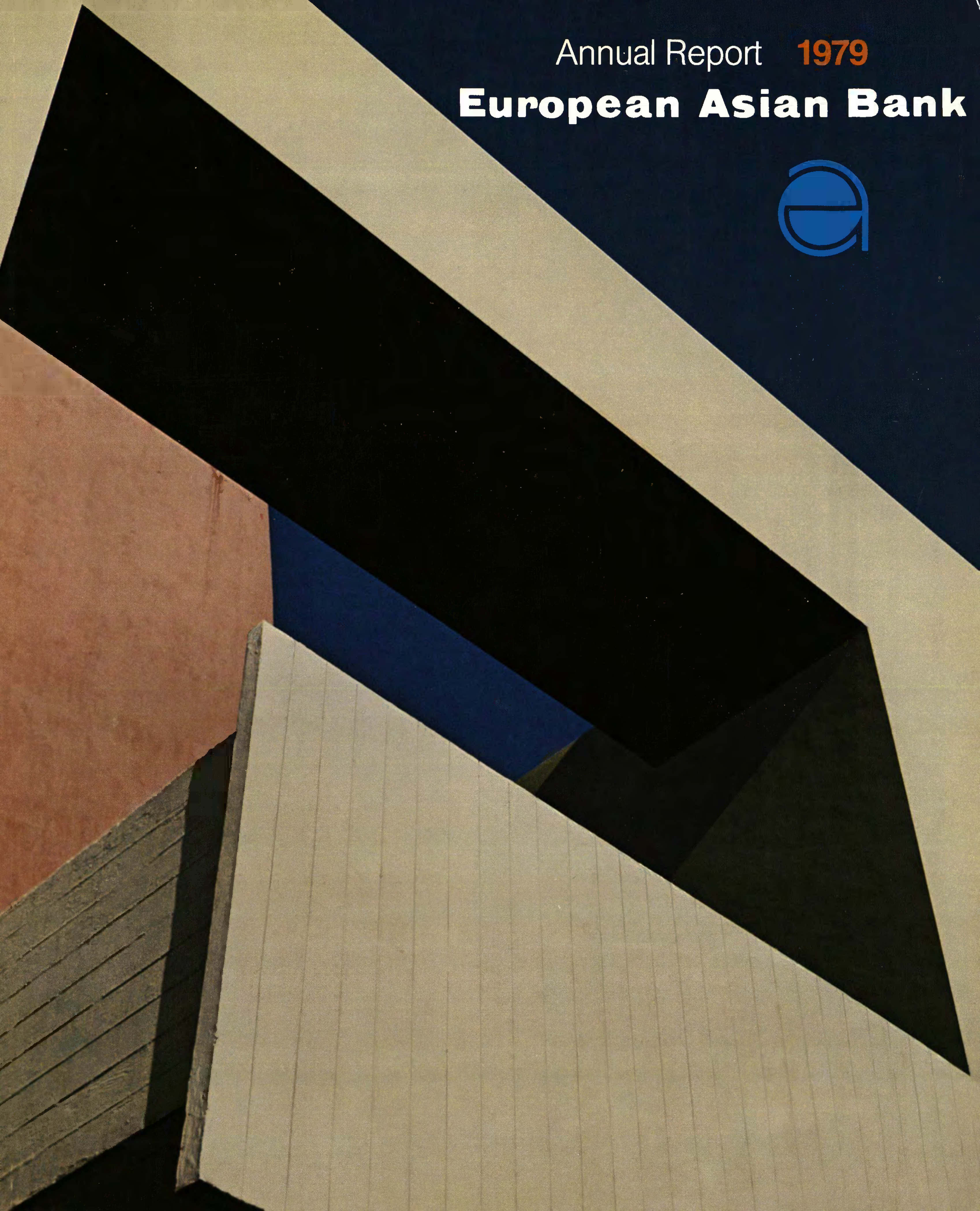
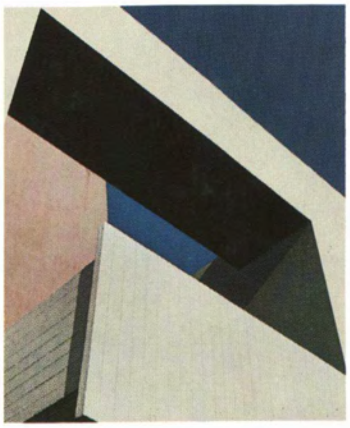
Annual Report 1979

European Asian Bank





Cover: A symbol of modern India — the striking architecture of a nuclear plant. European Asian Bank will open its first Indian branch in Bombay in 1980.

Contents

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Report for the Year 1979
European Asian Bank

European Asian Bank – Eight Years of Growth 1972–1979

DM millions	1972*	1973	1974	1975	1976	1977	1978	**1979**
Total assets	240	522	665	896	1,088	1,416	2,078	**2,846**
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	1,858	2,585	**3,638**
Credit volume	132	370	572	720	845	1,101	1,329	**2,022**
Deposits	199	471	607	832	969	1,291	1,947	**2,670**
Capital and reserves	27	36	38	39	95	95	95	**126**
Net interest income	5.8	10.9	15.6	19.7	23.3	28.3	30.2	**43.9**
Net commissions and other service income	4.7	7.7	8.1	8.7	8.3	10.2	13.7	**15.7**
Taxes	1.5	2.1	5.1	6.5	6.5	9.1	11.7	**14.4**
Dividend	–.–	–.–	–.–	2.8 (10%)	5.6 (10%)	5.6 (10%)	5.6 (10%)	**6.3 (10%)****
Staff	377	389	443	457	482	564	701	**765**

*** Partial business year**

**** Effective dividend including tax credit: 15.6% (1978: 15.2%)**

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(until December 31, 1979)
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* elected by the staff

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Michael Böhm Ulrich Cartellieri Bernard Stentzel

Report of the Board of Managing Directors

South-East Asia in 1979 – Development and Prospects

For most countries on the Asian seaboard 1979 was another year of remarkable economic growth. Increasing inflation rates, however, began to take their toll on real income levels and most domestic economies also felt the energy pinch.

Although the year made a promising start with the formal establishment of full diplomatic relations between Peking and Washington, it brought no end to the various regional conflicts. But the political structures of the independent Asian nations withstood the severe tests imposed upon them during 1979. War broke out in Indochina and the Kampuchean crisis spilled over into Thailand in the form of refugees and recurrent border incidents. Strain was also put upon some of Thailand's neighbours in South-East Asia by the mass exodus of refugees from Vietnam. In Korea a president was assassinated, under whose leadership the southern Korean peninsula had been transformed from one of Asia's poorest countries into one of its most advanced economies. On the Indian Subcontinent the Soviet invasion of Afghanistan alarmed Pakistan and had far-reaching strategic implications.

Understandably the headlines which these events attracted tended to overshadow the economic achievements registered by the principal market-oriented economies of the Asia-Pacific region in 1979. With real growth rates ranging from 5.8% (Philippines) to as much as 12% (Hongkong), these states again performed well by world standards and showed few signs of slowing down noticeably. An exception to this trend was Korea, where a consolidation is now sought by the economic planners after the high-growth policy of the last decade.

As in previous years, exports from the Asia-Pacific region profited considerably both from the favourable mix of its commodities – with especially rubber, tin and timber fetching high world market prices – and from the competitiveness of its manufacturing industries. Being highly geared to exports and with domestic markets too small to absorb more than a fraction of their export production, Asia's newly-industrialising countries continued to pursue industrial diversification in the face of unabated protectionist tendencies overseas.

Only Indonesia and Malaysia with their own oil deposits were in 1979 largely shielded from the impact of soaring energy costs on balances of payments. For the majority of oil-importing countries in the region the new wave of oil price increases caused a strong rise in their current account deficits. Since the international credit standing of even the most affected countries did not suffer significantly, these deficits could be financed without appreciable difficulty – albeit at the cost of a further increase

Selected economic indicators for developing Asia	Hongkong	India	Indonesia	Korea	Malaysia	Pakistan	Philippines	Singapore	Sri Lanka	Thailand
Economic growth rate (real)										
1978	10 %	7.2%*	7.2%	11.6%	7.4%	7.0%**	6.5%	8.6%	8.2%	8.7%
1979	12 %	4–4.5%*	6–7%	7.1%	8.1%	5.9%**	5.8%	8.5%	5.8%	6.5%
Increase in exports										
1978	16.3%	5.0%*	7.3%	26.5%	13.9%	13.3%**	7 %	14.4%	3 %	17 %
1979	37.4%	5.3%*	35 %	18.5%	23 %	33.6%**	32 %	34.7%	15 %	29 %
Inflation rate										
1978	6 %	7.8%*	6.7%	14.4%	4.9%	6.9%**	7.6%	4.8%	12.1%	7.9%
1979	11 %	2.2%*	22 %	21.2%	5 %	8.3%**	18.8%	4 %	13 %	14 %
Total reserves minus gold (US$ millions)										
Dec. 1978	n.a.	6,426	2,626	2,764	3,243	408	1,763	5,303***	398	2,010
Sept. 1979	n.a.	7,328 (June)	3,291	2,795	3,964	159	1,996	5,612*** (Aug.)	459	2,113

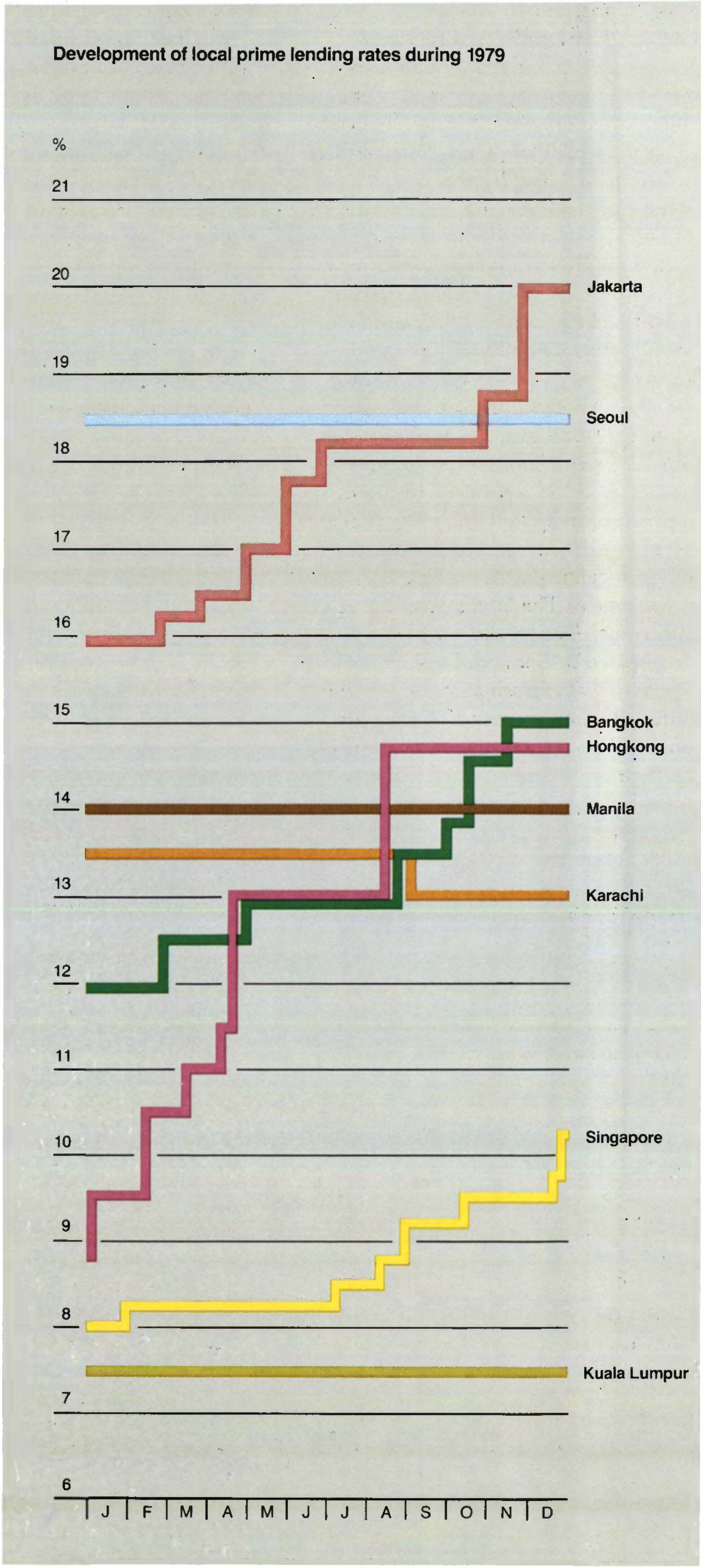
* Data refer to financial year ending March
** Data refer to financial year ending June
*** Data include gold holdings

Sources: Official statistics and estimates in external debts. In general debt service ratios appeared not yet to have become unacceptably high and international reserve cushions remained fairly healthy.

Rapidly rising interest levels throughout the region reflected to a large extent the inflationary pressures triggered by higher oil prices. But these adjustments also served to align domestic rates with the development of US dollar interest rates and thereby tended to stabilise exchange rate movements.

No doubt the international economic environment for the Asian countries will be a more difficult one in 1980. A weakening of demand in their major export markets cannot be excluded and the steps already taken to develop alternative sources of energy – coal, hydroelectric, geothermal and nuclear power – and to accelerate conservation measures will need some time to soften the impact of oil price boosts. Nevertheless there is almost unanimous agreement that especially the five ASEAN members (Singapore, Malaysia, Indonesia, the Philippines and Thailand) as well as Hongkong, Korea and Taiwan face better economic prospects for the 1980's, than most other developing regions in the world.

For their part, these states are keen to broaden their relationship with Europe. As an indication of revived European interest in the region, a co-operation agreement between the EEC and the ASEAN group is scheduled to be signed in early 1980. Closer industrial and technological links between private enterprises are an important aim of this economic pact.



Hongkong

For Hongkong's economy 1979 was the fourth successive year of *double-digit growth*. Mainly as a result of an unexpected surge in exports of products "Made in Hongkong", the rate of economic growth rose to an estimated 12%, compared with the original budget forecast of 7% and the actual rate of 10% in 1978. An almost inevitable consequence of this continued rapid economic expansion since 1975 has been demand pressure on scarce domestic resources, especially labour and land. The implications for price stability have, therefore, been much less favourable. The increase in consumer prices almost doubled from 6% in 1978 to some 11% in 1979. Another indication of the *accelerated pace of inflation* was the so-called Gross Domestic Product deflator – an index commonly used to reduce the GDP in current price terms to constant price terms – which was running at a rate of about in 14% in 1979 as against 5.5% in 1978.

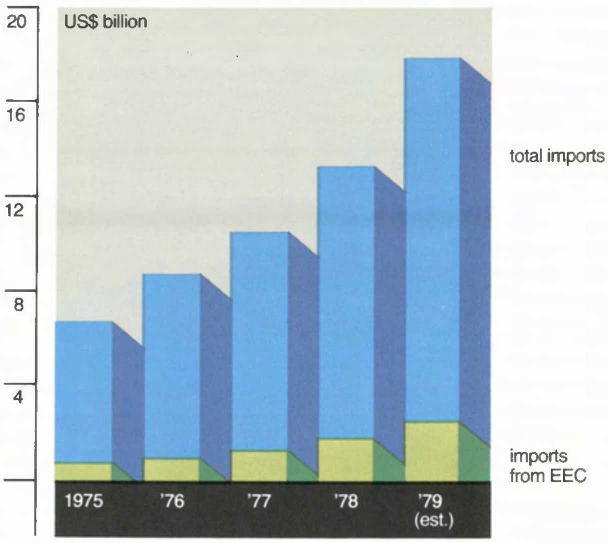
The pressure on resources was particularly marked in the *building and construction industry*, where costs were increasing at an annual rate of 35%. Assurances from China about Hongkong's future and the capital flow from other parts of South-East Asia appear to have helped fuel the real estate boom. The feverish spiral of property prices once again drew critical comments from various sides. In order to curb soaring rents, legislation was announced in December which would extend controls on rent increases in the residential property market. But, as in the past, the government indicated that commercial and industrial premises would be excluded from such checks.

The *labour shortage* in the manufacturing sector was somewhat alleviated by the recent influx of immigrants and refugees which swelled Hongkong's population by 6.4% between mid-1978 and mid-1979, compared with an average annual increase of only 1.9% over the period 1970 to 1978. Unofficial estimates of the present population range from 5.2 million to well beyond 5.5 million. Concern has been expressed that the high rate of immigration would provide a disincentive for the substitution of labour with advanced technology. In other words, labour productivity might increase at a slower rate than would otherwise be the case, and the process of "trading-up" (the production of more sophisticated goods) might be retarded.

All three major components of *external trade* continued to show remarkable gains in 1979. Despite the many trade problems Hongkong has had to face, the value of *domestic exports* was 37% higher than in 1978 – a performance that exceeded the most optimistic predictions. Sales to Britain and Germany were particularly buoyant. Significant export growth in 1979 was achieved in clocks and watches, electronic products, sophisticated toys and photographic equipment. Yet the most striking feature in Hongkong's trade was again in *re-exports* which moved ahead at a pace of more than 50%. Hongkong's role as an entrepot has certainly been enhanced by the expansion of China's international trade.

Although the increase in *imports* was still fairly rapid at 36%, it was surpassed by the growth rate of total exports (domestic exports plus re-exports). This development was greeted with some relief as evidence that certain imbalances in the overheated economy were beginning to be corrected. The improving overseas trade account, together with other special factors such as extremely high local interest rates, contributed to a gradual recovery of the *Hongkong dollar* on the foreign exchange market. During the first half of 1979 the currency had remained chronically weak – reaching a six-year low of HK$ 5.30 per US$ 1 on April 18.

Trends in Hongkong's imports



Spending only about 6% of its total import bill on *oil*, Hongkong has had less difficulty in managing the heavier oil burden than some other countries in the region. A government-appointed Advisory Committee on Diversification recommended in late 1979 that the feasibility of building an oil refinery should be reconsidered. Such a project would not only broaden the industrial base, but also allow an involvement in China's new offshore oil development. A previous scheme had been shelved in 1975 because of the uncertainty regarding long-term availability of crude oil supplies.

In an effort to dampen credit demand and discourage speculation on the property market, the government prompted a further round of upward adjustments in local interest rates. A series of six increases within nine months boosted the prime lending rate of *commercial banks* from 8¾% to 14½%, the highest level recorded in the seventies. In September 1979, the government put a temporary moratorium on the granting of new banking licences to foreign banks. This action, coming only 16 months after the previous 12-year moratorium had been lifted, was seen as another measure to slow down the expansion of local lending. In this very short period the total number of licensed banks in Hongkong had grown from 74 to 115.

There are indications that economic co-operation with *China* will become even closer in the eighties. This should further strengthen Hongkong's position as a regional financial centre and business base.

Rate of exchange on Dec. 31, 1979 ....
US$ 1 = HK$ 4.9275
(as against HK$ 4.8000 12 months before)

Hongkong: European Asian Bank provided project finance for site grading of the Yuen Long Industrial Estate. Yuen Long is one of several fast-growing satellite industrial towns in Hongkong's New Territories. Rohan Courtney, Managing Director of European Asian Finance (HK) Ltd., is being briefed by the Resident Engineer and the Project Manager.

India

The economic situation inherited by the new Indian government in January 1980 was by no means an easy one.

Between 1975 and 1978 good monsoon rains had aided the Indian economy towards a steady growth relatively untroubled by inflation, and the first wave of oil price rises in 1973–74 had been remarkably well withstood. However, in the course of 1979 various adverse factors contributed to a marked deterioration in the country's economic performance. A crippling drought took a heavy toll on large areas of the country, inadequacies within the infrastructure were felt to an increasing degree and worsening industrial relations led to a noticeable decline in labour productivity. These problems were further accentuated by uncertainties on the domestic political scene which affected administrative decision-making.

The economic setback in 1979 became most visible in the development of prices. Within a year the *inflation rate* accelerated from under 2% to over 20%, as measured by the wholesale price index. A drop in both *agricultural and industrial production*, along with the new round of heavy oil price rises, was essentially responsible for these inflationary pressures. Tax increases and an uncovered gap in the budget helped only to aggravate spiralling prices. Nevertheless the Reserve Bank of India was able to register some success in its attempts to contain the expansion of money supply.

In the view of the Reserve Bank, economic activity in 1979 was considerably hampered by bottlenecks in *energy supply* and *transport*. Electricity generation, which is greatly dependent upon domestic coal, suffered from the sluggish output of the nationalised mines. A shortage of railway wagons increased the scarcity of coal in the consuming centres. The power-cuts necessitated by these circumstances tended to disrupt industrial production from time to time. In addition to this the movement of goods into and out of the country was delayed by congestion in the ports.

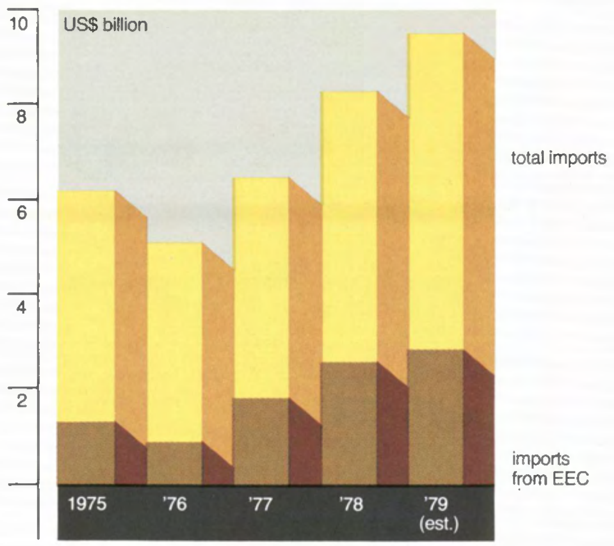
Despite these various constraints the first months of the new financial year beginning April 1, 1979 witnessed an expansion of India's *foreign trade,* with the rate of export and import growth running into double figures. The widening trade deficit must nonetheless be attributed to two factors: the rocketing costs of oil imports and the continuance of the import liberalisation policy, which was chiefly designed to strengthen the production base of the economy. Above-average export results were again achieved by a number of non-traditional items. The vitality of the private sector economy is also well demonstrated by the fact that Indian contractors and manufacturers are becoming a stronger force especially in the Middle East and South-East Asian markets.

In recent years exports of *polished diamonds* have boomed. With its cheap, skilled labour India has already been able to capture a large proportion of the world market in small diamonds. Since gems are not produced domestically, the rough stones for this labour-intensive industry are derived entirely from imports.

In contrast to previous periods of economic difficulties, India is now better placed to meet the problems it faces. The country at present has about 20 million tonnes of *foodgrain reserves* to overcome a bad harvest without recourse to foreign aid. Secondly, the *foreign exchange reserves* (excluding gold) are still at the comfortable level of about US$ 7 billion. This should allow the government to avoid cutting back on essential imports for balance of payments reasons. Assuming that a friendly domestic economic climate can be established and the agricultural sector is not plagued by another drought, a return to the growth trend of the period 1975–1978 may be achieved earlier than is generally anticipated.

Rate of exchange on Dec. 31, 1979 . . . .
US$ 1 = Rs. 7.84
(as against Rs. 8.04 12 months before)

Trends in India's imports



Indonesia

In 1979 there were growing signs of more favourable developments in Indonesia's economic outlook. In the shadow of the unpopular rupiah devaluation in November 1978, of weak investment activity, a cutback in oil production and uncertain market prospects for the country's other raw materials, forecasts at the start of the year had still been heavily subdued. However, two factors were above all responsible for the *turnabout* which occurred in the second half of the year: Indonesia, as South-East Asia's largest petroleum and natural gas producer, greatly benefited from the unexpected substantial profits which resulted from the massive OPEC price increases; in addition to this Indonesia experienced surprisingly good world market demand for timber, rubber, coffee and tin. The primary concern of economic policy remained the problem of inflation, even though there were indications that this too was slackening off.

Initially the wave of cost and price rises brought about by the devaluation of 33.6% threatened to undermine the stimulus for production at which this measure had been aiming. Until autumn 1979 the *annual inflation rate* stood at about 30%, but towards the end of the year it fell to 22% (as against 6.7% in 1978). Eventually, with a monthly cost of living increase of less than 1% it appeared that inflation was now under better control.

The devaluation had a clearly advantageous effect on various *non-oil exports.* Indonesia thus emerged for the first time in 1979 as a significant exporter of plywood, electronic components and garments.

Bombay — The Gateway of India, the city's most famous monument. Our Bank's presence in South Asia will be strengthened in 1980 by the opening of a full-service branch in Bombay, the commercial capital of India.

As the growth in total exports, at about 35%, outstripped the expansion of imports by a considerable margin, the *balance of payments surplus* grew to over US$ 1.5 billion. At the end of 1979 the *international reserves* held by Bank Indonesia amounted to over US$ 4.1 billion – as compared with barely US$ 600 million four years earlier, when the Pertamina crisis had triggered off an economic setback.

The most recent OPEC price rises have given *oil income* a more dominant role in the Indonesian economy than ever. Nonetheless the government continues to accord high priority to a greater diversification of exports. On the other hand a rise in net proceeds from oil sales is limited by: (1) A fall in output and export volume due to a decline in new exploration projects in the last five years, (2) fast-growing domestic consumption, and (3) the expensive imports of refined products, for which the country does not as yet possess the production facilities. However, it seems that within a few years it will be possible to reverse the present unfavourable trend in oil output, since expenditure for exploration has again already started to accelerate. In addition to new, more advantageous production-sharing contracts, the events in the Middle East have almost certainly been responsible for a greater renewed interest in South-East Asia by the international oil companies.

1979 saw the first signs of a revival in *foreign investment activity* in other sectors as well. On various occasions there were official statements indicating that incentives would be given especially to those projects which promise to increase manufacturing in rural areas or broaden the export base.

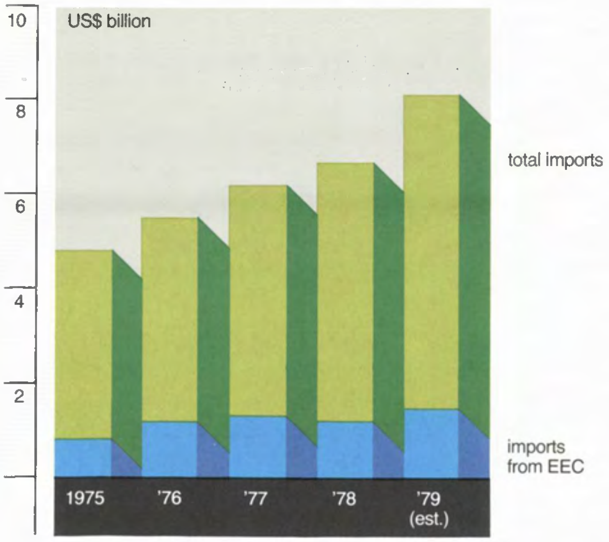
The brunt of the attempt to contain inflation in 1979 was once again borne by the *banking system*. With the central bank continuing to ration credit by imposing strict ceilings, the very tight monetary policy was visible in the total volume of bank loans, which rose by no more than 27%. As a consequence inflation-adjusted domestic credit volume was virtually stagnant.

The higher oil revenue will finance an expansionary 1980–81 budget. Total spending is projected to increase by 52% and to stimulate effective domestic demand in particular, now that the export sector has already reacted positively to the 1978 devaluation. But the central bank announced that it will still allow a very selective credit expansion only, in order to prevent renewed inflationary pressure. After the restrained import growth during the year under review – in which however the fall-off in imported luxury goods persisted – an acceleration in Indonesia's *foreign purchases* in 1980–81 now appears certain.

Rate of exchange on Dec. 31, 1979 ....
US$ 1 = Rp 627
(as against Rp 621 12 months before)

Jakarta: The Bank's counter at INDOGERMA 1979, the largest German industrial fair so far held in South-East Asia. European Asian Bank belongs to the small group of foreign banks licensed to operate branches in the Indonesian capital.

Trends in Indonesia's imports



Korea

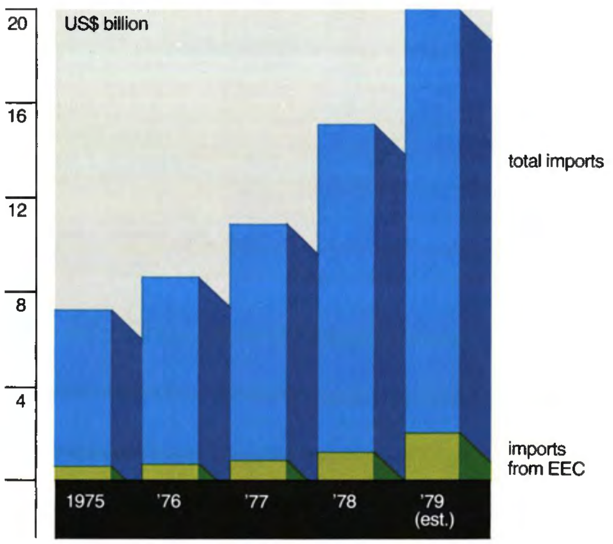
The combination of a deflationary policy, introduced by the government early in 1979 to bring the high rate of inflation under control, and the worldwide impact of the oil price rises left its mark on the Korean economy. While the *GNP growth rate* of 7.1% for the full year was still respectable, developments during the second half of 1979 were characterised by stagflation coupled with a widening current account deficit. A sharp slowdown in economic activity was particularly evident in the quarterly figures: From 13.3% in the first quarter, growth slipped to 9.9% in the second, to 4.8% in the third and registered virtual stagnation in the final period.

Various trade problems and the loss of price competitiveness in major markets became apparent in the 1979 *export performance.* The increase of 18.5% in total export earnings was less than the domestic *inflation rate* (at about 24% as measured by the official wholesale price index) and represented a contraction in the actual export volume. Exceptions to this unfavourable trend were electronic goods, iron and steel products, and machinery. In these sectors Korean exports made remarkable progress.

Overall Korean *imports* in 1979 amounted to US$ 20.3 billion on a customs clearance basis, up 36% from 1978. Imports rose across the board, the mounting cost of crude oil supplies from the Middle East being only one of the many factors at work. Import liberalisation measures together with the purchases of foodstuffs, to dampen domestic price levels of many essentials, contributed to this expansion. Under Seoul's policy of reducing its dependence upon imports from Japan, particularly strong growth was recorded in the volume of raw materials and machinery imported by Korea from the United States. Imports from the Federal Republic of Germany increased by an even larger percentage, albeit from a much smaller base. Impressive gains on the Korean market were also registered by other EEC countries. Despite the present economic slowdown, a continued rise in imports can be expected. Apart from oil price pressure, this will mainly stem from the need to purchase equipment and materials for the country's new investment programmes in light industry, housing construction and public transport.

In a bid to improve the deteriorating balance of payments and hold down unemployment, the government *devalued* the domestic currency by 16.55% on January 12, 1980 – from 484 to 580 won per US dollar. The previous devaluation of the won had been by about 18% in December 1974. Accompanying measures to restrain the inflationary impact of the new devaluation included a sharp increase in domestic *interest rates* (the prime

Trends in Korea's imports



Korea's chemical industries have made great strides since the 1960's. Our Seoul Branch is providing working capital for Korea Steel Chemical Co., Ltd. (KSCC), which was established in 1974 as the first Korean manufacturer of coal chemical products. Seoul Branch Manager Barry Lamont and his associates W. K. Lee and K. I. Chung are being briefed by the KSCC Managing Directors Y. N. Kim and Se-Hyok O (left and right) at the company's Pohang plant.

lending rate was raised from 18.5% to 24.5%) and a cut in budget expenditure. It was also announced that the exchange rate of the won would in future be linked to a multi-currency basket rather than to the US dollar.

Although the devaluation should grant at least a temporary respite to export companies, 1980 will not be an easy year for the economy. The balance of payments is forecast to show a record *current account deficit* of US$ 4.7 billion. This will compel the government to borrow heavily abroad at a time when the country faces difficult social and political changes after President Park's assassination in October 1979.

However, Korea's situation offers no cause for undue pessimism. The country has successfully weathered severe economic setbacks during 1971–72 and 1974–75. Given its diligent and capable work force, its proven entrepreneurial vigour and the ability to adopt new technology from advanced countries, the Korean economy should be able to regain its growth momentum maybe even by 1981. Moreover, the country's heavy reliance on imported oil as the main source of energy will be steadily reduced from the mid-1980's onwards when the large nuclear plants and coal-fired power stations now under construction become operational.

Basic exchange rate of the Bank of Korea on Jan. 12, 1980 . . . . US$ 1 = won 580.00 (as against won 484.00 on Dec. 31, 1978)

Malaysia

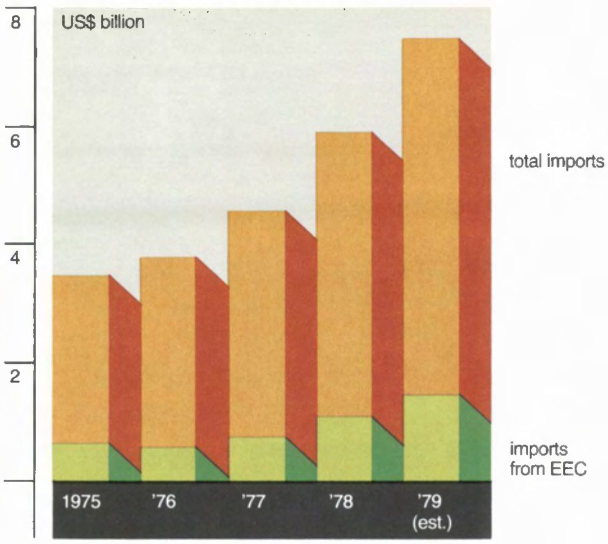
The Malaysian economy outperformed expectations in 1979. *Real GNP* is estimated to have grown by 8% against the budget forecast of 7.2%. At the same time relative price stability was maintained although there were signs of increased pressures towards the end of the year. The official *rate of inflation* for the whole of 1979 was put at around 5%, slightly above the previous year's figure.

To a large extent economic growth was fuelled by higher world market prices for the country's traditional *commodities* such as rubber and tin, and as a net oil exporter by OPEC's price increases. The latter have also improved the competitiveness of natural rubber vis-à-vis petroleum-based synthetic substitutes. The rubber price reached a new record of 325.0 cents/kilogram on June 8, 1979.

These price increases provided an added stimulus to commodity production. Output of palm oil, for example, rose sharply by some 50% during the first half of 1979. The *petroleum industry* also continued to expand substantially. Domestic oil production rose by an estimated 29% to 280,000 barrels per day in 1979. The bulk of this locally-produced light crude oil was again exported – mainly to Japan and the United States – since the country's three existing refineries are primarily designed to process imported heavy crude oil from the Middle East. However, in line with efforts to promote the local refining of Malaysian crude, an international consultancy firm has been engaged to study and propose a suitable site for a planned government-owned refinery. Meanwhile, the contract for the construction of the M$ 2.4 billion *LNG* (liquefied natural gas) *plant* in Bintulu, Sarawak, has been awarded to a US-Japanese joint venture. Part of the project, which is scheduled to begin operating in 1983, will be financed by a large syndicated Eurodollar loan.

Led by the substantially higher export value of crude petroleum (up by about two-thirds), Malaysia's *total*

Trends in Malaysia's imports



export earnings climbed by 23% in 1979. Manufactured goods registered an increase of 25% and accounted for 20% of total exports, thus making a substantial contribution to the strong export performance. Notable advances were recorded in the fields of electrical and electronic products, textiles, footwear and transport equipment.

Thanks to the surge in export receipts, the 1979 current account continued to show a surplus. This favourable *balance of payments position* was partly reflected in the Malaysian ringgit's firm trend in foreign exchange markets during the year. Net international reserves at the end of 1979 were sufficient to finance about 7 months of imports – the highest ratio in ASEAN. Malaysia's external debt service ratio also remained at a healthy level of less than 5%.

Domestically, private sector demand lagged behind public sector expenditure. This was most visible in capital formation. *Real private investment* expanded by an estimated 10% as against 12% in 1978, whereas public investment grew rapidly by more than 20% in real terms after growing only 2.6% in 1978. The slower pace in private investment activity was also evident from the slight decline in the total proposed capital for projects approved in the first six months of 1979. The largest number of approvals was again given for food manufacturing

Our customer, Tan Chong & Sons Motor Co. (above), assembler and distributor of Nissan passenger and utility cars in Malaysia and Singapore, has gained a leading position in these very competitive markets. At the recently expanded assembly lines of the Kuala Lumpur plant: our Kuala Lumpur Branch Manager, Holger des Coudres, with Teoh Keng Song, Financial Controller of Tan Chong Motors.

Malaysia: Promotion of the local processing of indigenous raw materials is an important aspect of government economic policy. Inspecting a timber processing plant are Foo Kim Wah, Managing Director of Finewood Products Corporation, and Kuala Lumpur Branch Manager H. F. des Coudres with Wong Ah Meng, Assistant Manager (Loans).

projects (23), electrical and electronic product industries (21) and the textile industry (20). The share of joint ventures in the total projects approved was more than 50%. Wholly foreign-owned projects decreased to 7, compared with 11 approved in the same period of 1978.

The substantial influx of foreign exchange receipts arising from favourable commodity prices was also reflected by the large increase in deposits of commercial banks. Growth in bank lending as a whole was much less brisk, although loan demand appeared to pick up in the latter part of 1979. However, in contrast to the fast-rising interest rates in the United States and elsewhere, there was no upward revision of the *prime lending rate* which remained at 7.5% until the close of the year.

Given the fact that exports now account for about half of the GNP, the 1980 budget strategy has been "designed to be counter-cyclical in order to minimize any adverse impact of the anticipated slow growth in the industrial countries on the Malaysian economy". In October the Finance Minister therefore announced *tax cuts* for both individuals and corporations. Tax incentives are also being offered to companies meeting the equity and employment restructuring requirements of the New Economic Policy, through which Bumiputras (Malays) are to own an average 30% of corporate assets by 1990.

As a result of the expansionary budget, the economic growth rate for 1980 is forecast to remain around 6.5%, despite the clouded international outlook.

Rate of exchange on Dec. 31, 1979 ....
US$ 1 = M$ 2.1885
(as against M$ 2.2000 12 months before)

Pakistan

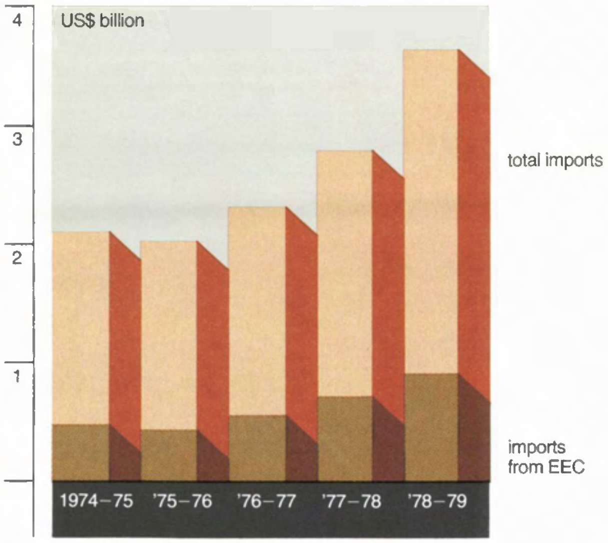
Although a recovery in domestic production was witnessed for the second year in succession following a prolonged stagnation, serious structural problems continued to afflict the country's economy. The general elections scheduled for mid-November were postponed indefinitely for the second time by the military government, which continues to pursue a policy of Islamisation in all spheres of life.

Amongst the more favourable trends observed in the Pakistan economy during the financial year ending June 1979 were the following:

- Increased activity in selected areas of agriculture and manufacturing maintained the growth in real Gross Domestic Product which, at around 6%, was again double the rate of the population increase. The country does, however, still face considerable fluctuations in agricultural production. *Industrial recovery* has yet to encompass the engineering sector, whilst the revival of the textile industry – accounting for over 25% of the value added of total industry – has still to acquire depth and momentum.
- *Exports* rose impressively by more than 30% to reach a record US$ 1.7 billion, up some US$ 50 million on the revised target. The main items contributing to this substantial overall increase were rice, cotton yarn, cotton cloth, carpets and leather. The two largest markets for Pakistani products in Western Europe remained the United Kingdom and Germany.
- Besides earnings from merchandise exports, labour exports again constituted a very important source of foreign exchange income. *Home remittances from Pakistanis working abroad* were estimated at US$ 1,375 million for the financial year under review (up nearly 20%).

Despite the distinct upward movement of these indicators, the balance of payments and fiscal situation remained a matter for extreme concern. The country had to cope with a further widening of its *trade deficit*. Imports went up by 31% to US$ 3.7 billion, increasing the trade gap from US$ 1.5 billion to almost US$ 2 billion. The

Trends in Pakistan's imports



import bill was boosted by exceptionally large rises in some essential items such as wheat (following a poor harvest), edible oil and chemical fertilizers. Combined with a decline in *net aid inflow,* this resulted in a heavy strain on Pakistan's foreign exchange holdings. By August 1979, total reserves minus gold were nearly down to the 1970 year-end level (US$ 136 million). Repeated requests for action on renewed debt relief have failed to evoke an early response from the international aid consortium.

A central cause of Pakistan's continued high dependence on foreign economic assistance has been the extraordinarily low *domestic savings rate* of less than 10%. This compares with an average rate of 18% for low income countries. In neighbouring states such as India and Sri Lanka the ratio was 22% and 20% respectively.

The resource gap is also reflected in the new budget for the financial year 1979–80. Even though it calls for US$ 510 million in new taxes, the government has to undertake US$ 300 million of deficit financing to make up the shortfall in revenue, thus creating additional *inflationary potential.* According to government estimates the new taxes and charges alone will push up the cost of living by another 4%. Statistically the inflation rate was still within single digits during 1978–79, but the consumer price index is widely believed to understate the actual price increase.

Not surprisingly, government recourse to the banking system for budgetary support had a strong expansionary influence on the money supply. On the other hand, the State Bank of Pakistan maintained its restrictive credit policy vis-à-vis *commercial banks* by prescribing credit ceilings in respect of lending to private and public sector enterprises. The maximum rate for commercial loans remained unchanged at 14% per annum.

Parity rate of exchange on Dec. 31, 1979 ......
US$ 1 = Rs. 9.90 (same as 12 months before)

Philippines

The Philippine economy continued to advance in 1979 but rising energy costs and a substantial current account deficit were again major constraints on the realisation of full growth potential. The *GNP growth rate* at 5.8% was below the original annual target of 7.5% set for the current five-year plan, covering 1978 to 1982. Nevertheless, according to a recent World Bank study, the Philippines has since 1973 performed "substantially better" than the average oil-importing, middle-income country.

While *manufacturing output* expanded at a slightly slower rate (4.7%) in 1979, production in the *mining sector* registered a remarkable recovery from a decline of 2.7% in 1978 to a gain of 10.9%, stimulated by increased world market demand for copper, nickel, chromite and other metals. Renewed promotion was given to coal mining with the purpose of providing an alternative domestic source of energy.

In contrast to the downward trend of real wages in the preceding years, workers' incomes kept up with *inflation* in 1979. On average, consumer prices in Metro Manila during the year rose by 19.8%, compared with 7.6% in 1978. Apart from the effects of soaring oil prices on the consumer basket, the higher inflation rate was also due to the termination of a price stabilisation programme for many food items.

Manila Airport: A Eurodollar loan arranged by our Manila Branch is financing the construction of this hangar for Philippine Airlines' Airbus and 747 planes. Branch Manager Tim Hooper reviews the work progress with the Project Manager.

To fight inflation and dampen demand for imports the Central Bank allowed money supply to expand by only 9.8%. In December, it approved an across-the-board increase of two percentage points in the legal *interest rates* on domestic loans and deposits. The maximum interest rate for long-term loans was pegged at 21%, including commissions, premiums, fees and other charges.

Based on preliminary Central Bank figures *export earnings* improved by 32% in 1979. Higher prices for coconut oil, copper concentrates and wood were in large measure responsible for this considerable performance. Further but more modest gains were made by manufactured items such as garments and electronic goods, on which hopes of future major export growth are pinned. Despite the encouraging overall trend in exports, the trade gap widened to US$ 1.74 billion from US$ 1.3 billion. The bigger bill for oil and its by-products led to *import payments* rising at the same rate as export earnings but by a larger absolute amount.

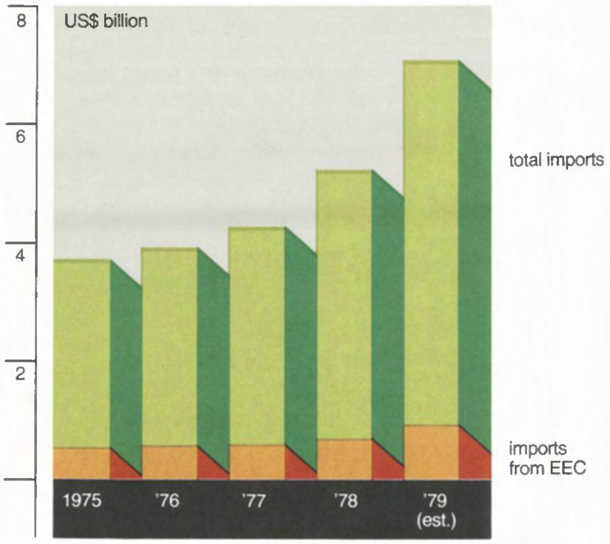
At the end of 1979, the country's *international reserves* (excluding gold) amounted to an estimated US$ 2.3 billion representing an increase of some 30% over the previous year-end, in spite of the size of the current account deficit. Compensatory borrowings by the Central Bank helped to raise reserves to this level, which was deemed necessary in view of the growing import requirements. The impact of the latest OPEC price increases is likely to push the oil import bill alone up to US$ 2 billion. If steps to expand the country's *offshore oil production* are successful, this might considerably reduce the strain on the balance of payments. The Philippines' first offshore oil field started to operate at the beginning of 1979, covering around 15% of domestic oil requirements.

Close co-operation with the International Monetary Fund and the World Bank has been a major factor in helping to maintain the country's international credit standing among private lenders. During 1979, Philippine *external debt* (incurred by the Central Bank, government and private sectors) grew by 20% to US$ 9.6 billion. The official debt service ratio stood at 18.6%, thus remaining below the statutory ceiling of 20%.

Faced with the need to broaden the production and export base as well as to cut back energy imports, the government is trying to implement a package of 11 *industrial projects*. These include a copper smelter, – for which a Japanese group has already won the building contract – manufacture of diesel engines, expansion of the cement industry and production of alcogas from sugar cane.

Rate of exchange on Dec. 31, 1979 ....
US$ 1 = ₱ 7.415
(as against ₱ 7.370 12 months before)

Trends in the Philippines' imports



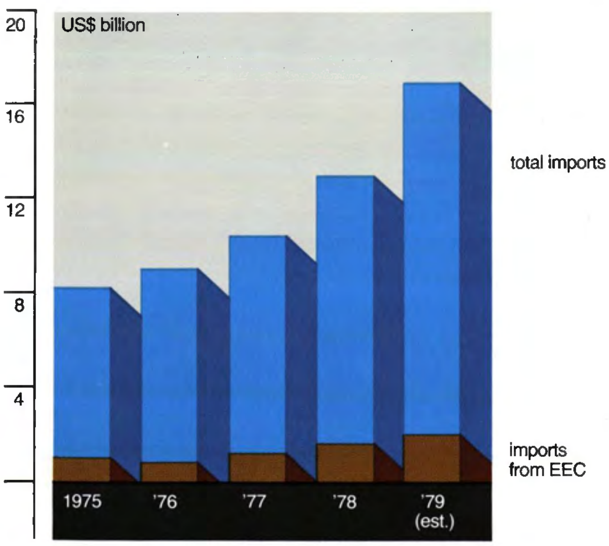
Singapore

The island republic's economy is poised to move into the 1980's from a position of relative strength. Political stability over the last 15 years has been conducive to raising the GNP per capita more than sevenfold to around US$ 3,700. *Economic growth* in 1979, in real terms, was on a par with the high 1978 rate of 8.6%. At the same time the cost of living was kept firmly under control. The *inflation figure* for the full year was only 4% – again the lowest in the region.

Singapore's reputation as one of the world's most favoured locations for *foreign direct investment* was once again endorsed in 1979. New foreign investment commitments in manufacturing reached about S$ 823 million, a S$ 34 million increase over 1978. Local enterprises more than doubled their commitments from S$ 48 million in 1978 to S$ 122 million. Excluding the amount earmarked for the petroleum refining industry, investments in non-petroleum projects totalled S$ 720 million, headed by electrical/electronics and metal engineering projects. A significant portion of the new investments – the average fixed asset component per project being S$ 4.5 million – was accounted for by expansion and diversification programmes of companies already in operation.

In line with the government's current emphasis on industries with higher value added and technology, the Economic Development Board has identified the following eleven industries as primary targets for the next decade:
- automotive components
- machine tools and machinery
- medical and surgical apparatus and instruments
- specialty chemicals and pharmaceuticals
- computer, computer peripheral equipment and software development
- electronic instrumentation

Trends in Singapore's imports



A continuing high level of foreign investments has helped Singapore to progressively diversify its industrial activities. Syncofil (Singapore) Pte. Ltd., the subsidiary of the leading European sewing thread producer Amann & Söhne, makes synthetic threads.
D. Buhrfeindt (left), Managing Director, and W. A. Piechulla, Technical Director of Syncofil (right), explain to Fred Brown, General Manager of Eurasbank Singapore, the process of the loading of thread spools into a high temperature-high pressure dyeing vessel.

- optical instruments and equipment including photocopying machines
- precision engineering products
- advanced electronic components including wafer fabrication
- hydraulic and pneumatic control systems and
- key supporting industries for the above.

To phase out labour-intensive industries, sharply higher *wage guidelines* were announced in mid-1979. This new policy, designed to launch what has been called Singapore's "second industrial revolution", was not received without some initial concern amongst employers. But the government indicated that without more sophisticated investment, labour productivity would stagnate and the unchecked inflow of "guest" workers without special skills could pose serious social and political problems.

Singapore's *foreign trade* showed a reversal of the 1978 trend when imports grew faster than exports. In spite of spreading protectionism around the world, exports strode forward by 34.7% in 1979 while imports rose by 29.5%. The trade figures again reflected the increasingly important economic relations between the city state and its neighbours. Thus Malaysia returned to the first spot as Singapore's largest export market, replacing the United States. Shipments to Thailand also jumped sharply, bringing it to the fifth place among Singapore's export markets, in front of Australia, the Federal Republic of Germany and the United Kingdom.

A consequence of the continuing economic growth and the higher living standards of Singaporeans has been city

Singapore Branch: the new Bills counter section. The branch premises were totally remodelled and enlarged in 1979 to keep pace with expanding business.

traffic congestion. As a solution to Singapore's transport problems the idea of a *mass rapid transit (MRT) system* was first put forward in the 1970's. It has now been decided to set up a provisional authority to look further into the feasibility of such an undertaking, which in Hongkong has already proved an undoubted success.

Demand for bank loans remained strong, with *prime lending rates* rising steadily since the second half of 1979 – and some banks exceeding the 11% level in January 1980. The upward drift in local interest rates, however, was also tied to developments in other financial centres, such as the United States. With the removal of nearly all foreign exchange controls in June 1978, Singapore's currency has become more sensitive to external interest rate movements.

1979 saw a boom in the new market in Singapore for floating rate CD's which has added a new facet to the *Asian dollar market*. There were 29 issues compared with 17 in 1978, the majority again being made by Japanese banks. European Asian Bank became the first bank to introduce 5-year CD's instead of the usual 3-year term to this fast-growing market.

Rate of exchange on Dec. 31, 1979 ....
US$ 1 = S$ 2.1595
(as against S$ 2.1660 12 months before)

Sri Lanka

The economy in 1979 was still in the process of adjustment to the *reforms* which were introduced in mid-1977. These essentially involved the adoption of a realistic currency exchange rate, the liberalisation of foreign trade and payments transactions and also the provision of greater freedom of activity for the previously disadvantaged private sector.

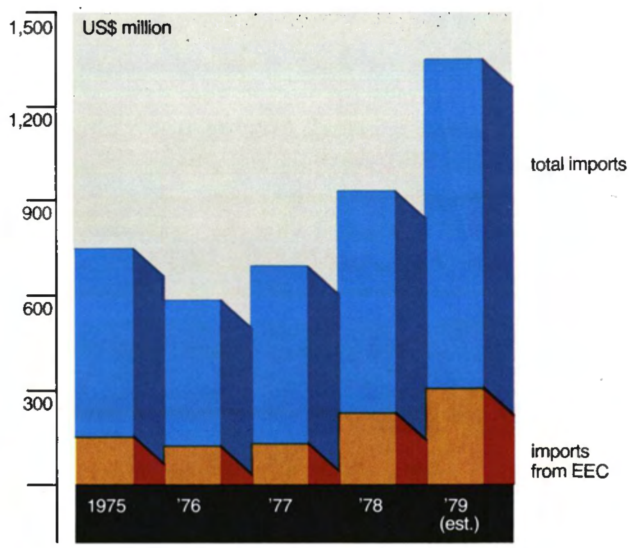
In 1978 business had already experienced a strong revival as a result of the new economic strategy. Overall economic growth, at 8.2%, was over double the average rate of the preceding ten years. The new *upturn in investments* precipitated a rise of no less than 236% in the influx of capital goods. The inflation rate of between 10% and 15% could be seen largely as an effect of the reforms, especially the phasing out of subsidies for consumer products.

Economic activity levelled off somewhat in 1979. Official sources are reckoning with an effective growth rate of 5.8% in the Gross National Product. Indicators are available as yet only for the first 6 months, but these suggest that the improved performance of *private industry* has more than compensated for the partial downturn in production by public industrial corporations.

The strong import demand continued in 1979, leading to a wider trade deficit. *Imports* in the first nine months were 59% higher than those of the same period in 1978. On the other hand, exports registered an increase of only 17%, even though *foreign sales of industrial goods* nearly doubled, so bringing their proportion of export earnings from 13% up to an impressive 23%.

The expansion of exports was dampened above all by the fall, both in value and volume terms, in *tea exports*, which are by far the most important source of foreign exchange. Plans are underway for the reorganisation of the

Trends in Sri Lanka's imports



state-owned plantation sector. These should improve the overall efficiency of the tea industry, which is also a significant source of taxes.

Substantially increased commitments of development aid by Western countries and the first medium-term Eurocredit (US$ 50 million) from international banks were just two examples of the restoration of foreign confidence in Sri Lanka in 1979. The considerable *foreign currency reserves* provided cover for five months' imports.

In addition to remittances from Sri Lankans living abroad, *tourism* remained an ever-increasing source of earnings, with 250,000 visitors expected for 1979 (1978: 192,500). Authorization has been given for further hotel construction to meet the swelling inflow of tourists.

Visible progress was made towards the completion of the infrastructure for the *Free Trade Zone,* north of Colombo, which the government hopes will provide an important impulse for long-term economic growth. Various companies have already started production in the FTZ, and so far more than 80 projects have been given the go-ahead. The comparatively well-trained and talented labour force and the low wage costs are a strong attraction for investment in the Zone.

Rate of exchange on Dec. 31, 1979 . . . .
US$ 1 = Rs. 15.445
(as against Rs. 15.505 12 months before)

Thailand

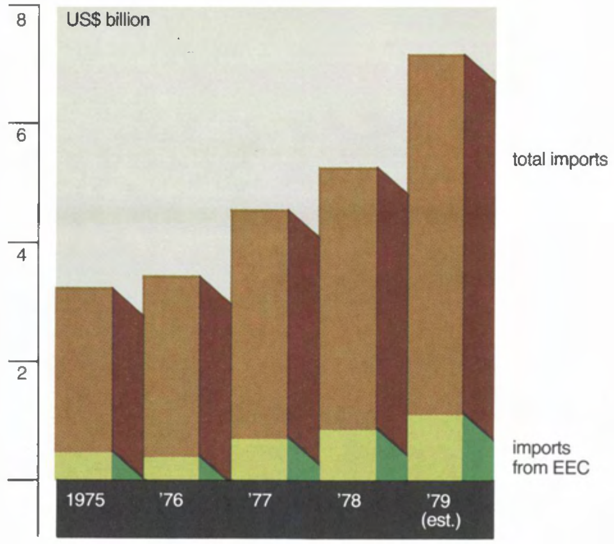
Although external demand for Thai products remained high, *economic growth* in real terms slowed down to about 6.5% from the 1978 record rate of 8.7%. Major constraints on output growth were the spiralling oil price, tight money and a shortage of supplies in such key raw materials as petroleum products and cement. The impact of the imported oil price rises on the *domestic price level* has been more severe. The year's average increase in the consumer price index was anticipated to be in the range of 14%, thus interrupting the favourable trend of single-digit inflation rates between 1975 and 1978.

Supported by buoyant prices for most of its agricultural commodities – Thailand is the world's second largest rice exporter after the United States – *total exports* registered an increase of 29% over 1978. Exports of manufactured goods, particularly textiles, transistor circuits and wood products also performed well. The sustained lively activity in the manufacturing sector and the construction industry however, stimulated an even higher expansion of *import requirements* (up 34% in value terms). Being the fifth largest net importer of petroleum in the developing world after Brazil, India, Korea and the Philippines, the country's oil import bill rose steeply. The divergence of export and import expansion resulted in a wider trade deficit of around US$ 2.2 billion.

The trade deficit was partially offset by tourism receipts and the international financial aid designed to help Thailand accommodate Indochinese refugees. A factor which substantially reduced the overall *balance of payments deficit* from the predicted US$ 600 million to its actual size of less than US$ 400 million was the increased inflow of foreign loans in late 1979. Since some large investment projects are scheduled to begin construction in the early 1980's, the Bank of Thailand expects the balance of payments situation to remain unfavourable during the next two to three years. The development of the *natural gas fields* in the Gulf of Thailand is the largest and most significant among those projects, since it is calculated that, once the gas comes on stream, Thailand's savings in foreign exchange over a 20-year period will be as much as US$ 4.6 billion.

Despite concern about events in Indochina, *investors* displayed confidence in the country's future, as was

Trends in Thailand's imports



reflected in the Board of Investment (BOI) figures for the year under review. The number of projects given promotion approval by the BOI increased to 233 from 202 in 1978. Of the newly registered capital, 18% was accounted for by foreign investors, as against 13% in the previous year. At the end of December 1979 Japan was still the largest foreign investor, while from the EEC countries the United Kingdom came in fourth place.

In view of growing demand pressures the government had decided in 1978 to apply the monetary brakes. Intensified by a marked imbalance between deposit receipts and credit extensions by organised financial institutions, this led to a severe tightness in the *money market* during 1979. Measures to ease the situation included the introduction of a new interest rate structure in mid-January 1980, which allowed an increase of about 3% on both deposit and loan interest rates. It is hoped that the higher interest rate on deposits will enable commercial banks to mobilise more domestic savings. The maximum commercial bank lending charge was raised to 18% from the long-standing ceiling of 15%.

Rate of exchange on Dec. 31, 1979 ....
US$ 1 = B 20.425
(as against B 20.390 12 months before)

Bridging Bangkok's main waterway, the Chao Phya River. A US$ 32 million twin-span concrete construction, the Sathorn Bridge, is scheduled to be completed in 1981, to become Bangkok's overland gateway to the South. Our customers, Italian Thai Development Corporation and Dragages et Travaux Publics of France, are the main contractors in a joint venture for this project.

Review of Business

The sustained growth of the Bank continued during 1979 at an even faster pace. Business volume grew by 41% to DM 3.6 billion, total assets by 37% to DM 2.8 billion. A significant factor in this growth was the 36% increase in loans and advances to customers, again the highest absolute increase so far recorded during a financial year. Another important element was the guarantee business. The strong increase in bid and performance bonds issued by our Bank for supply and construction contracts of European customers in South-East Asia led to the growth of contingent liabilities by 60%.

In the lending business, the main thrust continued to be in short-term commercial credits to industrial and trading firms whereas the continuing unsatisfactory situation with regard to spreads and maturities in medium-term lending and particularly in the syndicated loan sector, led us to maintain a policy of restraint in this sector.

With regard to the Bank's liability-management, particular emphasis was given to the further improvement of the deposit structure despite the restrictions existing in various branch places. Customer deposits registered an increase of 39%. Our Singapore Branch made a new US$ Floating Rate CD issue in the Asian dollar market in 1979. It was the first issue in this market with a maturity of five years instead of the usual three years. The issue of originally US$ 15 million was oversubscribed and raised to US$ 25 million. The funding structure of our US dollar rollover loan portfolio was thus further improved.

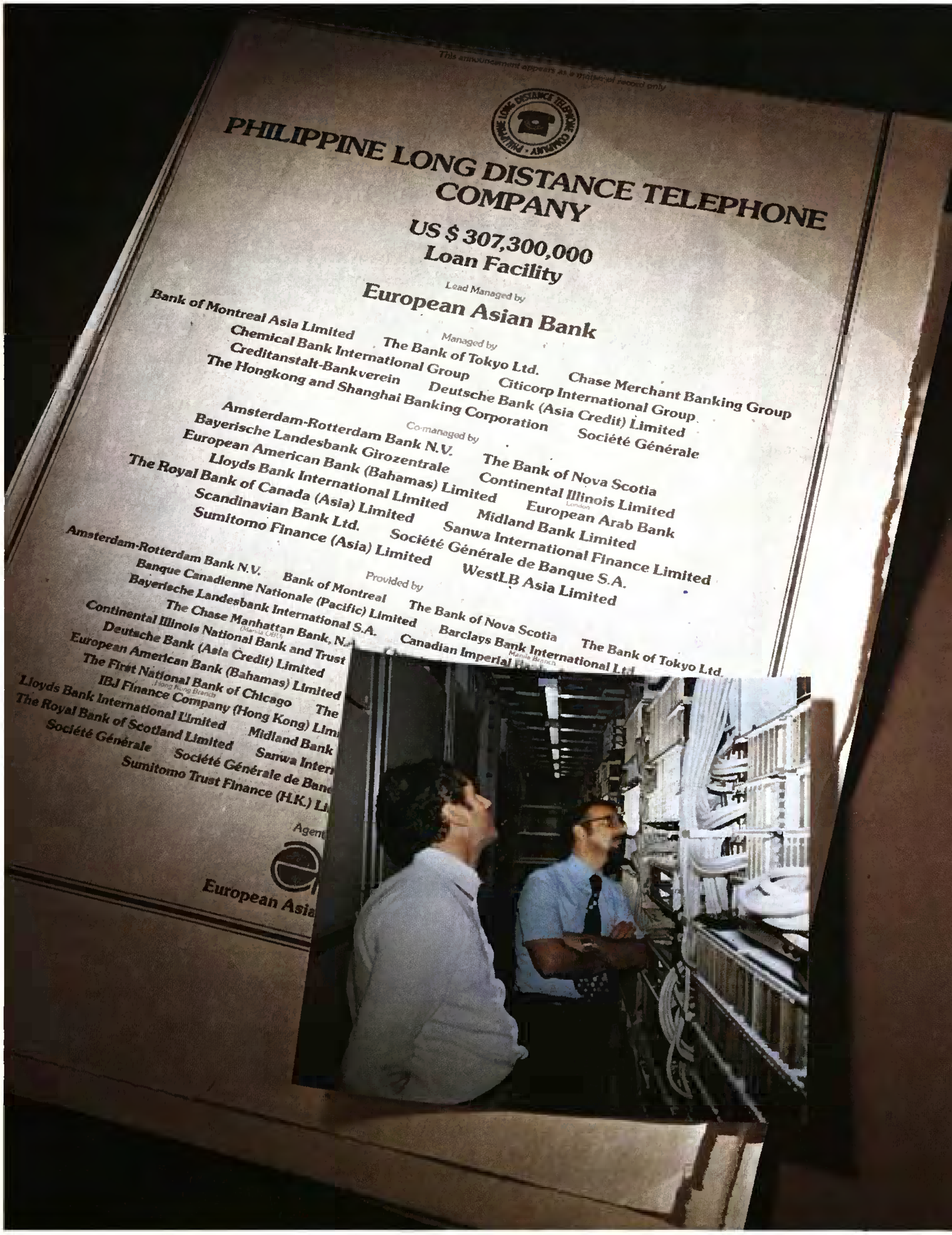
Interbank liabilities and claims increased by 37% and 42% respectively, reflecting the money market activities of the Bank in the context of funding and liquidity procurement.

Despite the further increase of competitive pressures – the number of licenced banks in Hongkong alone increased by 41 to a total of 115 institutions from 1978 to 1979 – the Bank's operating income kept pace with the growth in volume. As in the previous year we propose a nominal dividend of 10% to our shareholders, who will thus receive together with the tax credit payable to shareholders under the German Corporate Tax Law an effective dividend of 15.6%.

The capital of the Bank was increased in July 1979 by DM 14 million at an issue price of 225% – with a right to dividend as from July 1, 1979 – whereby the total equity of the Bank was increased by DM 31.5 million to DM 126.4 million. In view of the continuing growth of the Bank, our shareholders have agreed to a further substantial capital increase in the spring of 1980.

The branch network of the Bank will be further expanded in 1980 with the opening of new branches in Bombay and Colombo. Our Hongkong Branch will raise the number of its offices to 6 with the opening of a sub-branch in Telford Gardens – a business-cum-residential complex incorporating a station on the newly-constructed Mass Transit Railway.

The number of staff increased by 64 to 765 in 1979. Again we express our gratitude to all our staff for the dedication with which they have contributed to the success of the Bank. As in previous years, co-operation with staff representatives was conducted in a constructive climate of mutual trust.



A major project financing was arranged by European Asian Bank in 1979 for the further expansion of the telephone network in the Philippines. J. A. Miles (right), Director of the Bank's International Finance Department, views the new computer-controlled telephone switching equipment which Siemens AG has installed for the Philippine Long Distance Telephone Company. Explaining the installation is Klaus Sehm, Senior Installation Engineer of Siemens.

Notes on the Statement of Accounts for the Year

BALANCE SHEET

Liquidity

The cash reserve – cash in hand, balances with the Deutsche Bundesbank, foreign central banks and on postal cheque accounts – increased from DM 51.6 million to DM 101.7 million. Balances with the Deutsche Bundesbank and foreign central banks rose to DM 98.3 million.

The sum of liabilities to credit institutions and other creditors, including own acceptances in circulation and sundry liabilities, amounted to DM 2,683.6 million (DM 1,949.3 million last year). The relation of the cash reserve to this figure *(cash liquidity ratio)* increased to 3.8% (2.7% 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 299.5 million to DM 373.7 million. The proportion of liabilities covered by liquid funds *(total liquidity)* was 13.9% (15.6% last year).

Securities

Treasury bills and non-interest-bearing Treasury bonds and *bonds and debt instruments* decreased altogether by DM 26.2 million. They served mainly to meet capital and liquidity regulations applicable to the Bank in Germany and in its various branch countries.

Securities amounting to DM 19.5 million (DM 42.3 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 692.6 million (52.1%); the increase in claims on customers was DM 251.3 million (37.0%) and in discounts DM 57.0 million (32.7%).

The breakdown of the volume of credit as at the end of 1979 and 1978 is given on page 25.

Of bills in hand, DM 26.1 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 691.8 million to our customers (DM 432.0 million last year).

Adjustments and provisions were made for all discernible risks in the lending business.

Participations

This item remained unchanged at DM 2.0 million. The participations involve obligations to pay up a maximum of DM 1.6 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 10,000.–.

The participation of DM 1.5 million in European Asian Finance (HK) Ltd. (EAF), Hongkong, remained unchanged. Total assets of this company increased by HK$ 65.7 million to HK$ 230.6 million. The net profit for the year amounting to HK$ 2.3 million was allocated to the company's reserves.

Volume of credit	– DM millions – End of 1979	End of 1978
Claims on customers		
short and medium term	DM 751.7 = 37.2%	DM 530.0 = 39.9%
long-term	DM 178.1 = 8.8%	DM 148.5 = 11.2%
	DM 929.8 = 46.0%	DM 678.5 = 51.1%
Discounts	DM 231.5 = 11.5%	DM 174.5 = 13.1%
Lending to credit institutions	DM 860.2 = 42.5%	DM 475.9 = 35.8%
Total volume of credit	DM 2,021.5 = 100.0%	DM 1,328.9 = 100.0%

Funds from outside sources	– DM millions – End of 1979	End of 1978
Liabilities to credit institutions		
demand deposits	DM 294.5 = 11.0%	DM 305.0 = 15.7%
term deposits	DM 1,567.8 = 58.7%	DM 1,066.3 = 54.7%
customers' drawings on credits opened at other institutions	DM 9.5 = 0.4%	DM –.– = –.–%
	DM 1,871.8 = 70.1%	DM 1,371.3 = 70.4%
Liabilities to non-bank customers		
demand deposits	DM 172.1 = 6.5%	DM 129.5 = 6.7%
term deposits	DM 614.7 = 23.0%	DM 436.1 = 22.4%
savings deposits	DM 11.4 = 0.4%	DM 10.0 = 0.5%
	DM 798.2 = 29.9%	DM 575.6 = 29.6%
Total funds from outside sources	DM 2,670.0 = 100.0%	DM 1,946.9 = 100.0%

Participations
with book values exceeding
DM 0.1 million

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

Export Credit Insurance Corporation of Singapore Ltd., Singapore

Liquiditäts-Konsortialbank GmbH, Frankfurt/Main

Others

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

Fixed assets

The item *land and buildings* decreased by ordinary depreciation of DM 0.1 million to DM 3.3 million.

Office furniture and equipment decreased to DM 3.0 million, after additions of DM 1.4 million, disposals of DM 0.1 million , ordinary depreciation of DM 1.2 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 723.1 million (37.1%) to DM 2,670.0 million during the year under review.

An analysis of developments in funds from outside sources during 1979 is given on page 25.

Provisions for special purposes

Provisions for pensions were increased by DM 0.5 million in accordance with the actuarial computation.

Other provisions shown at DM 16.8 million (DM 16.4 million last year) include, besides provisions for tax and other liabilities of uncertain magnitude, that part of the statutory general provision for loan losses which cannot be offset against asset items.

Other liability items

Sundry liabilities amounting to DM 1.0 million and *transitory items* totalling DM 0.8 million cover liabilities outside the banking business such as sundry accounts payable and rent payments received in advance respectively.

In accordance with the Developing Countries Tax Law DM 1.1 million was added to *special items including reserves,* whereas DM 0.4 million was written back.

Contingent liabilities

Endorsement liabilities on rediscounted bills rose by DM 21.4 million to DM 86.4 million.

Liabilities arising from guarantees given, bills of exchange, cheques guaranteed and warranty contracts increased by DM 259.8 million (60.1%) to 691.8 million.

PROFIT AND LOSS ACCOUNT

Earnings on the volume of business

Interest receipts from lending and money market transactions and *current receipts from securities* increased from DM 109.7 million to DM 229.7 million. Against these receipts were *interest and similar expenses* of DM 185.8 million (DM 79.5 million last year). The net interest income, which increased to DM 43.9 million, was – after translation into DM – as in the previous years adversely affected by the further weakening of foreign currencies.

Earnings on services

Net commissions and other receipts from service transactions rose by DM 2.0 million to DM 15.7 million.

Other receipts

Other receipts, shown at DM 0.9 million, *including those from the writing back of provisions for possible loan losses,* are compensated in accordance with the relevant regulations by the depreciation and adjustments on claims and securities and allocations to provisions for possible loan losses. These also include revenue from rentals.

Depreciation and adjustments on claims and securities, and allocations to provisions for possible loan losses

Following the sharp increase in interest rates and the substantial growth in lendings, the amounts set aside for depreciation of securities and for the statutory general provision for loan losses were considerably higher than the corresponding figures for the previous year.

Staff and material expenditure

Staff expenses rose by DM 3.4 million to DM 17.1 million (24.8%) due to additional staff in connection with the further expansion of the Bank as well as both collectively agreed and voluntary increases in payments. The number of employees grew by 64 to 765 in 1979.

Expenditure on material for the banking business increased from DM 8.5 million to DM 9.0 million (5.9%).

Taxes

Taxes on income, earnings and property increased by DM 2.4 million to DM 13.9 million.

Other taxes amounting to DM 0.6 million included DM 0.3 million of capital investment tax payable on the capital increase implemented in mid – 1979.

Other expenses

DM 1.1 million were added to *special items including reserves,* in accordance with the Developing Countries Tax Law.

Total remuneration of the Board of Managing Directors amounted to DM 746,193.86.

Payments to former members of the Board of Managing Directors or their surviving dependants aggregated DM 215,708.08.

Emoluments of the Supervisory Board – including fixed payments and those subject to the annual dividend paid – totalled DM 138,600.–.

Proposed appropriation of profits

The profit and loss account for the Bank shows:

Receipts	DM 247.3 million
Expenses	DM 241.0 million
Year's net earnings	DM 6.3 million
Disposable profit	DM 6.3 million

It will be proposed to the shareholders that the disposable profit of DM 6.3 million be used to pay a dividend of 10% on the share capital of DM 70.0 million, of which DM 14.0 million is eligible for dividend as from 1. 7. 1979. In view of the tax credit resulting from the German Corporate Tax Law, this represents an increase to 15.6% in the total yield for shareholders.

Hamburg, February 1980

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, 1979, 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.

Hamburg, March 1980

THE SUPERVISORY BOARD

Chairman

Balance Sheet
as at December 31, 1979

Profit and Loss Account
for the period from January 1 to December 31, 1979

European Asian Bank AKTIENGESELLSCHAFT

ASSETS

		DM	DM	31. 12. 1978 in DM 1,000
Cash in hand			2,957,798.01	1,870
Balances with the Deutsche Bundesbank			39,760,414.23	29,794
Balances with foreign Central Banks			58,578,005.87	19,811
Balances on postal cheque accounts			382,541.76	115
Cheques on other banks, matured bonds, interest and dividend coupons, and items received for collection			—.—	1,910
Bills discounted			131,165,702.22	99,227
including: a) rediscountable at the Deutsche Bundesbank	DM 26,124,488.04			
b) own drawings	DM 3,705,586.80			
Claims on credit institutions				
a) payable on demand		153,079,182.23		117,602
b) with agreed life, or subject to agreed period of notice, of				
ba) less than three months		552,591,772.34		508,123
bb) at least three months, but less than four years		847,328,823.81		467,776
bc) four years or longer		12,972,906.09		8,169
			1,565,972,684.47	1,101,670
Treasury bills and non-interest-bearing Treasury bonds				
a) of the Federal Republic and the Laender		—.—		—
b) others		18,673,337.91	18,673,337.91	12,822
Bonds and debt instruments				
a) with a life of up to four years				
aa) of the Federal Republic and the Laender	DM —.—			5,319
ab) of credit institutions	DM 3,900,958.33			6,201
ac) others	DM 10,886,801.36	14,787,759.69		5,978
including: eligible as collateral for Bundesbank advances DM 3,000,000.— foreign Central Bank advances DM 10,886,801.36				
b) with a life of more than four years				
ba) of the Federal Republic and the Laender	DM 9,153,750.—			9,597
bb) of credit institutions	DM 52,713,816.86			81,643
bc) others	DM 11,280,597.56	73,148,164.42		11,275
			87,935,924.11	120,013
including: eligible as collateral for Bundesbank advances DM 43,050,000.— foreign Central Bank advances DM 17,211,377.35				
Securities, so far as they have not to be included in other items				
a) shares marketable on a stock exchange and investment fund certificates		32,217.09		6
b) other securities		—.—		—
			32,217.09	6
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 —.—			
Claims on customers with agreed life, or subject to agreed period of notice, of				
a) less than four years		751,663,535.92		529,980
b) four years or longer		178,153,782.68		148,521
			929,817,318.60	678,501
including: ba) secured by mortgages on real estate	DM 2,272,002.63			
bb) communal loans	DM —.—			
Equalisation and Covering Claims on Federal and Laender authorities under the Currency Reform Laws of 1948			217,962.21	229
Participations			2,018,229.29	2,018
including: in credit institutions	DM 1,692,567.05			
Land and buildings			3,307,581.92	3,410
Office furniture and equipment			3,006,851.68	3,098
Sundry assets			1,688,556.39	2,515
Transitory items			889,497.43	1,074
TOTAL ASSETS			2,846,404,623.19	2,078,083

The assets and the rights of recourse in respect of the liabilities shown below the liabilities side include		
a) claims on associated companies	39,144,073.89	30,342
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)	2,678,956.62	2,047

BALANCE SHEET as at December 31, 1979

LIABILITIES

	DM	DM	DM	31. 12. 1978 in DM 1,000
Liabilities to credit institutions				
a) payable on demand		294,559,977.94		305,019
b) with agreed life, or subject to agreed period of notice, of				
ba) less than three months	472,508,330.88			354,835
bb) at least three months, but less than four years	1,018,605,206.93			638,232
bc) four years or longer	76,678,318.27	1,567,791,856.08		73,220
including: due in less than four years DM 557,500.—				
c) customers' drawings on credits opened at other institutions		9,475,701.94		—
			1,871,827,535.96	1,371,306
Banking liabilities to other creditors				
a) payable on demand		172,114,049.27		129,459
b) with agreed life, or subject to agreed period of notice, of				
ba) less than three months	240,764,987.70			147,762
bb) at least three months, but less than four years	306,669,736.72			258,579
bc) four years or longer	67,304,375.27	614,739,099.69		29,813
including: due in less than four years DM 21,603,519.76				
c) savings deposits				
ca) subject to legal period of notice	5,060,328.28			4,010
cb) others	6,311,682.78	11,372,011.06		5,966
			798,225,160.02	575,589
Own acceptances and promissory notes in circulation			12,539,464.46	1,455
Provisions for special purposes				
a) for pensions		4,844,109.—		4,354
b) others		16,806,900.26		16,354
			21,651,009.26	20,708
Sundry liabilities			1,019,245.03	976
Transitory items			818,458.46	647
Special items including reserves in accordance with the Developing Countries Tax Law			7,672,950.—	6,951
Capital			70,000,000.—	56,000
Published reserves				
a) statutory reserve fund (including premium of DM 17,500,000.— from capital increase 1979)		52,250,800.—		34,751
b) other reserves		4,100,000.—		4,100
			56,350,800.—	38,851
Disposable profit			6,300,000.—	5,600
TOTAL LIABILITIES			2,846,404,623.19	2,078,083
Own drawings in circulation			60,867,702.75	24,402
including those discounted for borrowers' account DM 13,913,804.25				
Endorsement liabilities on rediscounted bills of exchange			86,390,691.81	65,046
Liabilities arising from guarantees of various kinds and warranty contracts			691,781,457.13	432,019
Savings premiums under the Savings Premium Law			3,081.20	4
Comprised among the liabilities are those (including those shown below the balance sheet) to associated companies			41,654,512.01	40,535

PROFIT AND LOSS ACCOUNT

EXPENSES

	DM	DM	1978 in DM 1,000
Interest and similar expenses		185,797,308.03	79,460
Commissions and similar expenses in respect of service transactions		447,714.36	267
Depreciation and adjustments on claims and securities, and allocations to provisions for possible loan losses		11,467,013.36	4,893
Salaries and wages		13,923,051.16	10,734
Social security contributions		1,064,737.76	865
Expenditure on retirement pensions and other benefits		2,095,365.37	2,141
Expenditure on material for the banking business		8,960,007.06	8,473
Depreciation and adjustments on land and buildings, and on office furniture and equipment		1,369,822.26	1,088
Taxes			
a) on income, earnings and property	13,888,823.43		11,534
b) others	558,341.63		129
		14,447,165.06	11,663
Allocations to special items including reserves		1,110,000.—	2,000
Other expenses		341,374.51	248
Year's net earnings		6,300,000.—	5,600
TOTAL EXPENSES		247,323,558.93	127,432

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 542,301.08 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 104%, 114%, 120%, 125% and 135% of that amount.

Hamburg, February 20, 1980

EUROPEAN ASIAN BANK AG
Board of Managing Directors

Böhm *Cartellieri* *Stentzel*

for the period from January 1 to December 31, 1979

RECEIPTS

	DM	DM	1978 in DM 1,000
Interest and similar receipts from lending and money market transactions		222,480,673.90	105,716
Current receipts from			
a) fixed-interest securities and debt register claims	7,252,279.28		3,995
b) other securities	461.11		1
c) participations	8,562.50		924
		7,261,302.89	4,920
Commissions and other receipts from service transactions		16,146,896.53	13,941
Other receipts, including those from the writing back of provisions for possible loan losses		930,440.15	802
Receipts from the writing back of provisions for special purposes, so far as they have not to be shown under "other receipts"		116,595.46	352
Receipts from the writing back of special items including reserves		387,650.—	1,701
TOTAL RECEIPTS		247,323,558.93	127,432

DM	1978 in DM 1,000
6,300,000.—	5,600
—.—	—
—.—	—
6,300,000.—	5,600

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, 1980

TREUVERKEHR AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Nebendorf
Wirtschaftsprüfer
(Chartered Accountant)

Brackert
Wirtschaftsprüfer
(Chartered Accountant)

Branch Managers Conference in our Jakarta Branch. These regular meetings focus on regional co-ordination and implementation of the Bank's business policies.

Hamburg — home of the Bank's Head Office and Germany's largest port city — not only has a long tradition of shipbuilding but is also an important centre of the German aerospace industry. In Hamburg the largest single section for the European Airbus, the tail fuselage, is manufactured by Messerschmitt-Bölkow-Blohm (MBB).

The EBIC Banks . . .

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	

. . . and their Affiliates

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)

European Arab Bank GmbH
Frankfurt/Main

European Arab Bank
(Brussels) S.A.
Brussels

European Arab Bank Ltd.
London

European Arab Bank
(Middle East) E.C.
Bahrain

European Asian Bank
Hamburg – Bangkok – Bombay – Colombo –
Hongkong – Jakarta – Karachi – Kuala Lumpur –
Manila – Seoul – Singapore

European Banking
Company Ltd.
London

Euro-Pacific Finance
Corporation Ltd.
Melbourne – Sydney

ebic
European Banks International

European Asian Bank

Directory

Management and Senior Officers – Head Office and Branches

Head Office

European Asian Bank AG
Rathausstrasse 7
P.O. Box 10 19 20
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Fed. Rep. of Germany
Tel.: (0 40) 32 14 41
Telex: 02 162 228 eur d

Board of Managing Directors
Michael Böhm
Ulrich Cartellieri
Bernard Stentzel

Corporate Banking
Jan Imbeck
General Manager
Lutz-Henning Pabst
Senior Manager
Erika Bellstedt
Manager
Robert Gauthié
Senior Asst. Manager
Heinz Pöhlsen
Senior Asst. Manager

International Finance Dept.
John A. Miles
Director
Kenneth G. Lomas
Asst. Director

Correspondent Banking
Jan Imbeck
General Manager

Treasury
Marcus C. Davison
Treasurer

Accounting
Gunnar Kruse
Chief Accountant and Controller
Helmut Fleischer
Senior Asst. Manager

Administration
Hermann Schellbach
General Manager
Heinz-Georg Moschkau
Manager

Personnel
Gerhard Eggers
Manager

Legal Affairs
Dr. Günther Sattelhak
Counsel

Economic Research
Public Relations
Michael Niss
Manager

Internal Audit
Uwe Rummert
Inspector

Hamburg Branch

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02 163 235 eur d (forex)
Manager:
Bartel de Bruyn Ouboter
Dep. Manager:
Peter Lang
Manager (Foreign Dept.):
Peter Ruge
Manager (Foreign Exchange):
Jean-Louis Boghossian
Dep. Manager (Foreign Exchange):
Detlev Keitsch
Manager (Money Market Operations):
Gerhard Grahl

Asian Branches

Bangkok

European Asian Bank
Bangkok Branch
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Bangkok, Thailand
Tel.: 233-86 60-67
233-86 68 (forex)
233-86 69
Telex: 87 949 euras th
87 950 euras th
Manager: Horst Kaiser
Dep. Manager: Georges Legros
Manager (Internal): Bernd Sperber

Bombay ★

European Asian Bank
Bombay Branch
Tulsiani Chambers
Nariman Point
Bombay-400 021, India
Manager: Douglas T. Neilson
Senior Dep. Manager: Hector D. Munsiff

Colombo ★

European Asian Bank
Colombo Branch
New Y.W.C.A. Building
Union Place
Colombo 2, Sri Lanka
Manager: Bernard Houtekier
Senior Dep. Manager: Murad Uduman

Hongkong

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Hongkong Branch
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5-26 30 60 (forex)
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65 355 euras hx (forex)
Chief Manager: Tjark H. Woydt
Manager: D. Anthony Marron
Dep. Manager: Pino N. Ferrara
Manager (Foreign Exchange):
Manfred Schauer
Manager (Sub-Branches):
Frederick Leung Un
Manager (Diamond Section):
P. H. van Eendenburg
Senior Asst. Manager (Internal):
Andrew Kwong Hon Kwan
Senior Asst. Manager (Loans):
John Kwok Kwong Leung
Senior Asst. Manager (Customer Services):
Martin J. Sperring
Senior Asst. Manager (Bills):
Ko Hung Wong

Hung Hom Sub-Branch
182-186 Matauwei Road
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Manager: Hau Hin Law

Mongkok Sub-Branch
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Kowloon, Hongkong
Tel.: 3-94 02 23-4
Manager: Peter Yin Fai Wong

San Po Kong Sub-Branch
24 Tai Yau Street
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Tel.: 3-27 81 91-2
Manager: Andrew Pui Leung Chung

Telford Gardens Sub-Branch★
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Manager: John Mok Ting Kwan

Tsimshatsui Sub-Branch
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Manager: Francis Chung Yaw Yuen

Jakarta

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45 841 euras ia (forex)
Manager (acting): Peter Palmer-Barnes
Dep. Manager: Eric Ballot
Asst. Managers:
Daniel Mollé
Budhy G. W. Budhyarto
Robert Leman

Karachi

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Manager: Rainer Mueller
Manager (Loans): Amin-ur-Rehman Khan
Manager (Foreign Dept.):
Irudiyanadan N. Francis
Asst. Manager (Customer Services):
Dhunji P. Randeria

Kuala Lumpur

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euras ma 310 71 (forex)
Manager: Holger F. des Coudres
Dep. Manager: Frans Kuyken
Asst. Manager (Internal):
Cheah Yoke Loong
Asst. Manager (Loans): Wong Ah Meng

Manila

European Asian Bank
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63 931 euras pn (forex)
Manager: Timothy L. Hooper
Dep. Manager: Santiago S. Cua, Jr.

Seoul

European Asian Bank
Seoul Branch
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Seoul 100, Korea
Tel.: 778-33 91
Telex: 26 353 euras k
Manager: Barry W. Lamont
Manager (Internal): Edgar Heider
Manager (Foreign Dept.): Viggo Ruf
Asst. Manager (Loans): Kun Il, Chung

Singapore

European Asian Bank
Singapore Branch
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91 41 44 / 222 19 38 (forex)
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rs 21 190 euras (forex)
General Manager: Frederick J. A. Brown
Manager: Juergen R. Zieler
Dep. Manager: Michel Baise
Manager (Foreign Exchange):
Steven Tan Leng Kok
Senior Asst. Manager (Loans):
James Ong Phee Hoon
Senior Asst. Manager (Loans):
Heinz Schadach
Asst. Manager (Bills):
Bobby Teo Hin Guan
Asst. Manager (E.D.P.):
Eric Ng Teck Leng
Asst. Manager (Accounts): Lucy Chia

Affiliate

European Asian Finance (HK) Ltd.
New World Tower
16–18 Queen's Road C.
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Tel.: 5-26 31 51
Telex: 63 841 eafhk hx
73 498 euras hx
Managing Director: Rohan Courtney

★ to be opened in 1980

Cables for all offices: EURASBANK

European Asian Bank