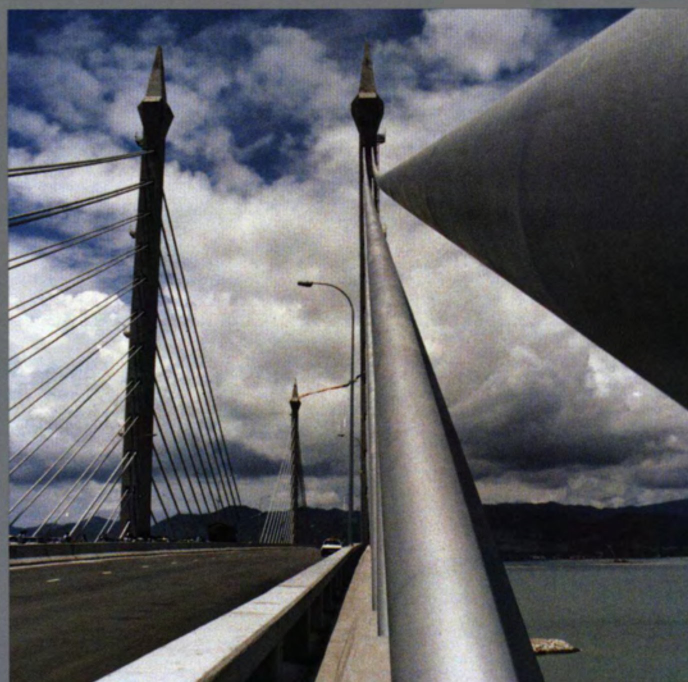
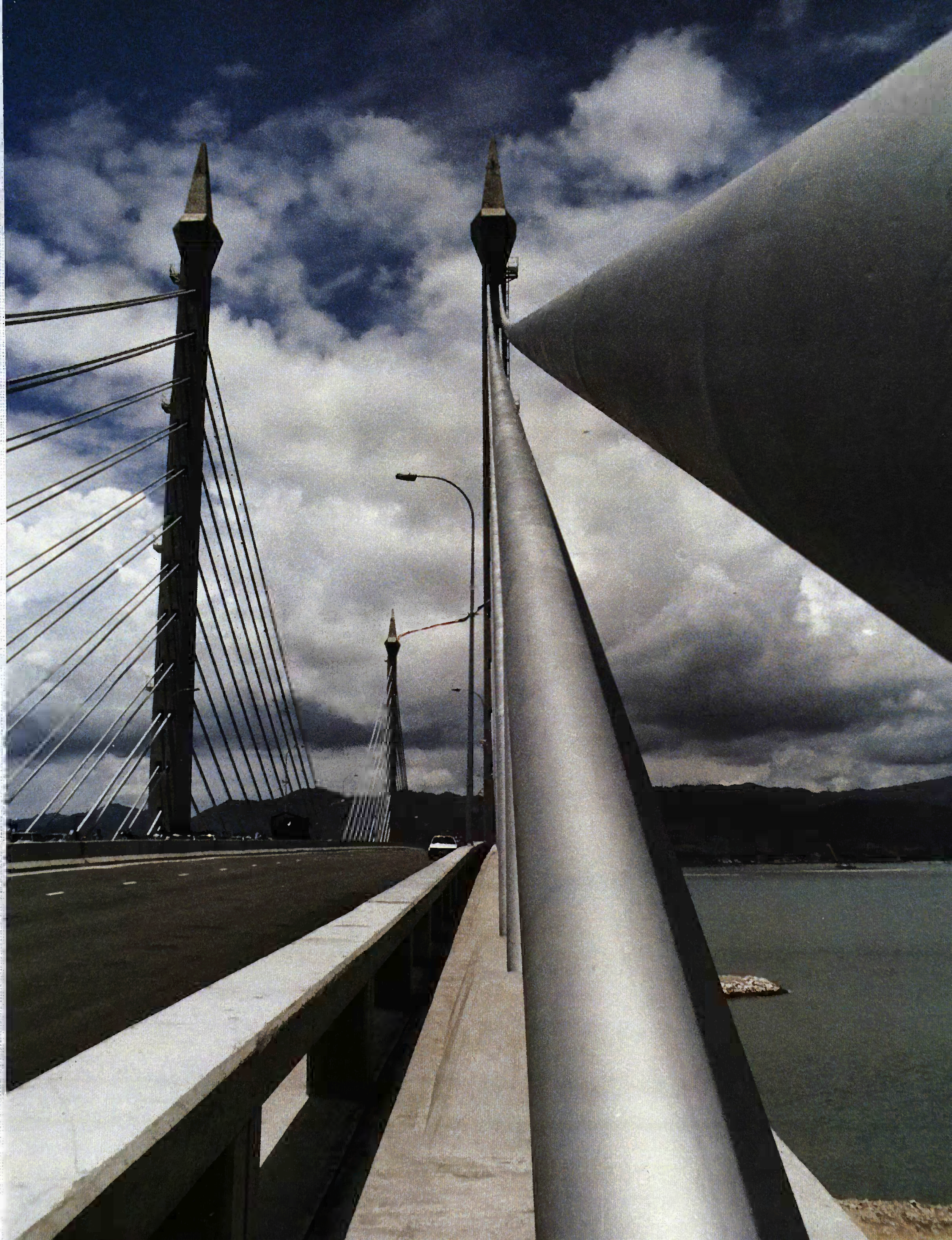


Annual Report 1985

European Asian Bank



Cover and page 1: *the recently opened Penang Bridge, spanning 13.5 km between Penang Island and mainland Peninsular Malaysia. It is rated the longest bridge of its kind in Asia and the third longest in the world.*

Report for the Year 1985

European Asian Bank

A Member of the Deutsche Bank Group

Contents

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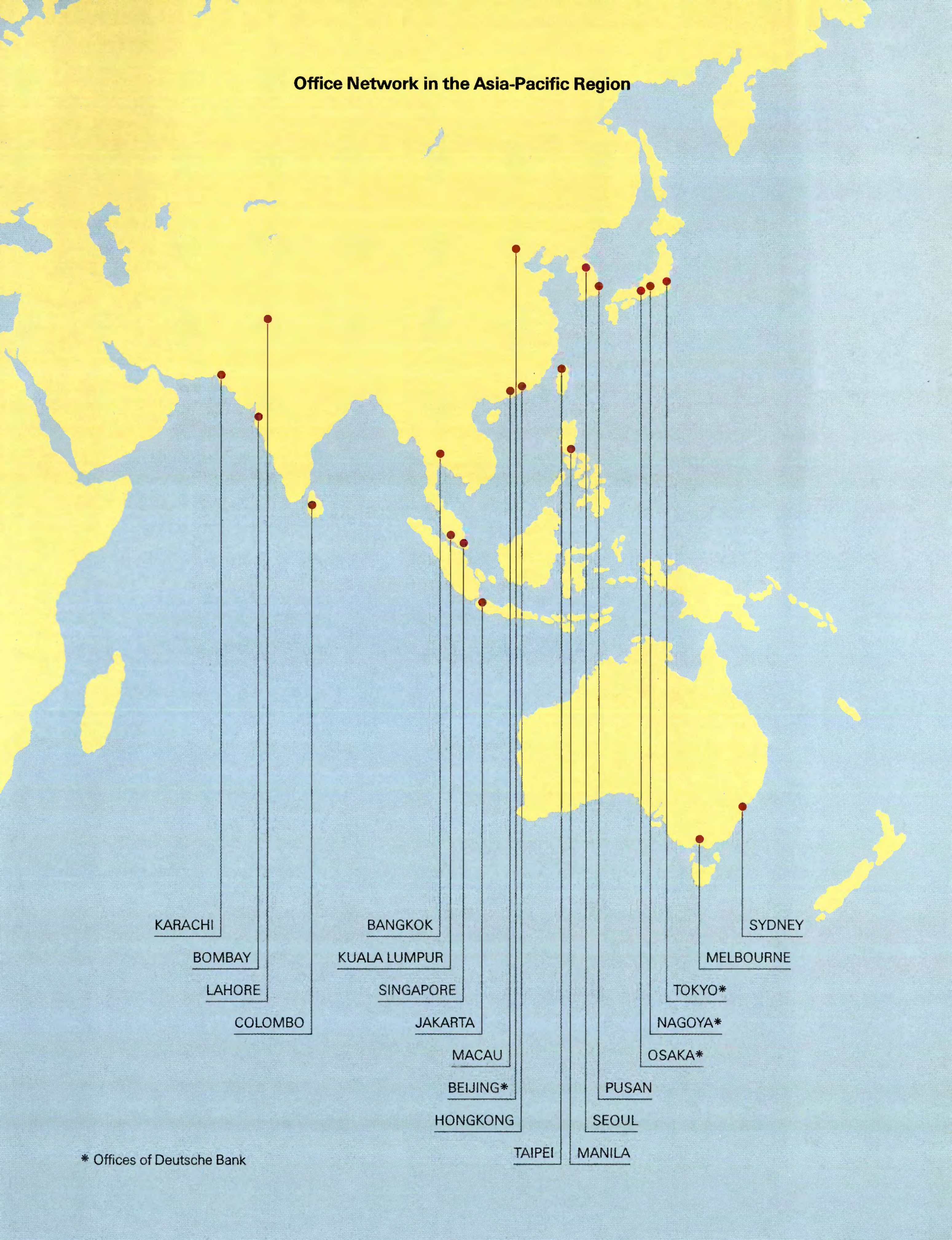
Office Network in the Asia-Pacific Region



Supervisory Board

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Mitglied des Vorstandes der
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Amsterdam-Rotterdam Bank N.V.
(from April 2, 1985)

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Directeur
Amsterdam-Rotterdam Bank N.V.
(until April 2, 1985)

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et Membre du Comité de Direction
Generale Bank

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(until April 2, 1985)

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(from April 12, 1985)

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(from March 13, 1985)

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(from March 13, 1985)

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(from November 25, 1985)

Michael Böhm
(until March 13, 1985)

J. Nikolaus Korsch
(until March 13, 1985)

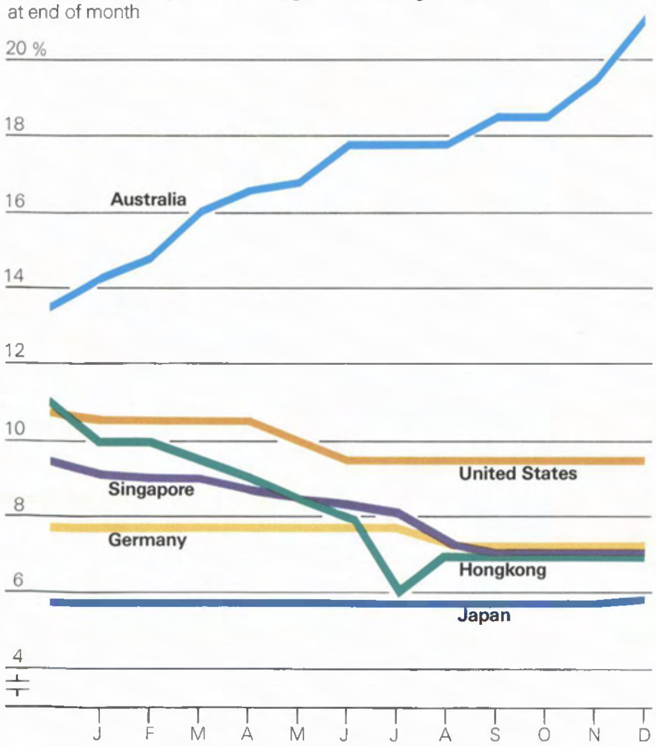
*elected by the staff

Report of the Board of Managing Directors

A slowdown in economic activity was registered in 1985 by nearly all those Asia-Pacific countries which have relatively high export ratios. In a few rare cases, GNP even declined. Against this background the shortcomings of local financial markets and resultant weaknesses in business finance structures became more evident than in the past.

The two economies with the biggest domestic markets – namely China and India – remained largely exempted from the general downward trend in the region. However, in the second half of the year China also had to curb its strong pace of expansion because of an overheated domestic economy and rapidly shrinking foreign exchange reserves.

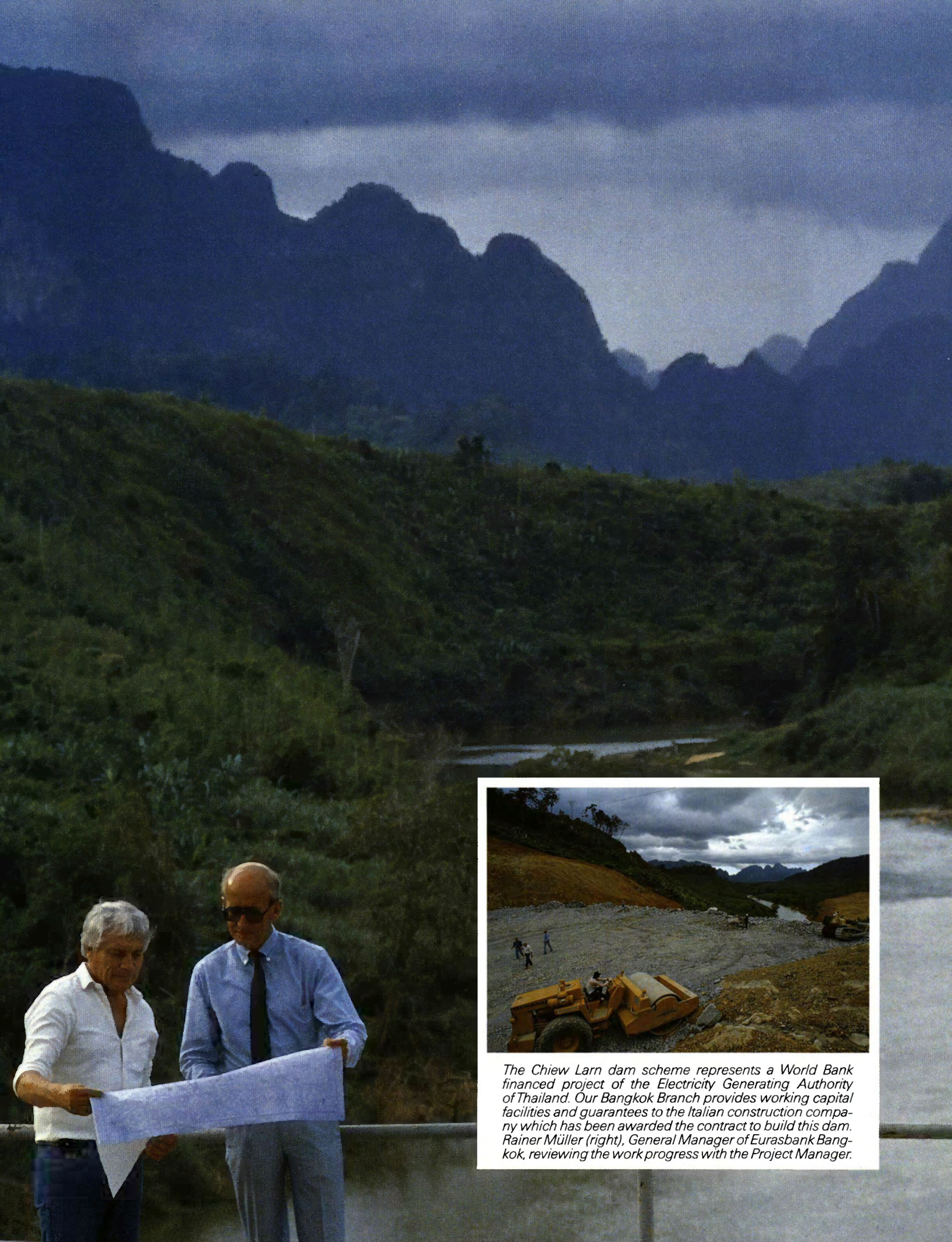
Development of prime lending rates during 1985
at end of month



The notable change that occurred in the Asia-Pacific economic scene during 1985 was also evidenced by the fact that this dynamic region lagged behind the growth of world trade for the first time in over two decades. This was caused by the culmination of a number of adverse factors. Among them was the temporary decline in competitiveness arising from the strength of the US dollar to which many Asian currencies are more or less linked. Yet exports were restrained more forcefully by the markedly slower expansion in the United States which remains by far the most important market for Asia's newly industrialised countries. In addition, the so-called NICs – Hongkong, Korea, Singapore and Taiwan – suffered from increasing worldwide restrictions on their exports of manufactured goods, while leading commodity producers such as Indonesia, Malaysia and Thailand were badly affected by the further slump in the prices of tin, oil, natural gas, rubber, vegetable oils and nearly all other agricultural products.

In view of the less favourable export environment, the up-and-coming economies of the Asia-Pacific region are faced with new challenges. Essentially, the situation calls for medium-term strategies aimed at achieving a greater balance between the increase of both export potential and domestic market capacity. No doubt this will necessitate considerable structural adjustments for which most governments have already begun to pave the way by introducing measures and reforms to encourage business initiative (for instance, through tax cuts) and to favour the development of more efficient domestic capital markets.

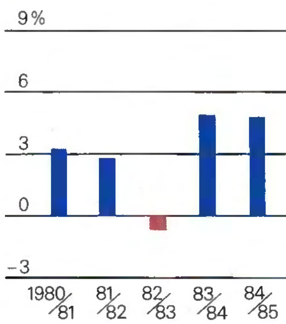
As regards economic prospects for 1986, the sharp drop in oil prices and the weaker US dollar are expected to have positive implications especially for Korea, Taiwan and Thailand and probably also Hongkong. Moreover, following the recent shift in exchange rates, Asia in general should be able to exploit trading opportunities with Europe to a greater extent than in 1985.



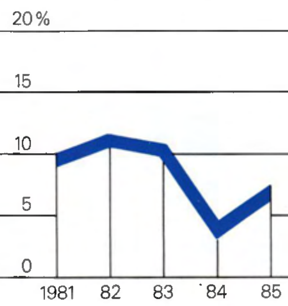
The Chiew Larn dam scheme represents a World Bank financed project of the Electricity Generating Authority of Thailand. Our Bangkok Branch provides working capital facilities and guarantees to the Italian construction company which has been awarded the contract to build this dam. Rainer Müller (right), General Manager of Eurasbank Bangkok, reviewing the work progress with the Project Manager.

Although Australia has been making wines for almost two centuries, its wine industry is still comparatively small by international standards and has only recently started to make its presence felt on the world scene. Pictured is one of Australia's oldest and most famous vineyards in the Hunter Valley Region of New South Wales.

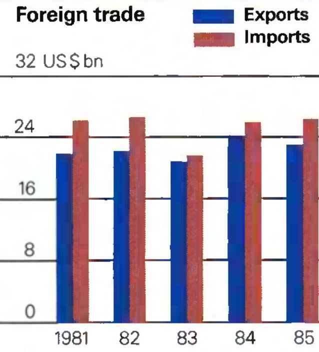
Economic growth (real)



Consumer price inflation



Foreign trade



Selected economic indicators

AREA: 7,686,848 sq.km

POPULATION: 15.5 million

GDP: US$ 173.5 billion (1984)

Among all the OECD countries the Australian economy has recorded one of the most marked recoveries since mid-1983. Average annual growth ranged between 4 to 5 per cent over the past two and a half years. This was accompanied by improved corporate profitability and an unemployment rate dropping noticeably below the 10 per cent mark. On the other hand, the rise in consumer prices – reaching over 8 per cent in late 1985 – was still roughly twice as high as the OECD average because the wage indexation system hindered a continuous reduction in the rate of inflation. Another weak spot remained the performance of the balance of payments, with the current account showing a record deficit of more than A$ 10 billion for the fiscal year ended June 1985.

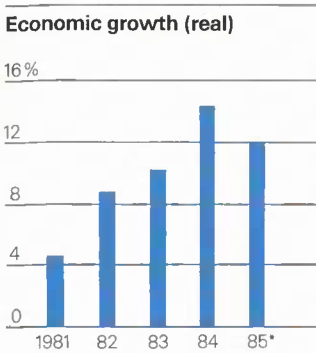
Not unlike the situation in New Zealand, Australia is currently going through a phase of reorientation of its economic policies, the results of which are not clearly identifiable yet. One of the present government's major aims is to strengthen the country's international competitiveness, particularly within the Pacific Basin. Attempts are therefore being made to gradually free the economy from the rigidities that have developed in the course of decades, by means of a more market-oriented approach. So far policy efforts have essentially been concentrated on the deregulation of the financial markets, which is expected to improve the flexibility and efficiency of the whole economy over the longer term. The relaxation of foreign investment controls formed the cornerstone of further liberalisation measures which were announced in October 1985. These included the raising of the limits above which foreign investment needed official approval and the elimination of the "opportunities test" whereby evidence was required to show that for certain ventures no Australian investors could be found.

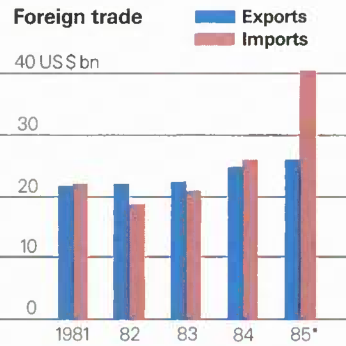
The pronounced weakness of the balance of payments was reflected in the sharp slide of the Australian dollar which has been floating since the end of 1983. On a trade-weighted basis, the value of the A$ fell by over one quarter during the year under review. In order to dampen devaluation pressures, the Reserve Bank pursued a restrictive monetary policy. As a consequence of the tighter money supply and combined with a still buoyant domestic economy, interest rates surged in the second half of the year. In December 1985, lending rates to prime borrowers exceeded the record level of 20 per cent.

Despite the remarkable increase of export volumes, the sharp depreciation of the Australian currency has not yet led to a notable turnaround in foreign trade due to depressed prices for most of the country's commodities. Moreover, some 70 per cent of Australian imports have a low level of price elasticity and thus do not respond quickly to exchange rate movements. An additional burden for the current account stems from the interest payments on external debt which has expanded rapidly over the past few years.

Rate of exchange at the end of December 1985 (1984): . . . . . . A$ 1 = US$ 0.679 (0.828)

China





Selected economic indicators

AREA:
9,560,980 sq.km

POPULATION:
1,034.7 million

GDP:
US$ 274.2 billion (1984)*

*Estimates

In 1985 Peking continued with the economic reforms which had been launched in 1979. Basically, this programme aims at raising economic efficiency and catching up with international technical progress on a broad front. These goals are to be attained by allowing market forces a freer rein within China's centralised planned economy as well as by opening up the country to the outside world (through, for instance, the establishment of special economic zones). So far, the most striking success of the reform policy appears to have been achieved in agriculture, the leading sector of the Chinese economy. Within a relatively short space of time, the most populous nation in the world managed to transform itself from being a net importer of agricultural products into becoming a net exporter. Consequently, for several countries exporting agricultural commodities the People's Republic has turned from a former customer into a new competitor in some fields.

Available indicators suggest that China's overall economic growth continued to exceed 10 per cent during the year under review. According to official estimates, the gross value of industrial output rose by approximately 18 per cent, compared with a target of only 8 per cent. However, at this continued fast pace of development signs of an overheated economy as well as bottlenecks in the energy and transport sectors became apparent. In addition, other unfavourable "side-effects" made themselves felt, prompting the authorities to put on the brakes. Disparities became visible in a price rise of 8.8 per cent (about triple the increase of 1984) and a foreign exchange drain. Between December 1984 and December 1985 currency reserves fell from US$ 17.4 billion to US$ 12.7 billion. Yet even at this lower level and after allowing for the sharply increased purchases of foreign goods, reserves were still sufficient to finance nearly four months' imports.

Data issued by the Customs Department revealed that China incurred a trade deficit of US$ 14 billion for 1985, roughly tenfold the previous year's gap. Based on these calculations, imports amounted to some US$ 40 billion (+ 54 per cent) while exports totalled about US$ 26 billion (+ 5 per cent). Export development not only suffered from the considerable decline in international prices for various agricultural products and protectionist tendencies in the textile field but also from the situation in the oil market. In value terms oil accounted for almost one quarter of total Chinese exports. In order to reduce the trade imbalance, controls on foreign exchange were tightened during the year and import restrictions on consumer goods were also imposed. Furthermore, the non-convertible yuan was devalued twice in a row.

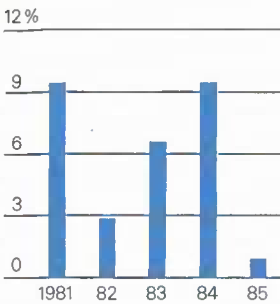
1986 has been proclaimed a year of consolidation to stabilize the recent achievements. The data for January already indicated that the government's efforts directed at decelerating the pace of growth to a more sustainable level should be successful.

Rate of exchange at the
end of December 1985 (1984): . . . US$ 1 = yuan 3.2015 (2.7957)

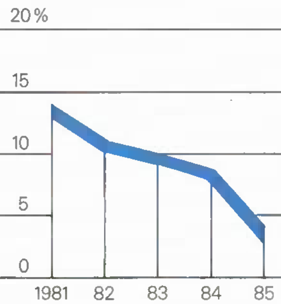
View of the 53-storey International Trade Centre in the special economic zone of Shenzhen – a symbol of China's open door economic policy.

Hongkong

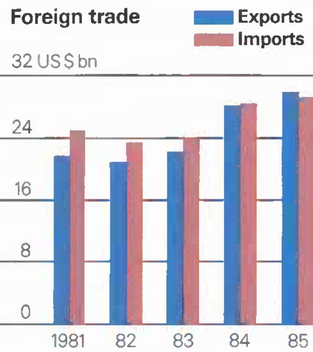
Economic growth (real)



Consumer price inflation



Foreign trade



Selected economic indicators

AREA:
1,067 sq.km

POPULATION:
5.4 million

GDP:
US$ 32.0 billion (1984)

The joint declaration of the People's Republic of China and the United Kingdom at the end of 1984 which covered Peking's resumption of sovereignty over Hongkong in 1997 came formally into force in 1985. The transition period of 50 years commencing in 1997 which was also conceded in the agreement contributed to alleviate the fears of potential investors about a sudden political turnaround which had prevailed until then. For this reason it was expected that Hongkong's favourable economic situation would continue through 1985. However, real growth of Gross Domestic Product (GDP) at only 0.8 per cent surprisingly lagged far behind the 9.4 per cent of the previous year.

The major cause of the stagnation in most sectors of the economy can be attributed to the development of foreign trade which, at nearly twice the level of GDP, is of considerable importance for Hongkong. In 1985 total exports (+6.2 per cent) increased only because re-exports advanced strongly by 26 per cent. This in turn was mainly due to the rapidly rising entrepot trade with China which absorbed over 40 per cent of re-exports. Thus, the People's Republic became the largest foreign trade partner of Hongkong surpassing the US in this respect. The main reason underlying the weaker economic trend lay in receding exports of locally manufactured products (−5.8 per cent), which constitute the real engine of growth for Hongkong.

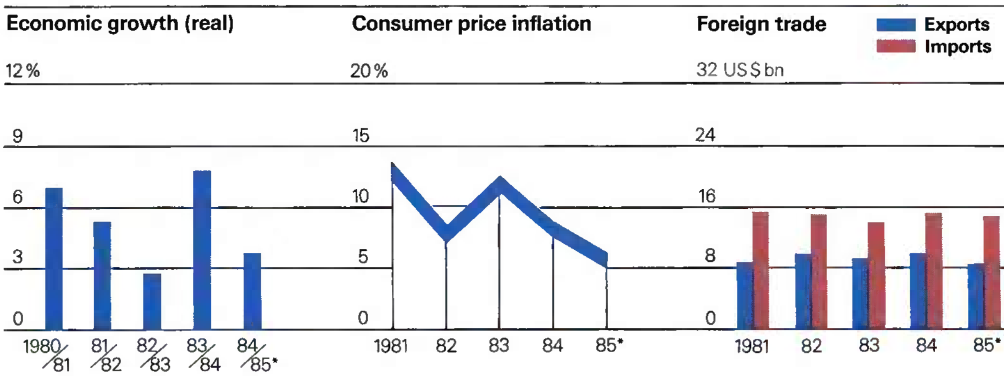
Total imports increased only by some 4 per cent, resulting in a HK$ 3.7 billion surplus in the trade balance, the first one in decades. This was primarily attributable to a decrease in retained imports which can be taken as an indicator for weaker domestic demand. Even the clearly declining interest rates (at the end of 1985 the prime rate of 7 per cent was 4 per cent lower than at the beginning of the year) stimulated only the property sector. The overall level of investment fell off, as activity concentrated on the finance and service sectors because of the expected opportunities in the China business, whilst in the industrial area more restraint was excercised. This development was also reflected by a shift of jobs from manufacturing to trade and services. In the third quarter of 1985 the unemployment rate (3.4 per cent) was almost unchanged compared with the same period of the preceding year.

The link between the Hongkong dollar and the US dollar helped, on the one hand, to reduce inflation from over 8 per cent to about 3 per cent; on the other hand, however, it caused the setback in exports. In particular, demand from Europe remained weak as a result of the high value of the US dollar in 1985. Foreign trade with the US receded on account of the slackening American economy and a more pronounced level of protectionism. The realignment of the US currency which has occurred in the meantime should stimulate exports in 1986 and contribute to offset the effects of China's policies to conserve foreign exchange.

Rate of exchange at the
end of December 1985 (1984): . . . . . . US$ 1 = HK$ 7.810 (7.833)

Within Eurasbank's Asian branch network Hongkong has held an important position for a long time. Already before World War I our Bank had been operating a branch in the crown colony under the name of Deutsch-Asiatische Bank. The small picture shows the former branch building. Today, the New World Tower (centre) houses our Hongkong Branch.

Hoechst India Ltd. – an Indo-German joint venture – has made a notable contribution to the country's progress in the last 30 years. Illustrated is a section of the company's pharmaceutical plant in Bombay.



Selected economic indicators

AREA:
3,287,590 sq.km

POPULATION:
746.7 million

GDP:
US$ 180.0 billion (1984/1985)*

*Estimates

The year 1985 for India was marked by a reorientation of its economic policy. After Rajiv Gandhi succeeded his assassinated mother as prime minister at the end of 1984, his government pushed through a reform programme, certain aspects of which had already been previously conceived. In essence, these reforms were aimed at increasing efficiency and productivity in the industrial sector in order to further enhance India's international competitiveness. This is to be achieved by liberalising the economy and granting more scope to private enterprise. Measures which have already been implemented include cuts in taxation, the easing of far-reaching restrictions on industry as well as a more liberal import policy which should facilitate imports of new technology. In 1985, the country's stock exchanges experienced an unparalleled boom, reflecting investor confidence in the new policies.

Although some companies and industries were affected by increasing local and foreign competition, which was accompanied by signs of weakening demand, the most striking impetus for growth came again from the industrial sector. For the fiscal year ended March 1986 it is estimated that GNP recorded a more pronounced growth rate of 4.5–5 per cent as against the previous year in which the rate of expansion had slackened to 3.7 per cent. Owing to an erratic monsoon, agricultural production appears to have expanded only moderately. With the supply of agricultural products remaining at its previously attained high level, the average yearly increase of consumer prices could be curbed to about 5.5 per cent for 1985. At the end of the year, however, inflation accelerated again markedly. On account of its measures the government was faced additionally with surging budget and trade deficits.

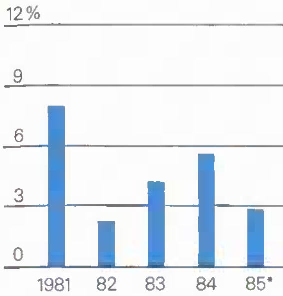
Due to stricter enforcement of the taxation laws revenues rose by over 20 per cent in spite of reductions in tax rates. Nevertheless, the budget deficit in 1985/86 was one third larger than had been planned – not least because of subsidies induced by social considerations. Foreign trade also developed more unfavourably in 1985. The trade deficit widened to approximately US$ 6.5 billion as exports, calculated in US dollars, declined more markedly than imports.

These developments are partly attributable to the government's modernisation policies, as a result of which it is almost impossible to avoid internal and external deficits before the anticipated results can lead to a reversal of the trend in the medium-term. Debt service on India's overseas borrowings in relation to total exports reached a significant, though not critical level. For this reason by itself it would hardly be necessary to suspend the reform programme. However, first signs of some success should be discernible soon in order to provide some political safeguards for the present government line.

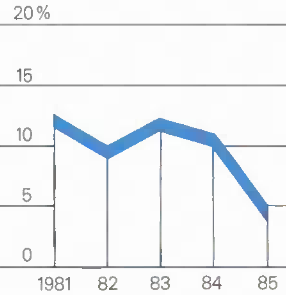
Rate of exchange at the end of December 1985 (1984): . . . . . . US$ 1 = Rs. 12.166 (12.451)

Indonesia

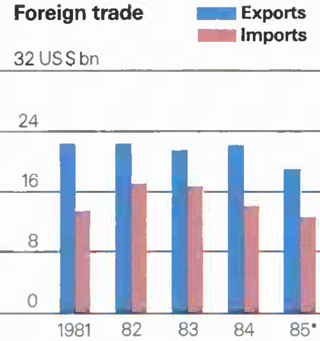
Economic growth (real)



Consumer price inflation



Foreign trade



Selected economic indicators

AREA:
1,904,569 sq.km

POPULATION:
159.9 million

GDP:
US$ 83.7 billion (1984)

*Estimates

The continued weak demand prevailing in international oil markets has made a strong impact even on an OPEC country such as Indonesia which had pursued moderate development and debt policies during the oil price boom. In spite of all the government's diversification efforts, the economy has remained heavily dependent on the energy sector. Of late, exports of petroleum and liquefied natural gas (LNG) still provided about 70 per cent of the country's total export income and about 60 per cent of current government revenue.

Additional earnings in 1985 from LNG shipments – Indonesia now ranks as the world's largest supplier – were not sufficient to offset the severe shortfall of foreign exchange resulting from the lower value of crude oil exports. Another contributory factor for the pronounced weakness of total export performance were stagnating receipts from non-oil exports.

Under the influence of depressed external demand, domestic economic developments in 1985 increasingly showed recessionary tendencies. The downturn was particularly marked in manufacturing where some 35,000 jobs were lost. According to first estimates the growth rate of Gross Domestic Product was at least halved and probably reduced to no more than 2–3 per cent. The largest contribution to overall growth came from agriculture which employs over one half of the labour force. Self-sufficiency in rice – the main staple food – which was achieved in the previous year, could be consolidated by a new record crop of 26.3 million tons. Bright spots in the economic picture of the year under review also included a significant deceleration in the inflation rate. At less than 5 per cent, the increase in the cost of living (as measured by the consumer price index for 17 cities) fell to its lowest level in years. The introduction of a value added tax in April 1985 did not spark off the expected price push.

Faced with sagging oil prices, the government presented again an austerity budget for the new fiscal year beginning April 1986. As required by law, revenues (inclusive of foreign aid) and expenditures continued to be balanced. Although the draft budget was still based on an average oil price of US$ 25 a barrel, overall spending had to be cut for the first time in 17 years. With slashes of over 20 per cent, the development budget suffered the most. It was further announced that the government would not start any new projects in 1986/87.

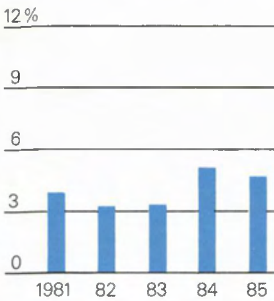
Including foreign assets of commercial banks, Indonesia had foreign exchange reserves in excess of US$ 10 billion at the end of 1985. This represented a considerable cushion for initially absorbing the effects of an expected deterioration in the balance of payments. So far, exchange rate considerations have induced the central bank to initiate only a cautious reduction in the level of domestic interest rates which have remained among the region's highest in real terms.

Rate of exchange at the
end of December 1985 (1984): . . . US$ 1 = Rp 1,125.00 (1,074.00)

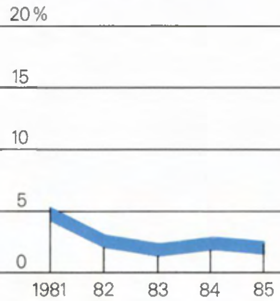
Modern equipment is required for Indonesia's food and beverage industry to meet the increasing demand of 160 million people. The tea filling equipment depicted here has been leased from our subsidiary P.T. Euras Buana Leasing Indonesia, Jakarta.

Japan

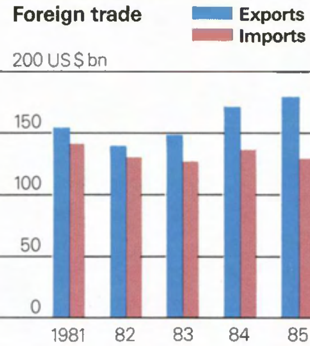
Economic growth (real)



Consumer price inflation



Foreign trade



Selected economic indicators

AREA: 377,748 sq.km

POPULATION: 120.0 million

GDP: US$ 1,255.0 billion (1984)

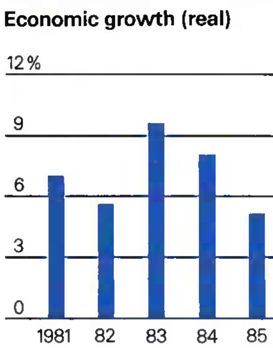
After the previous year's export boom, the domestic sector made a major contribution to the expansion of the Japanese economy in 1985. However, private consumption (accounting for about 60 per cent of Japan's GNP) and corporate capital investment did not take over the role of exports as the main engine of growth. Export business was moderated particularly by the economic slowdown in the United States which forms by far the nation's largest overseas market. This led to a deceleration in real GNP growth from 5.1 per cent to 4.6 per cent in the 1985 calendar year. The high level of public indebtedness prevented domestic demand from being stimulated through budgetary measures. Both on the domestic and external sides of the Japanese economy, the appreciation of the yen against the US dollar, which started in September 1985, had no noticeable bearing until the beginning of 1986.

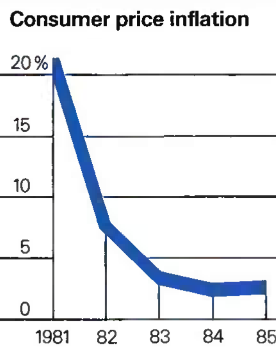
Although the value of total exports for 1985 only advanced by 4.4 per cent to US$ 177.2 billion, Japan posted an unprecedented trade surplus of nearly US$ 47 billion. After North America and Western Europe, the People's Republic of China has become the third largest outlet for Japanese goods taking up some 7 per cent of all deliveries overseas. It seems unlikely though that a sales plus of some 70 per cent, which was registered in 1985, can be repeated in 1986 following Peking's decision to keep a tighter rein on imports.

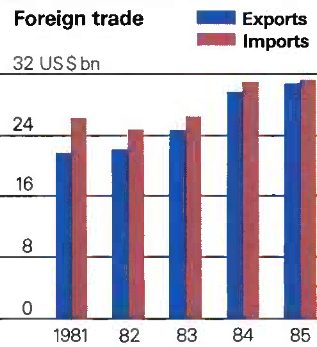
If the imbalance in Japan's foreign trade continued to widen despite the markedly retarded export momentum in 1985, this could be explained not least by the structure of Japanese imports. The share of finished products in total purchases abroad still comes to no more than approximately 25 to 30 per cent. As the world's largest importer of raw materials, Japan has profited strongly from the low level of prices in the international commodity markets. The country's import bill for 1985 therefore showed a decline of 4.2 per cent.

Especially as a consequence of the enormous excess of exports over imports, the surplus on Japan's current account swelled to almost US$ 50 billion in 1985. This represented the highest annual current account surplus ever recorded by any country. Yet it was more than offset by the net outflows of long-term capital in the region of US$ 65 billion. Japan thus consolidated its newly gained position as the world's largest capital exporter. The bulk of Japan's overseas investments were made in long-term bonds of the United States government but also in those of Canada, Australia and New Zealand. The marked progress in the liberalisation of Japanese financial markets was not least reflected in the yen's greater international role. With an 8 per cent share of the international bond markets, the yen moved up in 1985 to the third most important currency of issue after the US dollar and Swiss franc.

Rate of exchange at the end of December 1985 (1984): . . . . . . US$ 1 = ¥ 200.50 (251.10)







Selected economic indicators

AREA:
98,484 sq.km

POPULATION:
40.6 million

GDP:
US$ 83.3 billion (1984)

During 1985 the diminished demand from the US market as well as the dampened level of domestic investment initially caused a downward drift in Korea's economic performance. Evidence of this was provided by a deterioration in the employment situation and a general reduction in corporate profits. Instead of the projected 7 per cent, the rate of overall economic growth reached only some 5 per cent for the year as a whole. However, in contrast to the situation in other newly industrialised countries of the region, there were increasing signs from the second half of the year onwards that the Korean economy was moving back into a higher gear, bolstered by a package of pump priming measures. Under the influence of the falling US dollar, exports and production in the manufacturing sector picked up noticeably in the fourth quarter of 1985.

As in the previous year the rise in domestic prices was contained which owed much to the government's continued stabilization policies. The increase in the cost of living came to a mere 2.5 per cent, compared with Korean inflation rates of over 20 per cent which were being registered in the early 1980's. Together with the relaxation of interest rate controls, this success in the fight against inflation has encouraged savings considerably.

Despite the structural problems existing particularly in shipbuilding, overseas construction as well as in the textile and steel industries, Korea's balance of payments position showed an improvement in 1985. The current account deficit fell below the US$ 1 billion mark. Whilst merchandise exports edged up by 4 per cent to US$ 30.3 billion, imports stagnated at about US$ 31 billion so that the trade gap was halved to US$ 700 million. The greatest export success was achieved by the car manufacturers who were able to more than double their overseas sales which exceeded 100,000 vehicles.

In view of the country's relatively high external debt, efforts were continued to increasingly meet requirements for foreign capital by promoting direct or portfolio investment in place of bank borrowings. Thus the Korean Ministry of Finance opened additional industries up to foreign investors and simplified approval procedures. Furthermore, a selected group of Korean companies have been allowed to issue convertible bonds in overseas markets for the first time. This represented another step towards the envisaged internationalisation of the Korean stock market which is still closed to direct investments by foreigners.

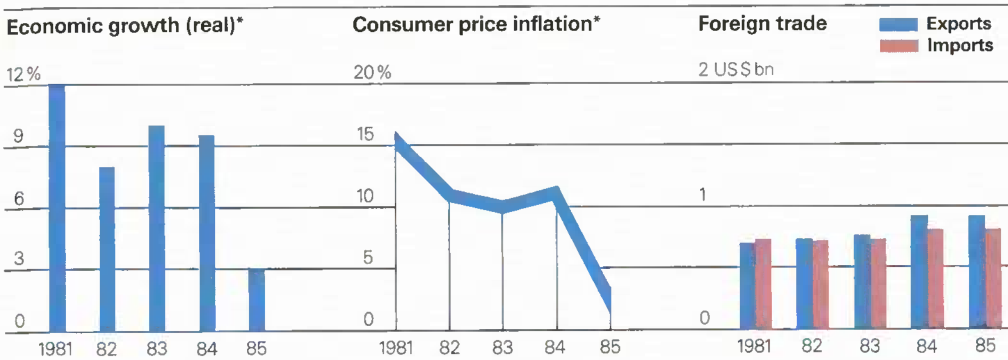
All in all, the combined impact of cheaper oil prices, lower international interest rates and a weaker US dollar should give a boost to Korea's economy and balance of payments.

Rate of exchange at the
end of December 1985 (1984): . . . US$ 1 = won 890.20 (827.40)

Our Korean branches in Seoul and Pusan are actively involved in the financing of joint ventures between local and foreign companies. Two typical examples are the facilities of the German BASF Group and the American Continental Group.


코카·콜라
Coca-Cola

Macau



Selected economic indicators

AREA:
16 sq.km

POPULATION:
0.4 million

GDP:
US$ 1.0 billion (1984)*

*Tentative estimates

Besides Hongkong, Macau is the second but smaller enclave located on China's southern coast which is still under foreign administration. Negotiations between Peking and Lisbon about the future of Macau are to take place in 1986.

Although the ties with China and in particular with the directly adjoining Zhuhai special economic zone are growing steadily, Macau's economy still relies strongly on neighbouring Hongkong – especially as far as transport and communications are concerned. This dependence is underscored by the fact that the local currency – the pataca (MOP) – has been practically pegged to the Hongkong dollar over the past years at a rate of 1:1. Moreover, about two thirds of total deposits of local residents are held in Hongkong dollars.

The closely linked development of both territories is reflected in the general level of economic activity which in 1985 also slackened off considerably in Macau. According to first official estimates Gross Domestic Product rose by some 3 per cent, compared to a remarkable 9.5 per cent in 1984. This significant dip in growth was mainly attributable to the territory's far less dynamic export performance. In 1985 sales abroad increased only marginally, in contrast to double digit expansion in each of the two preceding years. This was in part due to the decline in American orders as well as to exchange rate movements. The surge of the pataca in line with the US$ caused Macau's products to suffer a loss in competitiveness in Europe. Thus, the traditional markets of the United States and the EEC became relatively less important while countries in the Asia-Pacific region enlarged their share of Macau's foreign trade.

At the same time, the diversification of exports continued. In 1985 textiles represented 67 per cent of total exports, which was down from 71 per cent in the previous year and from almost 90 per cent in 1979. In contrast, shipments of toys, artificial flowers, electronic goods and leather articles recorded above average growth in recent years. In 1985, imports stagnated roughly at the preceding year's level, resulting again in a surplus of over US$ 100 million in the trade balance.

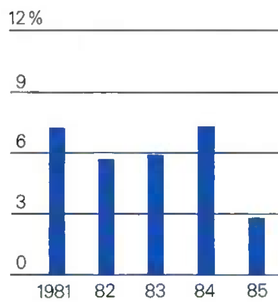
Sluggish imports of semi-finished products also provided an indication of lower levels of manufacturing activity during the period under review. On the other hand, the important tourist trade as well as the construction and the banking sectors advanced again satisfactorily. Another positive aspect was the reduction of the inflation rate which dropped in 1985 from over 10 per cent to 2.5 per cent. In spite of continued efforts to improve the infrastructure, the budget remained comfortably in the black.

Rates of exchange at the
end of December 1985 (1984): ..... US$ 1 = MOP 8.048 (8.028)
HK$ 1 = MOP 1.030 (1.030)

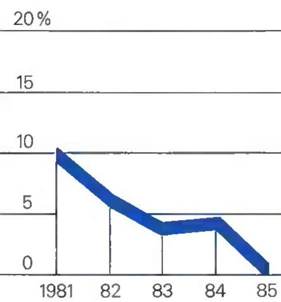
Past and present. One of Macau's most famous sights is the facade of St. Paul's – the remains of a church which burned to the ground last century. In the background: the neighbouring Chinese special economic zone of Zhuhai with which the Macau administration is aiming at closer economic cooperation.

Malaysia encourages foreign manufacturers to base their investments on local resources. Medical Latex Sdn. Bhd., a subsidiary of the Hamburg-based Beiersdorf AG, uses rubber in the production of catheters for export.

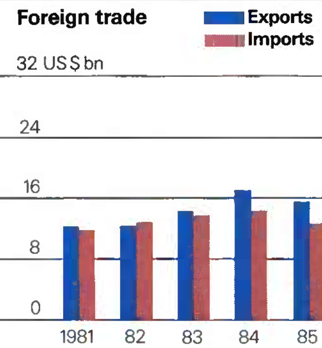
Economic growth (real)



Consumer price inflation



Foreign trade



Selected economic indicators

AREA:
329,749 sq.km

POPULATION:
15.2 million

GDP:
US$ 32.6 billion (1984)

In 1985 Malaysia's economic performance was increasingly marked by the continuing slump in commodity markets. Thus, growth in overall economic output decelerated to a mere 2.8 per cent and Malaysia's national income even contracted due to sharply deteriorating terms of trade. The general slowdown of economic activity was in part exacerbated by an austerity policy which the government pursued in order to improve the budgetary position. In 1985, the budget deficit represented 4.1 per cent of GNP – as against a record 17.4 per cent in 1982. These consolidation efforts, however, led to a stagnation of public investments, whilst in the private sector capital outlays retreated by no less than 8 per cent. Real economic growth was mostly based on an increase in agricultural production and the higher value added generated by the service sector. In contrast, the output of the mining and manufacturing industries receded. Being a leading exporter of semi-conductors the country was hit by the cooling-off of the worldwide computer boom.

Neither did agricultural exports perform well in 1985 and earnings declined considerably in view of the continuing slide in prices for palm oil, rubber and timber. Prices of palm oil, for example, the most important export item after mineral oil, dropped by about one half during the year under review. On the other hand, the full effects of the depressed world markets for crude oil and tin will only be experienced in 1986. More than 50 per cent of export earnings stemmed from the five above-mentioned commodities.

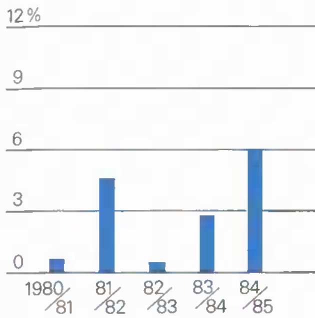
Nevertheless, in 1985 the surplus in the trade balance reached a new record of US$ 3.1 billion. This was mainly caused by the decline of imports of more than 12 per cent to US$ 12.3 billion, whereas exports only decreased by approximately one half of this percentage to US$ 15.4 billion. For this reason the current account gap was kept to US$ 0.9 billion (1984: US$ 1.6 billion) in spite of the higher deficit on the invisibles account. Altogether the balance of payments recorded an inflow of foreign exchange so that foreign currency reserves at the end of 1985 rose to almost US$ 5 billion (end 1984: US$ 3.7 billion).

As new net overseas borrowings were considerably curbed, total foreign debt rose slower and amounted to M$ 40.2 billion (US$ 16.6 billion) at the end of 1985. According to the central bank's calculations the debt service ratio stood at 14 per cent after 11.4 per cent in the previous year. This increase also reflected the relatively high amount of new debt incurred in the preceding years; yet, in general, the ratio does not give rise to concern. In order to satisfy a greater part of future foreign capital requirements from direct investment inflows certain regulations were eased. Now also companies outside the free trade zones – depending on their export quota – may be up to 100 per cent foreign-owned; hitherto it was the government's declared aim to limit this share as a rule to 30 per cent.

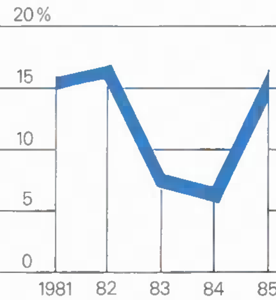
Rate of exchange at the
end of December 1985 (1984): . . . . US$ 1 = M$ 2.4265 (2.4250)

New Zealand

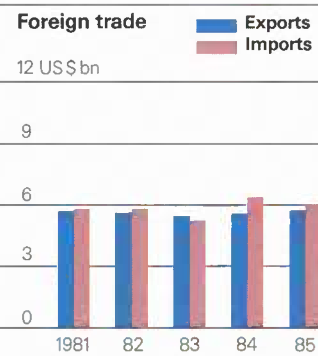
Economic growth (real)



Consumer price inflation



Foreign trade



Selected economic indicators

AREA:
268,676 sq.km

POPULATION:
3.2 million

GDP:
US$ 21.7 billion (1984/85)

Relatively wide fluctuations in interest and exchange rates, a surge in inflation to over 15 per cent as well as a sharp business downturn dominated the economic scene in New Zealand during the fiscal year ended March 1986. Not least as a result of distinctly more restrictive monetary and fiscal policies, economic growth edged down towards zero after having reached 6 per cent in 1984/85.

Over the past three decades New Zealand has fallen on the world standard of living table from the third position to a medium ranking. This was due to the fact that for a long time the country had responded to changes in international conditions by government support measures rather than through structural adjustments. Currently New Zealand's economy is going through a period of reorientation. The medium-term reform programme of the new government which assumed office in mid-1984 basically aims at strengthening market forces and putting public finances on a healthy basis. In certain respects this new policy has set the flexibility of the corporate sector under severe strain.

Major steps taken or announced by the government included: the floating of the exchange rate in March 1985 following the devaluation of the NZ dollar by 20 per cent in the previous year, the removal of interest rate controls as well as the lifting of the existing wage and price freeze, the deregulation of the banking system including the admission of foreign financial institutions, the elimination of a string of subsidies for agriculture, manufacturing and exports as well as an accelerated timetable to liberalise the import licensing system. The main objective of these moves is to induce New Zealand's industry, which so far has been largely shielded from foreign competition, to further raise productivity as the country's efficient farming sector has met up with protectionist sales barriers against its products in world markets. To date manufactured goods only account for about one quarter of aggregate export earnings but registered above average export increases in the past two years. Growth in manufactured exports was underpinned by the more favourable terms of access to the Australian market under an agreement on closer economic relationship which was signed in 1982. This accord provides for the progressive dismantling of obstacles to trade across the Tasman Sea.

In US dollar terms, total New Zealand exports recorded a small rise of 1.1 per cent in the first eleven months of 1985. During the same period imports decreased by 4.7 per cent as a result of the deepening recession and the near-completion of some large projects. This included the coming on stream of the world's first plant to convert natural gas into petrol.

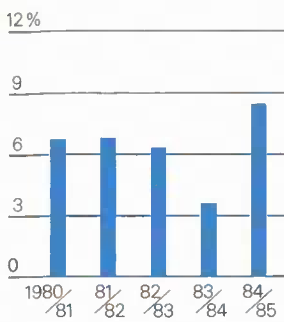
With a rate of 27 per cent for short-term Treasury bills, the level of domestic interest rates touched its peak in September–October 1985 but later declined noticeably. This helped to bring the exchange rate down because until that time money inflows from abroad – on the back of the extremely high interest rates – had contributed to the appreciation of the floating NZ dollar.

Rate of exchange at the
end of December 1985 (1984): ..... NZ$ 1 = US$ 0.498 (0.477)

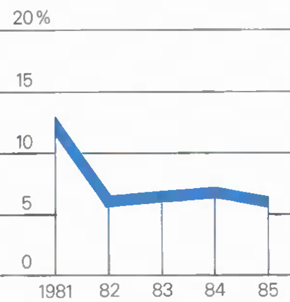
New Zealand: a large geothermal station on central North Island. More schemes using geothermal sources for electricity generation are planned.

Pakistan

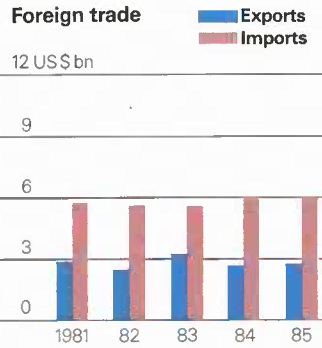
Economic growth (real)



Consumer price inflation



Foreign trade



Selected economic indicators

AREA: 803,943 sq.km

POPULATION: 93.3 million

GDP: US$ 31.3 billion (1984/85)

Pakistan's economy exhibited mixed trends during the fiscal year ended June 1985. An upturn in the domestic sector, which originated from a pronounced recovery in agricultural output, contrasted with continued weaknesses in the external sector as reflected by wide fluctuations in foreign exchange reserves. Nevertheless, the relatively liberal import policy was maintained.

After the previous year's rise of only 3.5 per cent, Pakistan's real Gross Domestic Product grew by 8.4 per cent in 1984/85. The increased supply of goods contributed to a slight reduction in the inflation rate to approximately 6 per cent. Besides a higher level of agricultural production, which was reflected in a record cotton harvest, accelerated economic growth was due to the further increase of industrial output (+ 8.6 per cent). Manufacturing would have experienced even stronger growth if the chronic energy shortage had not led to renewed power cuts. Hopes that energy bottlenecks can be removed in the longer term are also based on recent successes in the field of oil exploration and production. Already one third of the country's oil requirements are covered from domestic sources.

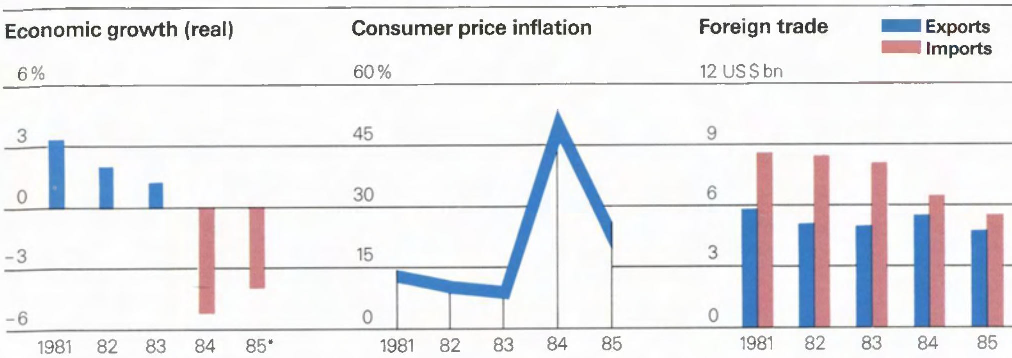
In spite of the favourable results achieved by the commodity producing sectors, structural problems of the Pakistani economy became apparent again in 1984/85. They were indicated by a continuingly low ratio of gross national savings to GNP as well as by a widening current account deficit which was chiefly caused by declining merchandise exports and shrinking remittances from Pakistanis working abroad. The resources gap was mainly bridged by drawing on central foreign exchange reserves which fell from US$ 1.6 billion to US$ 400 million within the 13 months' period to the end of July 1985. However, in the first half of the new fiscal year 1985/86 a reversal of the unfavourable foreign exchange development was brought about by record shipments of raw cotton and government measures to mobilise foreign currency funds which were previously held in the "parallel economy". By the end of December 1985, the country's central bank was able to replenish its foreign exchange reserves to a level of about US$ 800 million, which corresponded to an import coverage of about two months.

A significant step towards the Islamization of the economy was made on July 1, 1985. With a few exceptions, the concept of interest has since then been eliminated from domestic financial transactions. Foreign banks operating in Pakistan are also no longer able to do business on an interest-paying basis. So far, the so-called mark-up, which is now mostly used in trade financing, has roughly equalled the interest rate last applicable for conventional bank advances (13–14 per cent per annum).

Rate of exchange at the end of December 1985 (1984): . . . US$ 1 = Rs. 15.9878 (15.3678)

Our customer, Pakistan Herald Publications Ltd., is the publisher of DAWN, the country's largest English-language daily. From right to left: Jost Hildebrandt, General Manager of Eurasbank's Karachi Branch, with Finance and Corporate Affairs Director, Ehsan Malik and S. A. Hasnain.

Philippines



Selected economic indicators

AREA: 300,000 sq.km

POPULATION: 53.4 million

GDP: US$ 32.9 billion (1984)

*Estimate

The new government of the Philippines under Mrs. Aquino assumed a difficult inheritance after the departure of President Marcos. In only two years the economy shrank by nearly 10 per cent. For 1985, the fall in the real Gross Domestic Product amounted to some 4 per cent. Political and economic imponderables were also reflected in rising unemployment, high underemployment and distinctly weak investment activity.

Besides the unfavourable world market situation for Philippine export products this setback was primarily due to the fact that the government – in the light of the economic crisis – had to pursue restrictive budget and import policies. This was also in line with the stipulations laid down by the International Monetary Fund (IMF) which became involved because the Philippines had not since the end of 1983 been able to service the principal payments on their foreign debt which amounted to approximately US$ 26 billion.

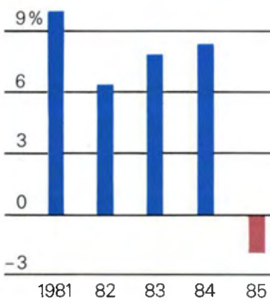
As a result of the government's austerity policy, imports declined more markedly than exports. Thus, in 1985 the trade gap fell to roughly US$ 0.7 billion (1984: US$ 1.2 billion). Success was achieved in restraining inflation; the consumer price index in the last quarter of 1985 rose by barely 8 per cent compared with the corresponding period of the preceding year, whereas for 1985 an average of 23 per cent was recorded. This downward trend, however, is unlikely to continue since in 1986 the targets for the budget deficit and the growth of the money supply can scarcely be attained. In the run-up to the election in February 1986, the previous government had incurred massive spending thus prompting the money supply to swell considerably.

A decisive improvement of the current situation depends mainly on whether it is possible to continue the process of political stabilization. For that, however, it is essential to succeed in the restoration and restructuring of the economy as fast as possible. In this connection, the ongoing and new negotiations with the IMF and the foreign creditor banks about a rescheduling of the country's external liabilities are of vital importance.

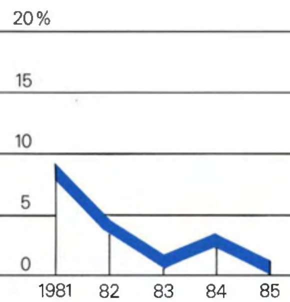
The government's programme includes the reduction of direct state involvement in the economic process as well as the dismantling of marketing monopolies which in general proved rather inefficient. Falling oil prices and declining interest rates should stimulate the economy as well as the additional aid envisaged by Western countries which are sympathetic to the new administration in Manila. Efforts to revitalize the economy should also be bolstered by a number of other factors. Apart from extensive deposits of mineral ores the island state is endowed with fertile soil and abundant fish supplies which should enable it to become more than self-sufficient in the future. Furthermore, the population enjoys a relatively high level of education.

Rate of exchange at the
end of December 1985 (1984): . . . . . . US$ 1 = ₱ 19.032 (19.760)

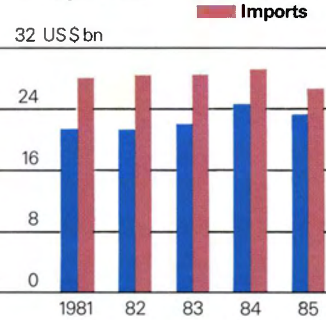
Economic growth (real)



Consumer price inflation



Foreign trade



Selected economic indicators

AREA: 620 sq.km

POPULATION: 2.5 million

GDP: US$ 18.3 billion (1984)

In 1985, Singapore suffered a severe economic setback. After two decades of high growth rates the city state experienced a deep recession. Gross Domestic Product shrank by 1.8 per cent, whereas in the previous year a growth rate of 8.2 per cent had been achieved. This development was accompanied by a loss of almost 100,000 jobs and a decrease of investment by over 10 per cent.

Due to the unfavourable economic situation in the neighbouring countries together with their endeavours to increasingly process and market their own raw materials, Singapore could not perform these services to the extent to which it had been accustomed. Total exports fell – partly as a result of the weaker entrepot trade – by 2.3 per cent, whereby the important export sector was not able to have much impact on the economy. In 1985, the trade deficit declined because imports recorded an even sharper fall (–5.3 per cent) than exports.

The economic setback was mainly a result of structural weaknesses and could only partly be attributed to adverse external factors. Industries which were promoted previously have now turned out to be problematical. These include the shipbuilding and the oil refining industries, which have both been suffering from worldwide overcapacity. Furthermore, the construction and the hotel sectors are experiencing a trough in view of an oversupply of appartments, office space and hotel rooms in the aftermath of a strong building boom.

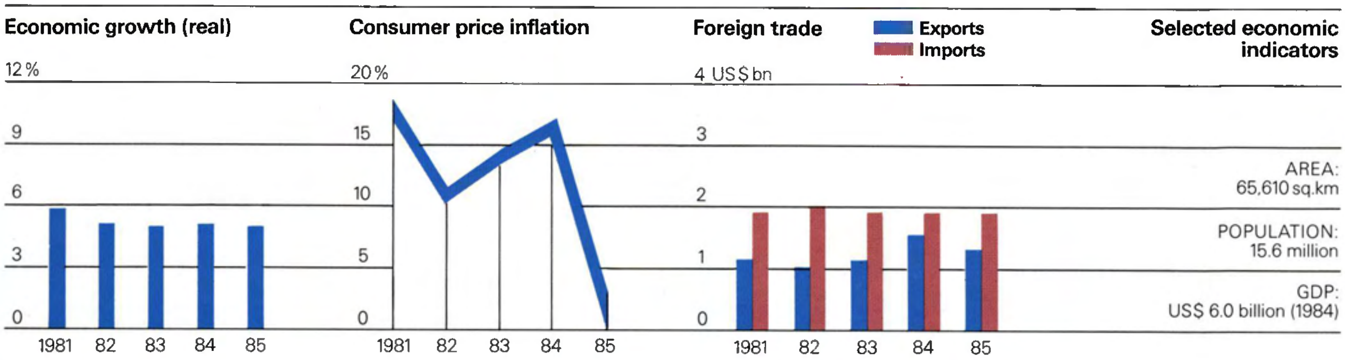
Singapore's government reacted to this economic slump with a thorough study of the situation. Measures derived from the analysis were already introduced in the 1986/87 budget. These included a cut in the corporate tax rate as well as in the maximum income tax bracket from 40 to 33 per cent and a reduction in employers' contributions to the Central Provident Fund from 25 to 10 per cent of wages. Some relief was also granted to property developers and hoteliers. The expansionary part of the budget, however, was once again aimed at stimulating construction. Not least because of this, the government planned for a substantial overall budget deficit of S$ 3.2 billion, equivalent to over 8 per cent of projected GDP. The proposed steps included a call for a two-year wage freeze since in recent years the rise in wages was running ahead of productivity. This, together with the strong Singapore dollar contributed to an erosion of the country's international competitiveness.

Apart from almost absolute domestic price stability, one of the brighter spots in 1985 was that the balance of payments continued to record a surplus. Hence, foreign exchange reserves climbed to S$ 27 billion while the external debt remained insignificant. Consequently, as far as the foreign sector of the economy is concerned it appears that Singapore has sufficient scope to overcome its current structural problems.

Rate of exchange at the end of December 1985 (1984): .... US$ 1 = S$ 2.105 (2.178)

Above: Nixdorf, the West German computer manufacturer, intends to expand its operations in Singapore by investing additional S$ 80 million over the next five years. Roughly half of this amount will be used for a new building, while the other half will be spent on equipment for the planned fully-automated factory.

Below: The construction of the Randenigala dam in Sri Lanka is being financed by a West German government loan of DM 400 million. The project is part of the huge Mahaweli hydro-power and irrigation complex.



The problems of Sri Lanka's economy became more clearly visible in 1985 than in previous years on account of unfavourable external economic circumstances. Most of the country's difficulties have their roots in the continuing ethnic conflict which erupted violently in 1983 between the majority Sinhalese and the Tamils, the latter being mostly domiciled in the North but also in the East of the island. Unfortunately a solution of this problem is not yet in sight. Nevertheless, in 1985 Gross Domestic Product (GDP) grew at a rate of 5 per cent thus reaching the level of the preceding years. This was mainly due to the rising output of the important agricultural sector. In particular, pronounced production increases were recorded for coconuts, rice and – to a lesser extent – tea. In turn these good harvests had a positive impact on agro-processing and trade. Industrial production, which is concentrated in areas not badly affected by ethnic violence, continued to grow though at 5 per cent the pace was somewhat slower. The expansion in private sector industries more than compensated for the contraction in the public sector.

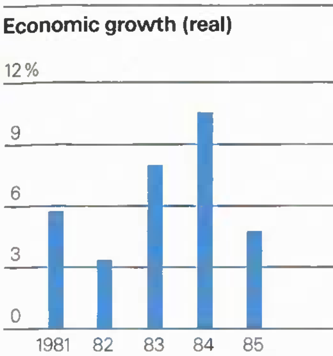
In the year under review one of the most remarkable features was the drop in the rate of inflation to a mere 1.5 per cent from 17 per cent in the preceding year. The current account, however, developed unsatisfactorily. To a not inconsiderable extent this has to be attributed to the deterioration in the terms of trade by more than 20 per cent. The fall in prices was especially marked in coconuts, tea and rubber. In 1985, exports calculated in US dollars declined by almost 10 per cent whilst imports still increased by 4 per cent. Hence, the trade gap grew by over 50 per cent. The deficit on the invisibles account also widened as foreign exchange earnings from tourism once again notably declined. At the same time, interest payments on the country's external debt continued to constitute one of the largest outflows.

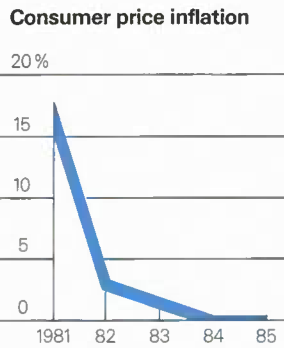
Against the background of rising debt service payments and lower receipts from total exports the debt service ratio increased from 17.5 per cent in 1984 to a not unimpressive 22.4 per cent in the year under review. Lower income from overseas sales also affected the budget since export duties recorded a decline of 40 per cent. Notwithstanding the shortfall in revenue, the government felt prompted to raise expenditure and, in particular, defense-related spending was increased twofold because of the civil disturbances. Thus, in 1985 the budget deficit soared to 19 per cent of GDP after in the preceding year it had been equivalent to 10 per cent.

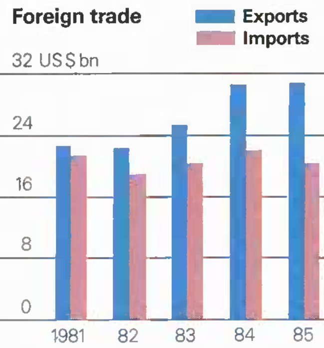
Both the reluctance of domestic and, above all, foreign companies to invest as well as the worsening external debt and budget figures drive home the urgency with which the solution to the ethnic problems on the island has to be tackled. Otherwise, the country might jeopardize the remarkable economic progress achieved in recent years.

Rate of exchange at the
end of December 1985 (1984): . . . . US$ 1 = Rs. 27.408 (26.280)

Taiwan







Selected economic indicators

AREA:
35,981 sq.km

POPULATION:
18.9 million

GDP:
US$ 57.0 billion (1984)

After the strong overall expansion in the previous year, the Taiwanese economy suffered setbacks in certain areas during 1985. This was not so much reflected in the macro-economic data but rather in the difficulties experienced by many enterprises. Whilst in the first three quarters industrial production and exports stagnated or even showed a slight temporary decline, the service sector was less affected by the recessionary development. Thus real GNP still grew at a rate of 4.7 per cent after 10.5 per cent in the preceding year. Salient features were again the absolute stability of the domestic price level and the high surplus on the current account (US$ 9.3 billion).

However, the slower economic momentum exposed some structural weaknesses of the Taiwanese economy more clearly than in the past. These problems mainly stem from the fact that small- and medium-sized businesses, which form the backbone of the local industry, often have insufficient equity ratios while at the same time local financial markets are not fully developed. In spring 1985, the collapse of a big conglomerate of companies spotlighted the risks which are involved in the existence of a large unregulated kerb market, especially during periods of sagging economic growth. Shortly after this failure the government established an Economic Reform Committee. Besides a certain deregulation of the financial sector, the committee recommended cutting corporation and income tax rates as well as reducing import tariffs. Taiwan's foreign currency reserves (excluding gold holdings) had climbed to the extraordinarily high level of US$ 22.6 billion by the end of 1985, sufficient to pay for more than 12 months of imports. Nevertheless, the central bank has felt unable so far to substantially ease the still existing system of strict foreign exchange controls.

Among the Asian countries of the Pacific rim, Taiwan's economy appears to be most heavily geared to the North American market. The portion of US-bound shipments now accounts for almost one half of total export earnings. In the year under review, the distinct slackening of US business activity virtually caused a standstill in the island's export growth. However, in late 1985 – as a result of the recent shift in exchange rates that commenced in September – a marked recovery in overseas sales was recorded which also embraced trade with Europe.

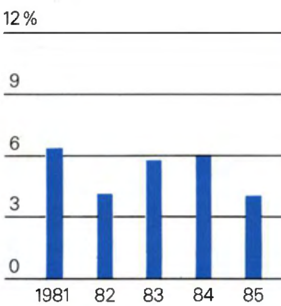
Whereas private domestic enterprises remained reluctant to invest in new plant and machinery, the authorities approved a record volume of foreign and overseas Chinese investment applications totalling more than US$ 700 million for 1985. The largest shares (30 and 20 per cent respectively) went into the chemical industry and the electrical and electronics sector. For the first time, the total included indirect investments by non-residents in the Taipei stock market amounting to about US$ 80 million.

Rate of exchange at the
end of December 1985 (1984): ..... US$ 1 = NT$ 39.85 (39.47)

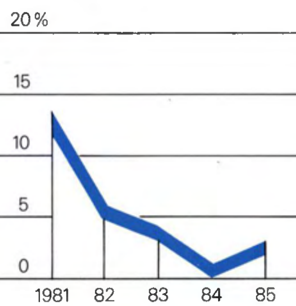
The new production facilities of a German pharmaceutical company in Taiwan. Foreign investors continue to show strong interest in the Taiwanese economy.

State of the art water treatment systems from Germany are used in this plant in Thailand. Our Bank supports the project with the required import facilities.

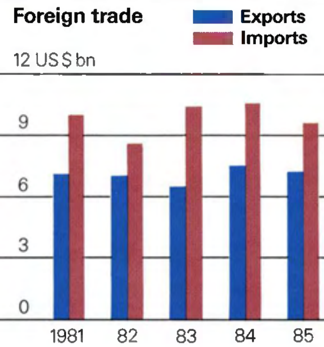
Economic growth (real)



Consumer price inflation



Foreign trade



Selected economic indicators

AREA: 514,000 sq.km

POPULATION: 50.4 million

GDP: US$ 42.0 billion (1984)

Thailand's government continued in 1985 with its stabilization efforts which were aimed at reducing the country's budget and current account deficits. These policies together with the unfavourable trend in the world markets for most Thai export products led to a lacklustre performance of the domestic economy. Thus, in 1985 real Gross Domestic Product (GDP) expanded by only 4.1 per cent. Although compared with recent years the rate of growth has somewhat fallen off, the Kingdom nevertheless occupied the top rank among the six ASEAN countries. At the same time, the increase in the cost of living remained at a low 2.4 per cent. Relatively buoyant agricultural production (+ 3.8 per cent) was not enough to compensate for dwindling prices of several agricultural products, which thus led to a decrease in incomes of the rural population.

Not least as a result of the reduction in purchasing power economic activity levelled off in nearly all non-agricultural sectors, but mainly in trade and industry. Generally declining investment activity was not only caused by the low level of industrial capacity utilization but also by high real interest rates. At the end of the year, the prime lending rate still stood at 15.5 per cent.

Furthermore, the economy was curbed by the government's adjustment measures such as the altering of taxes and import duties in order to check the production of goods regarded as non-essential or those with a high import content.

Export-oriented industries, on the other hand, like the manufacturing of textiles, jewellery, canned food and plastic products recorded positive growth rates. Although in 1985 the volume of total exports rose by 4.6 per cent, receipts from sales abroad, calculated on a US dollar basis, receded by some 4 per cent largely due to the international slump in prices for Thai raw materials and the devaluation of the baht at the end of 1984. Imports declined more markedly – by some 10 per cent – prompting the trade deficit to shrink from US$ 3.0 billion to US$ 2.3 billion. The current account deficit narrowed to almost the same extent – from US$ 2.1 billion in 1984 to nearly US$ 1.6 billion in the year under review.

Whilst the government had made some progress as far as the reduction of the external imbalances is concerned, the budget deficit could not yet be reduced. The necessity to come to a more balanced budget is underscored by the fact that the debt service already absorbs over 20 per cent of expenditure. Mainly because of a revenue shortfall the budget deficit is estimated to have widened to nearly 5 per cent of GDP in the 1985 fiscal year as against less than 4 per cent in the previous year. In recent years the government has increasingly resorted to domestic sources in order to finance the deficits and thus restrained the further rise of the country's foreign debt which is not insignificant.

Rate of exchange at the end of December 1985 (1984): ...... US$ 1 = baht 26.65 (27.15)

Review of Business

The Bank's development in 1985 was characterised by the reduced levels of economic activity in most of the countries of the Asia-Pacific region and the continued consolidation of the Bank's own business. Most important, however, was the strength of the Deutsche mark against the currencies of our operating area which – being generally aligned with the US dollar – on an average lost some 22 per cent in value against the DM.

Business volume (total assets plus endorsement liabilities on rediscounted bills, guarantees and letters of credit) decreased by DM 2.6 billion, or 22.5 per cent, to DM 9.0 billion. Claims on customers fell by DM 1.4 billion, or 32.8 per cent, to DM 2.8 billion. As a result of the fact that customer deposits declined by a lesser extent – namely by DM 0.9 billion, or 24.1 per cent, to DM 2.7 billion – the Bank's customer deposit funding ratio improved.

As explained in the notes to the statement of accounts for 1985, there was a rise in the Bank's liquidity. We reduced the securities portfolio by DM 0.3 billion after the increase of DM 0.4 billion in the previous year. The higher degree of liquidity was also reflected in a reduction of interbank borrowings by DM 1.0 billion, or 21.1 per cent, to DM 3.8 billion; on the other hand claims on banks only declined by DM 0.3 billion, or 8.2 per cent, to DM 3.1 billion.

The main concentration of our business with non-banks continued to be in short and medium-term credits – usually in connection with trade transactions between Europe and Asia and between the countries of Asia – as well as remittances and other services related to foreign trade. There has been a most satisfactory development of investment management activities in Hamburg and Hongkong and, since recently, in Singapore too.

Essentially as a consequence of the weakness of the Asian currencies against the DM, net interest income fell by DM 64.3 million, or 30.6 per cent, to DM 145.7 million. On the other hand commissions and other revenue from service transactions increased by DM 19.1 million, or 49.7 per cent, to DM 57.5 million, especially on account of good earnings from the Bank's foreign exchange activities. Administrative expense – similarly influenced by currency movements – only declined by a below-average DM 5.0 million, or 4.4 per cent, to DM 109.1 million, because of the impact of measures implemented in the fields of modern technology and personnel which should bear fruit in the future. Therefore, the decline in operating profits by approximately 27 per cent exceeded the reduction attributable to currency changes.

With due regard to the deterioration in the economic environment in several Asian countries and the still not satisfactory outlook, all discernible risks have been provided for in the statement of accounts for 1985. The necessary risk provisions were made with a view to consolidating the Bank's financial position and, to the extent that they exceeded net earnings, with the assistance of our shareholders.

During the year under review we acquired the majority of the shares of P.T. Euras Buana Leasing Indonesia, Jakarta, as well as all the shares of European Asian of Australia Ltd., Sydney, and European Asian Finance (HK) Ltd., Hongkong. The representative office in Tokyo was absorbed by the branch of Deutsche Bank in Tokyo.

In 1985, the total number of staff increased by 168 to 1,554. Much increased emphasis has been given to training of staff and executives. This is reflected in measures taken by individual branches as well as on a regional basis by the training centre which was recently established in Singapore together with Deutsche Bank. Cooperation with the representatives of the staff was, as in previous years, constructive and harmonious. We would like to thank our staff at home and abroad for their strong commitment and special efforts in 1985.

Deutsche Bank AG, Frankfurt am Main, owns a majority interest in our capital. The Bank maintained business relations with Deutsche Bank AG and several subsidiaries in which the former has a direct or indirect interest as well as with its own subsidiaries in the ordinary course of banking business.

In the report for 1985 about our relations with associated companies we have stated that according to the circumstances known to us on each occasion when transactions – within the meaning of § 312 AktG

(Joint Stock Corporation Law) – were concluded, or measures were undertaken or not undertaken, as the case may be, we received an adequate consideration in every transaction and as a result of measures being undertaken, or not undertaken, suffered no disadvantage.

The first graduate trainee course at the new Deutsche Bank/Eurasbank Training Centre in Singapore – with participants from Hongkong, India, Indonesia, Japan, Pakistan, the Philippines, Singapore, Sri Lanka, West Germany and England.

Notes to 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 giro accounts – increased from DM 194.0 million to DM 229.7 million. Balances with the Deutsche Bundesbank and foreign central banks rose to DM 223.7 million.

The sum of liabilities to credit institutions and other creditors, including own acceptances in circulation and sundry liabilities, amounted to DM 6,556.9 million (DM 8,538.5 million last year). The relation of the cash reserve to this figure *(cash liquidity ratio)* was 3.5% (2.3% 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 advances as well as foreign bonds of comparable quality – decreased from DM 1,638.5 million to DM 1,330.3 million. The proportion of liabilities covered by liquid funds *(total liquidity)* was 20.3% (19.2% last year).

Securities

Treasury bills and non-interest-bearing Treasury bonds and debt instruments decreased in total by DM 321.7 million to DM 717.9 million. They served mainly to meet capital and liquidity regulations applicable to the Bank in Germany and in its various branch countries.

Securities with a face value of DM 225.0 million (DM 247.3 million last year) as well as DM 0.1 million of equalisation claims were pledged to the Deutsche Bundesbank.

Total credit extended

The volume of credit declined by DM 1,914.7 million or 27.7% to DM 4,996.2 million. Thereof, claims on customers dropped by DM 1,352.3 million or 32.7% to DM 2,778.4 million and discounts by 102.1 million or 20.6% to DM 393.9 million.

The breakdown of the volume of credit as at the end of 1985 and 1984 is given below.

Of bills in hand amounting to DM 195.4 million, DM 45.1 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 1,643.7 million to our customers (DM 2,238.6 million last year).

Adjustments and provisions were made, partly again with the assistance of the shareholders, for all discernible risks in the lending business.

Volume of credit	End of 1985 DM millions	End of 1985 % share	End of 1984 DM millions	End of 1984 % share
Claims on non-bank customers				
short and medium term	2,318.2	46.4	3,539.7	51.2
long term	460.2	9.2	591.0	8.6
	2,778.4	55.6	4,130.7	59.8
Discounts	393.9	7.9	496.0	7.2
Lending to credit institutions	1,823.9	36.5	2,284.2	33.0
Total volume of credit	4,996.2	100.0	6,910.9	100.0

Trade investments with book values exceeding DM 0.1 million	Others
European Asian of Australia Ltd., Sydney	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt/Main
European Asian Finance (HK) Ltd., Hongkong	Credit Guarantee Corp. Malaysia Berhad, Kuala Lumpur
European Asian Capital B.V., Amsterdam	Deutsch-Indonesische Tabak-Handels-GmbH, Bremen
P.T. Euras Buana Leasing Indonesia, Jakarta	Deutsch-Indonesische Tabak-Handels-GmbH & Co. KG, Bremen
Export Credit Insurance Corporation of Singapore Ltd., Singapore	Society for Worldwide Interbank Financial Telecommunication S.C. (SWIFT), Brussels
Liquiditäts-Konsortialbank GmbH, Frankfurt/Main	European Asian Bank (Hongkong) Nominees Ltd., Hongkong
	European Asian Bank (Singapore) Nominees Priv. Ltd., Singapore
	European Asian Nominees (Malaysia) Sdn. Bhd., Kuala Lumpur
	Gesellschaft zur Finanzierung von Industrieanlagen mbH, Frankfurt/Main
	Malaysia Export Credit Insurance Berhad, Kuala Lumpur
	Privatdiskont AG, Frankfurt/Main

Trade investments

This item rose by DM 12.0 million to DM 38.9 million. The increase was caused by the Bank's investment of DM 10.8 million in European Asian of Australia Ltd., Sydney, and of DM 1.2 million in P.T. Euras Buana Leasing Indonesia, Jakarta. Besides this the shares issued but not yet paid in of European Asian Finance (HK) Ltd., Hongkong, have been taken over free of charge.

The trade investments involved obligations to pay up a maximum of DM 4.2 million and a contingent liability for the obligations of other partners in the Liquiditäts-Konsortialbank GmbH, Frankfurt/Main.

The liabilities for calls on shares, arising from trade investments, amounted to DM 8.0 million.

Fixed assets

The item *land and buildings* increased to DM 4.3 million after additions of DM 0.5 million and ordinary depreciation of DM 0.1 million.

Office furniture and equipment declined to DM 17.3 million, after additions of DM 9.6 million, disposals of DM 0.5 million, ordinary depreciation of DM 5.9 million, special depreciation of DM 0.5 million and reductions of DM 3.1 million on items brought forward caused by foreign currency rate adjustments.

Other assets

The item *sundry assets* amounting to DM 33.4 million included DM 15.9 million refundable taxes, DM 7.3 million collateral security acquired for the purpose of resale, rental and other security deposits.

Transitory items of DM 19.2 million essentially consisted of advance interest and rent payments.

Funds from outside sources

Total funds from outside sources declined by DM 1,866.2 million or 22.3% to DM 6,485.3 million during the year under review. The share of deposits from non-bank customers slightly decreased to 41.4%.

An analysis of developments of funds from outside sources as at the end of 1985 and 1984 is given on page 44.

Own acceptances and promissory notes in circulation decreased by DM 115.0 million to DM 70.2 million. The amount includes mainly acceptance credits of our foreign branches to finance customer credits in accordance with foreign money market practices.

Provision for special purposes

Provisions for pensions were increased by DM 1.4 million in accordance with the actuarial computation.

Funds from outside sources	End of 1985 DM millions	% share	End of 1984 DM millions	% share
Liabilities to credit institutions				
demand deposits	606.4	9.4	752.7	9.0
term deposits	3,195.9	49.2	4,062.6	48.7
customers' drawings on credits opened at other institutions	–.–	0.0	0.7	0.0
	3,802.3	58.6	4,816.0	57.7
Liabilities to non-bank customers				
demand deposits	536.5	8.3	600.1	7.2
term deposits	2,136.4	32.9	2,925.3	35.0
savings deposits	10.1	0.2	10.1	0.1
	2,683.0	41.4	3,535.5	42.3
Total funds from outside sources	6,485.3	100.0	8,351.5	100.0

Other provisions shown at DM 96.0 million (DM 86.5 million last year) include, besides provisions for loan related contingent liabilities, tax and other liabilities of uncertain magnitude, that part of the statutory general provision for credit losses which cannot be offset against asset items.

Other liability items

Sundry liabilities amounting to DM 1.5 million and *transitory items* totalling DM 15.2 million covered liabilities other than from banking business such as sundry accounts payable, payroll taxes, social security contributions and rent, commission and interest payments received in advance.

The *special items including reserves* were written back by DM 0.9 million to DM 5.6 million in accordance with the Developing Countries Tax Law.

Contingent liabilities

Endorsement liabilities on rediscounted bills dropped by DM 32.0 million or 13.9% to DM 198.4 million.

Liabilities arising from guarantees given, bills of exchange, cheques guaranteed and warranty contracts decreased by DM 594.9 million or 26.6% to DM 1,643.7 million.

Profit and Loss Account

Earnings from the volume of business

Interest revenue from lending and money market transactions and current revenue from securities and trade investments decreased from DM 1,002.9 million to DM 651.0 million. Against this revenue stood *interest and similar expense* of DM 505.3 million (DM 792.9 million last year). The net interest income, which decreased to DM 145.7 million, was adversely affected by the weakening of major operating currencies of the foreign branches.

Earnings from services

Net commissions and other revenue from services increased by DM 19.1 million to DM 57.5 million.

Other revenue

Other revenue, amounting to DM 301.7 million, including revenue from the *writing back of provisions for possible loan losses,* is compensated in accordance with the relevant regulations by the depreciation and adjustments on claims and securities and allocations to provisions for possible loan losses.

The revenue included DM 300.0 million in respect of shareholders' payments and waiver of certain claims against the Bank in consideration of a partial release of guarantees issued in the previous year against discernible risks in the lending business. It also included revenue from rentals and taxes repaid in respect of previous years.

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

The amounts set aside to cover further increased risks in the loan business were raised considerably.

Staff and other operating expense

Staff expense declined by DM 1.4 million or 2.2% to DM 62.5 million due to the weakening of major operating currencies of the foreign branches and despite additional staff as well as both collectively agreed and voluntary increases in payments. The number of employees grew by 168 to 1,554 in 1985.

Other operating expense dropped by 11.1% from DM 40.4 million to DM 35.9 million. The decrease was essentially due to the weakening of the Bank's operating currencies.

Taxes

Taxes on income, earnings and property amounted to DM 26.7 million (DM 32.2 million last year).

Other taxes amounting to DM 3.5 million include turnover tax on interest levied in foreign countries.

Other expense

Total remuneration of the Board of Managing Directors amounted to DM 983,564.–. Payments to former members of the Board of Managing Directors or their surviving dependants aggregated DM 166,768.–. Emoluments of the Supervisory Board totalled DM 31,860.–.

Hamburg, February 24, 1986

THE BOARD OF MANAGING DIRECTORS

Report of the Supervisory Board

During the course of the year the Supervisory Board was regularly informed, also at numerous dicussions 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 31st December 1985, as well as the Bank's books, have been audited by TREUVERKEHR AG Wirtschaftsprüfungsgesellschaft, 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 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.

TREUVERKEHR AG Wirtschaftsprüfungsgesellschaft have also audited the Report of the Managing Directors on Relations with Associated Companies and issued the following statement in respect thereof:

"Having audited in accordance with professional standards we certify that

1. the details stated in the Report are correct,
2. with regard to the transactions disclosed in the Report, the consideration given by the Company was not unreasonably high and
3. with regard to the measures described in the Report there are no circumstances for an essentially different assessment as made by the Managing Directors."

The Supervisory Board has taken notice of, and assented to, the Report on Relations with Associated Companies and the accompanying audit report of TREUVERKEHR AG Wirtschaftsprüfungsgesellschaft. Based on the final result of its own review, the Supervisory Board raises no objections against the concluding statement of the Managing Directors in the Report on Relations with Associated Companies.

With effect from 25th November 1985 Dr. Klaus Zeidler has been appointed as further member of the Board of Managing Directors.

Hamburg, March 26, 1986

THE SUPERVISORY BOARD

Chairman

Balance Sheet
as at December 31, 1985

Profit and Loss Account
for the period from January 1 to December 31, 1985

European Asian Bank Aktiengesellschaft

		DM	DM	31.12.1984 in DM 1,000
Cash in hand			5,821,429	5,874
Balances with the Deutsche Bundesbank			59,976,525	62,323
Balances with foreign Central Banks			163,758,350	125,665
Balances on postal giro accounts			105,417	113
Cheques on other banks, matured bonds, interest and dividend coupons, and items received for collection			6,019,778	1,536
Bills discounted			195,406,997	265,560
including:				
a) rediscountable at the Deutsche Bundesbank	DM 45,070,811			
b) own drawings	DM 12,019,297			
Claims on credit institutions				
a) payable on demand		331,685,732		345,637
b) with agreed life, or subject to agreed period of notice, of				
ba) less than three months		910,753,747		708,800
bb) at least three months, but less than four years		1,800,509,057		2,262,926
bc) four years or longer		23,384,922		21,349
			3,066,333,458	3,338,712
Treasury bills and non-interest-bearing Treasury bonds				
a) of the Federal Republic and the State Governments		–		–
b) others		17,652,375	17,652,375	19,518
Bonds and debt instruments				
a) with a life of up to four years				
aa) of the Federal Republic and the State Governments	DM –			–
ab) of credit institutions	DM 289,217			14,166
ac) others	DM 62,602,147	62,891,364		55,991
including: eligible as collateral for Bundesbank advances	DM –			
foreign bonds of comparable quality	DM 62,891,364			
b) with a life of more than four years				
ba) of the Federal Republic and the State Governments	DM 271,525,951			311,042
bb) of credit institutions	DM 222,765,090			405,777
bc) others	DM 143,038,126	637,329,167		233,088
including: eligible as collateral			700,220,531	1,020,064
for Bundesbank advances	DM 272,535,326			
foreign bonds of comparable quality	DM 364,793,841			
Securities, so far as they have not to be included in other items				
a) shares marketable on a stock exchange and investment fund certificates		6,597,312		10,907
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 –		6,597,312	10,907
Claims on customers with agreed life, or subject to agreed period of notice, of				
a) less than four years		2,318,189,273		3,539,732
b) four years or longer		460,219,051		591,024
including:			2,778,408,324	4,130,756
ba) secured by mortgages on real estate	DM 3,379,030			
bb) communal loans	DM –			
Equalisation claims on Federal and State authorities under the Currency Reform Laws of 1948			146,138	163
Loans on a trust basis at third party risk			15,200,099	18,446
Trade investments			38,852,586	26,907
including: in credit institutions	DM 33,750,190			
Land and buildings			4,263,839	3,918
Office furniture and equipment			17,286,397	17,672
Sundry assets			33,396,070	36,026
Transitory items			19,217,608	23,169
		Total Assets	7,128,663,233	9,107,329

The assets and the rights of recourse in respect of the liabilities shown below the liabilities side include		
a) claims on associated companies	271,872,802	313,256
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)	6,172,747	31,269

Balance Sheet as at December 31, 1985

Liabilities

	DM	DM	DM	31.12.1984 in DM 1,000
Liabilities to credit institutions				
a) payable on demand		606,376,929		752,738
b) with agreed life, or subject to agreed period of notice, of				
ba) less than three months	760,010,980			804,661
bb) at least three months, but less than four years	1,829,368,704			2,419,051
bc) four years or longer	606,496,048	3,195,875,732		838,921
including: due in less than four years . . . DM 299,303,312				
c) customers' drawings on credits opened at other institutions		–		722
			3,802,252,661	4,816,093
Banking liabilities to other creditors				
a) payable on demand		536,520,123		600,103
b) with agreed life, or subject to agreed period of notice, of				
ba) less than three months	922,185,383			1,190,063
bb) at least three months, but less than four years	1,054,714,333			1,502,051
bc) four years or longer	159,482,930	2,136,382,646		233,225
including: due in less than four years . . . DM 101,265,114				
c) savings deposits				
ca) subject to legal period of notice	1,670,228			2,483
cb) others	8,421,497	10,091,725		7,615
			2,682,994,494	3,535,540
Own acceptances and promissory notes in circulation			70,150,300	185,199
Loans on a trust basis at third party risk			15,200,099	18,446
Provisions for special purposes				
a) for pensions		9,995,740		8,615
b) others		95,972,575		86,490
			105,968,315	95,105
Sundry liabilities			1,462,288	1,638
Transitory items			15,212,259	18,929
Special items including reserves in accordance with the Developing Countries Tax Law			5,572,017	6,528
Capital			196,000,000	196,000
Published reserves				
a) statutory reserve fund		209,750,800		209,751
b) other reserves		24,100,000		24,100
			233,850,800	233,851
Disposable profit			–	–
Total Liabilities			7,128,663,233	9,107,329

	DM	31.12.1984 in DM 1,000
Own drawings in circulation	43,897,740	263,801
including those discounted for borrowers' account . . . . DM –		
Endorsement liabilities on rediscounted bills of exchange	198,445,242	230,427
Liabilities arising from guarantees of various kinds and warranty contracts	1,643,691,483	2,238,590
Savings premiums under the Savings Premium Law	–	1
Comprised among the liabilities are those (including those shown below the balance sheet) to associated companies	737,394,863	734,251

Expense

Profit and Loss Account

	DM	DM	1984 in DM 1,000
Interest and similar expense		505,274,232	792,863
Commissions and similar expense in respect of service transactions		1,792,372	2,829
Depreciation and adjustments on claims and securities, and allocations to provisions for possible loan losses		369,980,935	104,036
Salaries and wages		51,416,324	53,516
Social security contributions		4,041,446	3,864
Expenditure on retirement pensions and other benefits		7,007,469	6,502
Expenditure on material for the banking business		35,910,071	40,424
Depreciation and adjustments on land and buildings, and on office furniture and equipment		6,550,176	6,408
Taxes			
a) on income, earnings and property	26,716,721		32,227
b) others	3,468,254		3,783
		30,184,975	36,010
Other expense		1,648,656	2,573
Year's net earnings		–	–
Total Expense		1,013,806,656	1,049,025

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 880,296 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 %, 111 %, 115 %, 119 % and 128 % of that amount.

Hamburg, February 24, 1986

EUROPEAN ASIAN BANK AG

The Board of Managing Directors

Offen *Steffen* *Woydt* *Zeidler*

for the period from January 1 to December 31, 1985

Revenue

	DM	DM	1984 in DM 1,000
Interest and similar revenue from lending and money market transactions		581,203,475	919,669
Current revenue from			
a) fixed-interest securities and debt register claims	66,649,576		82,973
b) other securities	120,908		258
c) trade investments	3,029,038		24
		69,799,522	83,255
Commissions and other revenue from service transactions		59,289,156	41,225
Other revenue, including that from the writing back of provisions for possible loan losses		301,647,741	3,468
Revenue from the writing back of provisions for special purposes, so far as it has not to be shown under "other revenue"		910,982	250
Revenue from the writing back of special items including reserves		955,780	1,158
Total Revenue		1,013,806,656	1,049,025

DM	1984 in DM 1,000
–	–
–	–
–	–
–	–

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, 1986

TREUVERKEHR AG
Wirtschaftsprüfungsgesellschaft

Fandré	*Brackert*
Wirtschaftsprüfer (Chartered Accountant)	Wirtschaftsprüfer (Chartered Accountant)

European Asian Bank in Brief

A Member of the Deutsche Bank Group

The Hamburg-based European Asian Bank – or Eurasbank for short – stands in a continuous and independent tradition of banking in Asia which stretches back for nearly a century. It was incorporated in 1889 in Shanghai as the Deutsch-Asiatische Bank, and re-established under its present name in 1972.

In 1983 Deutsche Bank increased its stake to 60 per cent. Other shareholders are Creditanstalt-Bankverein (22 per cent), Amsterdam-Rotterdam Bank and Generale Bank (9 per cent each).

As a specialist bank for business in the Asia-Pacific region, Eurasbank operates a network of branches, subsidiaries and a representative office in:

AUSTRALIA	Sydney Representative Office (covering Australia and New Zealand) European Asian of Australia Limited, Sydney – Melbourne
HONGKONG	Hongkong Branch and 8 sub-branches European Asian Finance (HK) Limited
INDIA	Bombay Branch
INDONESIA	Jakarta Branch P.T. Euras Buana Leasing Indonesia, Jakarta
KOREA	Seoul Branch Pusan Branch
MACAU	Macau Branch
MALAYSIA	Kuala Lumpur Branch
PAKISTAN	Karachi Branch Lahore Branch
PHILIPPINES	Manila Offshore Branch
SINGAPORE	Singapore Branch
SRI LANKA	Colombo Branch
TAIWAN	Taipei Branch
THAILAND	Bangkok Branch
JAPAN	European Asian Bank Desk c/o Deutsche Bank Tokyo

Eurasbank provides a wide range of local and international banking services, including:

- local currency financing in
  Australian dollar
  baht (Thailand)
  Hongkong dollar
  Indian rupee
  Pakistan rupee
  pataca (Macau)
  ringgit (Malaysia)
  rupiah (Indonesia)
  Singapore dollar
  Sri Lanka rupee
  New Taiwan dollar
  won (Korea);
- all types of documentary transactions;
- international trade finance;
- money transfers;
- foreign exchange facilities;
- local and foreign currency bonds and guarantees;
- onshore and offshore financing in Asia- and Eurocurrencies;
- investment banking including medium- and long-term financing for projects in the Asia-Pacific region, also linked with export finance programmes;
- tailor-made export and import financing schemes;
- deposit accounts in local and foreign currencies;
- certificates of deposit (CDs) in local and foreign currencies;
- investment advice, securities transactions, portfolio and money management;
- contact and advisory services: international trade contacts, foreign direct investment advice.

Leather constitutes one of Pakistan's leading export items. Qamar Khan (left), Branch Manager of Eurasbank Lahore, on a visit to National Tanneries of Pakistan Ltd., one of the country's largest tanneries. European firms are major buyers of the company's produce.

Pepper has played a major role in the international spice business for centuries. The Free Port of Hamburg is one of Europe's leading entrepots for all kinds of spices. Inspecting a consignment of pepper from Southeast Asia are Reinhold Hippel (left), General Manager of Eurasbank's Hamburg Branch, and Jens Svenson, Manager of Daarnhouwer & Co. GmbH in Hamburg.

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