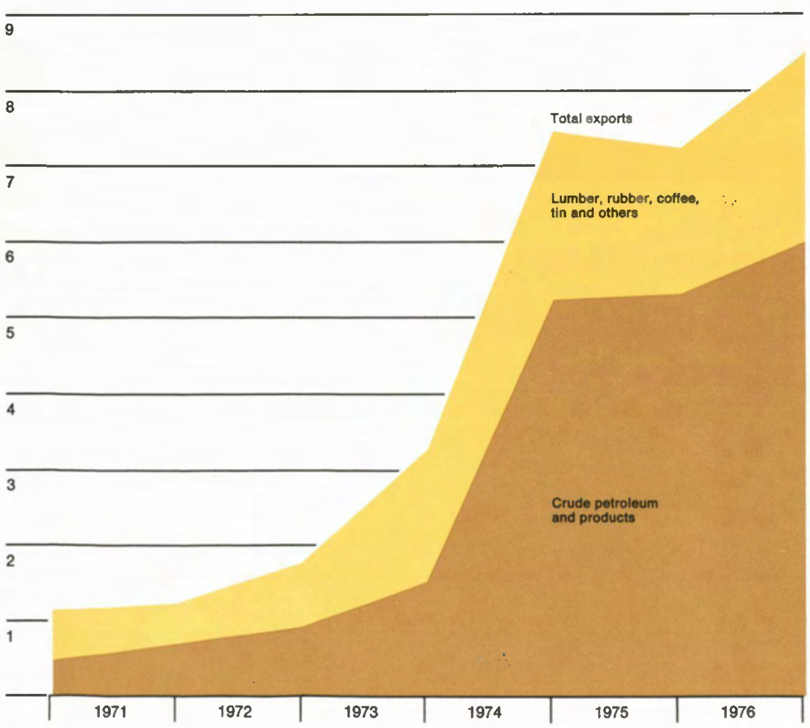
Rate of exchange on Dec. 31, 1976 . . . . . . US$ 1 = HK$ 4.6700
(against HK$ 5.0450 12 months before)

Indonesia

Despite the serious repercussions of the Pertamina crisis Indonesia's key economic statistics for 1976 revealed progress in certain important sectors compared with the previous year. The fact that the central bank resumed publication of its weekly reports at the beginning of September 1976 was regarded as an indication that the financial difficulties of the state oil company were being overcome by the government. These reports had not appeared for 16 months, during which time the official *net foreign currency reserves* had temporarily fallen to less than US$ 500 million, just enough to cover one month's imports. At the beginning of this year the Governor of Bank Indonesia announced that the reserves had risen to US$ 1,222 million by the end of December 1976. A week later the quarterly payments from the oil sector brought the figure up to the record level of US$ 1,800 million. However, foreign borrowings have since further increased and probably now exceed US$ 10,000 million.

This improvement in the foreign exchange reserves was due in particular to developments in foreign trade. The government's export promotion measures adopted in April together with the improved buoyancy in the world markets brought about a significant increase in export earnings. The re-negotiation of the contracts with the foreign oil companies also contributed to this increase since *oil* is the single most important foreign exchange earner and source of government revenue. Oil output rose from 477 to 550 million barrels and, as in previous years, more than 75 % of this was exported. With oil exports exceeding US$ 6,000 million in value net foreign exchange earnings from the oil sector rose by 25 % to US$ 3,650 million. With a few exceptions, there were also considerable increases in other exports such as timber, rubber and coffee. As a result of higher prices on the world market non-oil exports

Role of oil for export earnings
– US$ billion –



Source: International Financial Statistics, IMF; Bank Indonesia.

The Borobudur Temple in Central Java remains one of the most impressive examples of Buddhist art in the world. Many fund-raising activities have already been organized to save Indonesia's cultural monument from the ravages of erosion and climate. The application of modern technology plays a very important part in the difficult restoration work. Eurasbank is a contributor of funds to this project.

as a whole rose by 40 % to US$ 2,537 million. Taking all overseas transactions into account, including debt servicing, the overall *balance of payments,* according to the central bank, showed a surplus of US$ 732 million at the end of 1976. This represents a welcome improvement compared with the previous year's deficit of US$ 982 million.

After the sustained rise of previous years *imports* fell by an estimated 10 %. The anti-smuggling campaign, which was launched at the beginning of February 1976 and which continues to remain in force despite the delays incurred in customs clearance, undoubtedly played a part in this decline. Apart from purely fiscal considerations and its anti-corruption effect, the purpose of the campaign was to protect new domestic industries. In his budget speech for 1977/78 President Suharto announced that Indonesia would raise import barriers wherever domestic products could be substituted for foreign goods. Such restrictive import conditions have already been applied to textiles as from January 1, 1977.

Despite all its efforts the government failed to achieve self-sufficiency in food production in 1976. The planned target for rice was not reached owing to unfavourable weather conditions and crop disease; consequently the country was compelled to spend US$ 590 million on imports of rice and other foods. On the other hand, the official annual *inflation rate* was brought down in 1976 from 20 % to under 15 %. This high rate of inflation when compared with other countries encouraged speculation about a change in the parity between the Rupiah and the US dollar which has remained constant since 1972. As was to be expected, these rumours were denied by the government.

A good telecommunications network is essential for a country like Indonesia, spanning as it does an archipelago of more than 5,000 km. For this reason, the launching of the country's first *telecommunications satellite* which aimed to extend the domestic communications network was of considerable long-term importance. Linked to 40 ground stations, it enables 7,200 telephone calls to be conducted simultaneously, thereby greatly improving business communications. It is now possible to contact almost all the provincial capitals by telephone from Jakarta in a relatively short space of time. Leading European and American companies are taking part in the extension of the network, which is financed to a large extent by international bank loans.

Pertamina's difficulties compelled the government to examine and hive off all its non-oil activities. Many *large projects* were re-negotiated and reduced in size, reflecting the tight financial situation. Two loan agreements with a German banking consortium totalling nearly DM 1,200 million signed in the middle of 1976 provided the final financing for the first stage of the Krakatau steelworks in West Java which will have an annual capacity of 500,000 tons. Other projects have either been postponed (such as the construction of a floating fertiliser plant off Kalimantan) or are being proceeded with at a reduced pace (such as the industrialisation of the island of Batam off Singapore).

Indonesia: Production of pharmaceuticals under licence for the rapidly-growing domestic market. Bernd Satz (right), Manager and Eric Ballot (left), head of the loans department of Eurasbank in Jakarta, inspecting the production facilities of P.T. Tunggal. They are accompanied by Mr and Mrs Abidin, the two major shareholders of the company. Providing working capital for local industries constitutes a major part of the activity of our Jakarta branch.

Although the greater emphasis placed on purely national factors in Indonesian economic policy in recent years was not particularly favourable to the general investment climate, it has apparently not damped down the great interest shown by *foreign investors* in the Indonesian market. In fact, investment commitments from abroad for new industrial projects totalled about US$ 230 million in 1976. Although this represented a substantial fall compared with the record levels of previous years it was still a remarkable achievement considering the state of the world economy. It is interesting to note that West Java has now slightly overtaken the Jakarta region in terms of the total amount of foreign capital invested. The following table shows the main sources of foreign investment in projects approved up to the end of 1976 (excluding mineral oil and banks):

	US$ million	Number of projects
Japan	2,600	208
USA	1,010	116
Hongkong	654	120
Philippines	311	22
Fed. Rep. of Germany	203	32
Netherlands	200	51
Australia	197	45
Singapore	154	50
Taiwan	106	5

The government continues to regard the fight against inflation as one of its main tasks for 1977. The increase in the money supply (cash plus demand deposits) slowed down only somewhat in 1976 and was still very high at 31 %, compared with 33 % in 1975. The main instrument for restricting monetary expansion as announced by the Governor of the central bank will continue to be the credit ceilings imposed during April 1974. As a consequence of these restrictions the foreign banks operating in Jakarta are also compelled to exercise the utmost restraint in advancing funds to their customers. Therefore the opportunities for obtaining offshore loans (mainly in US dollars from Singapore) were made considerable use of again in 1976. Although the level of interest rates dropped slightly they are still among the highest in the area. At the beginning of 1977 the range of interest rates for deposits with the state banks was reduced from 6–24 % to 3–18 % p.a. (depending on the term). The purpose of this measure was to divert investment funds into the organised capital market which is to be set up in the middle of 1977.

Bank Indonesia official rate of exchange on Dec. 31, 1976 ....
US$ 1 = Rp 415 (same as 12 months before)

Malaysia

Malaysia, the world's most important producer of rubber, palm oil and tin, benefited considerably from the recovery in commodity prices in 1976. The increase in world demand for rubber, timber and manufactured goods was largely responsible for the *marked upswing* in economic activity. Real economic growth at about 8 % exceeded the forecasts by 2 % and once again the average price increase was kept within fairly narrow limits at less than 4.5 %. However, private investment activity in 1976 did not come up to expectations.

The trade balance, which traditionally shows a surplus and accounts for the relative strength of Malaysia's balance of payments, closed with a surplus twice the size of that for 1975. This was mainly due to *rubber exports* which rose by 10 % in volume and a hefty 50 % in value as a result of increased demand from the industrialised Western countries. The oil price increases since 1973 have strengthened the position of natural rubber against the synthetic product and the prospects for the natural raw material are also brighter with regard to consumption. Radial-ply tyres, which are now preferred by most motorists, as well as heavy-duty tyres for lorries, construction equipment and aircraft require a greater proportion of rubber owing to its high thermal stability and greater resistance to wear and tear.

In view of the wide fluctuations in rubber prices in the past and their effect on the earnings of small planters – who still produce most of Malaysia's output – price stabilisation has long been one of the declared aims of government policy. At the end of 1976 Malaysia signed an agreement with Indonesia, Singapore, Thailand and Sri Lanka providing for the creation of a rubber stockpile in order to facilitate a regulated supply of the commodity. These countries between them produce nearly 90 % of the world's output of natural rubber but they have expressly declared that they do not regard the agreement as a cartel to maximise prices but as an instrument for long-term price stabilisation.

The government is also endeavouring to increase the amount of *rubber processed* within Malaysia itself and in the past three years 20 processing plants have been set up and a further 24 are planned. Joint ventures with foreign investors in this sector of the economy are regarded most favourably by the state and are given every encouragement.

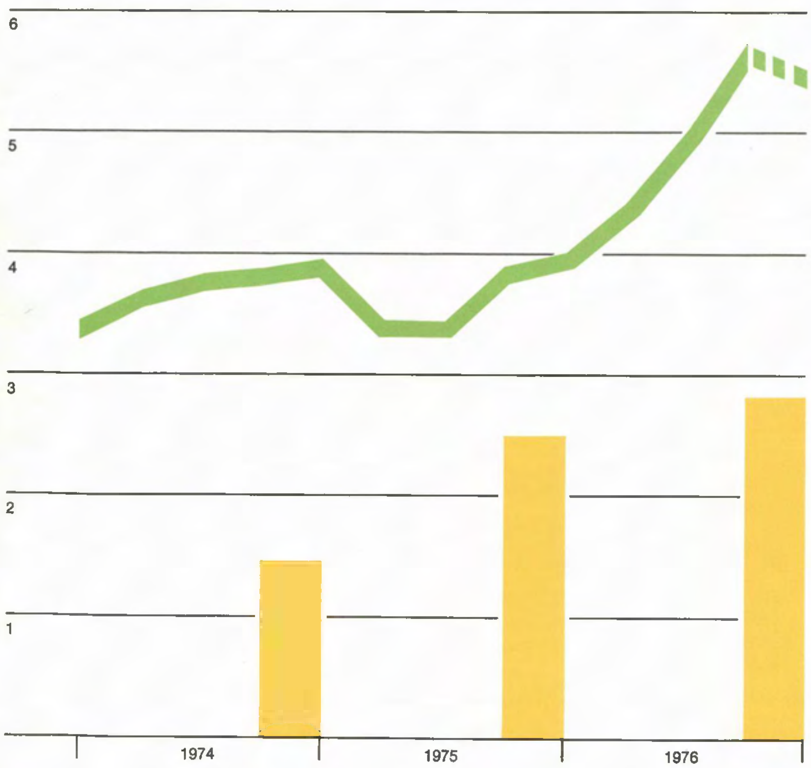
After the stagnation of the past two years the upturn in building activity in the industrialised countries brought about an increase in Malaysia's exports of *logs and sawn timber.* Trade delegations were sent overseas to explore new markets in the Middle East and among the EEC countries. In order to prevent Malaysia's name suffering as a result of irregular practices by a handful of exporters, such as the incomplete fulfilment of contractual obligations, the government empowered the Malaysian Timber Industry Board to require exporters to provide the

Board with copies of their contracts. Heavy fines are provided for timber exporters who fail to comply with this provision.

With regard to the other important Malaysian commodities only in the case of *palm oil* was there a noticeable drop in exports. The fall in prices was due to the worldwide increase in the supply of crude palm oil in recent years and to measures expected to be taken by the USA, hitherto the most important consumer country, to protect domestic soya bean producers.

In 1976 the exports of certain industrial sectors recorded well-above average contributions to the overall increase in Malaysia's export earnings. Notable among these were the two sectors electrical machinery, printing machinery, electric appliances (up 31 %) as well as textiles and shoes (up 77 %).

External public debt and external reserves
– M$ billion –



Source: Economic Report 1976/77, Ministry of Finance, Malaysia.

Despite the considerable growth in exports the Malaysian textile industry faced tough competition from South Korea, Hongkong and Taiwan on the international marketplace. Naturally this young industry is not yet able to enjoy the advantages of mass production to the same extent as its Asian competitors.

Oil exports were remarkably buoyant in 1976 and doubled in value. Japan and the USA were the main purchasers followed by Singapore, the Philippines and Thailand. In a relatively short space of time oil which makes up 14 % of total exports has become Malaysia's second most important foreign exchange earner, following rubber with 25 % but ahead of tin with 12 %. The entire oil output, which rose by 60 % to reach an average production of 160,000 barrels a day, came from the oilfields of Sabah and Sarawak. Commercial exploitation of the extensive deposits discovered on the East coast of Peninsular Malaysia has not yet started. After lengthy negotiations the state oil company, Petronas, reached an agreement at the end of the year with the foreign oil companies on the conditions for their continued activity in Malaysia which included production-sharing agreements along the lines of the Indonesian model. The successful conclusion of the negotiations was due in no small measure to the intervention of the Prime Minister, Datuk Hussein Onn.
It is to be expected now that the future pattern of development of the Malaysian oil industry will emerge more clearly thus improving the investment climate in the country as a whole which appeared to be adversely affected by the state of uncertainty reigning in the oil sector. This is particularly important since the private sector has an essential part to play in the achievement of the country's social and economic aims especially the elimination of poverty among all races.

Recognition of this is provided in the *Third Malaysia Plan* (1976–80) which is aiming for an average rate of growth in private investment of almost 10 % p.a. A lower rate of growth is set for public investment. The value of private investment is estimated to reach M$ 26,500 million by the Malaysian planners, who have displayed a remarkable degree of accuracy in their forecasts in the past of which M$ 16,500 million is expected to be financed by the private sector itself, M$ 6,400 million is to come in the form of government assistance to Malayan businesses and public enterprises operating in the private sector and M$ 3,600 million from long-term inflows of capital from overseas. The foreign element is set fairly low since its importance for Malaysia lies not only in the provision of finance but also in the technological and management know-how and the opening up of new export markets all of which, it is hoped, such investments will bring with them.

The 1977 budget contained concrete measures

Port expansion in Malaysia: To handle the country's rapidly increasing import-export business it is planned to almost double the handling capacity of the major ports of Peninsular Malaysia by 1980. Our bank is assisting the European contractors participating in these projects with loans and guarantee facilities. Left: H. O. Thierbach (centre), Chairman of Eurasbank's Supervisory Board on a visit to Port Klang accompanied by F. Stockbroekx (left), Chief Administrator and J. Skinner, Project Manager of Zueblin-Muhibbah, a German-Malaysian joint venture. Right: Extension works at the port of Butterworth. The contractors are Dragages Seado, a French-Malaysian joint venture.

underlining the government's intention to make the investment climate more favourable for domestic and foreign companies. The most significant change lay in the *new provisions for accelerated depreciation* whereby investments in plant and machinery undertaken in 1977, 1978 and 1979 can be written off in full within one year (the allowance was previously 20 %). This tax concession can be taken advantage of by businesses in 20 sectors of the economy, ranging from food to shipbuilding. Furthermore, in order to attract foreign capital, as from January 1, 1977, payments of interest to non-residents on loans or deposits from abroad with a maturity of not less than three years will be exempted from the 15 % *withholding tax.*

In the financial sector the central bank, Bank Negara Malaysia, issued new guidelines in 1976 compelling the *commercial banks* to observe certain minimum lending quotas for industry, agricultural food production, Bumiputra borrowers and housing finance when expanding their volume of lending. In order to encourage the export of domestically manufactured goods export credit facilities at particularly favourable interest rates were made available to exporters as from January 1977. The interest structure for commercial loans remained virtually unchanged in 1976. Nor have there been any signs in the first months of 1977 of any change in the situation which featured on the one hand ample liquidity in the money markets coupled with continued administrative restrictions on borrowing, particularly by foreign subsidiaries, on the other.

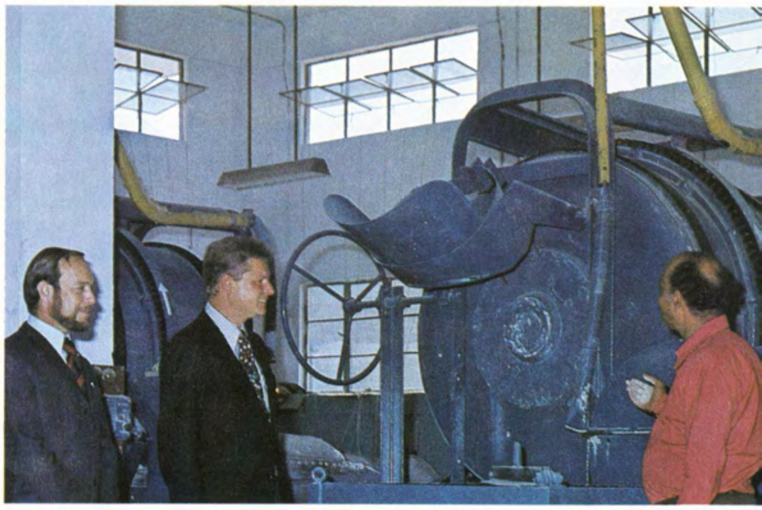
Rate of exchange on Dec. 31, 1976 . . . . US$ 1 = M$ 2.5335
(against M$ 2.5875 12 months before)

Pakistan

During the year under review Pakistan's economy experienced a slightly higher rate of growth than in 1975. This was principally due to increased exports and a further relaxation of the social climate which resulted in a sharp fall in the number of industrial strikes. It could be argued that the economy also benefited from the improved relations with India and Bangladesh, with whom trade agreements were signed. Progress was particularly marked in relations with India. Air and rail traffic, which had been suspended since 1971, was resumed. Private firms in Pakistan were once again permitted to trade with India. *Gross national product* only increased in real terms by an estimated 5 % in the financial year 1975/76 (compared with the revised rate of 3.2 % for the previous year) which was not as high as expected. This was mainly due to the very disappointing cotton crop and to continued pressure on the terms of trade. On the other hand there was considerable success in the fight against the high *rate of inflation.* The annual rise in prices, which had remained at between 20 % and 30 % during the previous two years, slowed down considerably and finally reached single figures.

On the other hand, the *balance of payments* situation remained problematical. Despite the fact that the upward trend in the deficits had been brought to a halt, additional demand for Pakistani goods did not increase sufficiently to bring about any significant reduction in the deficits.

Although the principal *export earners* were cotton and cotton textiles (44 %) followed by rice (20–22 %) the traditional range of Pakistani goods was progressively widened, particularly with the addition of such articles as sports goods and medical instruments. There was less raw cotton available for export in 1976 due to the poor harvest and earnings from rice exports suffered from a fall in price. Yet there were sharp increases in exports of cotton yarn, carpets, leather and fish. Hongkong and the state of its economy has a considerable influence on Pakistan's exports since it is the main buyer of cotton yarn and generally Pakistan's most important customer. In



Providing working capital for European-Pakistani joint ventures is a significant part of our Karachi branch's lending activities. H. Dieter Feusi (left), Manager – Dyestuffs and Chemicals Division, Ciba-Geigy (Pakistan) Ltd., explains the functions of a granulating plant for pesticides to Horst Kaiser, Manager of our Karachi branch. The increased use of such chemicals plays a vital part in improving the rice yield. Rice has become a top foreign exchange earner for Pakistan.

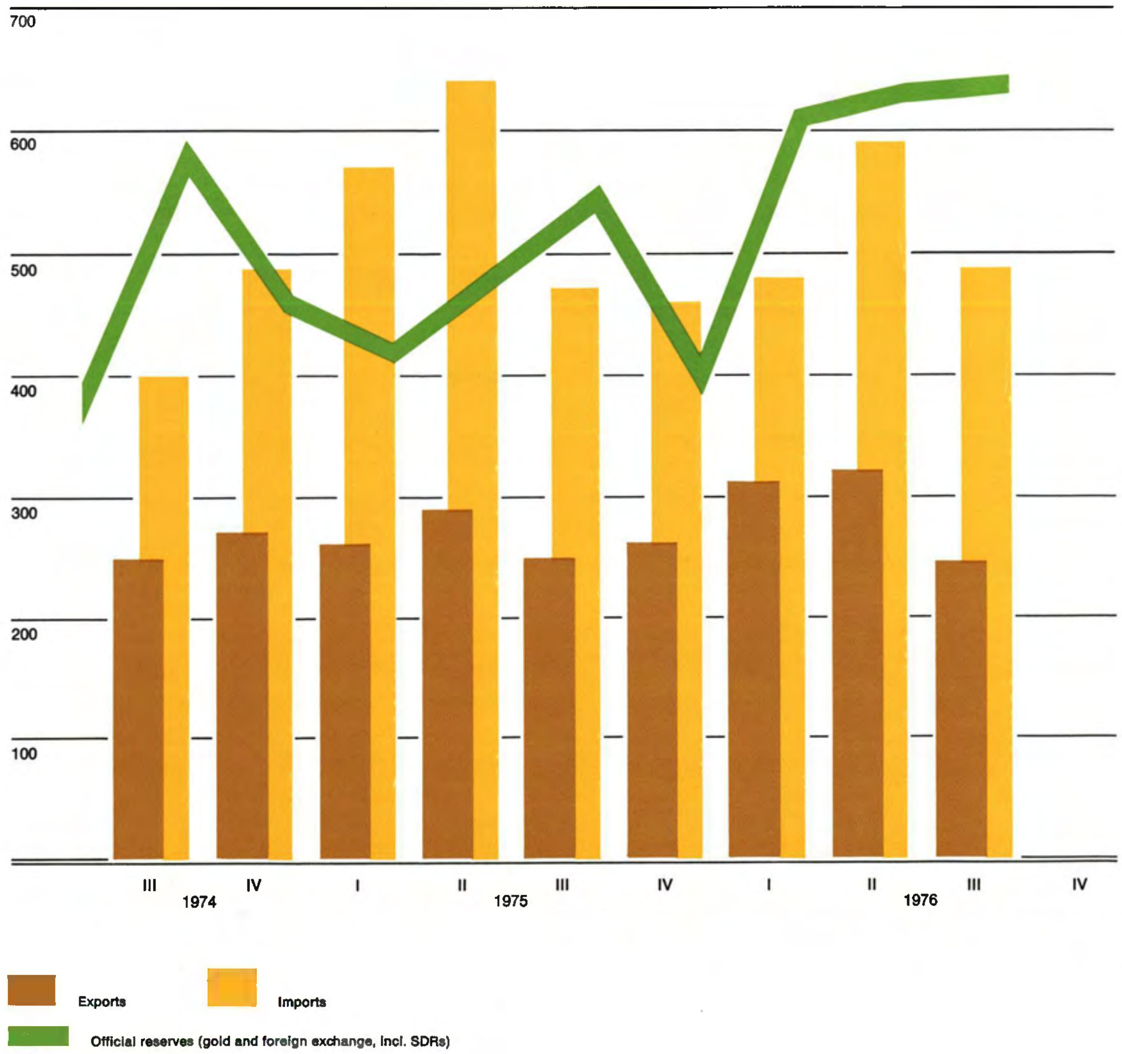
addition to Hongkong, the USA, West Germany and Italy have all greatly increased their imports from Pakistan.

With regard to *imports* into Pakistan, the United Kingdom again consolidated its position as the third largest supplier after the USA and Japan, after having lost ground over the previous years. In terms of value, the shift in imports towards capital goods continued. However, when the government announced its import policies for 1976/77, which represented a continuation of the relatively liberal line of recent years, it put a number of important and scarce consumer goods on the "free list" in order to prevent the smuggling of those products.

On the whole, Pakistan's foreign trade performance may be regarded as satisfactory under the circumstances. Exports rose by 9 % in 1975/76 and imports fell by 4 %, so that the deficit on the trading account was reduced by almost US$ 200 million to US$ 868 million. The export prospects for 1976/77 are not considered to be particularly promising due to the new widespread *floods* affecting particularly the cotton crop. Therefore the central government's present flood control programme is of vital economic significance. The Dutch government has provided part of the foreign funds for a flood warning system.

An important event for Pakistan's maritime trade was the laying of the foundation stone for the *new harbour* of Port Qasim, south-east of Karachi, by Prime Minister Bhutto at the beginning of August. This port is designed to ease the pressure on Karachi, at present the country's only sea-port. The first phase up to mid-1980 envisages the construction of seven multi-purpose berths and a quay for coal and iron ore for the Karachi Steel Mill, which is also currently under

Foreign trade
and international reserves
– US$ million –



Source: International Financial Statistics, IMF.

construction.

Pakistan's large *foreign debt* is chiefly connected with a number of big investment projects which are now being carried out in certain basic industries (e.g. steel, fertilisers, cement), in certain capital goods sectors as well as in the infrastructural field. Pakistan should begin to reap the benefit of these projects in the first half of the eighties in the form of increasing foreign exchange savings. Until then debt servicing which, despite the reliefs granted by the creditor countries, still equalled 16.8 % of export earnings in 1975/76, will probably continue to remain a heavy burden. However, two factors will provide a source of relief for the country's balance of payments. Firstly, considerable progress has been made in the efforts to achieve self-sufficiency in wheat, which constitutes the most important basic foodstuff after rice, and thus to become independent of imports. Secondly, remittances from citizens of Pakistan working abroad, which amount to about US$ 350 million per annum, now constitute more than one quarter of Pakistan's total export earnings. In 1975/76 these remittances alone rose by the equivalent of US$ 122 million, due in particular to the *export of labour,* with government encouragement, to the sparsely populated oil countries of the Middle East.

The comment we made in our last year's report that *foreign investors* were again becoming interested in Pakistan has now been confirmed by official figures. The net inflow from direct foreign investments in 1975/76 was US$ 55 million, a notable increase of US$ 40 million compared with 1974/75. A Swiss company and several French firms are at present studying the possibility of setting up plants in Pakistan to manufacture, inter alia, dental instruments, stainless steel water fittings, air compressors, air-guns and viscose fibre.

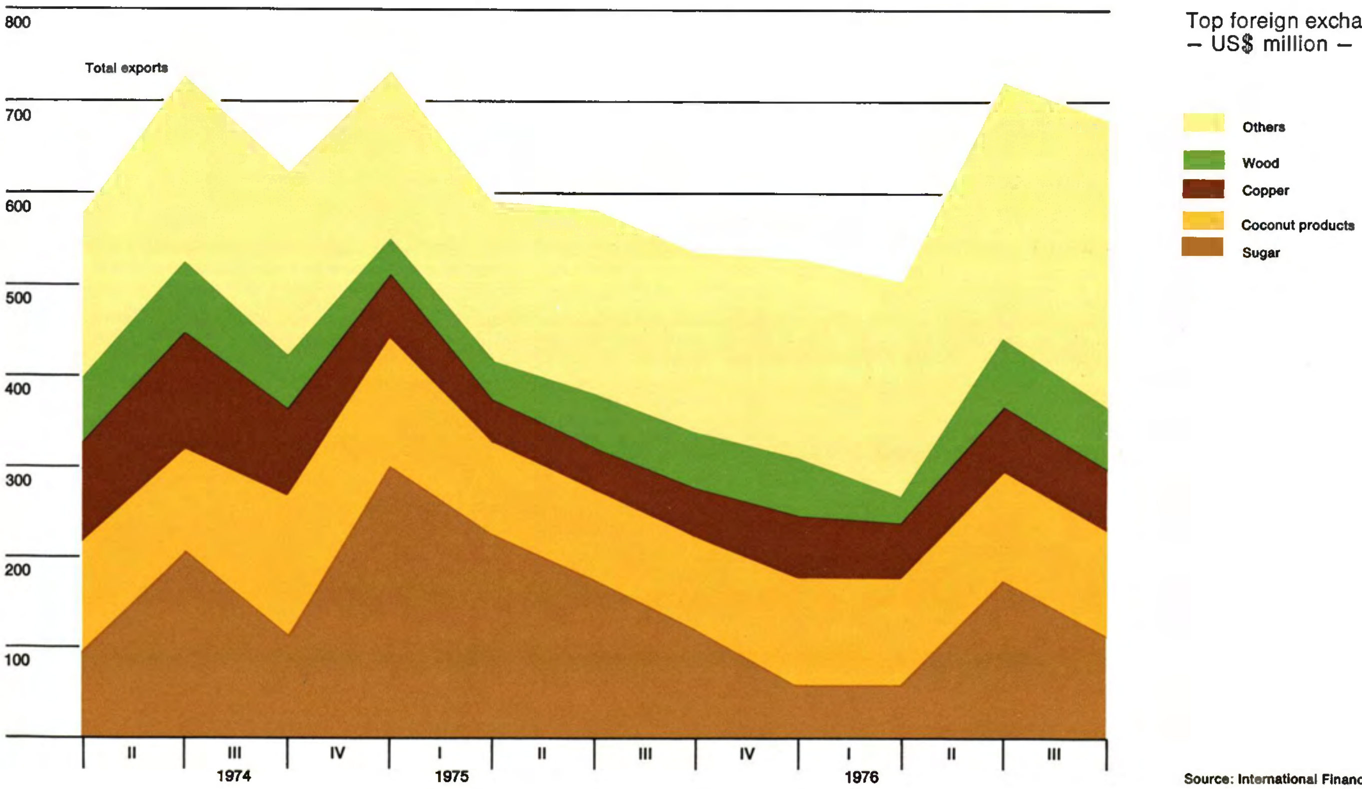
There were no significant changes in the financial sector in 1976 and the central bank maintained the restrictive policies with which it has achieved a considerable degree of success in the fight against inflation. As a result, the *commercial banks* and their industrial and commercial customers are still subject to quantitative and qualitative restrictions with regard to both lending and borrowing.

State Bank of Pakistan official rate of exchange on Dec. 30, 1976:
US$ 1 = Rs 9,9078 (same as 12 months before)

Philippines

Despite the Philippines' disappointing export performance during 1976, it was a satisfactory year for the economy as a whole. The rate of inflation fell to its lowest level for seven years (5.6 %), the balance of payments deficit decreased by more than was expected and economic growth accelerated slightly from 5.8 % to 6.3 %, thus improving the situation in the labour market. However, this progress was accompanied by a further increase in *external debt.* The figure for foreign public and private borrowings at the end of 1976 was US$ 5,500 million, an increase of 48 % over the year. About half of the total amount outstanding related to the private sector. The total debt service ratio, at an estimated 16 % of average three-year foreign exchange receipts, remained well within the statutory ceiling of 20 %.

Although manufacturing now accounts for about 20 % of the gross national product, the country's main economic problem still remains the dependence on



Top foreign exchange earners
– US$ million –

Source: International Financial Statistics, IMF.

a handful of export commodities such as sugar, coconut products, minerals and timber – all of which are subject to violent price fluctuations on the world markets. In particular, the Philippines suffers from the disadvantage that it was relatively late in embarking on the road of export-orientated industrialisation. The dominant policy of import substitution after the Second World War has only resulted in a limited degree of success and has not provided a permanent solution to the country's balance of payments problems. Whereas the exports of comparable countries in South-East Asia were considerably stimulated by the increase in consumer demand in the industrial countries in 1976, total exports from the Philippines remained roughly at the level of the previous year.

A significant drop in export earnings from *sugar,* the Philippines' most important export product, dominated the situation in the country's sugar industry in 1976 and constituted one of the principal reasons for the renewed trade deficit. Owing to the poor performance of world sugar prices the efforts of the Philippines to diversify its markets for this commodity following the expiration of the US Sugar Act at the end of 1974 did not prove too successful. Although the trading deficit fell from US$ 1,050 million to US$ 879 million during the year under review this was mainly due to the fact that *imports* fell at a faster rate (–6 %) than exports.

In view of its reserves of raw materials as well as the *cheapest source of well-trained labour* in South-East Asia the Philippines is well-placed to establish a resource-based industrial structure. As a consequence, it is planned to process within the country itself at least some of the copper which has hitherto been exported to Japan in the form of copper concentrates. This should not only provide more employment and extra foreign exchange earnings from the higher value added but it should also save the foreign currency now spent on importing the refined metal for domestic consumption. In 1976, the plans to build the first Filipino copper smelter made further progress towards being realised. In view of the limited size of the domestic market we welcome the agreement made at the beginning of 1977 between President Marcos of the Philippines and the Prime Minister of Singapore, Lee Kuan Yew, to take the first steps towards the creation of a free trade zone among the ASEAN countries by reducing tariffs by 10 % on all products traded between the two countries.

Although the considerable inflow of foreign capital reduced the overall balance of payments deficit in 1976, it still contributed to the above-mentioned increase in the external debt. Only about 12 % of the inflow was in the form of direct investments; the rest being largely made up of *loans* to the private and public sectors. The shortfall in the balance of pay-

View of Manila bay. The choice of the Philippine capital as the venue for the 1976 joint meeting of the World Bank and IMF has focused world-wide attention on this country and the economic reforms initiated by the Government of President Marcos.

ments was covered by compensatory borrowings by the central bank, which also enabled the exchange reserves to be increased by US$ 54 million to US$ 1,143 million. This produced an import coverage of 4½ months, a figure which is above the traditional yardstick of three months.

The capacity of the Filipino economy to resist unfavourable external influences depends to a significant extent on its relatively secure agricultural base. The Philippines was the first Asian country to put the "green revolution" into practice in respect of rice. The government's reform programme since 1972 also helped raise the yields in agriculture, leading last year to an increase in agricultural production of 7.8 %. This exceeded the growth rate for *industrial production* which once again showed a positive increase after the decreases of the previous two years (–0.8 % in 1975 and –2.4 % in 1974). The *construction industry* did not maintain its high rate of growth in 1976. A drop in hotel building was, however, compensated to a certain extent by a rise in construction work in the public sector.

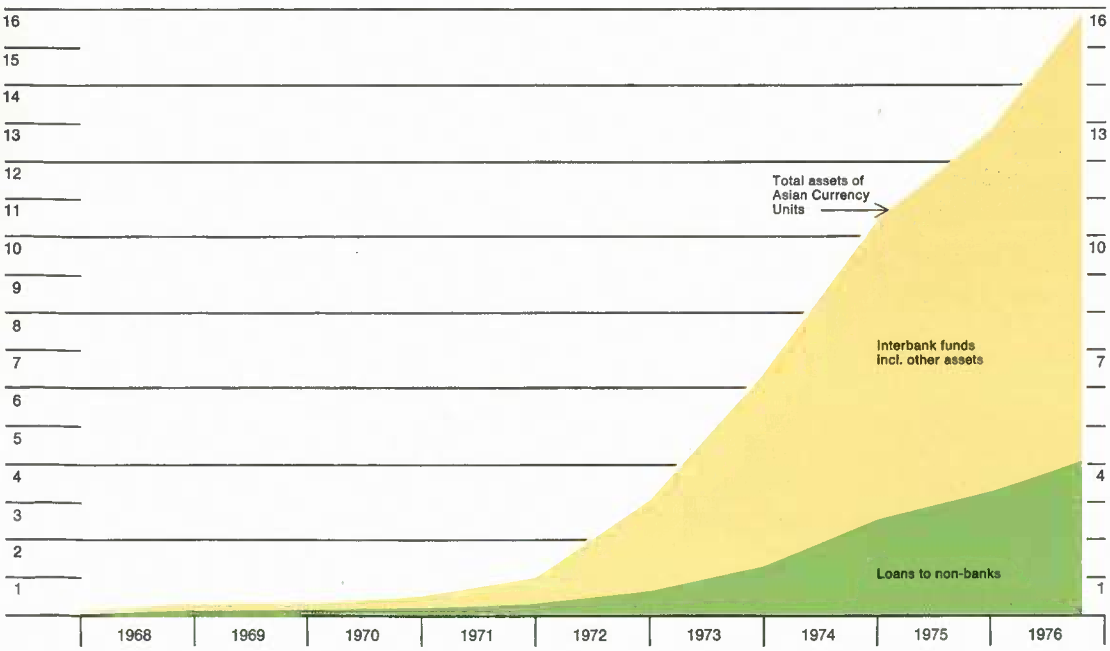
The first *oil strikes,* made in the waters of the Philippines' continental shelf in 1976, have aroused expectations of further successes in oil exploration. Since 1972 exploration has been conducted more intensively than before in collaboration with foreign oil companies. Should the deposits already discovered and those presumed to exist on the basis of the geological conditions in this area justify commercial exploitation it will bring considerable relief to the Philippines' balance of payments in the future. The cost of oil imports amounted to over 20 % of the total import bill in 1976.

Although the financial sector in the Philippines is in some respects highly sophisticated, Manila has hardly been of any real significance as an international banking centre due to its restrictive regulations. However, after lengthy preparations the government's plans to actively participate in the expanding Asian dollar market, which has long been centred on Singapore and Hongkong, took a step nearer to realisation in September 1976. An *offshore banking system* along the lines of that already existing in Singapore is to be established and detailed rules governing the opening of branches have already been adopted. A limited number of leading international banks will be licensed to set up Offshore Banking Units (OBUs) in order to accept foreign currency deposits from non-residents and to lend these funds abroad or within the Philippines itself, particularly if they are destined for development purposes. As well as facilitating access to offshore funds to finance domestic projects this new scheme should attract more foreign investors to the Philippines.

Rate of exchange on Dec. 31, 1976 .... US$ 1 = ₱ 7.428
(against ₱ 7.498 12 months before)

Singapore

As a result of skillful economic management Singapore was able to demonstrate a greater degree of resilience and adaptability to the recent economic recession than some of the leading industrialised countries. At carefully selected intervals throughout the year the government applied measures to stimulate the economy in order to counter the setbacks caused by a decline in overseas trade during 1975. Public sector construction work was stepped up and the policy of encouraging investment from abroad was intensified. The economic *recovery* which had already begun in the second half of 1975, spurred on by greater demand from the public sector, was supported by an appreciable rise in exports. The gross domestic product showed a real increase of about 7 % in 1976 (against 4.1 % in 1975). Nor was this achieved at the expense of price stability. On the contrary, Singapore was the only country in South-



Asian dollar market since its establishment
– US$ billion –

Source: The Monetary Authority of Singapore.

East Asia which could boast a *negative rate of inflation* throughout 1976 comparing each month with the corresponding period in 1975. The consumer price index as at December 1976 was 1.5 % below that for December 1975.

Singapore's striking economic and social progress on the one hand and its remarkable political stability on the other are by no means unrelated to each other. The People's Action Party, led by the Prime Minister, Lee Kuan Yew won all the seats in the *general elections* of December 1976 (as it did in 1972) thus continuing an unbroken run of success since 1959. In addition the Party managed to increase its proportion of the vote from 69 % to 72 %.

Singapore's *foreign trade*, which is normally in the red due to structural reasons, closed the year with the lowest deficit since 1973. Exports as a whole, including re-exports which fell to about 40 % of the total, went up by 27 % to S$ 16,300 million. After diminishing slightly in the previous year, imports rose again by 16 % to S$ 22,400 million. These figures do not include trade with Indonesia, the statistics for which are not published.

In line with the development of overseas demand, Singapore's export-orientated *industry*, which suffered a setback in 1975, demonstrated increases in production and employment during 1976. Total output rose by 11 %, although among the key industries the pattern varied considerably. The oil refineries, which were only working at roughly half-capacity in 1975 – mainly due to a fall in demand from Japan and the loss of the markets in Laos, Cambodia and South Vietnam (as it then was) – increased their output by 25 %. On the other hand, shipbuilding and ship repairing suffered from the worldwide downturn in orders and tougher international competition, notably from Japan and South Korea.

Direct foreign investment in Singapore continued to be affected by the world recession, although there were signs of a new upward trend in 1976. Foreign investment commitments in manufacturing industry rose by 83 % to S$ 155 million in the first half of 1976 compared with the second half of 1975, the increase being mainly attributable to small and medium-sized projects. Since Singapore seeks to attract small but highly specialised foreign industrial firms the minimum investment amount of S$ 1 million is now no longer required to qualify for "pioneer status" and the resulting tax concessions. It should be noted that foreign firms showed great interest in Singapore's plan to set up a diesel engine factory to supply the ASEAN countries.

Lenses: The manufacture of these optical goods for civil and military requirements calls for a high degree of skill on the part of the workforce. Avimo Singapore Pte. Ltd., which was incorporated in 1973, was one of the few companies with pioneer status to achieve profitability in its first year of operation. Its major shareholder is United Scientific Holdings Ltd. of the U.K.

The development of Lamipak Industries Pte. Ltd. reflects the dynamism of many local industrial ventures. Six years ago the company commenced production of plastic packaging materials with a workforce of fifty. Today it is a leading manufacturer in this field employing some 350 workers. Overseas markets account for 90 % of the company's output. Francis Siah (left), Managing Director of Lamipak and Frederick J. A. Brown, Manager of Eurasbank in Singapore.

One of the government's large *development projects* is the construction of a second international airport at Changi. For this purpose the largest contract ever signed in the region for land reclamation was concluded with three Japanese firms in March 1976. In 37 months 745 hectares of new land are to be reclaimed from the sea and some of this is to be used for the airport's second runway. To ease the traffic problem, Singapore is also considering the construction of a mass rapid transit system with 31 stations (16 underground) and with a total length of 40 km. However, in view of the high cost, which is estimated at S$ 2,800 million, no decision has yet been taken.

To consolidate Singapore's position as an *international financial centre* the exchange control regulations were further eased in February 1976 but the government has not yet announced a date for the merger of the Currency Board with the Monetary Authority of Singapore (MAS) to form a central bank.

With continued liquidity in the money market, the *commercial banks* were again able to offer marginally easier terms for loans to customers during the year under review. The average rate of interest on loans, as published by the MAS, fell from 9.1 % to 9 % in the period from March to September 1976 and prime lending rate lay between $7^1/_4$ % and $6^3/_4$ %.

The *Asian dollar market* again showed a stronger growth in 1976 when measured in terms of the total assets of the Asian Currency Units domiciled in Singapore. At the end of October the market reached S$ 15,900 million, an increase of 35 % compared with October 1975. However, this rise was mainly attributable to interbank business. Non-bank deposits stagnated and credit business with non-banking customers only increased by 22 %. Yet there was considerable new issue activity in the *Asian dollar bond market* in 1976 and altogether ten new bond issues were completed for amounts ranging from US$ 12 million to US$ 60 million. This compared with a total of eight issues in the previous 5 years.

Rate of exchange on Dec. 31, 1976 .... US$ 1 = S$ 2.4570
(against S$ 2.4875 12 months before)

Once again the bank was able to demonstrate a strong growth in the volume of its business which rose by 24 % from DM 1,120 million to DM 1,390 million.

Co-managing and participating in international loan syndications, mainly for the financing of projects in South-East Asia, continued to be an important activity of our bank in 1976.

This included an increase in our contingent liabilities resulting principally from our activities in the field of trade finance as well as in the provision of performance bonds for large-scale projects being undertaken by major European construction companies in South-East Asia. In 1976 the balance sheet total exceeded the 1 billion mark level for the first time. The rise of 21 % from DM 896 million to DM 1,088 million was largely attributable to an increase of 19 % in short-term commercial lending, including discounts, which surpassed even last year's rise. We regard this increase as a significant confirmation of our bank's competitiveness despite the somewhat depressed economic conditions and a relatively high degree of liquidity among commercial companies in most countries.

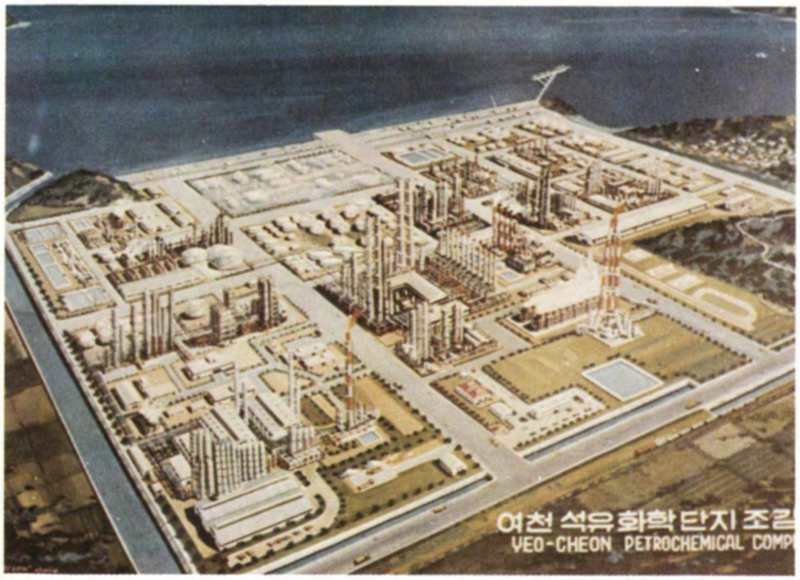
In line with the sustained growth of the bank the issued capital was raised by DM 28 million during the first half of 1976. Since the new shares were issued at a premium of 200 % we in fact obtained an injection of funds amounting to DM 56 million, thus raising our capital and reserves to DM 95 million. This represents a further tangible token of the confidence of our shareholders in the further development of the bank.

The fruitful co-operation with the other EBIC banks, particularly the European-American Banks, the European Credit Bank (BEC) and the European Banking Company as well as with our shareholder banks was continued in 1976. The services of our branches were again available to those commercial customers of our shareholders who were engaged in business in South-East Asia. This was especially so during the Belgian Industrial Exhibition in Singapore and during visits by European trade delegations.

The bank's sources of deposits which reflect the local restrictions on accepting deposits in the countries in which we operate basically remained unchanged. There was an increase in deposits from banks but it was less than that of the previous year.

The bank's profits were also satisfactory in 1976 so that we can now propose to our shareholders the payment of a dividend of 10 % on the increased share capital. The net interest income from current business rose by 19 % to DM 23 million. As in previous years the 1976 net earnings grew proportionately faster than the volume of business as a whole. However, downward pressure on interest margins caused by competitive conditions in the market left its mark on the bank's results. On the other hand, the increase in operating costs was held down to 6 %.

Evidence of the further extension of our services was provided by the introduction of the bank's own telex network in the form of a leased round-the-clock private line linking up all the branches in South-East Asia with each other and with the head office in Hamburg.



Together with other EBIC banks and affiliates, Eurasbank participated as a co-manager in a $ 61 million financing arranged by European Banking Company for the construction of plants for Korea Pacific Chemical Corporation to produce ethylene dichloride, vinyl chloride monomer and low density polyethylene and plants for Dow Chemical Korea Limited to produce chlorine and caustic soda in a major new petrochemical complex on Korea's south-west coast.

By transferring the existing sub-branch at Sham Shui Po at the beginning of 1977, our Hongkong branch opened two new sub-branches in the bustling commercial area of Kowloon. In this way our Hongkong branch has been able to extend its range of services to its local clients in this centre of trade and commerce.

The main office in Hongkong, which now employs a staff of over 110, will in the first half of 1977 be moving into more spacious premises in the nearby brand-new Al Tower in the Queen's Road. Similarly, our Karachi branch will also be moving a short distance to new offices in the recently-built Unitowers in the Spring of this year. This will then complete the process which began in 1972, whereby all our overseas branches have moved into new modern premises.

European Asian Finance (Hongkong) Limited, which was set up by us together with our shareholder banks in 1975, participated in a number of large international financings in 1976, too. This served to reaffirm the competitive position of our bank in the financial centre of Hongkong which is noted for the activities of the numerous foreign finance companies present there.

As a result of the further increase in our volume of business the number of our employees rose by 5 % from 457 to 482. Once again we are grateful to all our staff for their contribution to the success of the bank. Co-operation with the representatives of the staff continued on a constructive basis of mutual trust.

Notes on the Statement of Accounts for the Year

BALANCE SHEET

Liquidity

Our cash reserve – cash in hand, balances with the Deutsche Bundesbank, foreign central banks and on postal cheque accounts – rose from DM 28.3 million to DM 33.0 million. Balances with the Deutsche Bundesbank and foreign central banks rose by DM 2.4 million and DM 1.9 million respectively.

The sum of liabilities to credit institutions and other creditors, including our own acceptances in circulation and sundry liabilities, amounted to DM 970.9 million (DM 835.0 million last year). The relation of the cash reserve to this *(cash liquidity ratio)* was 3.4 % (3.4 % last year).

Total liquid funds – cash reserve, cheques on other banks, matured bonds, interest and dividend coupons, as well as items received for collection, bills rediscountable at the Bundesbank, demand claims on credit institutions, Treasury bills and non-interest-bearing Treasury bonds, bonds and debt instruments eligible as collateral for Bundesbank or foreign central bank advances – increased by DM 46.5 million to DM 122.8 million. The proportion of liabilities covered by liquid funds *(total liquidity)* thereby amounted to 12.7 % (9.1 % last year).

Securities

Together with *bonds and debt instruments,* which rose by DM 1.2 million, *Treasury bills and non-interest-bearing Treasury bonds,* which fell by DM 0.6 million, served to meet the capital and liquidity regulations concerning our branches in Asia to a value of DM 8.5 million.

Securities to the value of DM 0.5 million as well as DM 0.2 million of equalisation claims were pledged to the Deutsche Bundesbank for advances on securities or for discounting of own acceptances.

Total credit extended

The volume of credit grew by DM 124.7 million (17.3 %); the increase in claims on customers was DM 57.6 million or 16.1 % and in discounts DM 34.6 million or 46.3 %.

The breakdown of the volume of credit as per end of 1976 and 1975 is given overleaf.

Of bills in hand, DM 39.8 million were eligible for rediscount at the Deutsche Bundesbank. The remainder were, without exception, bills of undoubted quality for which the regulations governing rediscountability at the Bundesbank do not apply as far as they are held by our foreign branches.

DM 0.3 million (DM 0.7 million last year) of claims on customers were financed from funds taken up for specific purposes on the terms fixed by the lending institutions.

Besides the above-mentioned credits we extended *guarantee facilities and letters of credit* amounting to DM 296.6 million to our customers (DM 214.3 million last year).

Account was taken of all discernible risks in the lending business through adjustments and provisions.

Participations

This item increased by DM 0.2 million through the acquisition of shares in the Export Credit Insurance Corporation of Singapore Ltd. The participations involve obligations to pay up a maximum of DM 1.7 million and a contingent liability for the obligations of other partners in the Liquiditäts-Konsortialbank GmbH, Frankfurt.

The liabilities for calls on shares, arising from

Volume of credit	— in millions of DM — End of 1976	End of 1975
Claims on customers		
short and medium-term	DM 303.5 = 35.9 %	DM 273.5 = 38.0 %
long-term	DM 111.1 = 13.2 %	DM 83.5 = 11.6 %
	DM 414.6 = 49.1 %	DM 357.0 = 49.6 %
Discounts	DM 109.4 = 12.9 %	DM 74.8 = 10.4 %
Lending to credit institutions	DM 321.0 = 38.0 %	DM 288.5 = 40.0 %
Total volume of credit	DM 845.0 = 100.0 %	DM 720.3 = 100.0 %

participations, remained unchanged (DM 10,000.–).

Concerning our participation of DM 1.5 million in European Asian Finance (HK) Ltd., Hongkong, please refer to page 38. The audited Statement of Accounts was approved by the company's chartered accountants in Hongkong without qualification.

Fixed assets

The item *land and buildings* was decreased by ordinary depreciation of DM 0.1 million to DM 3.6 million.

Office furniture and equipment decreased to DM 2.0 million, after additions of DM 0.5 million, ordinary depreciation of DM 0.7 million and special depreciation of DM 0.1 million.

Other asset items

The items *sundry assets* and *transitory items* respectively consist essentially of rent deposits and advance rent payments as well as claims for tax refunds.

Funds from outside sources

Total funds from outside sources rose by DM 136.9 million or 16.5 % to DM 969.1 million during the year under review.

The composition of the development as per end of 1976 and 1975 is shown on the next page.

Participations

with book values exceeding DM 0.1 million	Others
Commercial Pacific Trust Company Ltd. (COMPACT), Port Vila, New Hebrides	Credit Guarantee Corp. Malaysia Berhad, Kuala Lumpur
European Asian Finance (HK) Ltd. (EAF), Hongkong	Deutsch-Indonesische Tabak-Handels-GmbH, Bremen
Export Credit Insurance Corporation of Singapore Ltd., Singapore	Deutsch-Indonesische Tabak-Handels-GmbH & Co. KG, Bremen
Liquiditäts-Konsortialbank GmbH, Frankfurt/Main	European Asian Bank (Hongkong) Nominees Ltd., Hongkong
	European Asian Bank (Singapore) Nominees Priv. Ltd., Singapore
	Privatdiskont AG, Frankfurt/Main

– in millions of DM –

Funds from outside sources	End of 1976	End of 1975
Liabilities to credit institutions		
demand deposits	DM 99.7 = 10.3 %	DM 43.4 = 5.2 %
term deposits	DM 628.2 = 64.8 %	DM 561.2 = 67.5 %
customers' drawings on credits opened at other institutions	DM 4.5 = 0.5 %	DM 3.6 = 0.4 %
	DM 732.4 = 75.6 %	DM 608.2 = 73.1 %
Liabilities to non-bank customers		
demand deposits	DM 98.4 = 10.2 %	DM 97.4 = 11.7 %
term deposits	DM 131.8 = 13.6 %	DM 123.2 = 14.8 %
savings deposits	DM 6.5 = 0.6 %	DM 3.4 = 0.4 %
	DM 236.7 = 24.4 %	DM 224.0 = 26.9 %
Total funds from outside sources	DM 969.1 = 100.0 %	DM 832.2 = 100.0 %

Provisions for special purposes

Provisions for pensions were increased by DM 0.1 million according to the actuarial computation.

Other provisions shown at DM 7.0 million (DM 9.4 million last year) include, besides provisions for tax and other liabilities of uncertain magnitude, that part of the overall adjustment which cannot be offset against asset items.

Other liability items

Sundry liabilities amounting to DM 0.6 million and *transitory items* totalling DM 0.3 million cover liabilities outside the banking business such as obligatory payments and rent payments received in advance respectively.

DM 0.4 million of *special items including reserves* had to be released. In accordance with the Developing Countries Tax Law DM 0.1 million was newly added.

Contingent liabilities

Endorsement liabilities on rediscounted bills remained almost unchanged at DM 6.6 million in comparison with last year.

Liabilities arising from guarantees given, bills of exchange, cheques guaranteed and warranty contracts rose by DM 82.3 million to DM 296.6 million.

PROFIT AND LOSS ACCOUNT

Earnings on the volume of business

The lower level of interest rates caused *interest and similar receipts from lending and money market transactions* to decrease from DM 62.0 million to DM 61.5 million, against a relatively sharper decrease in *interest and similar expenses* from DM 42.6 million to DM 38.4 million. This development, as well as the higher volume of business, led to a rise in the net interest income by DM 3.7 million to DM 23.1 million.

Earnings on services

Commissions and other receipts from service transactions decreased by DM 0.3 million to DM 8.4 million.

This development resulted exclusively from considerable changes in exchange rate relations at the end of the year which at the same time led to corresponding profits from swap transactions not yet realized at the balance sheet date.

Other receipts

Other receipts, shown at DM 0.6 million, *including those from the writing back of provisions for possible loan losses,* are counterbalanced, in accordance with the relevant regulations, by the depreciation and adjustments on claims and securities and allocations to provisions for possible loan losses.

Staff and material expenditure

Staff expenses rose by DM 0.8 million to DM 10.3 million (8.4 %) due to new employees as well as both collectively agreed and voluntary increases in payments. The number of employees grew by 25 to 482 as compared to the previous year.

Expenditure on material for the banking business increased slightly from DM 5.2 million to DM 5.3 million (1.9 %).

Taxes

Taxes on income, earnings and property were reduced by DM 0.5 million to DM 5.8 million.

The *other taxes* amounting to DM 0.7 million included DM 0.6 million of capital investment tax on the capital increase implemented at the beginning of the year.

Other expenses

Other expenses were shown almost unchanged at DM 0.2 million compared to last year.

Total emoluments of the Board of Managing Directors amounted to DM 489,570.03. Payments to former members of the Board of Managing Directors or their surviving dependents aggregated DM 140,638.–.

The Supervisory Board was allowed an amount of DM 97,200.– as emoluments, both fixed and subject to the annual dividend paid.

Proposed appropriation of profits

The profit and loss account for the bank shows:

Receipts	DM 71.7 million
Expenses	DM 66.1 million
Year's net earnings	DM 5.6 million
Disposable profit	DM 5.6 million

It is proposed to the shareholders that the disposable profit of DM 5.6 million be used to pay a dividend of 10 % on the share capital of DM 56.0 million.

Capital and reserves

The bank's share capital was raised in 1976 by DM 28.0 million to DM 56.0 million, dividend being payable on the new shares as from January 1, 1976. The bank's own funds are made up as follows:

		End of 1975
Capital	DM 56.0 million	DM 28.0 million
Published reserves		
a) statutory reserve fund	DM 34.8 million	DM 6.8 million
b) other reserves	DM 4.1 million	DM 4.1 million
Total	DM 94.9 million	DM 38.9 million

Hamburg, February 1977

THE BOARD OF MANAGING DIRECTORS

Report of the Supervisory Board

During the course of the year the Supervisory Board was kept regularly informed at numerous discussions and meetings about the development of the bank's business, as well as its liquidity and profitability situation.

Matters which by law and under the bank's Articles of Association require the approval of the Supervisory Board were duly submitted to us and discussed with the Board of Managing Directors. Substantial transactions, principally major loans, were regularly discussed with the Board of Managing Directors.

The Report and Accounts for the year ending December 31, 1976, as well as the bank's books, have been audited by TREUVERKEHR AG Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Frankfurt/Main, the auditors appointed by the Annual General Meeting, and were found to satisfy the statutory requirements as well as to conform with the bank's Articles of Association. The Supervisory Board has approved the auditors' report which contains no qualifications.

The Supervisory Board has received the Report and Accounts together with the proposed appropriation of profits and has raised no objections.

The Supervisory Board has approved the Accounts presented to it by the Board of Managing Directors and they are thus confirmed. The Supervisory Board also consents to the Board of Managing Directors' proposals concerning the appropriation of profits.

In view of the growing importance of the bank, the Supervisory Board hereby proposes to the Annual General Meeting that the number of members of the Supervisory Board laid down in the Articles of Association be increased from nine to twelve so as to permit the participation of all the shareholder banks as well as a greater representation on the part of the staff.

Hamburg, March 1977

THE SUPERVISORY BOARD

Chairman

European Asian Bank

Balance Sheet
as at December 31, 1976

Profit and Loss Account
for the period from January 1 to December 31, 1976

European Asian Finance (HK) Ltd.

Balance Sheet
as at December 31, 1976

Profit and Loss Account
for the period from January 1 to December 31, 1976

European Asian Bank

ASSETS

	DM	DM	31. 12. 1975 in DM 1,000
Cash in hand		1,573,085.75	1,290
Balances with the Deutsche Bundesbank		13,317,032.60	10,945
Balances with foreign Central Banks		17,804,253.40	15,917
Balances on postal cheque accounts		293,026.13	134
Cheques on other banks, matured bonds, interest and dividend coupons, and items received for collection		2,164,398.38	521
Bills discounted		101,602,445.52	68,117
including: a) rediscountable at the Deutsche Bundesbank DM 39,746,447.51			
b) own drawings DM 594,511.14			
Claims on credit institutions			
a) payable on demand	39,648,957.23		27,204
b) with agreed life, or subject to agreed period of notice, of			
ba) less than three months	156,689,812.40		108,563
bb) at least three months, but less than four years	317,826,580.88		284,168
bc) four years or longer	3,182,678.99		4,374
		517,348,029.50	424,309
Treasury bills and non-interest-bearing Treasury bonds			
a) of the Federal Republic and the Laender	—.—		—
b) others	4,971,823.51	4,971,823.51	5,586
Bonds and debt instruments			
a) with a life of up to four years			
aa) of the Federal Republic and the Laender DM —.—			
ab) of credit institutions DM —.—			
ac) others DM 996,977.62	996,977.62		1,097
including: eligible as collateral for Bundesbank advances DM —.—			
foreign Central Bank advances DM 996,977.62			
b) with a life of more than four years			
ba) of the Federal Republic and the Laender DM 472,500.—			
bb) of credit institutions DM —.—			
bc) others DM 2,527,317.02	2,999,817.02		1,701
		3,996,794.64	2,798
including: eligible as collateral for Bundesbank advances DM 472,500.—			
foreign Central Bank advances DM 1,800,079.35			
Securities, so far as they have not to be included in other items			
a) shares marketable on a stock exchange and investment fund certificates	8,262.74		9
b) other securities	—.—		—
including: holdings of more than one tenth of the shares in a joint stock corporation or mining company, excluding investments in subsidiaries and associated companies DM —.—		8,262.74	9
Claims on customers with agreed life, or subject to agreed period of notice, of			
a) less than four years	303,507,103.81		273,533
b) four years or longer	111,135,659.68		83,447
		414,642,763.49	356,980
including: ba) secured by mortgages on real estate DM —.—			
bb) communal loans DM —.—			
Equalisation and Covering Claims on Federal and Laender authorities under the Currency Reform Laws of 1948		245,354.58	273
Participations		2,099,252.49	1,859
including: in credit institutions DM 1,692,567.05			
Land and buildings		3,633,427.38	3,745
Office furniture and equipment		1,952,656.61	2,324
Sundry assets		1,063,468.50	457
Transitory items		951,107.79	742
TOTAL ASSETS		1,087,667,183.01	896,006

	DM	31. 12. 1975 in DM 1,000
The assets and the rights of recourse in respect of the liabilities shown below the liabilities side include		
a) claims on associated companies	22,730,803.51	7,871
b) claims which arise from credits falling under Article 15, paragraph 1, items 1 to 6, and paragraph 2, of the Banking Law, so far as they are not shown in a)	933,809.90	654

BALANCE SHEET as at December 31, 1976

LIABILITIES

	DM	DM	DM	31. 12. 1975 in DM 1,000
Liabilities to credit institutions				
a) payable on demand		99,727,267.26		43,402
b) with agreed life, or subject to agreed period of notice, of				
ba) less than three months	239,493,735.36			
bb) at least three months, but less than four years	284,271,102.86			
bc) four years or longer	104,451,471.72	628,216,309.94		561,241
including: due in less than four years DM 12,083,883.99				
c) customers' drawings on credits opened at other institutions		4,494,755.24		3,550
			732,438,332.44	608,193
Banking liabilities to other creditors				
a) payable on demand		98,428,855.24		97,447
b) with agreed life, or subject to agreed period of notice, of				
ba) less than three months	44,634,538.76			
bb) at least three months, but less than four years	87,201,020.04			
bc) four years or longer	—.—	131,835,558.80		123,235
including: due in less than four years DM —.—				
c) savings deposits				
ca) subject to legal period of notice	3,150,339.55			
cb) others	3,325,354.50	6,475,694.05		3,354
			236,740,108.09	224,036
Own acceptances and promissory notes in circulation			1,135,000.—	2,240
Provisions for special purposes				
a) for pensions		2,872,191.—		2,785
b) others		7,007,929.68		9,378
			9,880,120.68	12,163
Sundry liabilities			602,055.19	483
Transitory items			339,145.61	831
Special items including reserves in accordance with the Developing Countries Tax Law			6,081,621.—	6,409
Capital			56,000,000.—	28,000
Published reserves				
a) statutory reserve fund (including premium of DM 28,000,000.— from capital increase 1976)		34,750,800.—		6,751
b) other reserves	4,100,000.—			
allocation from the year's net earnings	—.—	4,100,000.—		4,100
			38,850,800.—	10,851
Disposable profit			5,600,000.—	2,800
TOTAL LIABILITIES			1,087,667,183.01	896,006

	DM	31. 12. 1975 in DM 1,000
Own drawings in circulation including those discounted for borrowers' account DM 1,221,586.63	16,420,200.94	24,795
Endorsement liabilities on rediscounted bills of exchange	6,555,821.15	6,710
Liabilities arising from guarantees of various kinds and warranty contracts	296,580,728.66	214,340
Savings premiums under the Savings Premium Law	10,010.80	11
Comprised among the liabilities are those (including those shown below the balance sheet) to associated companies	5,498,228.85	9,405

PROFIT AND LOSS ACCOUNT

EXPENSES

	DM	DM	1975 in DM 1,000
Interest and similar expenses		38,404,054.49	42,592
Commissions and similar expenses in respect of service transactions		73,426.50	20
Depreciation and adjustments on claims and securities, and allocations to provisions for possible loan losses		4,464,992.19	3,433
Salaries and wages		8,350,537.40	7,712
Social security contributions		597,205.84	556
Expenditure on retirement pensions and other benefits		1,315,389.25	1,190
Expenditure on material for the banking business		5,280,152.39	5,236
Depreciation and adjustments on land and buildings, and on office furniture and equipment		832,009.50	1,268
Taxes			
a) on income, earnings and property	5,755,415.93		6,320
b) others	703,624.19		131
		6,459,040.12	6,451
Allocations to special items including reserves		103,000.—	—
Other expenses		192,540.79	236
Year's net earnings		5,600,000.—	3,800
TOTAL EXPENSES		71,672,348.47	72,494

Years's net earnings

Taken from published reserves

Allocations from the year's net earnings to published reserves

Disposable profit

In the year under review the Bank effected payment of DM 356,233.62 representing pensions and contributions to the German Bank Officials' Insurance Association, in Berlin. The payments to be effected in the next five years will probably reach 101 %, 106 %, 110 %, 113 % and 115 % of that amount.

Hamburg, February 1977

EUROPEAN ASIAN BANK
Board of Managing Directors

Böhm Cartellieri Stentzel Vormwald

for the period from January 1 to December 31, 1976

RECEIPTS

	DM	DM	1975 in DM 1,000
Interest and similar receipts from lending and money market transactions		61,525,763.53	62,003
Current receipts from			
a) fixed-interest securities and debt register claims	202,899.63		304
b) other securities	300.—		1
c) participations	6,500.—		2
		209,699.63	307
Commissions and other receipts from service transactions		8,411,610.70	8,749
Other receipts, including those from the writing back of provisions for possible loan losses		587,677.14	528
Receipts from the writing back of provisions for special purposes, so far as they have not to be shown under "other receipts"		507,152.47	402
Receipts from the writing back of special items including reserves		430,445.—	505
TOTAL RECEIPTS		71,672,348.47	72,494

DM	1975 in DM 1,000
5,600,000.—	3,800
—.—	—
—.—	1,000
5,600,000.—	2,800

According to our audit, carried out in accordance with our professional duties, the accounting, the Annual Statement of Accounts and the Report comply with German law and with the Company's Articles of Association.

Hamburg, February 28, 1977

TREUVERKEHR AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Nebendorf
Wirtschaftsprüfer
(Chartered Accountant)

Barm
Wirtschaftsprüfer
(Chartered Accountant)

European Asian Finance (HK) Limited

(Incorporated in Hongkong under the Companies Ordinance on July 11, 1975)

BALANCE SHEET AS AT DECEMBER 31, 1976

(Expressed in Hongkong Dollars)

LONG TERM LOANS		$ 43,736,350
CURRENT ASSETS		
Short Term Loans	$ 23,723,600	
Accounts Receivable	$ 1,209,418	
Cash at Bank	$ 141,600	$ 25,074,618
TOTAL ASSETS		$ 68,810,968

CURRENT LIABILITIES		
Short Term Deposits	$ 28,954,000	
Accounts Payable	$ 878,728	
Current Taxation	$ 816	$ 29,833,544
AMOUNT DUE TO ASSOCIATED INSTITUTIONS		$ 34,057,097
SHARE CAPITAL		
Authorised		
10,000 Shares of $ 1,000 each	$ 10,000,000	
Issued		
10,000 Shares of $ 1,000 each	$ 10,000,000	
Less: Amount uncalled	$ 7,000,000	$ 3,000,000
PROFIT AND LOSS ACCOUNT		$ 1,920,327
TOTAL LIABILITIES		$ 68,810,968

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 1976

PROFIT FOR THE YEAR 1976 BEFORE TAXATION		$ 1,648,993
After charging:		
Auditors' Remuneration	$ 5,550	
Interest paid on Short Term Deposits	$ 4,648,718	
Interest paid to Banks	$ 32,790	
Less: TAXATION		$ 71,372
PROFIT FOR THE YEAR 1976 AFTER TAXATION		$ 1,577,621
Balance brought forward		$ 342,706
PROFIT AND LOSS ACCOUNT		$ 1,920,327

Hongkong, February 1977

EUROPEAN ASIAN FINANCE (HK) LTD.
For and on behalf of the Board of Directors

Wiens *Donnelly*

HK$ 1 = DM 0.5033

The seven ebic banks
EURASBANK's shareholders and partners in Europe and other parts of the world – with more than 10,000 branches

Netherlands
Amsterdam-Rotterdam Bank

France
Société Générale

Italy
Banca Commerciale Italiana

ebic
European Banks International

Belgium
Société Générale de Banque

Austria
Creditanstalt-Bankverein

Great Britain
Midland Bank

Federal Republic of Germany
Deutsche Bank

		Total assets* (in millions)	Number of branches
Amsterdam-Rotterdam Bank	DFI US$	42,144 15,667	810
Banca Commerciale Italiana	Lit US$	12,138,921 17,759	321
Creditanstalt-Bankverein	Sch US$	110,299 5,959	212
Deutsche Bank	DM US$	91,539 34,938	1,280
Midland Bank	£ US$	10,365 20,982	3,760
Société Générale de Banque	BF US$	510,042 12,939	1,107
Société Générale	FF US$	149,693 33,563	2,636
total	US$	141,807	10,126

* Figures and conversion rates as at December 31, 1975 – consolidated except for Banca Commerciale Italiana and Société Générale de Banque.

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Aktiengesellschaft
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International Finance

Jan Imbeck
Erika Bellstedt
John A. Miles
Lutz-Henning Pabst

Hamburg Branch

Hubertus Graf v. Blumenthal
Franz Georg Wilcke

Board of Managing Directors

Michael Böhm
Ulrich Cartellieri
Bernard Stentzel
Benno Vormwald

Foreign Branches

Hongkong
European Asian Bank

– Main Office –
Hang Chong Building
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P.O. Box 3193
Hongkong
Tel.: 5-26 31 51
5-26 30 60 (forex)
Telex: 73 498 euras hx

Chief Manager: Heinz Wiens
Manager: George Donnelly
Manager (Sub-Branches):
D. Anthony Marron
Manager (Internal Dept.):
Gerd Haarkötter
Manager (Loans Dept.):
Dr. Gunther Mangold
Manager (Foreign Exchange):
Harald Zumkley
Asst. Manager: Andrew Kwong Hon Kwan
Asst. Manager: John Kwok Kwong Leung
Asst. Manager: Ko Hung Wong

New bank premises from mid-1977:
American International Tower
16–18, Queen's Road, C.

Mongkok Sub-Branch
Wu Sang House
655, Nathan Road
Kowloon / Hongkong
Tel.: 3-940223-4
Manager: Peter Yin Fai Wong

Tsimshatsui Sub-Branch
7, Cameron Road
Kowloon / Hongkong
Tel.: 3-664357-9
Manager: Peter Kam Hung Cheung

Jakarta
European Asian Bank

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Jakarta, Indonesia
Tel.: 42045, 42046, 41537, 43081, 56409
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Manager: Herman Götzen
Manager: Bernd Satz
Manager (Loans Dept.): Eric Ballot
Manager (Internal Dept.):
Jean-Claude Delanghe
Asst. Manager (Loans Dept.):
Budhy G. W. Budhyarto

Karachi
European Asian Bank

Unitowers
I. I. Chundrigar Road
P.O. Box 4925
Karachi, Pakistan
Tel.: 237460, 230672, 221403, 221413
Telex: 2 862 eur pw

Manager: Horst Kaiser
Dep. Manager: Irudiyanadan N. Francis
Asst. Manager: Shahid K. Siddiqi
Internal Assistant: Amin-ur-Rehman Khan

Kuala Lumpur
European Asian Bank

Bangunan Yee Seng
15, Jl. Raja Chulan
P.O. Box 2211
Kuala Lumpur, Malaysia
Tel.: 299 453-7
201 681 (forex)
Telex: euras ma 304 64

Manager: Arthur G. Coates
Dep. Manager: Georges Legros
Asst. Manager: Cheah Yoke Loong

Singapore
European Asian Bank

Overseas Union Shopping Centre
50, Collyer Quay
P.O. Box 3941
Singapore 1
Tel.: 91 46 77, 220 94 48
91 41 44 (forex)
Telex: rs 21 189 euras
rs 21 190 euras (forex)

Manager: Frederick J. A. Brown
Dep. Manager: Holger F. des Coudres
Dep. Manager: Tjark H. Woydt
Asst. Manager: Ong Phee Hoon
Adviser (Foreign Exchange): Axel W. Lenk

Regional Office Manila
European Asian Bank

V. Madrigal Building
6793, Ayala Avenue
Makati, Rizal, Philippines

Mailing address:
MCCPO Box 882
Makati, Metro–Manila
Philippines

Tel.: 85 27 13, 85 28 14
Telex: 3 625 euras pn

Regional Manager: Will E. v. Below

Cables for all offices: EURASBANK


大酒樓
GOLDEN GLORY
RESTAURANT
CHARLES & CO.
NOVELTIES
荔香村酒家
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NAINANI'S
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ON PARLE FRANÇAIS
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