

Annual Report 1977

European Asian Bank



European
Asian
Bank

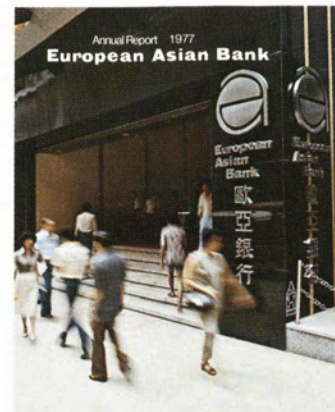
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Cover:

Our Hongkong branch's main office recently moved into new premises in the American International Tower in Queen's Road, Central, a short distance from its former location.

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Report for the Year 1977



European Asian Bank



in millions of DM	1972*	1973	1974	1975	1976	1977
Total assets	240	522	665	896	1,088	1,416
Business volume <small>(Balance sheet total plus endorsement liabilities on rediscounted bills and liabilities arising from guarantees and warranty contracts)</small>	300	618	796	1,117	1,392	1,858
Credit volume	132	370	572	720	845	1,101
Deposits	199	471	607	832	969	1,291
Capital and reserves	27	36	38	39	95	95
Net interest income	5.4	10.7	15.4	19.4	23.1	27.9
Taxes	1.5	2.1	5.1	6.5	6.5	9.1
Dividend	—	—	—	2.8 (10%)	5.6 (10%)	5.6 (10%)**
Staff	377	389	443	457	482	564

* Partial business year.

** Total yield including tax credit: 14.1%.

Advisory Council

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Chairman

Mitglied des Vorstandes der
Deutsche Bank AG

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Amsterdam

Deputy Chairman

Lid van de Raad van Bestuur
Amsterdam-Rotterdam Bank N.V.

Roger Alloo, Bruxelles

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et Membre du Comité de Direction
Société Générale de Banque S.A.

Dott. Antonio Monti, Milano

Amministratore Delegato
Banca Commerciale Italiana

Jean Richard, Paris

Vice-Président de la Société Générale

Dr. Guido Schmidt-Chiari, Wien

Mitglied des Vorstandes der
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Director and Chief General Manager
Midland Bank Limited

Supervisory Board

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Deutsche Bank AG

Koenraad Streekstra, Amsterdam

Deputy Chairman

Directeur
Amsterdam-Rotterdam Bank N.V.

Louis C. Buttay, Paris

Directeur
Société Générale

Jack Hendley, London

Senior General Manager (International)
Midland Bank Limited

Hilmar Kopper, Frankfurt/Main

Stellv. Mitglied des Vorstandes der
Deutsche Bank AG
(from June 24, 1977)

Nestor Riga, Bruxelles

Directeur
Société Générale de Banque S.A.
(from March 21, 1977)

Dr. Guido Schmidt-Chiari, Wien

Mitglied des Vorstandes der
Creditanstalt-Bankverein

Dr. Giorgio Winteler, Milano

Condirettore
Banca Commerciale Italiana
(from June 24, 1977)

Werner Flechsig, Hamburg*

(from June 24, 1977)

Friedrich-Otto Ide, Hamburg*

Hans Nicolai, Hamburg*

Peter Ruge, Hamburg*

* elected by the staff

Board of Managing Directors

Michael Böhm

Ulrich Cartellieri

Bernard Stentzel

Benno Vormwald
(until September 30, 1977)

Report of the Board of Managing Directors

South-East Asia in 1977 — Development and Prospects

South-East Asia has enjoyed a year of steady economic expansion against a background of a relatively stable political climate. For the first time since the end of the Vietnam war it was possible to detect a reduction in political tension, even though the continuing border conflicts involving Thailand, Cambodia and Vietnam constituted local trouble spots. Bilateral talks between the region's non-communist

countries and Indochina's communist states should help pave the way for the establishment of diplomatic relations and facilitate the renewal of trading relations. Although visible results of these negotiations have yet to be seen, there appears to exist for the first time a possibility of a modus vivendi being established between South-East Asia's various social and economic systems.

As compared with the countries of South Asia — India, Pakistan and Sri Lanka — the internal political situation in most South-East Asian nations continued to be stable in 1977. A further change of government took place in Thailand, which hopefully may now be able to look forward to a period of stabilization. In their joint fight against communist guerilla activities, Thailand and Malaysia concluded a new border

South-East Asia: Selected economic indicators

	Hongkong	Indonesia	Malaysia	Philippines	Singapore	Thailand	Korea
Economic growth (real)							
1976	17.8%	7%	11.3%	6.3%	7 %	6.2%	15.5%
1977	8 %	7%	8 %	6.1%	7.8%	6.2%	10.3%
Inflation rate							
1976	4 %	20%	2.6%	6.2%	−1.9%	4.9%	15.6%
1977	5 %	11%	4 %	7 %	3 %	8 %	10 %
International reserves (US\$ million)							
Dec. 1976	•	1,499	2,472	1,640	3,364	1,893	2,961
Oct. 1977	•	2,863	2,863	1,535	3,733	1,906	4,246

Source: Official statistics and estimates.

pact. The ceasefire negotiated between the Philippine government and the Muslim rebels in the south of the country, however, proved less permanent. The announcement of the Philippines' intention to relinquish territorial claims on the East Malaysian state of Sabah was favourably greeted in the region, thus removing a further obstacle to increased co-operation between the ASEAN member nations (Indonesia, Malaysia, the Philippines, Singapore and Thailand).

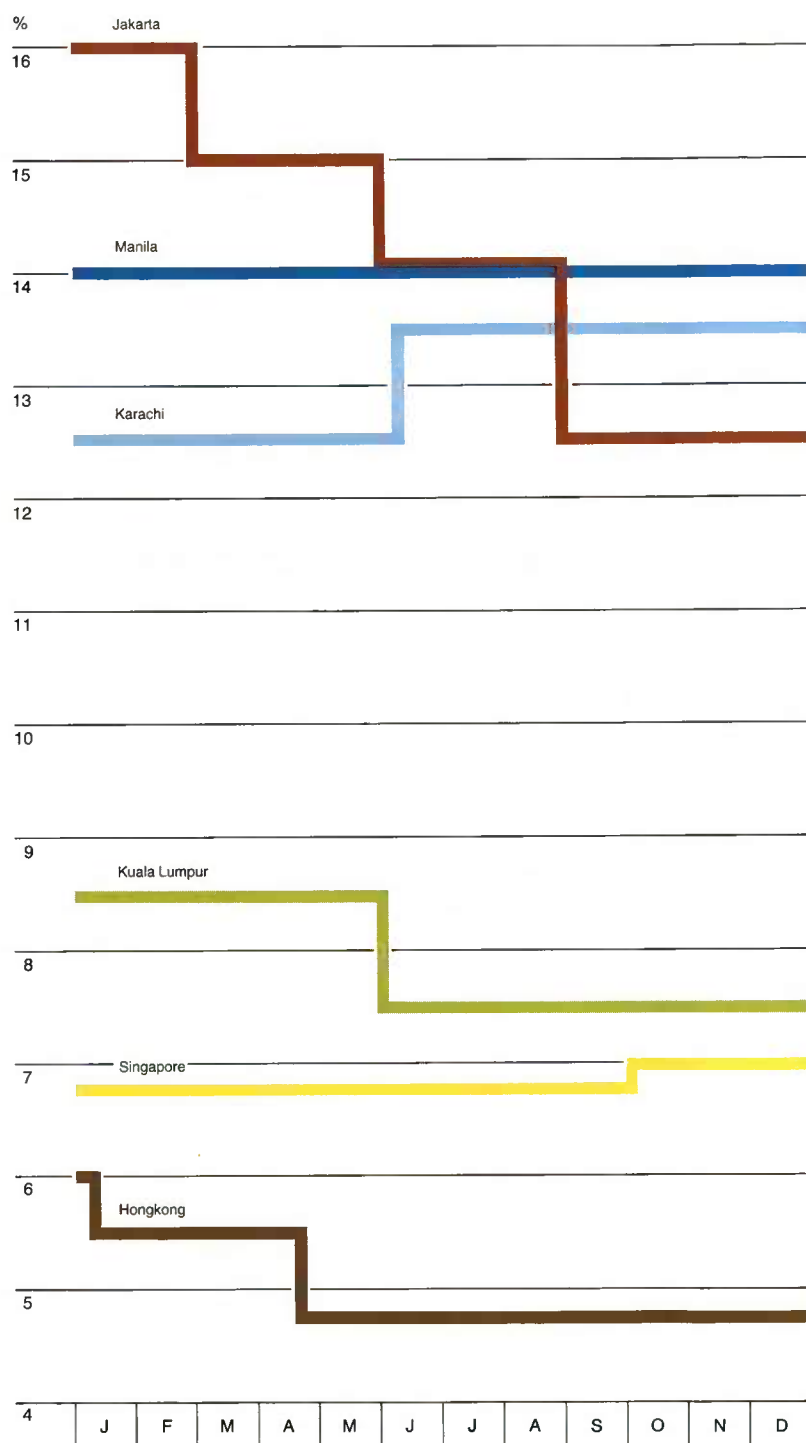
ASEAN is increasingly being viewed on international levels as a new political and economic force — though it remains to be seen to what extent the member states can and want to develop a viable partnership. In addition to a strengthening of economic ties with the United States, Japan, Australia, New Zealand and Canada, the ASEAN group is visibly interested in establishing stronger links with the European Community, with whom negotiations have already begun. We are of the opinion that Europe has not yet taken sufficient note of the potential strength and importance of the ASEAN area and its economic significance for Europe as a whole.

The ASEAN members, as well as Hongkong and Korea, once again impressively demonstrated the dynamic nature of their economies in 1977. In spite of languid world economic activity and a reduced rate of expansion of international trade, these seven economies achieved growth rates that were for the most part twice as high as the 3.5% average rate of the twenty-four OECD nations.

For some countries with relatively high external indebtedness, strong export performance contributed to a drastic improvement in the balance of payments. This was particularly true in the case of Indonesia and Korea. In some instances, inflation rates were distinctly lower than in the preceding year, thus corresponding to a similar downward trend in interest rates in several countries in the region.

The first preferential tariffs in intra-ASEAN trade took effect at the beginning of 1978. Even though only 71 products (corresponding to an annual trade volume of around US\$ 150 million) are presently eligible for the 10 to 30% tariff reductions, these measures were viewed as concrete steps toward in-

Development of local prime lending rates during 1977





Korea—the manufacture of artificial flowers and the huge steelworks at Pohang are symbols of this country's expanding industrial base. Under the Stage IV Expansion Programme, the Pohang Iron & Steel Co., Ltd. (POSCO) will increase its annual capacity to 8.5 million tons of crude steel by the end of 1981—a project financed in part by European Asian Bank.



creased economic co-operation. On the other hand, changing market conditions and continuing differences in national interests prevented the first five regional industrial projects from progressing further than the drawing board.

We expect a continuation of economic growth in South-East Asia in 1978. However, the fear exists that demands in the industrialized nations

for increased import protection will find a larger following, particularly as long as the economic growth rates of those countries are not sufficient to reduce unemployment. Growth prospects for the export-orientated textile industries in South-East Asia cannot therefore be viewed with too much optimism. This is one of the reasons why those countries affected are especially concerned about broadening their industrial bases. Both Singapore and Korea have already

achieved notable successes in this field — with the Koreans in particular having made significant progress in heavy industries such as steel, shipbuilding and motor vehicles. In the interests of the continued development of world trade as a whole, one must hope that the industrialized nations will not raise further barriers against the increasing volume of such exports. The serious nature of the consequences of such a step cannot be overestimated.

Hongkong

After the boom year of 1976 Hongkong's vital foreign trade demonstrated a distinct levelling off in 1977. In comparison with the remarkable 28% increase recorded in the preceding year, domestic exports increased by only some 5% in real terms. The overall growth rate of the economy, which in 1976 was the highest of all the Asian countries at 17.8%, was correspondingly lower in 1977.

Declining *textile and clothing exports* were primarily responsible for the unsatisfactory export performance which lagged far behind earlier expectations. Textile shipments to the Federal Republic of Germany and the United Kingdom — the second and third largest markets respectively — even fell below the previous year's levels. This decline was less a result of restrictions than of weaker markets, caused by a running down of stocks and changes in consumer demand. Consequently, the import quotas applied by the Common Market were not always fully utilized. Nevertheless, a new five-year export agreement for textiles, agreed upon after difficult negotiations with the European Community, met with a cool reception in Hongkong due to the

Hongkong: Our employees also benefit from the improved working conditions in our main office's spacious new premises.

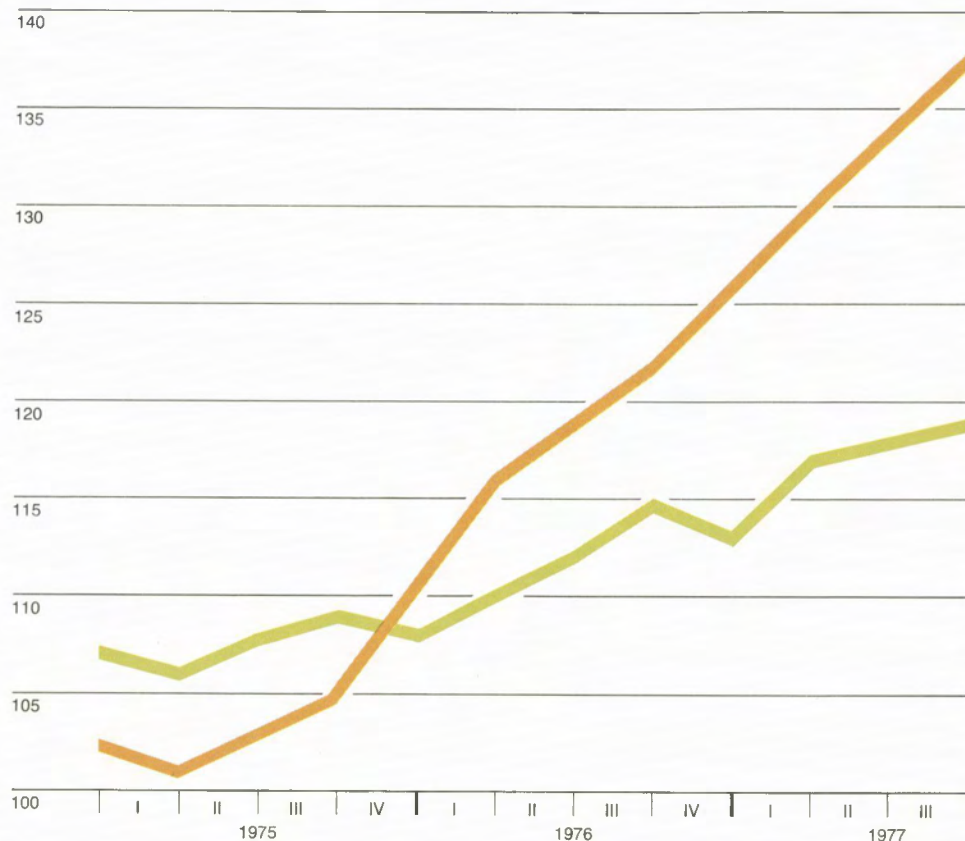


restrictions placed on future export possibilities. Quota reductions for "sensitive" items were considered particularly hard-hitting.

In contrast to the disappointing sales performance of the textile and clothing industries, Hongkong's second largest industry, the *electronics industry*, again recorded a creditable rise in exports (up 22%) in 1977. Exports of clocks and watches (up 39%) and toys (up 23%) were also impressive. Nevertheless, increasing national and regional protectionist trends in the textile sector have re-affirmed the importance for Hongkong to continue to diversify its industrial base. Exceptionally favourable prospects are seen above all for investments in light engineering.

For the *construction industry* 1977 could be described as a boom year. The high level of building activity, reflecting the confidence of the government and the business community, provided the main thrust to domestic economic expansion and was no doubt partly responsible for the fact that wage levels rose by 12% during the twelve months up to September 1977, despite declining employment in the textile and clothing industries. Allowing for inflation the increase in real wages was 6%.

Among the *major projects* either currently in progress or whose completion is planned by 1986, two are of particular significance for foreign investors, contractors and suppliers: (1) Three new satellite towns in the New Territories. These will cost the government at least US\$ 2,800 million, and should attract a similar injection of private capital. Each of these "new towns" are designed to be self-contained communities which will not only comprise homes, shops and recreational facilities, but will also provide extensive industrial sites. These and three other smaller "market towns" are planned to absorb the greater part of the anticipated population increase. By 1986, approximately 2.5 million people, or 40% of the total population of Hongkong which is then estimated to be 6 million, will be living in these areas. (2) Even before construction of the first phase of the Mass Transit Railway was completed, a decision to extend the system from the original 15.6 kilometres to 26.3 kilometres was made in 1977. This extension will increase the total construction costs by around US\$ 900 million.



Wages and prices

- 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.

The *service industries* of the Hongkong economy — commerce, banking, insurance, tourism and air and sea transport — continue to expand actively. Nowhere is this more apparent than in the financial sector where the continuing arrival of numerous international banks enabled Hongkong to strengthen its role as the centre through which coursed a major share of the region's money and capital flows.

Particularly welcome for the Hongkong economy was the further decline of interest costs in April 1977 when the *commercial banks* lowered the local prime rate by $\frac{3}{4}\%$ to $4\frac{3}{4}\%$, thus reaching the lowest level since the War. Although a tightening of the

money market could be observed during the last quarter of 1977, the structure of interest rates on advances and deposits was not subject to any changes towards the end of the year under review.

Rate of exchange on Dec. 31, 1977
US\$ 1 = HK\$ 4.6175 (as against HK\$ 4.6700
12 months before)

Indonesia

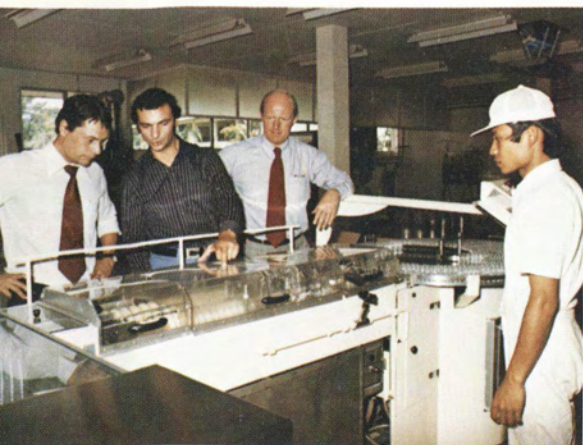
For the Indonesian economy 1977 was a year of *continued consolidation*. The setbacks caused by the world-wide recession and the 1975 Pertamina crisis appear to have been largely overcome. Despite an undeniable improvement in the supply of essential goods to the population, the government has experienced increased criticism from certain groups opposed to the pragmatic economic policies of the last decade. However, the government's resolute

reaction clearly shows that Indonesia's economic planners will continue to follow their existing policy of economic stabilization.

In the foreign trade sector, 1977 was another year of marked recovery. With gross oil exports at US\$ 7,400 million, net foreign exchange earnings from the

Indonesia's timber industry has grown considerably in recent years and, after oil, has become the country's most significant export earner. In order to provide further employment and to increase foreign exchange earnings, the government is striving to effect the transition from log exports to the export of processed timber. One of the country's leading timber processors and exporters, the Kayu Mas Group (whose large sawmill at Sampit, East Kalimantan is pictured here), is an important client of European Asian Bank.





Providing working capital for European-Asian joint ventures is an important function of the bank. Herman Götzen (right), Manager and Eric Ballot (left), Head of the Loans Department, both of our Jakarta branch are pictured together with Daniel Diart, Factory Manager of P. T. Rhodia Indonesia. This company, jointly owned by the Rhône-Poulenc Group and P. T. Eurindo Combined, manufactures pharmaceutical products for the Indonesian market.

oil sector increased by 18% to US\$4,300 million. As a result of higher world market prices, considerable export growth was also recorded in other commodities, such as timber, coffee, rubber, tin and tea. Total non-oil exports rose by 34% to US\$ 3,300 million thus surpassing even the optimistic estimates compiled by the World Bank. The greatly improved balance of payments situation was reflected in the doubling of the central bank's *net foreign currency reserves* to US\$ 2,420 million as at the end of the year. In January 1978 the quarterly payments from the oil sector raised the country's foreign exchange reserves by an additional US\$500 million.

The increase in Indonesian *petroleum output* from 550 to 608 million barrels during 1977 was largely attributable to the development of a new oil field in East Kalimantan (Borneo) by Total, the French oil company. It is however difficult to make long-term estimates of oil exports in view of firstly Indonesia's own growing oil requirements necessary to fuel the country's advancing industrialization, secondly, uncertainty over existing reserves and thirdly, temporary setbacks in the exploration for new deposits. In its budget for the coming fiscal year, the

government has assumed that oil production will fall by 7.5%. The increase in government expenditure has therefore had to be trimmed to 13.6%, the lowest increase during the Second Five-Year Plan period. Above average increases in expenditure in the new national budget are planned for the industrial and mining sectors (+45%) and for education (+23%).

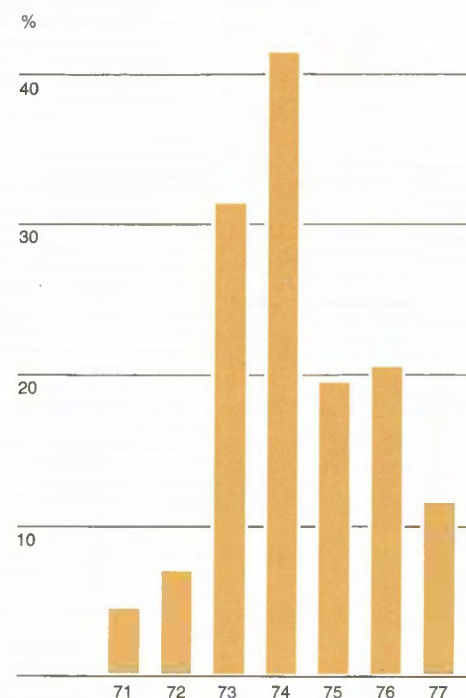
As a potential counterweight to the possible levelling off of oil revenues, a further lucrative source of foreign exchange – *liquefied natural gas (LNG)* – has been developed. In autumn 1977 the first LNG tanker set sail for Japan from the Bontang facilities in East Kalimantan. A second major natural gas liquefaction plant located at Arun in North Sumatra should be ready for operation during the early part of 1979. Future sales are reported to have been secured by long-term contracts concluded with major companies in Japan and California. As soon as both facilities are operating at full capacity, annual foreign exchange proceeds of approximately US\$ 800 million are expected to accrue over the next 20 years from the LNG exports.

There were also visible signs of progress in the industrial sector. Two plants of the Krakatau steel project, considered a pacemaker for the industrialization process, began operation on a limited scale. On the other hand, the agricultural sector suffered from a considerable setback to the *rice harvest*, caused by continuing drought and crop disease. Nevertheless, as a result of the government's improved food distribution policies the price of rice remained stable. This also had a favourable effect on the country's *inflation rate* which declined to about 10% p.a. Experts expect that Indonesia – the world's largest rice importer – will still be dependent on importing this basic foodstuff for several years to come.

The government was also successful in further curbing the *external indebtedness* of the country. A 10% settlement out of court was agreed for most of the several hundred million dollars of contested tanker charter hire. The restructuring of three major international bank loans totalling over US\$ 1,000 million on new more favourable conditions should bring down the debt service ratio from 19.8% to an estimated 16.4% in the fiscal year 1978/79.

In order to stimulate the relatively

Inflation rates, 1971–1977



Source: International Financial Statistics, IMF.

weak level of private investment and to reduce the apparent hesitancy on the part of foreign investors, the complicated investment approval procedures were again streamlined. A package of measures designed to ease *credit restrictions* was put into effect on January 1, 1978. Not only were the state banks' rates of interest for loans and deposits reduced by up to 3% p.a. but other measures were also announced such as special credit facilities for imports of raw materials. The purpose of these measures was to alleviate certain problems arising from the abolition in May 1977 of the merchant's letter of credit as part of the government's anti-smuggling campaign.

Parity rate of exchange on Dec. 31, 1977 . . .
US\$ 1 = Rp 415 (same as 12 months before)

Korea

In 1977, the Republic of Korea realized further remarkable successes in its rapid rise from a developing to an industrialized country. Korean exports, which amounted to approximately US\$ 5,000 million in 1975, for the first time exceeded the US\$ 10,000 million threshold, four years earlier than originally planned. As a result of this dynamic development, Korea has advanced to become one of the world's 20 largest exporting nations, the oil producing nations excepted. The dynamic economic expansion of this previously poor and underdeveloped country can be seen in the following comparison: in order to increase their exports from US\$ 1,000 million to US\$ 10,000 million after World War II, the Federal Republic of Germany and Japan required 11 and 16 years, respectively. Korea, however, was able to increase its exports tenfold in only seven years, in spite of such difficult conditions as the maintenance of a high level of military readiness and the world-wide recession following the oil price increase in October 1973. Against this background, the government's goal of a further doubling of exports to US\$ 20,000 million by 1981 appears to be thoroughly realistic.

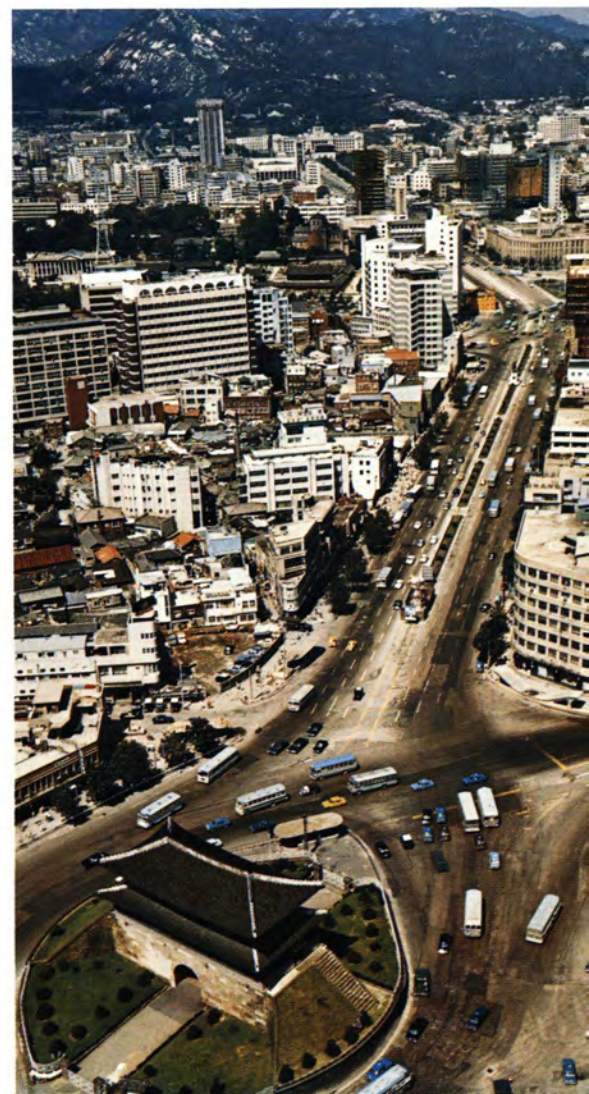
In order to attain this ambitious goal, the *restructuring* of the nation's industries will be continued. Although the Korean economy is poorly endowed with natural resources, it enjoys considerable cost advantages when compared to Japan and to other Western industrialized nations. The major emphasis of the current Fourth Five-Year Plan (1977–81) is on the reduction of the dominant role played by light industry, whose export outlets have proven especially susceptible to protectionist measures during recent

periods of economic recession. Textiles' share of exports, which currently amounts to around one third of the total, is projected to fall to one quarter by 1981, whilst the percentage of chemical and heavy industrial products (machinery and ship construction, steel production) will register a corresponding increase. The fledgling automobile industry is also to be extensively developed; exports are planned to be stepped up to 100,000 vehicles a year by 1981.

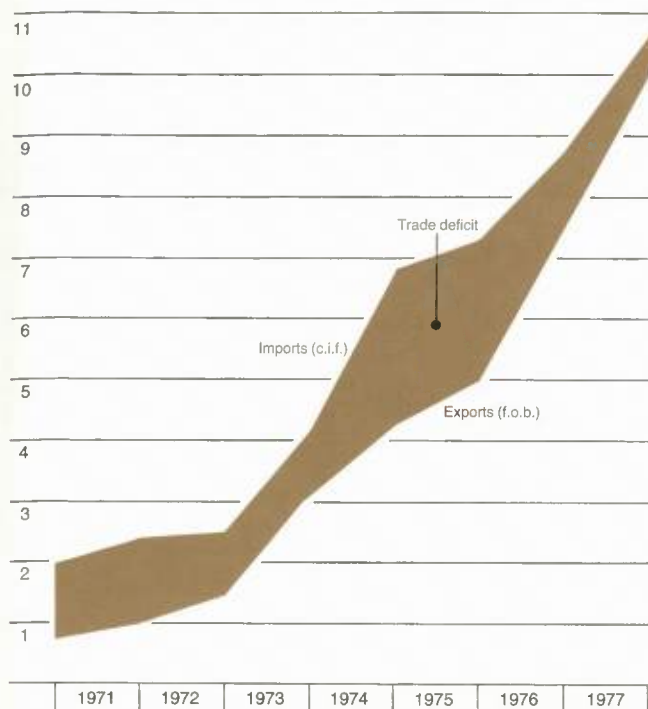
In addition to diversification of export goods, two further goals have special emphasis in Korean export policies. In order to better safeguard the vital deliveries of petroleum from the Near and Middle Eastern oil producing nations, activities of Korean firms in these countries have been deliberately promoted. This area has proven to be a lucrative source of foreign currency for not just the Korean construction industry alone; the Korean shipbuilding industry with its large efficient shipyards is also finding this market increasingly important. Economic ties with *Europe*, including the Eastern Bloc, will be intensified to help reduce dependence on Japan and the USA. This trend is also reflected in the licensing policy regarding branches of foreign banks, where value is placed on attaining a certain geographic distribution of the countries represented.

In spite of the notable increase in the national savings ratio to over 20%, Korea will continue to remain dependent on *foreign capital* in coming years. The proportion of private direct investment in total foreign capital in the country will probably continue to be under 10%. Foreign direct investments made since 1962 had nearly reached

Seoul – the historic Great South Gate (built in 1398), located in the middle of one of the Korean capital's main thoroughfares. Korea's economic potential and increasing role in world trade are reflected in Seoul's growing importance for foreign banks. Our bank's network will be enlarged in 1978 through the opening of a branch in Seoul.



US\$ billion



Development of foreign trade

Source: The Bank of Korea.

the US\$ 900 million level by the end of June 1977. These investments were distributed over 874 various projects. Japanese investors remained in first place in terms of total investments with 61%, followed by American (19%) and European concerns (9%). The latter came primarily from the Netherlands, the Federal Republic of Germany, France and Britain. The minimum limit for foreign investments in Korea currently amounts to US\$ 200,000 in normal cases. A 50:50 joint venture is also a general requirement. Lower investment levels and higher shares of foreign ownership are, however, approved under certain conditions, e.g. for entirely export-oriented or high technology projects.

Although confronted three years ago with an acute foreign exchange shortage, the Korean *balance of payments situation* — due to the success on the export front and burgeoning earnings from foreign construction contracts —

has fundamentally changed since that time. Official foreign exchange holdings of US\$ 4,310 million at the end of 1977 were 45% higher than at the end of the previous year. Two sets of governmental measures are designed to contain the dangers for the domestic price level resulting from the rapid inflow of foreign exchange: (1) restriction of the future inflow of foreign capital from commercial bank loans and (2) the partial revocation of existing import restrictions. As from January 1, 1978, over 100 product categories — among them machines and parts as well as some raw materials — were placed on the so-called automatic import approval list. Through such a policy of gradual import liberalization, further protective measures on the part of Korea's trading partners may also be forestalled.

The government's long-range goal of bringing the high Korean interest level more into line with international standards was furthered in 1977 by

two rounds of interest rate reductions of 1% each. *Commercial bank loans* for operational use, however, still cost between 15% and 16% after the last reduction on October 4, 1977.

Basic exchange rate of the Bank of Korea on Dec. 31, 1977 US\$ 1 = Won 484.00 (same as 12 months before)

Malaysia

With real gross national product up approximately 8%, Malaysia again enjoyed a high *economic growth rate* in 1977. In contrast to the preceding year, however, it was not exports which constituted the greatest stimulus to the economy but government expenditure — particularly in the form of higher development expenditure — as well as private consumption. The rise in consumer prices of around 5% reflected a somewhat higher rate of increase than during the two preceding years.

The 13% increase in Malaysian exports, although distinctly below the 1976 record rate of 45.6%, was still impressive. This increase was largely due to the favourable price developments of several commodities, especially tin and palm oil. Exports of manufactured goods also contributed to this trend and accounted for one fifth of total export earnings, thus ranking second only to rubber with 22%. Exports of printing machinery, electrical appliances, wood products, food manufactures and electronic goods and components put up a good performance.

Oil exports have meanwhile attained considerable importance for the economy, advancing to third place with 15% of total exports, although in global terms they still amount to less than 1% of world-wide oil exports. Crude oil production increased by an estimated 18% in 1977 to 195,000 barrels a day which would exhaust the country's known reserves within 13 years. Malaysia's future as an oil producing nation will therefore depend on the scope and

success of further exploration. In January 1978 agreement was finally reached between Petronas, the state petroleum company, Shell and Mitsubishi to form a joint venture company to exploit the Sarawak natural gas fields. On present estimates the project is expected to cost some US\$ 1,000 million and the first *liquefied natural gas (LNG)* should flow in some five to seven years from now.

As by far the world's most important *tin producer*, Malaysia profited from the at times booming prices for this metal in 1977; tin is the only metal where current demand cannot be fully satisfied. However, due to the depressed investment climate which has existed in the Malaysian tin industry for several years, the volume of tin exports remained static. The government is hoping to stimulate production through

A long-term investment credit from our Kuala Lumpur branch financed the construction of the factory at Shah Alam for this New Zealand-Malaysian joint venture. The company is a manufacturer of electrical products.



tax reliefs contained in the 1978 Malaysian budget.

In contrast to the sluggish performance of *private investment* during the preceding year, many economic sectors showed certain signs of revival in 1977 and applications to the Federal Industrial Development Authority (FIDA) to approve new industrial pro-

39 million or 30%. Several European industrial firms have recently expressed an interest in establishing factories in the northern Malaysian state of Kedah.

Malaysia's high credit rating in international capital markets has been recently evidenced by the favourable terms it has received for its new Euroloans. In spite of the sharp rise of

In the financial sector, the guidelines of the Malaysian central bank by which *commercial banks* are obliged to observe certain ratios when expanding their lending activities (for example, a minimum of 20% of new loans and advances must be allocated to Bumiputra borrowers) have remained unchanged in spite of certain problems experienced by most foreign banks in adhering to them. In view of the high level of liquidity in the banking sector and restrained loan demand for investment, interest rates were reduced at the beginning of June 1977 when the prime rate fell by one full percentage point to 7.5%. This was the first time it had moved at all for nearly two years. The lowering of domestic interest rates should avert excessive inflows of speculative short-term capital, as during the first nine months of 1977 the Malaysian ringgit appreciated against all major currencies with the exception of the Japanese yen.

Malaysia's business cycle



Source: Economic Report 1977/78, Ministry of Finance, Malaysia.

jects demonstrated an upward trend. Furthermore, imports of investment goods are estimated to have increased by about 25% over 1976. It is difficult to assess accurately to what extent recent amendments to the controversial Industrial Coordination Act (ICA) have reduced hesitancy on the part of domestic and foreign investors. During the first seven months of 1977, projects with a total equity investment of only M\$ 130 million were approved of which foreign investors accounted for M\$

the level of *external public debt* in recent years, the total figure is still relatively low when compared with other countries at a similar stage of development. Total debt servicing amounted to slightly less than 5% of total export earnings for 1977. Malaysia's healthy balance of payments permitted a further addition to the country's foreign exchange reserves during the year. The import coverage quota of seven months was well above the international average.

Rate of exchange on Dec. 30, 1977
US\$ 1 = M\$ 2.3630 (as against M\$ 2.5335
12 months before)

Pakistan

Pakistan's economy was subject to great pressures throughout 1977. Signs of improvement in the troubled balance of payments situation and an increase in the economic growth rate, which were discernible in the preceding year, were no longer evident. Renewed heavy flood damage affecting the agricultural sector, the continuing poor world demand for textiles as well as domestic political disturbances which

took place in the months following the spring elections, seriously impaired the economy. The rate of growth of real GNP for the 1976/77 fiscal year fell to 1.2% as compared to 4.3% for the previous fiscal year. Particularly disappointing was the performance of the textile, chemical and cement industries. The trend of the last four years continued unbroken whereby the expansion of the service and construction indus-

tries outstripped that of the commodity producing sectors with negative repercussions on the rate of inflation and the balance of payments.

The 1976/77 *trade deficit* of US\$ 1,170 million was even higher than the year's total of export earnings which at US\$ 1,140 million fell far short of original expectations. A major contributory factor was the decline of cotton exports to Hongkong. Rice exports also generated less foreign exchange than expected since although they were up in terms of volume this was not enough to offset the fall in price. On the other hand, export items such as carpets, leather and fish assumed greater importance as foreign exchange earners.

The increased demand for foreign goods together with the government's relatively liberal import policy, which is to be retained during the 1977/78 fiscal year despite the acute shortage of foreign exchange, led to the *volume of imports* growing to US\$ 2,310 million in 1976/77. Particularly marked were the increased imports of machinery and vehicles.

Remittances from Pakistani citizens working abroad constituted the most

Karachi: At the end of 1977, our branch moved into new premises in the recently built Unitowers on Chundrigar Road in the centre of the city's business and banking district. With its seaport and industrial areas, Pakistan's former capital remains the economic metropolis of the country.



significant factor in easing the country's balance of payments situation. Total remittances reached US\$ 575 million in 1976/77 and emanated primarily from the oil states of the Middle East, where Pakistani workers are employed on numerous development projects. Nonetheless, a US\$ 1,390 million *current account deficit* remained which was financed by drawing on foreign exchange reserves and borrowing abroad and which resulted in a further increase in Pakistan's overseas indebtedness up to a level of US\$ 7,400 million as at June 30, 1977. Debt service payments absorbed around 18% of total foreign exchange earnings in 1976/77.

During the year under review the bulk of *new investments* in Pakistan's economy was again accounted for by the public sector. However, at the end of October 1977 the ruling military government took concrete steps to alleviate private investor uncertainty, which had intensified as a result of various nationalization measures enacted since 1972. These steps responded to long-standing requests from private enterprise by clearly defining for the first time the future roles of the public and private sectors in eleven branches of industry. A number of previously nationalized key industries were again opened to private investors either completely, as in the case of cement, or partially (iron and steel, machinery, motor vehicles) or on a joint basis with the public sector (petrochemicals). These measures followed the earlier denationalization of wheat and rice mills as well as of cotton ginning facilities. In this context the government also stressed its positive attitude towards *private investment from abroad*, and re-affirmed the continuation of the non-nationalization guarantee. Among the major projects presently under construction by foreign investors are manufacturing facilities for the Massey-Ferguson Limited of Canada, ICI Limited of the United Kingdom and Philips NV from Holland. The Pakistan government and the French corporation Saviem have entered into a contract for the joint construction of a lorry plant which is planned to manufacture 6,500 lorries, bus chassis and diesel engines annually, and eventually supply the Middle East and other markets in the area.

Pakistan received financial aid from the industrialized nations and from the

Imports and international reserves (US\$ million)

Imports
Official reserves (gold and foreign exchange, incl. SDRs)



Source: International Financial Statistics, IMF.

Arab world, with whom economic ties have become continually closer since the oil crisis. The Islamic Development Bank assumed, within a US\$ 22 million capital assistance programme, a minority interest in the state-owned National Refinery Limited in Karachi.

Two factors in particular are seen as extremely important for Pakistan's *future economic prospects*: (1) in the agricultural sector — especially for the cotton crop — the absence of the heavy floods and droughts which were especially frequent in recent years, and (2) in the industrial sector, a return of confidence on the part of private investors. Even the more efficient utilization of existing industrial capacity could lead to a short-term improvement in the price situation and balance of payments position. For a developing country, Pakistan has no shortage of well-trained technical and commercial management. Companies such as PIA, the successful national airline, (which was able to raise a US\$ 12 million medium-term Eurodollar loan in which Eurasbank participated) also drive home this point outside the country.

The monetary and credit policy, pursued by the State Bank of Pakistan remained on an essentially unchanged, restrictive course in 1977. However, credit ceilings for the *commercial banks* were raised. After the increase in the bank rate from 9% to 10%, the maximum rate for commercial loans also rose to 14% per annum.

Parity rate of exchange on Dec. 31, 1977 . . .
US\$ 1 = Rs. 9.90 (same as 12 months before)

Philippines

The turn-around of the *balance of payments* from a 1976 deficit of US\$ 161 million to a surplus of US\$ 170 million was the outstanding achievement of the Philippines' economy in 1977. This was backed up by rising production and employment, an increased foreign trade and higher international credit standing. Against these creditable developments must be mentioned two weak points: a slowdown in the growth rate of real investment caused by a decline in construction activity and a renewed rise in the rate of inflation to 8%.

In spite of continued depressed world market prices for sugar and copper, both important sources of foreign exchange for the Philippines, total export earnings increased by 16% over the preceding year. Since the rise in imports could be limited to 5%, however, the usual *trade gap* was reduced by nearly one quarter to US\$ 677 million. This was further offset by revenues from tourism and by transfer payments. The inflow of funds registered by the central bank for *foreign direct investments* approved in recent years climbed from US\$ 118.1 million to US\$ 138 million in 1977. The number of new applications recently approved by the Board of Investments, however, would indicate a reduced inclination by foreign businessmen to invest in new projects. It should be added that this development is at present not only to be seen in the Philippines, but can also be observed

in other countries in the region. A variety of reasons such as the changed circumstances in the world economic situation as well as local factors may play a part here.

As may be seen from 1977's successful export performance the major efforts of the Philippines to diversify its foreign markets as well as the range of its export products are be-

At the end of 1977, the Philippine Long Distance Telephone Company (PLDT) signed a US\$ 105 million loan agreement for the financing of the further expansion of the Philippine telephone network with an international bank consortium lead managed by Eurabank. With 83% of all telephones, PLDT (founded in 1928) is the largest telephone company in the Philippines.



ginning to show results. Even though the United States and Japan are clearly still the leading trading partners, more and more Filipino products are also being sold to the Common Market countries, the People's Republic of China and to other socialist countries. Among non-traditional exports, *clothing* probably recorded the most spectacular growth in recent years — from a mere US\$ 36 million in 1970 to an estimated US\$ 280 million in 1977. Apart from competitive prices due to low labour costs, this young Philippine industry is confidently assessing its future sales chances notwithstanding (or perhaps because of) protectionist measures overseas. As a "smaller" producer, the Philippines is less affected by American and European import quotas than Hongkong, Korea and Taiwan. In connection with the development of the Philippine garment industry, it is perhaps interesting to note that a large number of the factories have been built in the Bataan Export Processing Zone, located at the entrance to Manila Bay. The largest of these is an Anglo-Philippine joint venture.

For the first time in many years, the Philippines achieved self-sufficiency in *rice* and even became a net exporter of this basic foodstuff. The first exports of rice were shipped to Indonesia and Vietnam. Structural improvements in the Philippine agricultural sector played a substantial role in this development.

The search for commercially exploitable *oil reserves*, which is being conducted in Philippine coastal waters by two American-led consortia resulted in further positive results in 1977. The Philippines is hoping to be able to produce about 10% of its total oil requirements by 1979. In view of the high oil import bill (US\$ 1,000 million in 1977), this would mean a considerable savings in foreign exchange. The government is also endeavouring to develop geothermal sources of power in order to further diminish the country's dependence on imported energy.

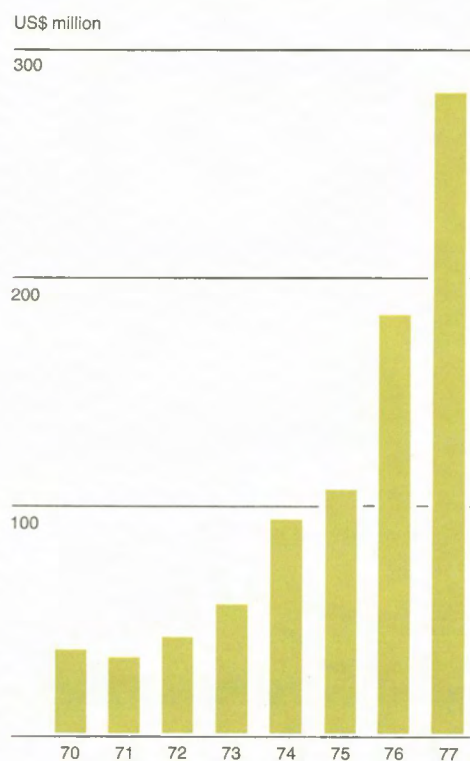
The rate of increase in the Philippines' *external debt* slowed to 18% in 1977 after the extremely large 48% rise in the preceding year. At the end of 1977, about one half of the US\$ 6,466 million total outstanding amount was accounted for by the private sector. Substantial repayments of short-term loans by the central bank caused international reserves to fall slightly below

the previous year's level. The debt service ratio at approximately 15% continued to remain distinctly below the statutory ceiling of 20% of foreign currency earnings.

During the year under review the central bank introduced a number of

January 1, 1978, and which calls for maximum interest rates ranging from 14% to 19% on most types of commercial loans, is designed to abolish the existing difference between nominal and effective rates of interest. The main aim of this interest rate correction, which led to a reduction of the effective rates of interest, is to encourage domestic investment.

Growth of garment exports
1970–1977



Source: Philippine statistics and estimates.

regulations aimed at strengthening and developing the Philippine *banking system*. After lengthy preparations, the establishment of an offshore banking system got under way, patterned on the Singapore model. To date, 15 banks from the United States, Canada, Japan and Europe (including Eurasbank) have opened branch offices in Manila. A revision of the structure of domestic interest rates which went into effect on

Rate of exchange on Dec. 29, 1977
US\$ 1 = P 7.370 (as against P 7.428
12 months before)

Singapore

Singapore's political and economic *stability* was illustrated by the Royal Dutch/Shell Group's decision early in 1978 to construct a high technology S\$ 330 million hydrocracker complex for the production of light fuels on Singapore's Bukom Island. It will be the first such facility which the concern is

planning to build in the Third World, similar plants being found only in the United States, Canada and Britain. This project also underlined Singapore's position as the leading refining centre of South-East Asia.

America's role as the most active

Among Singapore's major industrial divisions, printing and publishing takes fourth place in terms of value added. The Tien Wah Press (Pte) Limited, Singapore's largest printing and lithography firm, employs the latest technical facilities. The photograph shows an electronic colour scanner which simplifies and speeds up the entire printing process.



industrial investor in Singapore was taken over again by investors from the European Community at the end of 1976. More than 500 leading international industrial companies are currently operating factories in Singapore. Together with local manufacturers, the

Foreign investment in manufacturing industries
— as at the end of 1976 in S\$ million —



Source: Singapore Economic Development Board.

yearly output of these firms, which is essentially earmarked for export, has reached a value of more than S\$ 16,000 million. In the area of direct foreign investment, Singapore was also not spared the effects of the recent world-wide recession. However, preliminary figures released by the Economic Development Board for 1977 point to a renewed increase in the *propensity to invest*. Foreign investment commitments for new and expansion programmes in the manufacturing in-

dustry rose against the previous year from S\$ 350 million to S\$ 400 million, predominantly in the fields of electronics and precision metal engineering.

The results of a quarterly survey conducted during the last week of December among approximately 300 industrial enterprises regarding their business expectations may be of interest to *foreign suppliers of capital goods*. All sectors viewed their business expectations for the coming months as predominantly positive. A reflection of this optimism can be seen in the scope of investment plans for 1978. The percentage of the firms questioned intending to increase their investments in plant and machinery was about 23% higher than that of companies holding opposite intentions.

Singapore's economic *recovery* from the aftermath of the oil crisis continued reinforced in nearly all sectors. Overall economic growth rose from 7% to 7.8%, stimulated primarily by increasing exports and both public and government-supported private building activities. Included among the large government development projects is the construction of the new international airport at Changi. Located outside of the airport's noise zone, a modern satellite city of 180,000 inhabitants is also planned. The new airport, the total cost of which is estimated at S\$ 1,500 million, will have a capacity more than five times greater than the old airport, and should be able to cope easily with the increasing tourist trade.

In view of its heavy dependence on foreign trade, the government and business community of Singapore followed with concern tendencies to erect trade barriers in western industrialized nations. Current *export figures*, however, did not provide grounds for pessimistic predictions, for total exports, including re-exports, of the city state grew by 24%, while imports climbed by only 14%. These figures, however, do not include imported raw materials from Indonesia, the statistics for which are not made public. The trade balance closed the year with the lowest deficit since 1973. Based on provisional figures, the Federal Republic of Germany became Singapore's most important Common Market trading partner, surpassing Britain for the first time.

Singapore's traditional entrepôt function is increasingly being suppl-

mented through its expansion into a regional services and financial centre. The insurance industry, which is now also supervised by the Monetary Authority of Singapore (MAS), gained a stronger international profile in 1977 through the establishment of further foreign reinsurers. Singapore's development as an international insurance centre is also to be promoted through reduced income tax rates on reinsurance business.

A buoyant local money market induced the *commercial banks* to raise their prime lending rates from an average of 6¼% to 7% at the end of the third quarter of 1977. To help ease a seasonal tightness of money, the MAS placed for the first time at the disposal of the banking community a swap facility to be utilized over the year-end.

The *Asian dollar market*, when measured in terms of the total assets/liabilities of the Asian Currency Units (ACUs) domiciled in Singapore, surpassed the US\$ 20,000 million mark in 1977. Compared to the preceding year, market volume recorded a diminished growth, decreasing from 38% to 21%. Nevertheless, business with non-banks experienced a considerable expansion both on the asset and liability side. ACU loans to non-bank customers rose by about US\$ 800 million to US\$ 4,800 million.

Rate of exchange on Dec. 30, 1977
US\$ 1 = S\$ 2.330 (as against S\$ 2.457
12 months before)

Thailand

The Thai economy, which is based on a diversified agricultural sector, profited in 1977 from rising foreign demand for its food products and industrial raw materials. Although the 6.2% rate of economic growth fell slightly short of the 7% target and the 8% inflation rate represented a 2% increase over the 1976 pace, an improvement in the *economic climate* was apparent. This applied particularly to the industrial sector, where output rose by more than 14%. Private sector investment increased more than had been expected. One exception to this trend was the textile industry, which is currently facing the problem of overcapacity.

Total Thai exports rose by 16% to US\$ 3,500 million in 1977, despite a decline in sugar and maize prices. The good rice harvest of the preceding year enabled a record export of 2.8 million tons. Earnings from tin exports also developed very favourably because of much higher quotations on the world market. Contrary to some pessimistic

sales forecasts, tapioca has maintained its significance as an important export product, ranking third after rice and sugar, but before rubber and tin, in total export income for 1977.

Compared to the preceding year, Thailand's import bill rose in 1977 by about 26% to US\$ 4,600 million. The resultant widening of the *trade deficit* was not least due to higher import



Bangkok, Thailand's economic and cultural centre, will be serviced by a Eurasbank branch scheduled to be opened in 1978.

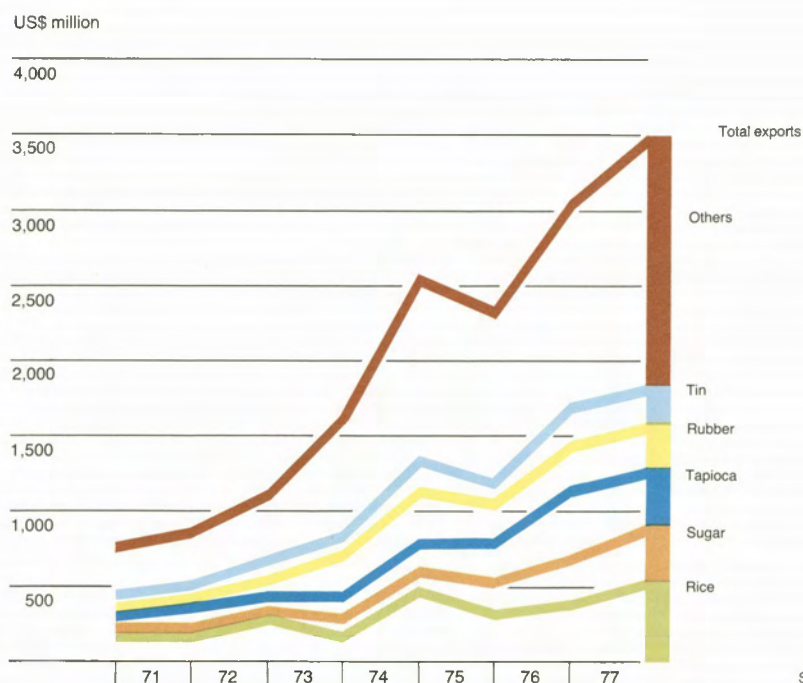
demand for industrial equipment and raw materials, thus reflecting a brighter investment climate. Moreover, the approximate US\$ 375 million deficit in the balance of payments could be financed without difficulty in view of the country's low outstanding external debt and high international credit standing. Thailand's foreign currency reserves amounted to about US\$ 1,800 million as at the end of December 1977, still ensuring an import coverage quota of more than 4½ months.

Suggestions made in the light of the recent slide in the dollar's value, to revalue or float the *baht* with the aim of curbing the rise in prices, were rejected by the Minister of Finance and the Governor of the Central Bank. Since linking the baht to the US dollar more than 20 years ago, only minimal fluctuations in the 1:20 rate of exchange have taken place. An official statement maintained that the baht's current external value was considered "appropriate" and that no adjustments were required. An unpegging from the dollar would probably have negative repercussions on the balance of payments and would not contribute to a reduction of inflationary pressures, as the causes of these pressures were of a more domestic nature. A drought that occurred in summer 1977, and which hit the underdeveloped Northeast especially hard, severely affected the new rice, maize and sugar-cane harvests. In order to safeguard domestic supplies of rice at fairly stable prices, less than half of the previous year's quantity will be available for export in 1978. A floating baht could therefore additionally impair the incomes of the farmers, who comprise at least 80% of the population.

In a realistic appraisal of the *structural problems* facing the country, the new government's economic programme placed emphasis on developing the rural areas. In addition to the construction of irrigation projects and storage facilities, labour-intensive industries for processing agricultural raw materials are planned to be established in these areas. A reduction of the pronounced prosperity differential between rural and urban areas would also contribute to ensuring political stability.

In view of the less favourable export prospects for 1978, which threaten to increase the trade deficit, early in 1978 the government issued an import ban

Top foreign exchange earners
1971–1977



Source: Bank of Thailand.

on luxury goods including autos, motorcycles and leather goods. On a medium-term basis, Thailand is hoping to ease the burden placed on the balance of payments by expensive oil imports through the exploitation of the first major domestic source of energy – the *natural gas deposits* discovered in the Gulf of Thailand. On the assumption that preparations run according to schedule, the first gas supplies should be pumped to Bangkok through a 560 kilometre long pipeline – 400 kilometres of this under water – in the beginning of 1981. Negotiations concerning the international financing for this project are currently in progress. Apart from the stimulus this project will give to the process of industrialization, the construction of the gas pipeline could also serve as an encouraging signal to foreign investors. Clear indications of

an increased interest on the part of foreign investors in Thailand could be seen in 1977.

Parity rate of exchange on Dec. 31, 1977 . .
US\$ 1 = B 20.400 (same as 12 months before)

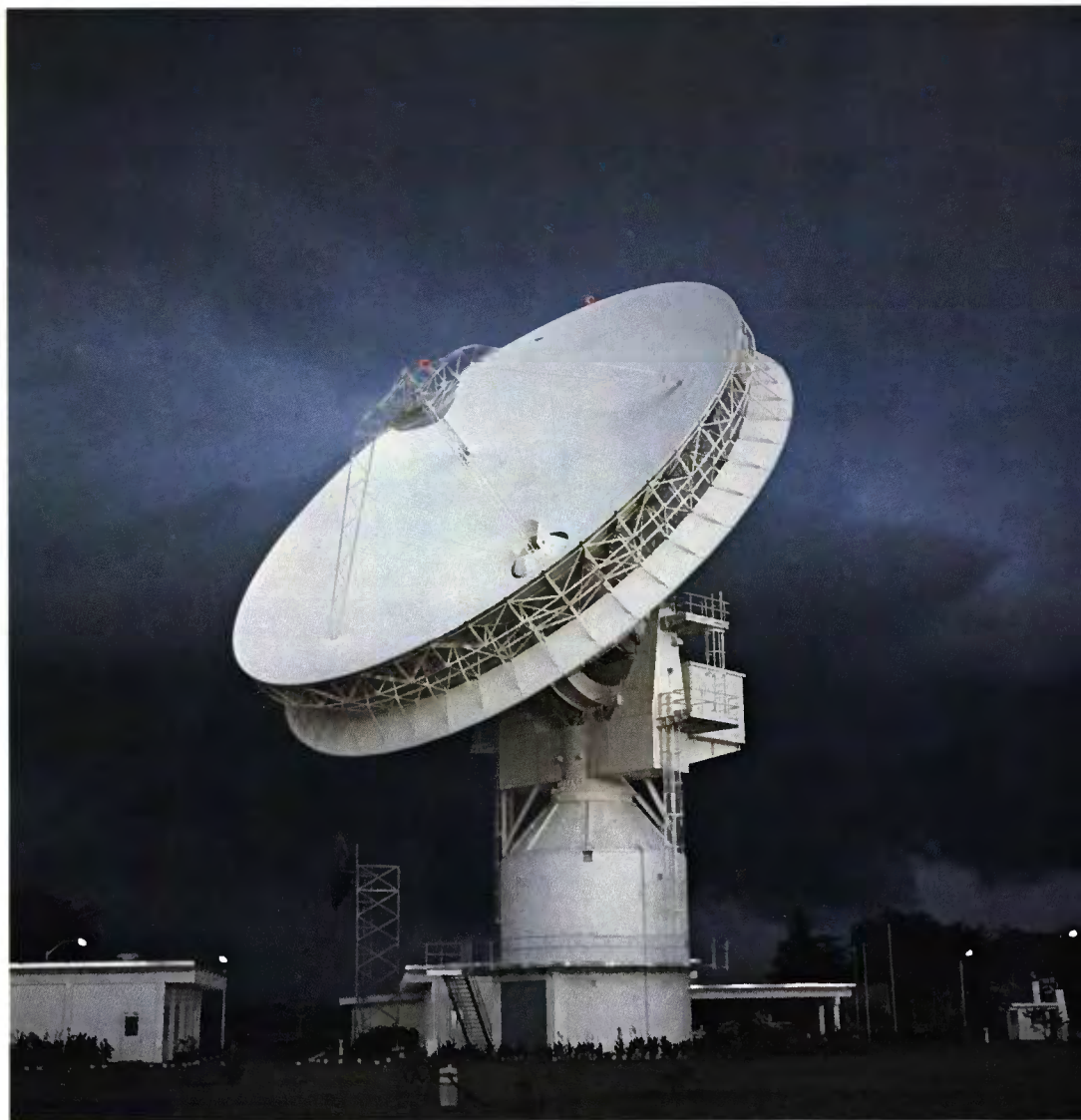
1977 was a particularly successful year for our bank. In its sixth year of activity, the growth in the volume of its business (up 34%) continued unabated, sustained above all by the increase in cash credits to customers (up 26%) and in discounts (up 37%); the rise in the latter was again even higher than in the preceding year. This favourable development reflected the further improved international competitiveness of our bank. This could also be seen by reference to the 30% increase in deposits from customers which — reviewed in the light of the existing local restrictions on foreign banks in most countries — is especially remarkable.

There was an increase of 42% in claims on and of 34% in liabilities to banks. This resulted both from the increased liquidity requirements arising from higher business volume and from the activities of our new Manila branch in the international inter-bank market.

In the first months after commencing operations, the Manila branch made considerable inroads in the field of foreign currency lending both to private and public Philippine borrowers. This development was crowned by the bank, as lead manager of an international bank consortium, successfully arranging and syndicating a US\$ 105 million loan facility for one of the Philippines' leading corporations.

Net interest income from current business rose by about 21% to DM 28 million. The universal pressure on interest margins showed no signs of decrease as a consequence of an even higher level of liquidity in the international banking system compared to the preceding

The antenna at Jatiluhur satellite earth station near Jakarta through which telephone and telex communications between Indonesia and the rest of the world are relayed. Eurasbank has arranged the finance for the construction of a second antenna which will further improve Indonesia's external communications. The station is managed by P. T. Indosat, a subsidiary of ITT, in co-operation with the Indonesian telecommunications authority PERUMTEL.



year. Despite an over-proportional increase in overheads associated with the expansion of our network of branches, the bank's profits showed a continued positive trend, and thus we can now propose a nominally unchanged cash dividend of 10% to our shareholders. A reform in German corporation tax will produce an increase to 14.1% in the total yield for our shareholders. Correspondingly, in spite of increased provisions and transfers to reserves,

caused among other reasons by the Developing Countries Tax Law, the bank's expenditure arising from income-related taxes rose by 57% compared to the previous year.

The bank's branch network has continued to expand:

— The main office of our Hongkong branch and the Karachi branch moved into new larger premises in 1977.

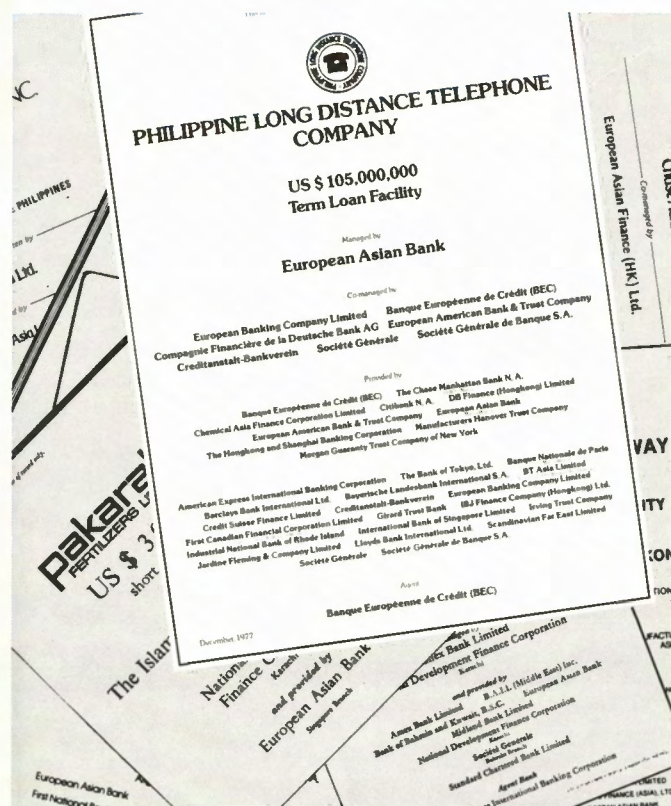
— During 1977 three sub-branches were opened by our Hongkong branch.

— Our bank was one of the eleven major international banks to be first granted a licence by the Philippine government to establish an offshore banking unit. Our Manila branch office commenced operations in August 1977.

— The government of the Kingdom of Thailand likewise granted permission to open a branch, which will become operational in the first half of 1978.

— We have also reached an advanced stage in our preparations for the opening of a branch in Seoul, Korea, and operations are scheduled to commence this year.

Capital for Asia: Arranging medium and long-term financings for important projects in South-East and East Asia is one of European Asian Bank's main activities.



In line with the bank's further expansion, the number of our employees grew by 82 to 564. The continuous training of indigenous employees in our head office and at our partner banks in Europe's leading banking centres thus assumed further importance. We would like to thank all our staff for their loyalty, through which they have contributed to our bank's success. Co-operation with staff representatives continued on a constructive basis and in an atmosphere 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 — remained almost unchanged at DM 32.9 million. Balances with the Deutsche Bundesbank and foreign central banks remained unchanged at DM 31.1 million.

The sum of liabilities to credit institutions and other creditors, including our own acceptances in circulation and sundry liabilities, amounted to DM 1,294.1 million (DM 970.9 million last year). The relation of the cash reserve to this (*cash liquidity ratio*) was 2.5% (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 from DM 122.8 million to DM 140.3 million. The proportion of liabilities covered by liquid funds (*total liquidity*) thereby amounted to 10.8% (12.7% last year).

Securities

Treasury bills and non-interest-bearing Treasury bonds and bonds and debt instruments rose altogether by DM 14.4 million. Of these, DM 12.2 million (DM 8.5 million last year) served to meet the capital and liquidity regulations concerning our branches in Asia.

Securities to the value of DM 11.1 million (DM 0.5 million last year) 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 255.6 million (30.3%); the increase in claims on customers was DM 105.9 million (25.5%) and in discounts DM 40.6 million (37.1%).

The breakdown of the volume of credit as per end of 1977 and 1976 is given below.

Of bills in hand, DM 30.0 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.

Besides the above credits we extended *guarantee facilities and letters of credit* amounting to DM 388.7 million to our customers (DM 296.6 million last year).

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

Participations

This item remained basically unchanged at DM 2.0 million. The participations involve obligations to pay up a maximum of DM 1.8 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 participations, amounted to DM 17,100.—.

Concerning our participation of DM 1.5 million in European Asian Finance (HK) Ltd., Hongkong, please refer to page 34.

Fixed assets

The item *land and buildings* was decreased by ordinary depreciation of DM 0.1 million to DM 3.5 million.

Volume of credit

Claims on customers

short and medium-term

long-term

Discounts

Lending to credit institutions

Total volume of credit

— in millions of DM —
End of 1977

DM 390.6 = 35.5%
DM 129.9 = 11.8%
DM 520.5 = 47.3%

DM 150.0 = 13.6%
DM 430.1 = 39.1%

DM 1,100.6 = 100.0%

End of 1976

DM 303.5 = 35.9%
DM 111.1 = 13.2%
DM 414.6 = 49.1%

DM 109.4 = 12.9%
DM 321.0 = 38.0%

DM 845.0 = 100.0%

<i>Funds from outside sources</i>	– in millions of DM –		
	End of 1977		End of 1976
Liabilities to credit institutions			
demand deposits	DM	89.7 = 6.9%	DM 99.7 = 10.3%
term deposits	DM	889.7 = 68.9%	DM 628.2 = 64.8%
customers' drawings on credits opened at other institutions	DM	4.7 = 0.4%	DM 4.5 = 0.5%
	DM	984.1 = 76.2%	DM 732.4 = 75.6%
Liabilities to non-bank customers			
demand deposits	DM	123.8 = 9.6%	DM 98.4 = 10.2%
term deposits	DM	174.4 = 13.5%	DM 131.8 = 13.6%
savings deposits	DM	9.0 = 0.7%	DM 6.5 = 0.6%
	DM	307.2 = 23.8%	DM 236.7 = 24.4%
Total funds from outside sources	DM	1,291.3 = 100.0%	DM 969.1 = 100.0%

Office furniture and equipment increased to DM 2.4 million, after additions of DM 1.7 million, ordinary depreciation of DM 1.0 million and special depreciation of DM 0.2 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 322.2 million (33.2%) to DM 1,291.3 million during the year under review.

The composition of the develop-

ment as per end of 1977 and 1976 is shown above.

Provisions for special purposes

Provisions for pensions were increased by DM 0.9 million according to the actuarial computation.

Other provisions shown at DM 10.3 million (DM 7.0 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 0.7 million and *transitory items* totalling DM 0.6 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 1.0 million was newly added.

Contingent liabilities

Endorsement liabilities on rediscounted bills rose by DM 39.3 million to DM 45.8 million.

Liabilities arising from guarantees given, bills of exchange, cheques guaranteed and warranty contracts increased by DM 92.1 million to DM 388.7 million.

Participations

with book values exceeding
DM 0.1 million

Others

European Asian Finance (HK) Ltd.
(EAF), Hongkong

Export Credit Insurance Corporation
of Singapore Ltd., Singapore

Liquiditäts-Konsortialbank GmbH,
Frankfurt/Main

Credit Guarantee Corp. Malaysia
Berhad, Kuala Lumpur

Commercial Pacific Trust Company Ltd.
(COMPACT), Port Vila, New Hebrides

Deutsch-Indonesische Tabak-Handels-
GmbH, Bremen

Deutsch-Indonesische Tabak-Handels-
GmbH & Co. KG, Bremen

European Asian Bank (Hongkong)
Nominees Ltd., Hongkong

European Asian Bank (Singapore)
Nominees Priv. Ltd., Singapore

Malaysia Export Credit Insurance
Berhad, Kuala Lumpur

Privatdiskont AG, Frankfurt/Main

Earnings on the volume of business

Earnings on services

Other receipts

Staff and material expenditure

Taxes

Other expenses

Proposed appropriation of profits

It will be 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. In view of the tax credit resulting from the German corporation tax reform, this represents an increase to 14.1% in the total yield for the shareholders.

Heilman

Beni

S. Mantel

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, 1977, 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 Annual General Meeting resolved to increase the number of members of the Supervisory Board from nine to twelve.

Hamburg, March 1978

THE SUPERVISORY BOARD



Chairman

European Asian Bank

Balance Sheet

as at December 31, 1977

Profit and Loss Account

for the period from January 1 to December 31, 1977

European Asian Finance (HK) Ltd.

Balance Sheet

as at December 31, 1977

Profit and Loss Account

for the period from January 1 to December 31, 1977

European Asian Bank

AKTIENGESELLSCHAFT

ASSETS

	DM	DM	31. 12. 1976 in DM 1,000
Cash in hand		1,731,174.43	1,573
Balances with the Deutsche Bundesbank		7,831,373.45	13,317
Balances with foreign Central Banks		23,286,192.62	17,804
Balances on postal cheque accounts		40,120.38	293
Cheques on other banks, matured bonds, interest and dividend coupons, and items received for collection		473,843.32	2,164
Bills discounted		96,574,180.61	101,602
including: a) rediscountable at the Deutsche Bundesbank	DM 30,036,061.09		
b) own drawings	DM 2,076,518.30		
Claims on credit institutions			
a) payable on demand	53,511,826.92		39,649
b) with agreed life, or subject to agreed period of notice, of			
ba) less than three months	248,524,721.20		156,690
bb) at least three months, but less than four years	428,604,520.93		317,826
bc) four years or longer	1,479,802.33		3,183
		732,120,871.38	517,348
Treasury bills and non-interest-bearing Treasury bonds			
a) of the Federal Republic and the Laender	—		—
b) others	6,423,324.18	6,423,324.18	4,972
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 4,145,835.16	4,145,835.16	997
including: eligible as collateral for			
Bundesbank advances	DM —		
foreign Central Bank advances	DM 4,145,835.16		
b) with a life of more than four years			
ba) of the Federal Republic and the Laender ...	DM 10,101,675.—		
bb) of credit institutions	DM 1,054,000.—		
bc) others	DM 1,677,885.75	12,833,560.75	3,000
including: eligible as collateral for			
Bundesbank advances	DM 11,155,675.—		
foreign Central Bank advances	DM 1,670,803.75		
		16,979,395.91	3,997
Securities, so far as they have not to be included in other items			
a) shares marketable on a stock exchange and investment fund certificates	12,213.37		8
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 —	12,213.37	8
Claims on customers with agreed life, or subject to agreed period of notice, of			
a) less than four years	390,600,388.41		303,507
b) four years or longer	129,877,579.94		111,136
		520,477,968.35	414,643
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		237,014.35	245
Participations		2,011,617.72	2,099
including: in credit institutions	DM 1,692,567.05		
Land and buildings		3,521,695.38	3,634
Office furniture and equipment		2,441,569.60	1,953
Sundry assets		999,414.59	1,064
Transitory items		735,006.96	951
TOTAL ASSETS		1,415,896,976.60	1,087,667
The assets and the rights of recourse in respect of the liabilities shown below the liabilities side include			
a) claims on associated companies		22,363,765.24	22,731
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)		1,323,431.12	934

LIABILITIES

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PROFIT AND LOSS ACCOUNT

EXPENSES

	DM	DM	1976 in DM 1,000
Interest and similar expenses		44,443,000.80	38,404
Commissions and similar expenses in respect of service transactions		94,979.81	73
Depreciation and adjustments on claims and securities, and allocations to provisions for possible loan losses		3,591,479.10	4,465
Salaries and wages		9,406,909.19	8,351
Social security contributions		689,543.94	597
Expenditure on retirement pensions and other benefits		2,203,822.63	1,315
Expenditure on material for the banking business		6,917,519.27	5,280
Depreciation and adjustments on land and buildings, and on office furniture and equipment		1,189,538.86	832
Taxes			
a) on income, earnings and property	9,035,062.63		5,755
b) others	104,640.—		704
		9,139,702.63	6,459
Allocations to special items including reserves		1,000,000.—	103
Other expenses		577,272.85	193
Year's net earnings		5,600,000.—	5,600
TOTAL EXPENSES		84,853,769.08	71,672

Year'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 360,008.— 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 115%, 118%, 121%, 123% and 130% of that amount.

Hamburg, February 1978

EUROPEAN ASIAN BANK AG
Board of Managing Directors

Böhm

Cartellieri

Stentzel

RECEIPTS

DM	1976
5,600,000.—	in DM 1,000
—, —	5,600
—, —	—
<u>5,600,000.—</u>	<u>5,600</u>
<u><u>5,600,000.—</u></u>	<u><u>5,600</u></u>

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

	HK\$	HK\$	1976 in HK\$ 1,000		HK\$	HK\$	1976 in HK\$ 1,000
LONG TERM LOANS		57,970,740.83	43,736	LONG TERM DEPOSITS		18,470,000.—	—
CURRENT ASSETS				CURRENT LIABILITIES			
Short Term Loans	12,500,001.93		23,724	Short Term Deposits	25,548,627.50		28,954
Accounts Receivable	1,538,080.01		1,209	Accounts Payable	1,186,711.35		879
Cash at Bank	<u>10,384.76</u>		142	Current Taxation	<u>61,260.37</u>		1
		14,048,466.70	25,075			26,796,599.22	29,834
AMOUNT DUE FROM ASSOCIATED INSTITUTIONS		30,481,433.48	—	AMOUNT DUE TO ASSOCIATED INSTITUTIONS		48,950,394.55	34,057
CONVERSION ADJUSTMENT		33,727.23	—	SHARE CAPITAL			
				Authorized			
				10,000 Shares of HK\$ 1,000 each	<u>10,000,000.—</u>		
				Issued			
				10,000 Shares of HK\$ 1,000 each	10,000,000.—		10,000
				Less: Amount uncalled	7,000,000.—		7,000
						3,000,000.—	3,000
				PROFIT AND LOSS ACCOUNT		5,317,374.47	1,920
TOTAL ASSETS		102,534,368.24	68,811	TOTAL LIABILITIES		102,534,368.24	68,811

	1976
HK\$	in HK\$ 1,000
PROFIT FOR THE YEAR BEFORE TAXATION	3,532,779.99 1,648
Less: TAXATION	<u>114,144.60</u> <u>71</u>
PROFIT FOR THE YEAR AFTER TAXATION	3,418,635.39 1,577
Balance brought forward	1,898,739.08 343
PROFIT AND LOSS ACCOUNT	<u>5,317,374.47</u> <u>1,920</u>

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The EBIC Banks and their Affiliates

Amsterdam-Rotterdam
Bank N.V.
Netherlands

Banca Commerciale
Italiana
Italy

Creditanstalt-Bankverein

Austria

Deutsche Bank AG
Federal Republic of Germany

Midland Bank Ltd.
Britain

Société Générale de Banque S.A.
Belgium

Société Générale
France



Banque Européenne
de Crédit (BEC)
Brussels

European American
Banking Corporation
New York – Los Angeles –
San Francisco – Nassau (Bahamas)

European American
Bank & Trust Company
New York –
George Town (Cayman Islands)

Europäisch-Arabische
Bank GmbH
Frankfurt/Main

European Arab Bank
(Brussels) S.A.
Brussels

European Arab Bank Ltd.

London – Bahrain

European Asian Bank

Hamburg – Bangkok – Hongkong –
Jakarta – Karachi – Kuala Lumpur –
Manila – Seoul – Singapore

European Banking
Company Ltd.
London

Euro-Pacific Finance
Corporation Ltd.
Melbourne – Sydney

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Board of Managing Directors

Michael Böhm
Ulrich Cartellieri
Bernard Stentzel

Corporate Banking

Jan Imbeck
Erika Bellstedt
Lutz-Henning Pabst

International Finance

John A. Miles
Kenneth G. Lomas

Hamburg Branch

Bartel de Bruyn Ouboter

Foreign Branches

Bangkok *

European Asian Bank

Praparwit Building
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Dep. Manager: Georges Legros
Manager (Foreign Dept.): Vichitr Uthaixai
Manager (Internal Dept.): Bernd Sperber

Hongkong

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Manager (Internal Dept.):
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Manager (Loans Dept.):
Bernard Houtekier
Manager (Accounts):
Dr. Michael Gatterer
Manager (Foreign Exchange):
Manfred Schauer
Asst. Manager:
Andrew Kwong Hon Kwan
Asst. Manager:
John Kwok Kwong Leung
Asst. Manager:
Ko Hung Wong

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Manager: Francis Chung Yaw Yuen

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Manager: Hau Hin Law

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Manager: Bernd Satz
Manager (Loans Dept.): Eric Ballot
Manager (Internal Dept.):
Peter Palmer-Barnes
Asst. Manager (Loans Dept.):
Budhy G. W. Budhyarto

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Manager (Loans Dept.):
Shahid K. Siddiqi
Manager (Foreign Dept.):
Irudiyanadan N. Francis
Manager (Internal Dept.):
Amin-ur-Rehman Khan

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Dep. Manager: Frans Kuyken
Asst. Manager: Cheah Yoke Loong

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Dep. Manager: Santiago S. Cua, Jr.

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Dep. Manager: Willem Kinat
Asst. Manager (Foreign Dept.):
Viggo Ruf

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European Asian Bank

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Manager: Frederick J. A. Brown
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Dep. Manager: Michel Baise
Manager (Foreign Exchange):
Charles Heutschi
Chief Accountant: Francis T. K. Lim
Asst. Manager: Ong Phee Hoon
Asst. Manager: Bobby Teo Hin Guan

* to be opened in 1978.



European Asian Bank