



Annual Report 1986

Deutsche Bank (Asia)





Cover and page 1: Our changing emblem symbolizes nearly a century of banking tradition in Asia.

Since November 28, 1986 the Hamburg-based European Asian Bank AG has a new name: Deutsche Bank (Asia). It visibly underlines our membership in the Deutsche Bank Group and our presence in the Asia-Pacific area. The name, Deutsche Bank (Asia) relates to the tradition of our predecessor – Deutsch-Asiatische Bank (DAB) founded in 1889.

Report for the Year 1986

Deutsche Bank (Asia)



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Presence of the Deutsche Bank Group in the Asia-Pacific Region



Supervisory Board

Board of Managing Directors

Dr. Ulrich Cartellieri, Düsseldorf
Chairman

Mitglied des Vorstandes der
Deutsche Bank AG

Dr. Ottokarl Finsterwalder, Vienna
Deputy Chairman

Mitglied des Vorstandes der
Creditanstalt-Bankverein

Peter Allenstein, Hamburg*

Deutsche Bank (Asia) AG
(from September 1, 1986)

Dr. Horst Burgard, Frankfurt am Main

Mitglied des Vorstandes der
Deutsche Bank AG
(from June 7, 1986)

Werner Flechsig, Hamburg*

Deutsche Bank (Asia) AG

Hubertus Heemskerk, Amsterdam

Directeur

Amsterdam-Rotterdam Bank N.V.
(until May 15, 1986)

Henning Jess, Frankfurt am Main

Direktor der Deutsche Bank AG
(from June 7, 1986)

Hilmar Kopper, Frankfurt am Main

Mitglied des Vorstandes der
Deutsche Bank AG
(from June 7, 1986)

Bernhard Korte, Hamburg*

Deutsche Bank (Asia) AG

Dr. Guido Schmidt-Chiari, Vienna

Mitglied des Vorstandes der
Creditanstalt-Bankverein
(from June 7, 1986)

Willy Suetens, Brussels

Administrateur

et Membre du Comité de Direction

Generale Bank

(until June 6, 1986)

Karlheinz Albrecht
(from October 1, 1986)

Hans Henning Offen

Alfred Steffen

Tjark H. Woydt
(until September 30, 1986)

Klaus Zeidler

*elected by the staff

Report of the Board of Managing Directors

The Asia-Pacific Region in 1986

Developments and Prospects

Viewed as a whole, 1986 was another year of subdued real growth for the western industrial nations (including Japan) and world trade. In comparison to this, the individual countries of the Asia-Pacific region exhibited rather mixed trends in their economic performances, with growth rates ranging from virtually zero to as much as 12 per cent.

At the upper end of this spectrum lay the East Asian newly industrialized countries (NICs) of Hongkong, Korea and Taiwan which all closed the year with current account surpluses. In contrast, the economic climate in Southeast Asia – with the remarkable exception of Thailand – stayed distinctly cool in such resource-rich countries as, in particular, Indonesia and Malaysia. Their external position worsened in spite of the fall in international interest rates. This also complicated the complete recovery from the effects of the previous year's recession in neighbouring Singapore, whilst economic activity in the Philippines continued to suffer from political imponderabilities and the debt crisis. Finally, the third category of South Asian countries with more inward-looking economies, headed up by India and Pakistan, did not show any large deviations from the medium growth pattern of recent years. Sri Lanka, however, proved an exception. The previous successes of its market-oriented reforms, introduced in 1977, are now threatened by the still unresolved ethnic conflict.

Basically, two factors triggered significant shifts in the foreign trade flows of the region and also caused the considerable differences in actual growth rates between exporters of manufactures and commodity producers: the sizeable realignment of the US dollar relative to other major currencies, and the continuous slump of raw material prices, spearheaded by the oil

price collapse of recent years. Both developments were remarkably beneficial to the three East Asian, oil-importing NICs. For them, the steep rise in the Japanese yen exchange rate meant a substantially improved competitive position for their industrial exports directed towards third markets, not to mention to Europe. But, for leading commodity exporters in Southeast Asia the general weakness of prices for their products acted as a severe economic brake. It appears that real non-oil commodity prices had, by 1986, fallen to their lowest level since the 1930's.

For 1987, it is therefore crucial to commodity producers in the region that raw material prices at least bottom out in the short term, in order to give producer countries some breathing space to implement further necessary adjustments. Economic prospects for the NICs in 1987 will be largely determined by the exchange rate of the yen and also by the extent to which governments of these states have to yield to external political revaluation pressures. The entire region will also be influenced by the progress of economic reforms in China.

Trade with the Federal Republic of Germany

In 1986, German demand for imports had visible expansionary effect on the economies of some Asian trading partners. For example, German imports originating from the group of countries ranging from Pakistan to Korea (which mostly belong to the dollar area), rose by nearly 40 per cent to US\$10.2 billion – at a rate almost twice as fast as total German import growth for the year. Calculated again on a US dollar basis, above-average increases were registered in

German trade with Asia in 1985 and 1986 – US\$ millions –

	German exports		German imports		balance	
	1985	1986	1985	1986	1985	1986
Group of 24 countries from Pakistan to Korea	8,551	11,094	7,336	10,174	+1,215	+ 920
Japan	2,706	4,055	7,118	11,111	-4,412	-7,056
Total	11,257	15,149	14,454	21,285	-3,197	-6,136



German purchases from the NICs – Hongkong (up 53 per cent), Korea (up 65 per cent), Singapore (up 48 per cent) and Taiwan (up 50 per cent), and also in those from the People's Republic of China (up 44 per cent).

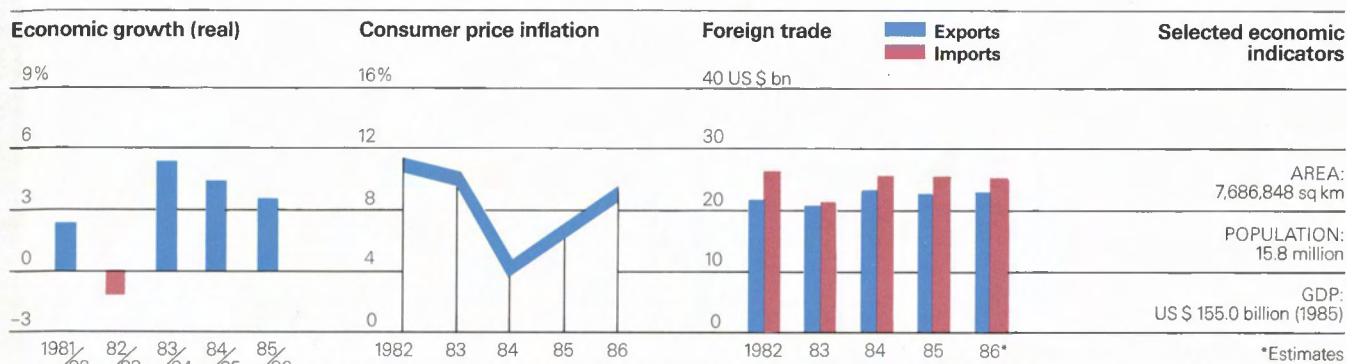
An indication of the continuing high competitiveness enjoyed by Japanese products on the German market was given by the Federal Republic's imports from this Asian industrial nation: they soared by 56 per cent to US\$ 11.1 billion in 1986. Even after eliminating the exchange rate factor, the increase still amounted to 16 per cent in DM terms.

Not surprisingly, German export trade with Asia recorded the largest advances with those countries of the region which have made the greatest strides in their industrialization. Apparently, high-grade German capital goods and intermediate products are used here to strengthen each country's own economic resources.

Container depot of the national airline in Bangkok: This computer-controlled storage system was supplied from Germany and installed by our client, Jebesen & Jessen.

As can be seen from the table, in 1986 the Federal Republic posted a deficit of US\$ 6.1 billion in its trade with Asia. This represented a doubling of the previous year's excess of imports and was mainly due to further inroads made by Japanese goods in the German market.

Australia



During 1986, after a recovery period of about two years, the pace of economic activity in Australia slowed significantly. Compared to growth rates of 6.8 and 4.5 per cent in 1984 and 1985 respectively, the real increase in gross domestic product (GDP) reached no more than approximately 1 per cent for the year under review. This marked deceleration was caused both by internal and external factors. Among them was the unforeseen, sharp deterioration in the country's terms of trade which played a decisive role.

Over three quarters of Australian exports are still made up of rural products and raw materials, many of which are in oversupply on world markets. Manufactured goods only make a relatively low contribution to total exports. This explains, to some extent, why the external imbalances up to now were aggravated rather than diminished as had been expected in the wake of the large depreciation of the Australian dollar. On a trade-weighted basis, the value of the A\$ fell by approximately one third since the beginning of 1985. Nevertheless, a current account deficit of around US\$ 10 billion was registered in 1986, equivalent to roughly 6 per cent of GDP.

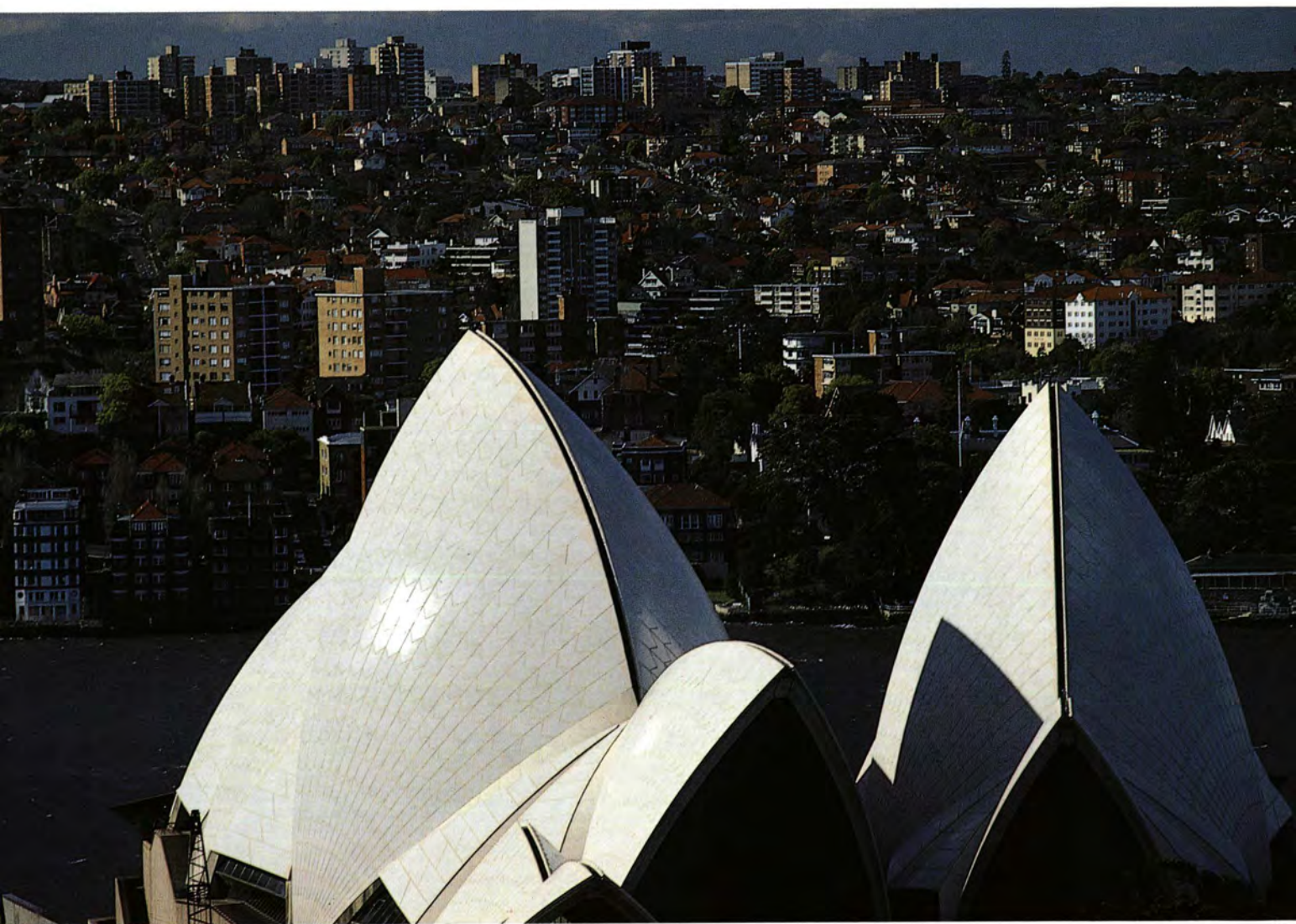
Moreover, the stronger orientation of Australian foreign trade towards the Pacific Basin which had developed over the last two decades, was less stimulative to exports than in the past. There appeared to be certain cutbacks in shipments of coal and iron ore to major markets such as Japan in particular, where steel and electricity production have to cope with excess

capacity. Market losses there might not have been fully offset by higher demand from Asia's newly industrialized countries.

The less buoyant state of the Australian economy was also reflected in the further decline of private business investment as a proportion of GDP. Whilst this ratio had risen to 13 per cent at the height of the "resources boom" in 1981/82, it fell under the 10 per cent mark during the first three quarters of 1986. According to the latest official survey, new business investment is expected to record only a nominal rise of about 9 per cent in the current fiscal year ending June 1987, implying virtual stagnation after adjusting for inflation which currently also runs at 9 per cent. However, business investment hitherto did not show a disappointing trend in all sectors. In contrast to expenditure on machinery and equipment, construction (excluding housing) has increased very strongly in real terms since 1984. In addition to more favourable tax provisions, new building projects were encouraged by the lack of office space and hotel accommodation in several cities.

Since, in recent years the widening current account gap was financed predominantly by bonds and loans, net external debt has meanwhile surged to an estimated 30 per cent of GDP from barely 5 per cent in the early 1970's.

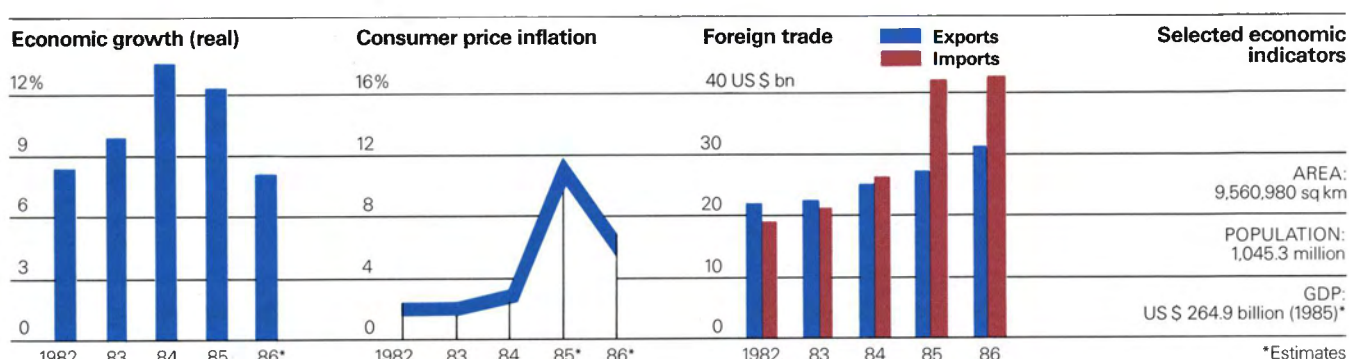
Rate of exchange at the end of December 1986 (1985): . . . A\$ 1 = US\$ 0.6648 (0.6809)



A view of Sydney over the unique roof of its famous opera house.

Panorama of Shanghai, the largest industrial city and port in China.





In contrast to previous boom years, the high pace of economic activity in the People's Republic of China was, as planned, successfully reduced. Real growth slowed down to around 8 per cent in 1986 and signs of overheating in the economy waned. Consumer price inflation, for example, was estimated to have decelerated to 6 per cent. In spite of these consolidation measures the budget closed with a deficit, in contrast to the surplus registered in 1985. This must be attributed, in part, to higher subsidies to state-owned industries, which turned in weaker performances than expected. In this sector, output increased by 6.2 per cent, but results from the collective sector as well as the (proportionally insignificant) private sector advanced by 16.7 and 60.6 per cent respectively. Light industry grew faster than heavy industry, with output value up 12.7 per cent versus 9.6 per cent. The faster growth in the collective sector reflects its almost exclusive concentration on light industrial products.

Grain production displayed a somewhat lacklustre development as it fell short of its targeted growth. Furthermore, in relation to the fast progress achieved in other sectors, the upgrading of the country's infrastructure lagged behind.

In the wake of these developments, the pursued reform policy met certain opposition. Nevertheless, a few securities markets – mostly dealing in bonds – were opened and management was assigned greater responsibility in state-owned industries. However, the hesitant implementation of price reforms indicates

that consolidation now prevails in this field.

The continuing opening up of the country to the outside world was not in question. On the contrary, at the end of the period under review new provisions, designed to encourage foreign investment in China, were announced. These may be seen as a reaction to the restraint exercised by potential investors. In fact, in 1986, the contracted level of foreign investment declined for the first time since the beginning of the eighties.

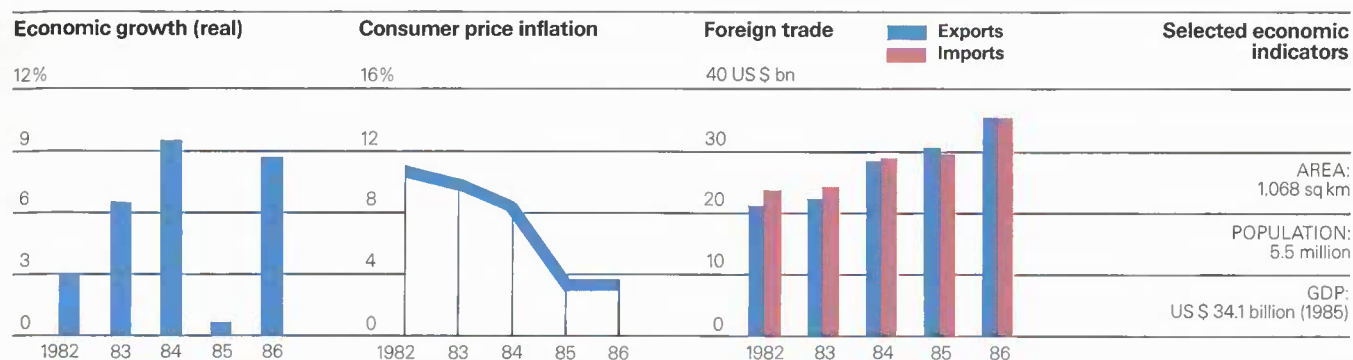
The foreign trade picture improved in 1986. Out-bound shipments of Chinese goods increased by 13.1 per cent to US\$ 30.9 billion, whereas imports only rose by 1.6 per cent to US\$ 42.9 billion. Shortfalls in export income, following the lower oil prices, were compensated by overseas sales of textiles and agricultural products as these gained momentum, supplemented by increasing exports of manufactured products. On the import side, purchases of machinery and equipment increased strongly while those of consumer goods plunged.

Moreover, since revenues from tourism and other current account items also rose, financial requirements for the balance of payments adjustment remained – as intended – significantly below the preceding year's level. Foreign exchange reserves, which in 1985 had dropped nearly 30 per cent, decreased only 12 per cent to US\$ 10.5 billion by the end of November. Yet, China still had to raise foreign loans.

Rate of exchange at the end of December 1986 (1985) US\$ 1 = yuan 3.7221 (3.2015)

Hongkong

Brisk public and private building activities reflect the unabated economic dynamism of Hongkong. Pictured is the convention and exhibition centre at present under construction in the district of Wanchai. It will also serve as a showplace for the market of the People's Republic of China. The opening is scheduled for the middle of 1989.



After a hesitant start, Hongkong's economy staged a strong recovery in 1986, culminating in a rise of almost 9 per cent in gross domestic product, as against 0.8 per cent in 1985. The major factor behind this impressive economic upswing which, to a large extent, concealed political uncertainties, was a marked revival in domestic exports with an increase of 19 per cent in value terms.

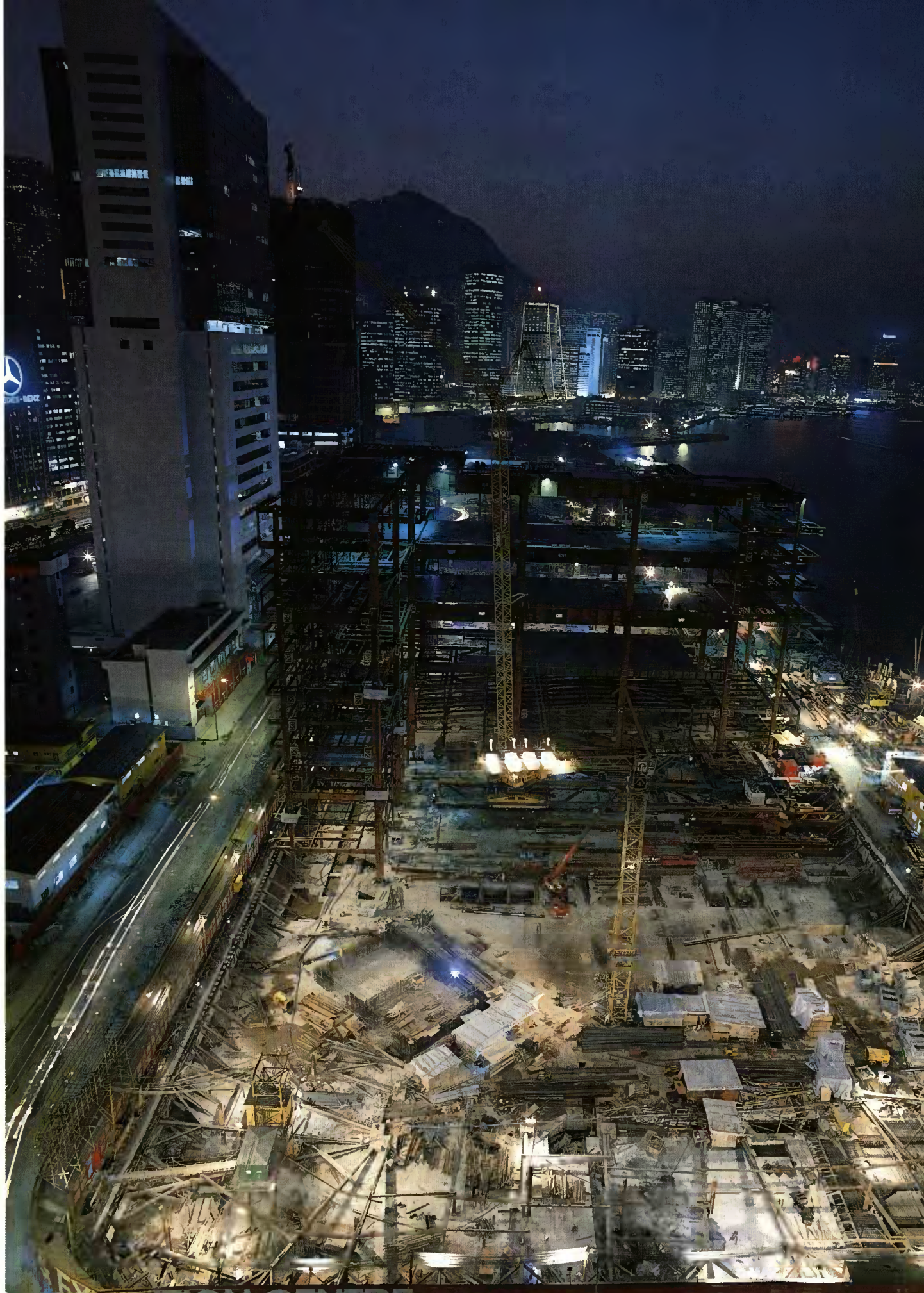
During 1986 products "Made in Hongkong" recorded high gains in overseas sales, particularly to Europe and Japan, underpinned by the exchange rate factor. The Hongkong dollar was linked to the US dollar in mid-October 1983 and, in keeping pace with the American unit, has experienced a significant depreciation vis-à-vis other major international currencies. In spite of the resultant pick-up in import prices, domestic inflation was contained within relatively narrow limits (approx. 3 per cent). Some dampening effect on retail prices was exerted by the devaluation of the renminbi in as much as imports from China account for a comparatively large portion of the goods in the local consumer "shopping basket".

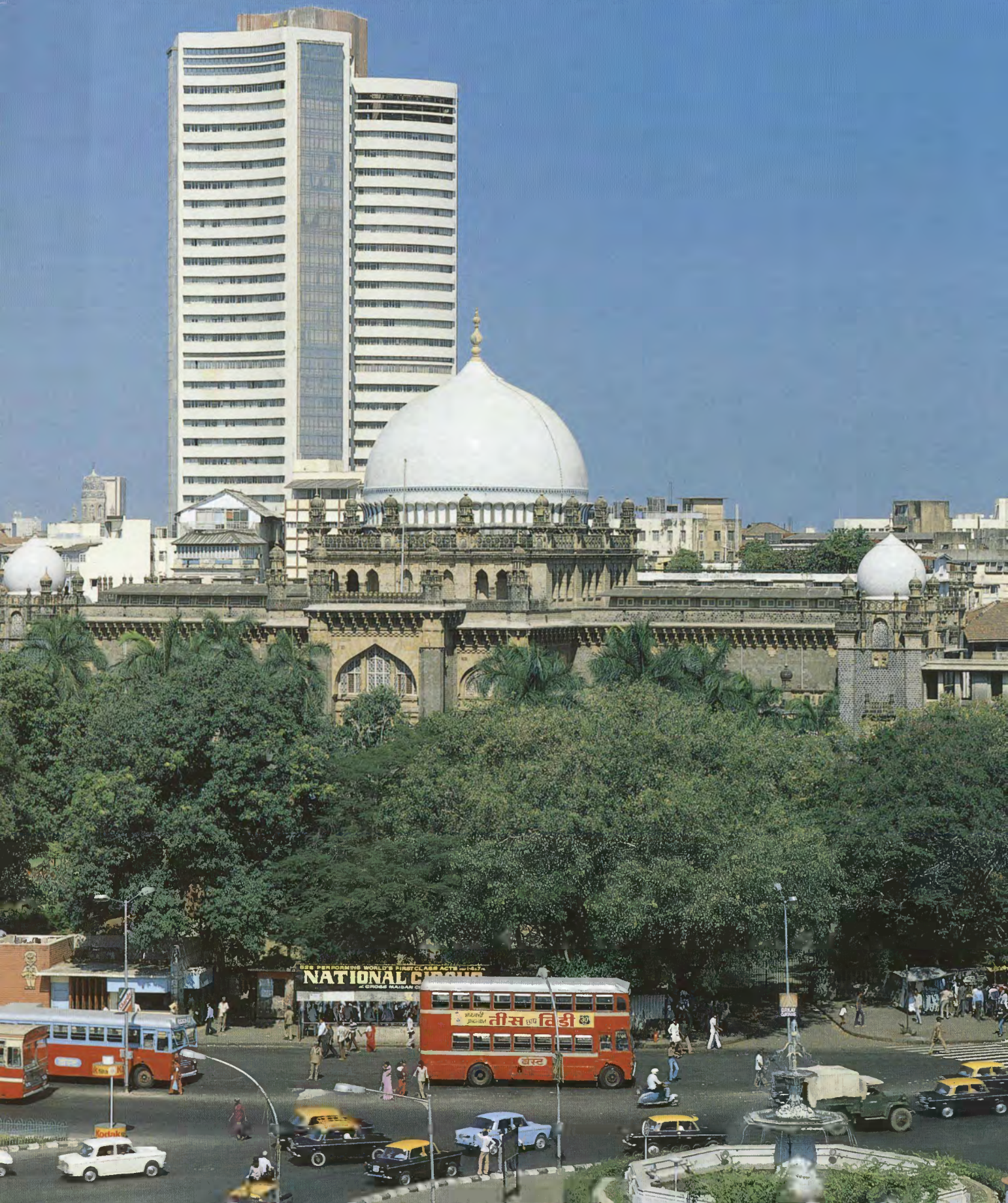
If growth in Hongkong's domestic exports did not quite attain the high rates achieved by Korea or Taiwan, this must partly be attributed to the more diversified range of export products already offered by those two competitors. In contrast, textiles and garments, which are subject in large degree to protectionist restrictions, still contribute some 40 per cent to Hongkong's export sales.

In 1986 re-exports underlined Hongkong's role as an important entrepot for the region. For example, re-exports to Great Britain, the Federal Republic of Germany, the United States and Korea all soared by more than 50 per cent. At present, the Chinese Mainland accounts for over two fifths of the total value of goods routed through Hongkong. The deepening economic relations with the People's Republic were also highlighted in a Hongkong Government study which covered foreign investments made up to March 1986. According to this survey, after the United States and Japan, China now ranks third among foreign investors in Hongkong's manufacturing industries, with a share of nearly 20 per cent or HK\$ 2.85 billion.

The positive development in the export sector not only led to almost full employment in the labour market, but also strengthened the propensity to invest, which had shown signs of weakness in the previous year and the first few months of 1986. An indication of the turnaround in private investment activity was the pronounced rise in retained imports of capital goods during the final quarter. Major investment projects, which can be seen as a vote of confidence in Hongkong's future, include the construction of the Eastern Harbour Crossing which was recently started.

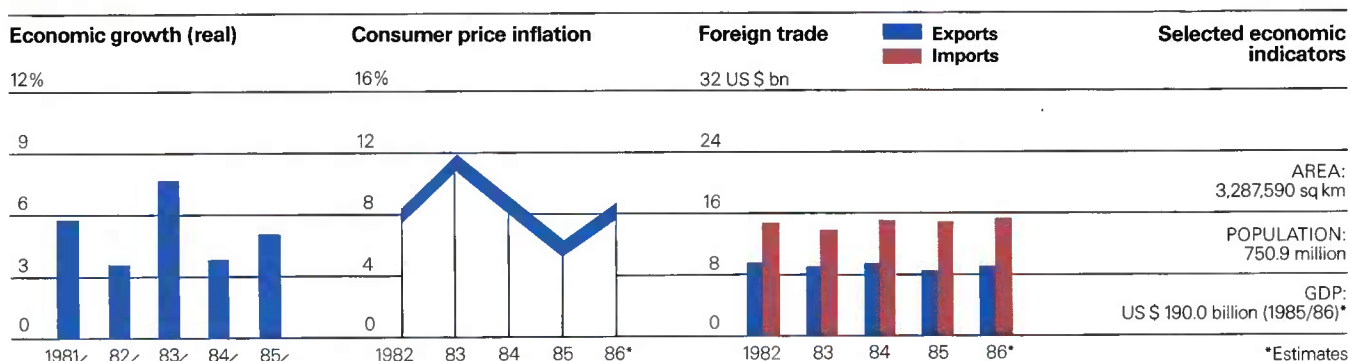
Rate of exchange at the end of December 1986 (1985): US\$ 1 = HK\$ 7.801 (7.810)





Bombay – a fascinating juxtaposition of different architectural styles: the Prince of Wales Museum and the soaring Bombay Stock Exchange Tower which houses the largest of India's 14 recognized stock exchanges. Set up in 1875, the Bombay Stock Exchange is the oldest in Asia.

India



Indian economic policies in 1986 were aimed more at consolidation than at new initiatives. The reform course, which was intensified under Prime Minister Rajiv Gandhi's government from 1985 onwards, has not yet had time to be reflected in substantially higher increases in overall production. This could hardly be expected, given the decade-long protection or promotion which India's domestic market and public sector economy previously enjoyed. Moreover, the liberalization measures, implemented thus far, did not immediately remove all bureaucratic hurdles or shortcomings in the country's infrastructure. However, the Indian capital market can be regarded as a barometer to gauge the prevailing confidence in the economy. In 1986 the capital raised in the form of shares and debentures, totalled the equivalent of US\$ 2.9 billion, representing a step-up of no less than two thirds against 1985.

Real annual growth of Indian GNP reached an estimated 4.5–5 per cent in the last two fiscal years 1985–86 and 1986–87 (ended in March). This rate came close to the 5 per cent target laid down in the Seventh Five Year Plan (1985–90). Crops were affected by unfavourable weather conditions, with the result that the agricultural contribution to overall economic growth turned out to be lower than anticipated.

Despite the general improvement in the investment climate, the industrial sector could not, so far, fully resume the relatively high tempo of production which was recorded in the early 1980's (8.6 per cent in 1981–82). At least, this was indicated by the existing index of

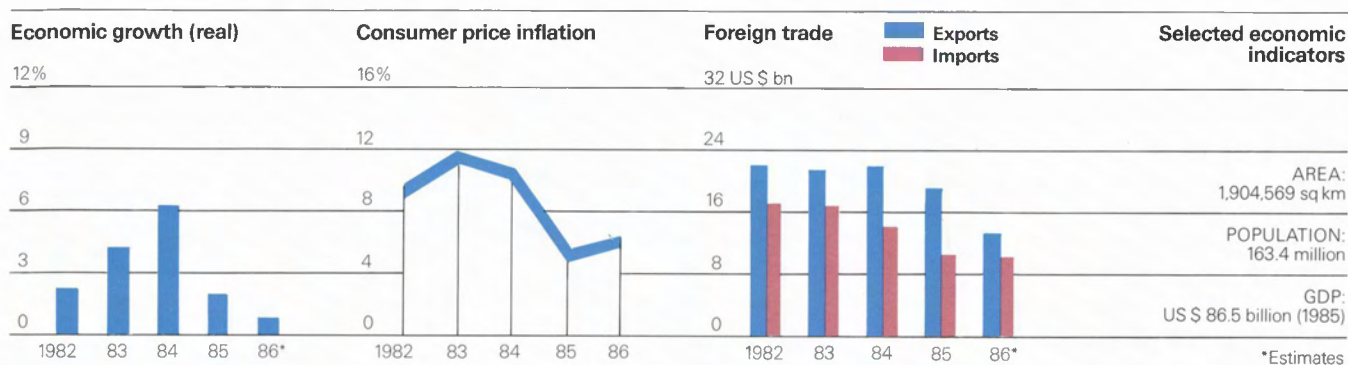
industrial production. However, according to preliminary results derived from an updated index, actual output growth in the industrial sector during the period April to October 1986 was about 7–8 per cent. The strong interest shown by foreign companies in the Indian market remained unabated and was borne out by numerous new industrial collaborations. In this field the Federal Republic of Germany became the leading partner with 70 new agreements during the first half of 1986.

After a distinct worsening in the fiscal year 1985–86, the balance of trade situation in the first half of 1986–87 was marked by a slight reduction of the chronically large deficit. This reversal was supported by the steep fall in oil prices and the exchange rate decline of the rupee. Whilst a recovery took place in exports – which was chiefly based on sales successes in traditional products such as gems, jewelry and garments –, there was only a marginal rise in total imports with the exception of the "machinery and transport equipment" item.

On the price front, however, the trend was less favourable in 1986, partly due to the growing budget deficit of the Central Government. Measured by the consumer price index, the rate of inflation was moving up towards the 10 per cent level.

Rate of exchange at the end of December 1986 (1985): US\$ 1 = Rs. 13.132 (12.166)

Indonesia



With the overall weak condition of the commodity markets compounded by the oil price drop in 1986, Indonesian exports, and particularly state revenues – which are heavily dependent on taxes from oil and gas sales – fell well short of expectations. Thus, the economic vigour recorded in past years was further dampened. At best, a small real expansion was achieved in 1986.

Even agriculture, which had hitherto registered satisfactory progress, could not attain substantial growth in 1986. Since industry suffered from poor demand, its economic growth impact was also lower than in the past. At the same time, overall investment remained weak. The government reacted by announcing new regulations during the year, with specific emphasis on broadening the scope for foreign investors. Moreover, a process was set up to dismantle import monopolies in order to curb manufacturing costs. This, in turn, should enhance the competitive position of non-oil exports.

In spite of sluggish business activity the government maintained its austerity policy. The 1987–88 draft budget submitted to parliament continues on this basis. The nominal increase (6 per cent) – attributable primarily to rising debt service payments – will, most likely, represent a decline in real terms as the rate of inflation accelerated to 9 per cent at the end of 1986. Since more than 50 per cent of domestic demand is generated by government expenditure, the new budget will probably moderate business activity further. In contrast to the

previous fiscal year, when the budgeted oil price of US\$ 25 per barrel proved incorrect, estimated revenues were calculated on a basis of US\$ 15 per barrel. Former erroneous assumptions about future oil prices led to such sizeable deficiencies in receipts that they, together with the deterioration of the balance of payments, set the background for the massive devaluation of the rupiah (31 per cent) against the US dollar in September 1986.

Although the deficit on current account did not reach anticipated levels, it still doubled in comparison to the preceding year, to some US\$ 4.1 billion. Income from energy exports was estimated to halve but this decrease could not be offset by rising non-oil/gas exports. In spite of the persisting decline in imports the usual surplus on the trade balance would in any event have narrowed distinctly.

Additionally the exchange rate realignment has aggravated the foreign debt situation, because a considerable amount of external loans are, in contrast to foreign exchange income, not denominated in US dollar. Indonesia's estimated foreign debt amounted to about US\$ 37 billion. According to statements from the Finance Minister, the debt service ratio surpassed the 30 per cent mark recently. Nevertheless, at the end of the period under review, Indonesia was able to raise new commercial credits, on the strength of its debt management record.

Rate of exchange at the end of December 1986 (1985) US\$ 1 = Rp. 1,641.00 (1,125.00)



Java/Indonesia: This dam near Bandung was partly financed with the assistance of the World Bank. Our Bank provided bridging finance for the French-Indonesian joint venture which was awarded the building contract.

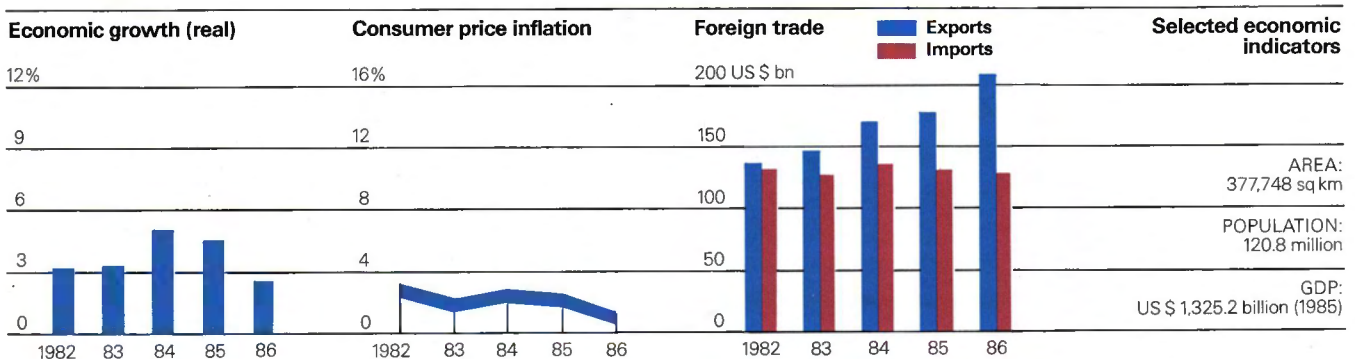
The Indonesian pharmaceutical industry needs modern equipment to meet the medical requirements of a 160 million population. The depicted unit was leased from our subsidiary, P.T. Euras Buana Leasing Indonesia, Jakarta.





"Skyscraper park" in Shinjuku,
a new business centre in the Japanese
capital.

Japan



In 1986, Japan's economic performance was marked by the persisting appreciation of the yen against the US dollar. The Japanese currency strengthened from ¥ 251/dollar at the end of 1984 to ¥ 159/dollar at the end of 1986. This development could not but have an effect upon the competitiveness of Japanese exports. Foreign trade statistics on a US dollar basis, however, gave little evidence of this, since according to these figures, Japanese overseas sales increased by 19 per cent to US\$ 210 billion, while imports declined by 2 per cent. This resulted in a trade surplus of US\$ 83 billion, representing nearly double the previous year's amount. Yet this consideration in value terms does not fully mirror the underlying transactions. The real effects of the exchange rate shift are more obvious if one is aware that export volume moderated by 1 per cent, whereas import volume swelled by 12 per cent.

The latter figures clearly illustrate the negative consequences for export-oriented industries, although they do not reflect that, in order to defend market shares, a substantial deterioration of profits had to be accepted. Mainly because of the slowdown in export business, industrial production recorded a slight drop.

In 1986, the major thrust for growth came from the domestic economy where, namely, the services sector expanded. The strong yen and the plunging oil price contributed to the achievement of nearly absolute stability of the domestic price level. Thereby disposable incomes were influenced favourably. In fact, private consumption remained the actual underpinning of the

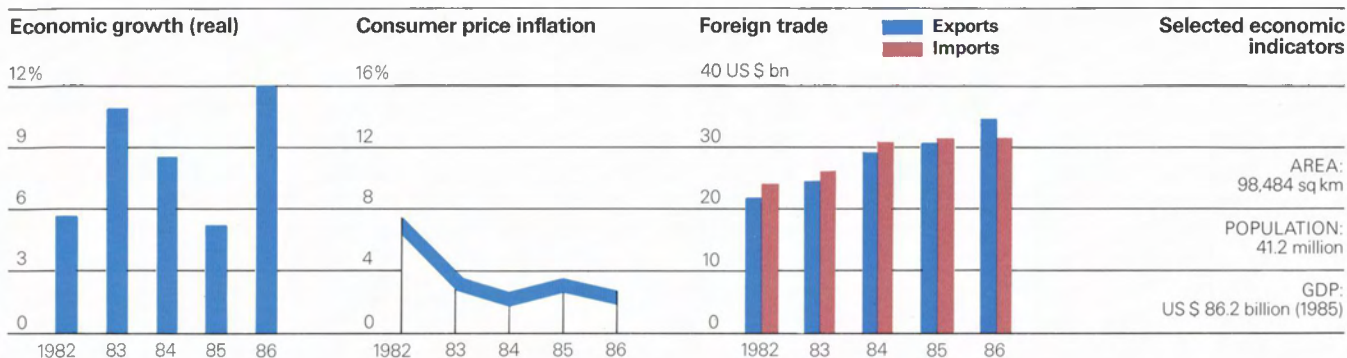
economy, additionally supported by low interest rates, which stimulated in particular, housing construction. As a result, in calendar year 1986 Japan experienced a real economic growth of only 2.5 per cent, the lowest rate since 1974.

The Japanese economy increasingly felt competition from the newly industrialized countries (NICs) in the region. Among the affected lines of business were shipbuilding, consumer electronics, car production and, especially, textiles. Hence, Japan concentrated its direct overseas investment on the NICs such as Korea and Taiwan in order to benefit from cost advantages enjoyed in these countries. Presumably in connection with foreign investment projects, Japanese exports to both of these countries climbed above average.

Nevertheless, the most important foreign trade partner remained the United States. With Japanese exports running as high as US\$ 80 billion and imports amounting only to US\$ 29 billion in 1986, the largest part (US\$ 51 billion) of the overall trade surplus was registered in bilateral trade with the US. Although it seems that a softening of international imbalances is ahead, Japan may still face pressure to reduce its surpluses to a lower level than hitherto registered. Any resultant readjustments are likely to moderate economic growth in the future.

Rate of exchange at the
end of December 1986 (1985): US\$ 1 = ¥ 159.10 (200.50)

Korea



In 1986, the pronounced economic success achieved in the external sector provided Korea – the most indebted country in Asia – with the financial scope to begin reducing its foreign obligations. Notably brisk overseas sales resulted in a perceivable real expansion in overall economic output of over 12 per cent. This growth rate, which more than doubled against the 1985 figure, was amongst the highest in the world in the year under review. At the same time the rise of consumer prices (+ 2.3 per cent) remained relatively low. These positive developments were, however, based on three favourable external factors: dwindling oil prices, the surge of the yen and the lower level of international interest rates. The concurrence of these influences brought about Korea's first, substantial current account surplus amounting to US\$ 4.7 billion.

Korean exports rose by 14.6 per cent to US\$ 34.7 billion in 1986, not least, on account of exchange rate advantages. In comparison to the yen the won remained weak, giving products from Korea an edge in international competition. Thus, shipments to the United States swelled by 30 per cent widening Korea's surplus in bilateral trade to US\$ 7.4 billion. One of the most successful export industries, besides electronics, was automobile production in particular, with overseas sales nearly tripling to 300,000 cars. On the import side (+ 1.4 per cent) effects of the lower oil bill were roughly balanced by higher purchases of foreign capital goods. Hence, the overall trade balance swung to a distinct surplus of US\$ 3.1 billion from a deficit of US\$ 0.9 billion

in 1985. On the invisibles account a more favourable tendency became perceptible as a consequence of lower interest payments on foreign loans and rising revenue from tourism. Nevertheless, a deficit was again recorded which amounted to US\$ 0.6 billion (US\$ 1.4 billion in 1985). Therefore, Korea was able to reduce its external debt by over US\$ 2 billion, down to US\$ 44.5 billion. This was in total contrast to previous years when foreign capital inflows – in part of substantial magnitude – had been indispensable.

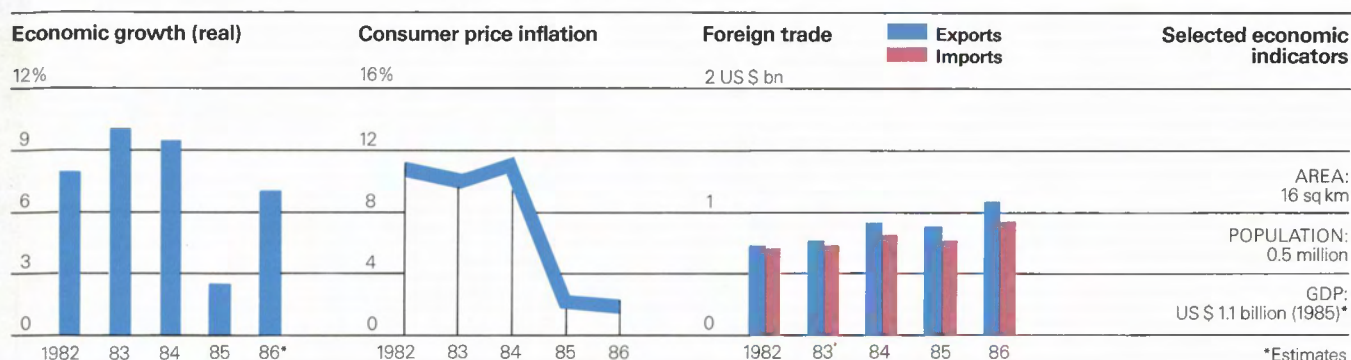
Foreign exchange earnings though, could have been markedly higher. Delayed payments as well as substantial decreases in new orders from the Middle East plunged the overseas construction industry into a deep crisis. Moreover export income, generated by the ship-building industry, dropped by 60 per cent – a sure indication that not even Korea has been spared the structural problems beleaguering shipyards all over the world.

At the end of the period under review a certain deceleration of economic growth emerged. This normalization process should also persist into 1987 since the external factors will hardly continue to change in favour of the country. Rather, it is to be expected that the pressure from important foreign trading partners will lead to a stronger won which in turn will affect the competitiveness of Korean overseas sales.

Rate of exchange at the end of December 1986 (1985): . . . US\$ 1 = won 861.40 (890.20)



High tech in Korea: Optical waveguides are the transmission medium of the future. Since the early 80's industrial development in Korea has been increasingly marked by rapid advances in technology-intensive industries.



In 1984 the People's Republic of China and the United Kingdom agreed upon a joint declaration which set the framework for Hongkong's future. A similar accord concerning Macau was under negotiation between China and Portugal during 1986. Subsequently the administration, of the considerably smaller enclave Macau, will be transferred from Lisbon to Beijing before the turn of the century. Therefore both of these territories, located on China's southern coast, are most likely to face the same political future under Chinese sovereignty.

Certainly as far as the economy is concerned, parallels on a general level of business activity have been apparent for quite some time. Besides their geographical closeness and common structural background, this is mainly due to Macau's exchange rate policy. For years the local currency – the pataca (MOP) – has been practically pegged to the Hongkong dollar at a rate of 1:1.

Since the Hongkong dollar in turn, is linked to the US dollar, the growing weakness of the American key currency in 1986 fuelled Macau's foreign trade activities. Exchange rate movements enhanced competitiveness, first and foremost in Europe. Thus in 1986, exports to the EC surged by 40 per cent, far above average growth, whereas shipments to the USA rose roughly in line with total exports which increased significantly (+ 20 per cent) to US\$ 1,066 million. As a result the two most important traditional buyers extended their share of Macau's overseas sales to some 70 per cent after

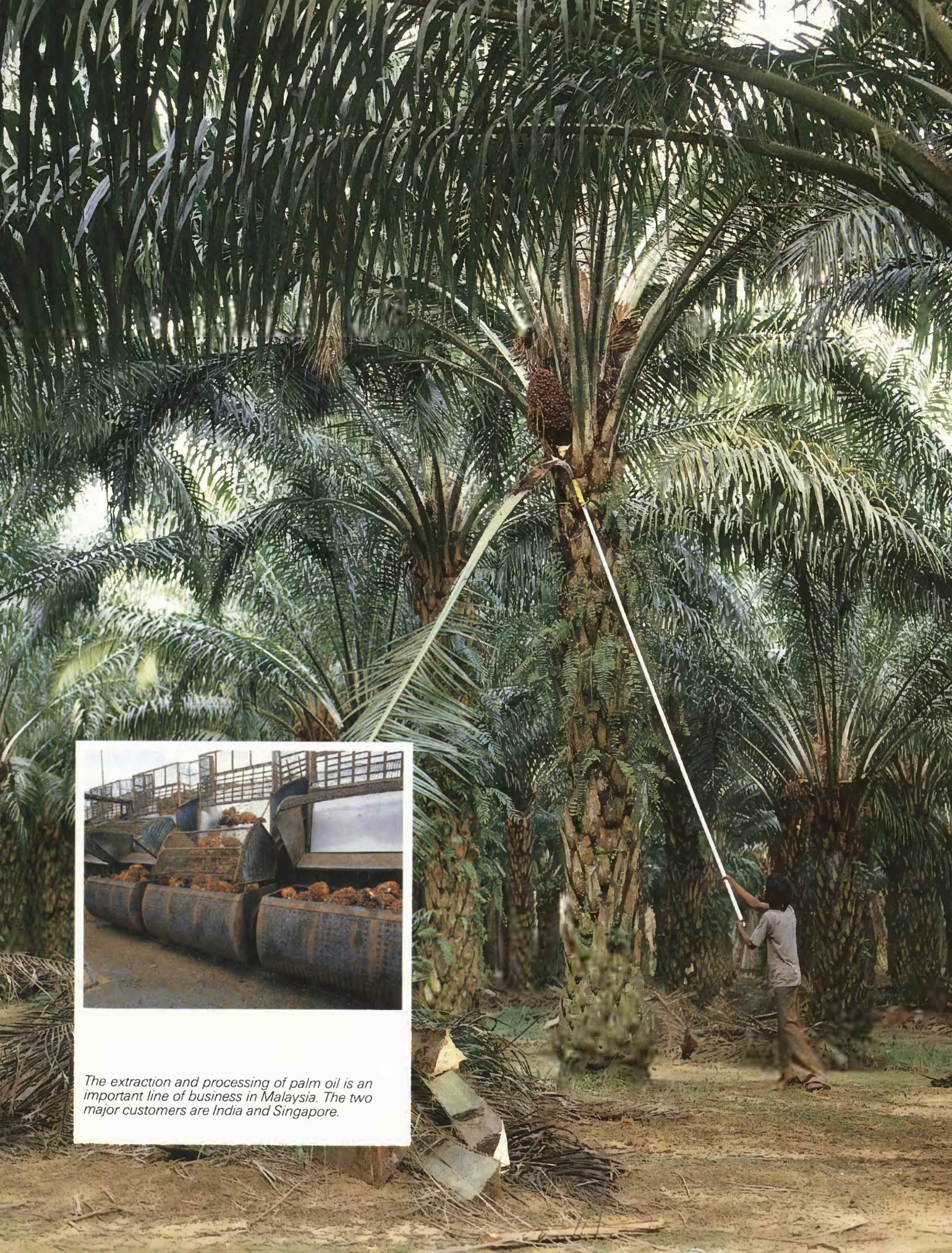
regressing in 1985.

In previous years a trend was observed towards further diversification of exports. However, this development was reversed in 1986. Burgeoning foreign demand concentrated on three predominant products: toys, electronic goods and textiles. The latter alone accounted for nearly 70 per cent of export earnings. Although imports, based on higher purchases of raw materials and capital goods, rose notably as well (+ 18 per cent), a record trade surplus of US\$ 162 million was still registered.

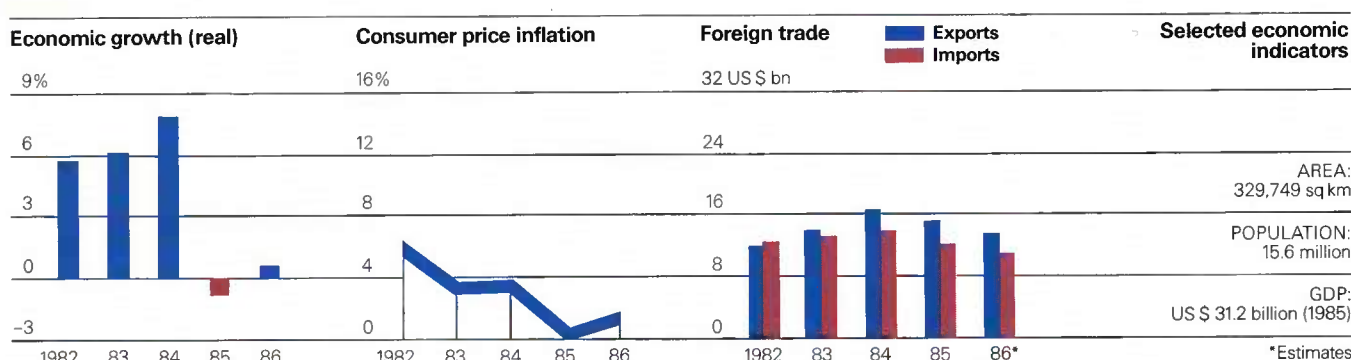
Brisk export business stimulated industrial production in particular. Furthermore, whereas the performance of the tourist sector improved only slightly, the construction industry had a positive impact on economic growth. Because of this Macau experienced a distinct revival of business activity. In 1986, real growth of gross domestic product was officially estimated to have reached 7 per cent, while in the previous year only 2.5 per cent had been achieved. At 1.9 per cent the rise in prices was a notch lower than in 1985. Despite the slump of the US dollar the inflation rate did not accelerate, because the majority of foodstuffs were imported from China at lower costs resulting from the marked depreciation of the renminbi against the pataca.

Rates of exchange at the
end of December 1986 (1985): US\$ 1 = MOP 8.091 (8.048)
HK\$ 1 = MOP 1.030 (1.030)





The extraction and processing of palm oil is an important line of business in Malaysia. The two major customers are India and Singapore.



As a consequence of the continuing slump in commodity markets, the high overall export ratio (above 50 per cent) had a negative impact upon business activity in Malaysia. It was generally assumed that the economy grew by approximately 0.5 per cent in 1986 and the stability of the domestic price level was largely maintained. This may be the first sign that a recovery is underway, since gross domestic product had decreased by 1 per cent in 1985. However, the high growth rates experienced in previous years are unlikely to be repeated in the short term. Besides export earnings, which will presumably remain at a more subdued level, this is mainly due to some major projects which have now become a burden, as the anticipated profitability has not yet materialized.

The lacklustre economic situation was also reflected in public finances. Thus, in 1986, not only was development expenditure financed by borrowings but also in part, operating expenditure. Because of inadequate financial resources, public investments were expected to fall by 5 per cent while, at the same time, total private sector investment should have declined by some 13 per cent.

Due to further deteriorating terms of trade Malaysia's national income slackened again substantially. This was chiefly responsible in turn for receding domestic demand. Primarily construction, the services sector and manufacturing industries catering to the domestic market, suffered from this income loss. The achieved overall growth resulted from the expansion in

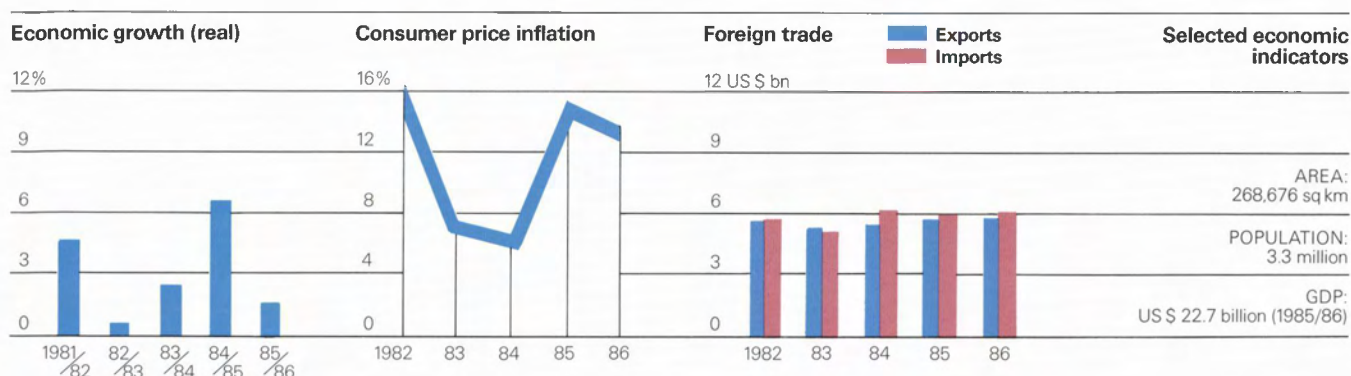
output of agriculture and agro-processing, the mining sector (on account of higher production of crude petroleum), and export-oriented industries. A striking feature was the strong increase in overseas demand for electronic components.

Nonetheless, total exports for 1986 were estimated to have declined by over 10 per cent to some US\$ 13.5 billion. Since the export volume rose, this adverse development was caused by falling prices of Malaysia's most important export products such as crude petroleum, palm oil and tin. Imports were envisaged to decrease by a similar percentage to US\$ 10.8 billion. Accordingly, this resulted in a lower trade surplus. With the marked deficit on the services account barely changed, the current account shortfall may well increase to some US\$ 1.2 billion (1985: US\$ 0.7 billion).

Under these circumstances, it was again necessary to step up borrowing from foreign sources. The debt service ratio, which stood at 15.6 per cent in 1985, therefore surged to 20 per cent by the end of 1986. On the other hand, foreign currency reserves rose to US\$ 5.7 billion, which corresponded to an import coverage of more than 6 months. To satisfy a greater part of future foreign capital requirements from direct investment inflows, some regulations were eased yet again in order to encourage potential investors.

Rate of exchange at the end of December 1986 (1985) US\$ 1 = M\$ 2.6030 (2.4265)

New Zealand



In 1986 the New Zealand economy was still going through a phase of structural adjustments resulting from sweeping liberalization measures which were launched by the government assuming office in mid-1984. The abolition or pruning away of a host of subsidies or protective regulations, which had tended to distort market signals, was followed by a major tax reform on October 1, 1986. Its two main components were the introduction of a 10 per cent value added tax and the mitigation of income tax progression.

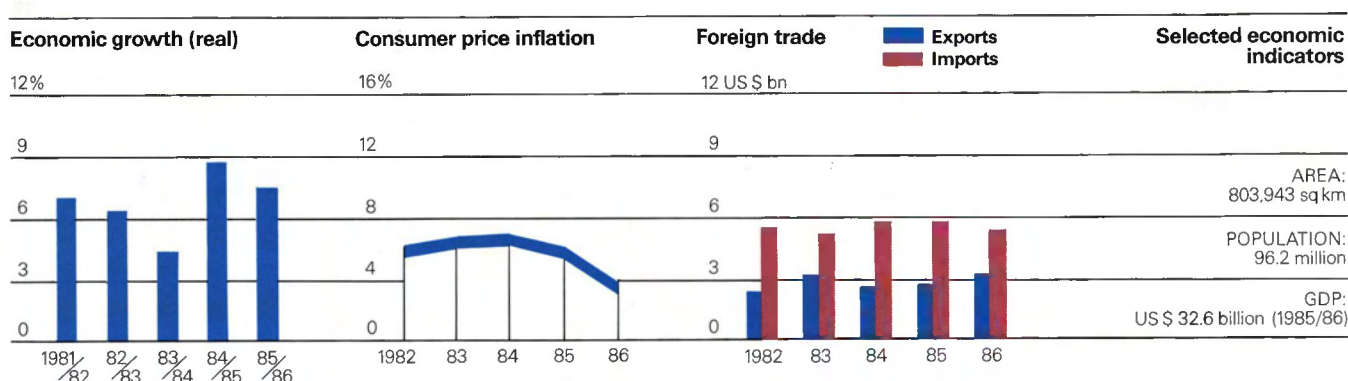
The present policy of deregulation basically aims at improving the general productivity of the economy and – as a result of this – increasing real income. Over the past three decades New Zealand has fallen from third place to a medium ranking position on the international standard of living table. However, the current process of restructuring is complicated by difficult external conditions. Although New Zealand's terms of trade have not continued to deteriorate as much as those of Australia since 1983, the country's efficient agricultural industry has encountered protectionist barriers against its products in world markets which – despite successful diversification efforts – could only be partially overcome. The so-called pastoral sector (meat, wool and dairy products) still accounts for roughly one half of the total value of New Zealand exports. It was estimated that by mid-1986 approximately 10 per cent of all farmers were in a critical financial position, and that a further 30 per cent would have difficulty surviving should the market situation not change for the better within three

years.

Available indicators for the fiscal year to March 1987 suggested that the overall level of economic activity was again rather sluggish. Yet there were notable disparities in growth performance between rural and urban areas which were reflected by a pronounced difference in unemployment rates. In cities such as Auckland and Wellington in particular, strong expansion in the business services sector led to a construction boom. On the other hand, export business in the manufacturing sector was adversely affected by the relatively strong NZ dollar (especially against the Australian dollar).

Since the inflation rate soared back into the double-digit range when the new value added tax came into effect, the central bank continued to pursue a tight monetary policy. In the fourth quarter of 1986 short-term interest rates climbed to over 20 per cent again. This induced a new inflow of money from abroad which, in turn was the mainstay for an appreciation of the New Zealand currency dating from October 1986. The appreciation occurred, notwithstanding the fact that preliminary estimates had placed the current account deficit for the full year of 1986 at approximately NZ\$ 2.9 billion, thus exceeding previous forecasts. One of the major influences was the negative investment income balance as a consequence of sizeable net overseas borrowing.

Rate of exchange at the end of December 1986 (1985): . . . NZ\$ 1 = US\$ 0.5235 (0.4985)



Pakistan's economy sustained the upward trend, witnessed since fiscal year 1984–85 (ended June), which had been fuelled by a marked recovery in agricultural output. With a rise of 7.5 per cent in 1985–86, growth in real gross domestic product again reached a remarkable level, even by international standards. At the same time the annual rate of inflation, as measured by the national consumer price index, fell below the 5 per cent mark. However, this positive overall picture of the economy was temporarily overshadowed by ethnic tensions when disturbances broke out in Karachi during December 1986.

Favourable weather conditions combined with sufficient availability of key agricultural inputs helped produce new record harvests of cotton and wheat in 1985–86. These gains were partly offset by reduced rice and sugarcane crops so that value added in agriculture grew at the lower rate of 6.5 per cent as compared with the previous year's outstanding increment of 12.5 per cent. In contrast, the pace of growth in manufacturing decelerated only marginally from 8.6 to 8.2 per cent.

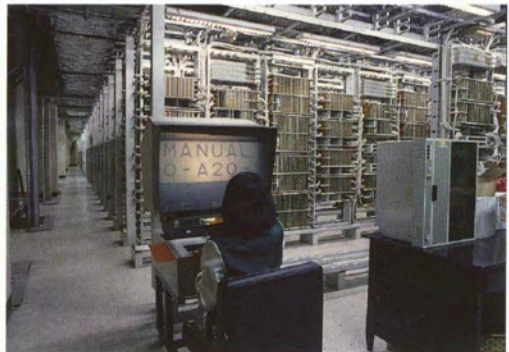
One of the persistent structural weaknesses affecting the Pakistani economy is the comparatively low level of investments, which results from inadequate domestic savings. Fortunately, 1985–86 saw signs of improvement in this sphere. According to estimates by the central bank, net real fixed investment registered a rise of 10.3 per cent which was almost twice that of the preceding year. Whilst public sector investment was

particularly brisk in the field of energy-related projects, it continued to fall noticeably in the manufacturing sector – not least since private enterprises are now being encouraged to play a greater role here again.

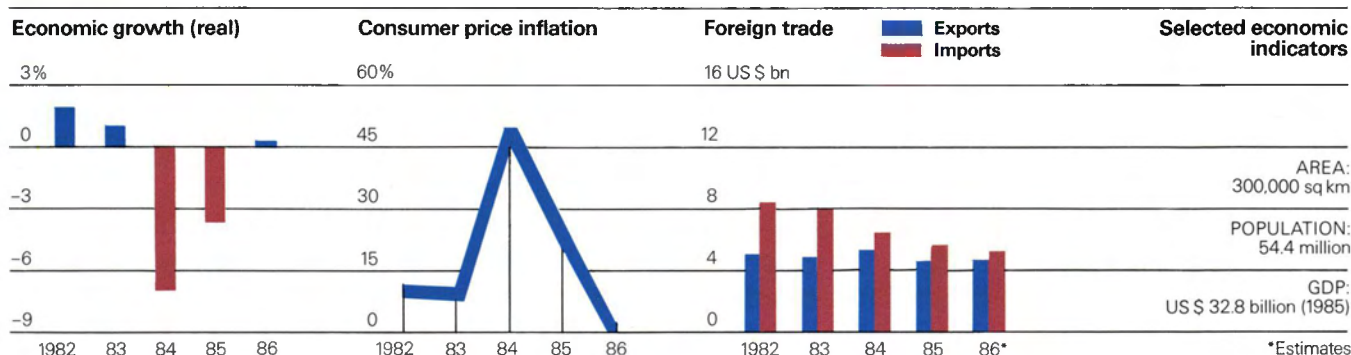
Pressure on the country's balance of payments eased somewhat in 1985–86 due to a perceptible recovery in merchandise exports, lower-priced imports of petroleum and a renewed rise in crucial remittances from Pakistanis working abroad. Export value of raw cotton alone, the leading export product, went up sharply by 75 per cent to US\$ 514 million. Although the average export price for raw cotton declined by 26.5 per cent, this was more than offset by an increase of over 140 per cent in export volume. Whether the unexpected improvement in the flow of home remittances will continue remains uncertain at this stage because in 1985–86 special influences, such as the repatriation of savings by returning workers from oil-producing countries in the Middle East, were probably involved.

As a consequence of extensive Islamization in the banking sector, fresh customer deposits were accepted on the basis of profit and loss sharing (PLS) only or as current accounts with effect from 1985–86. By the end of June 1986 such PLS deposits already represented over 63 per cent of the total deposits of scheduled banks. As regards the lending business, the interest-free system already applied to about 55 per cent of total bank credit extended.

Rate of exchange at the
end of December 1986 (1985) US\$ 1 = Rs. 17.2578 (15.9878)



In recent years telecommunications in the Philippines were upgraded with digital equipment from Germany. The pictures show installations of the Philippine Long Distance Telephone Co. in Manila.



In 1986 the Philippines embarked upon a new political course, when former President, Mr. Ferdinand Marcos ceded office to Mrs. Corazon Aquino in February. The economic malaise of the country contributed in no small way to the change of government. Since the beginning of the eighties the growth rate has spiralled downwards and in the years 1984 and 1985 the overall economic output even contracted by 10 per cent in total. However, this process was arrested during 1986 and eventually reversed so that, according to first calculations, real gross domestic product increased by 0.2 per cent. For all that, per capita income still declined and chronic levels of under- and unemployment remained a high burden.

To overcome the economic crisis the new government accepted a further rise in the already substantial deficit of the 1986 budget. As planned the reflationary programme increased overall demand – though only moderately. Business activity was principally invigorated by the agricultural sector which expanded 3.3 per cent after a satisfactory harvest. Output from the industrial sector in comparison, fell off 3.7 per cent, mainly due to setbacks in construction and mining. Overall investment decreased because domestic and foreign investors have not yet acquired sufficient confidence to step up capital expenditure distinctly.

Pump-priming of the economy through budgetary outlays was also approved by the International Monetary Fund, which became involved in 1983, when the Philippines were unable to pay the principal on their

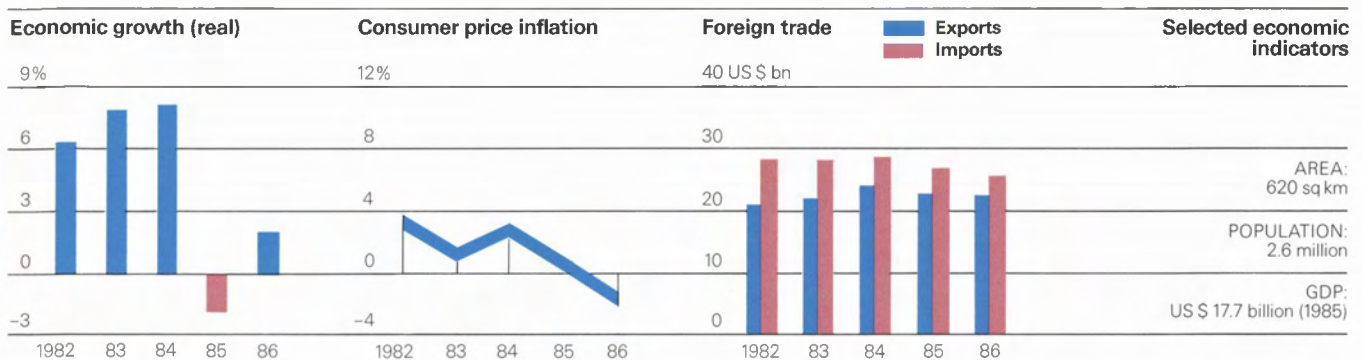
foreign debt. The current rescheduling negotiations aim at a settlement with the foreign creditor banks which is crucial to development prospects.

The necessity to save foreign exchange was also reflected by the foreign trade figures. In US dollar terms, imports dwindled again whereas exports recorded a small rise. As a result the foreign trade gap was estimated to have narrowed to US\$ 0.5 billion, while even a surplus of some US\$ 0.5 billion was expected for the current account. Another positive feature was the curbing of inflation which had got out of control in previous years. In 1986, the consumer price index only rose by less than 1 per cent.

The economic stabilization achieved in 1986, will not automatically lead to a business upturn unless a sound socio-economic framework – the basis for an improved business climate – is restored. It is particularly to be hoped that President Aquino will attain her declared aim to reach appeasement between the different national groupings. A first, promising step was made in the broad acceptance of the new constitution at the beginning of 1987.

Rate of exchange at the end of December 1986 (1985): US\$ 1 = P 20.530 (19.032)

Singapore



First signs of a gradual recovery from the 1985 recession became apparent in spring 1986. This revival gathered momentum in the following quarters so that the Singapore economy ended the year with a positive growth rate of 1.9 per cent as compared with a decline of 1.8 per cent in 1985.

The cyclical rebound, however, covered only some of the leading economic sectors. Essentially, it was limited to various manufacturing industries and the transport and communications sector. There were slight improvements in the significant commerce sector as well as in financial and business services, whereas a reversal of the adverse trend in construction was not yet discernible. Although the level of local interest rates reached a 25-year low, bank loans disbursed to customers still registered a drop of nearly 3.5 per cent for the period from November 1985 to November 1986.

The "lopsided" recovery was also reflected in foreign trade figures for 1986. Partly as a result of strong US demand for electronic products, non-oil domestic exports rose 20 per cent in 1986. On the other hand, exports from local petroleum refineries and re-exports (affected by dropping commodity prices and depressed economic activity in Malaysia and Indonesia) fell by 24 and 4 per cent respectively. The value of total exports therefore continued to shrink by more than 2 per cent. With a share of almost 30 per cent, the United States remained Singapore's largest export market, followed by the EC and Japan which accounted for just

slightly over 10 per cent each. For the first time, the People's Republic of China ranked among the city state's top markets in 10th place. To increase the attractiveness of Singapore for foreign companies in particular, as a base for their China business, the government concluded an investment guaranty treaty and a double taxation agreement with Beijing.

Apparently, foreign investors were impressed by the general reform measures implemented by the government in the wake of the 1985 recession, comprising a cut in social security contributions, a wage freeze and a more flexible industrial strategy. Foreign investment commitments, which had decreased in 1985 by roughly one third against the average level of the years 1981 to 1984, saw a turnaround especially in the third quarter of 1986.

The official growth target for 1987 is in the region of 3 to 4 per cent. With a view to further recovering losses in competitiveness vis-à-vis other newly industrialized countries in the region, the government has emphasized that wage restraint must continue for at least another year. The enforcement of such a policy is facilitated by the fact that the cost of living – as measured by the consumer price index – showed a slightly downward tendency in 1986 (–1.4 per cent).

Rate of exchange at the end of December 1986 (1985): US\$ 1 = S\$ 2.1753 (2.1050)



Singapore is a focal point of German direct investment in Asia. In 1986 German companies stepped up their local investments by about DM 190 million. A good example of German-Singaporean

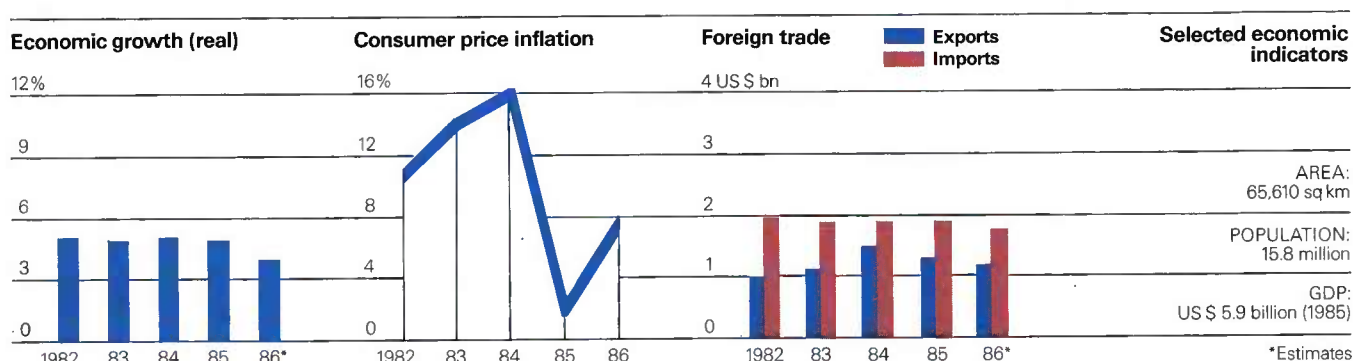
cooperation is Pentex-Schweizer Circuits Pte. Ltd., a manufacturer of printed circuits.



View of Colombo harbour.

The factory of our customer Nestlé in Pannala, Sri Lanka, where fresh milk is processed to a variety of dairy products for the local market.





The enduring ethnic conflict, which seems to have no quick or easy solution, threatens to damage Sri Lanka's economy substantially. The detrimental effects of the lasting disturbances on the economy became even clearer in 1986 when, in particular, the prices of the country's main export products again sank sharply. Thus, the real growth of gross domestic product of roughly 4 per cent did not reach the level of preceding years, during which an average expansion of some 5 per cent had been recorded.

One of the few success stories is the huge Mahaweli hydro-power and irrigation complex, which generates vast amounts of electric power and has increased the production of rice in the adjoining area. The record harvest of the previous year, however, was not repeated, because of the ethnic outbreaks and poor weather conditions. Hence, the relatively subdued advance of the agricultural sector was a major reason for lower overall growth. In the industrial sector, the main prop came from public sector enterprises, while the rate of expansion of the private sector industries decelerated largely reflecting the uncertain business climate which caused domestic and foreign investors to exercise restraint.

Foreign trade figures, while not yet available for the complete year 1986, indicate that, although total trade shrank, the gap on the trade balance had barely changed from the US\$ 600 million registered in 1985. This trade deficit occurred despite the considerable relief caused by cheaper oil imports since, simultane-

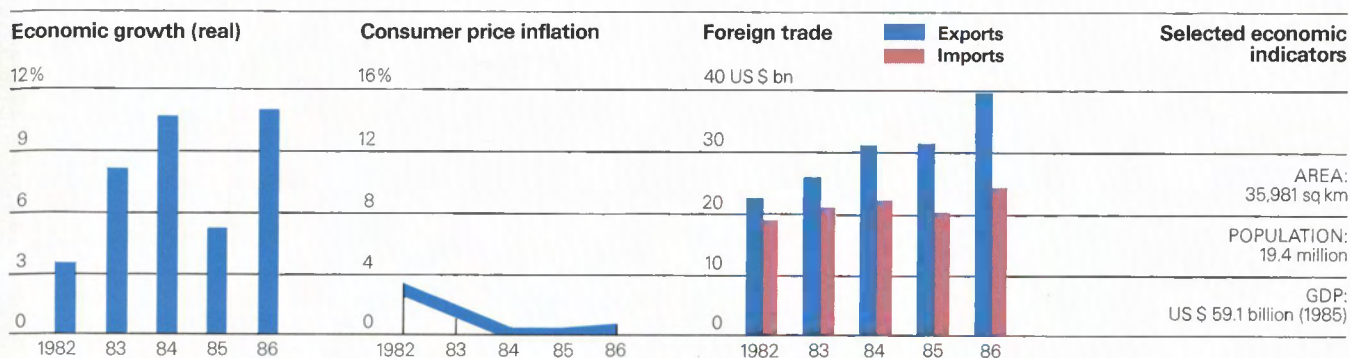
ously, tea prices continued their slide. As a rule, tea shipments account for approximately one third of total export earnings which are estimated to amount to US\$ 1.2 billion for 1986.

Because of the ethnic violence the number of tourist arrivals declined once again, contributing to the slump in foreign exchange revenues. Therefore the marked improvement which had been hoped for in the rather high current account deficit (some US\$ 550 million in 1985) could hardly have materialized. In 1986, foreign currency reserves fell by nearly US\$ 100 million to US\$ 353 million, which represented only two months' imports.

Against the background of rising debt service payments on foreign currency loans, the debt service ratio rose sharply. 18 per cent of the receipts from exports of goods and services were required for interest and principal payments in 1984 while, in the following year, this ratio deteriorated to 22 per cent. In 1986 it climbed further, according to statements of the Finance Minister, to exceed the 30 per cent mark. The difficult political and economic situation was also mirrored in the high budget deficit which was basically caused by strongly rising defense-related spending. Together with shortages in the rice supply, shortfalls in the budget have been blamed for the significant acceleration in the rate of inflation to 8 per cent.

Rate of exchange at the end of December 1986 (1985) US\$ 1 = Rs. 28.520 (27.408)

Taiwan



The main stimulus to the Taiwanese economy in 1986 came from a strong export boom. Similar to Korea, the export sector of this newly industrialized country was boosted by falling oil prices and the rise in the yen, resulting in a real GNP expansion of 10.8 per cent – the highest rate of economic growth achieved since 1978. The new upswing also rekindled private investment activity considerably (up 11 per cent) which, in 1985, had still declined 9 per cent in the wake of numerous business failures. According to customs statistics, imports of capital goods increased 27.5 per cent in the first three quarters of 1986 as against the corresponding period the previous year, underscoring the willingness of manufacturers to modernize their production facilities.

An improved environment for investment was also mirrored in the volume of applications by foreign and overseas Chinese investors which were approved in 1986. With a total value of US\$ 770 million, these approvals reached their highest-ever annual level. The relocation of industries, owing to the strength of the yen certainly played an important role among foreign investors' motives; Japan topped the list of new foreign investments with US\$ 254 million (+75 per cent), followed by European projects totalling US\$ 187 million (+87 per cent) and the United States with US\$ 138 million (-58 per cent).

By the end of 1986 Taiwan's foreign exchange reserves had climbed to an exceptional US\$ 46 billion, thus more than doubling within twelve months and

equivalent to over two years' worth of imports. The major source for this unusual accumulation of reserves was a large overall trade surplus (swelling to US\$ 15.6 billion in 1986). While imports were up by 18 per cent, the rise lagged far behind export growth of 29 per cent. Although the local currency was allowed – by means of a managed float – to appreciate by about 11 per cent against the US dollar over the year, Taiwan's trade surplus with the US was running at a huge US\$ 13.5 billion. This imbalance increased trade pressures from Washington, calling for easier access to the Taiwanese market and a sharper appreciation of the NT dollar. However, the government has felt unable so far to substantially liberalize the island's trade.

Since all foreign trade earnings must, in principle, be converted into local currency, domestic money supply (M1) exploded by over 45 per cent in 1986, notwithstanding the central bank's measures to absorb liquidity. The inherent risk of upward pressure on the domestic price level arising from such an ample money supply, did not materialize in 1986 as lower import prices acted as a counterbalance. The general rise in prices only accelerated moderately from -0.2 per cent to +0.7 per cent.

Rate of exchange at the end of December 1986 (1985): US\$ 1 = NT\$ 35.50 (39.85)



In view of the vigorous growth in foreign trade, Taiwan is stepping up spending on port development. These plans also include the expansion of Keelung harbour (above) which lies to the north of the island.

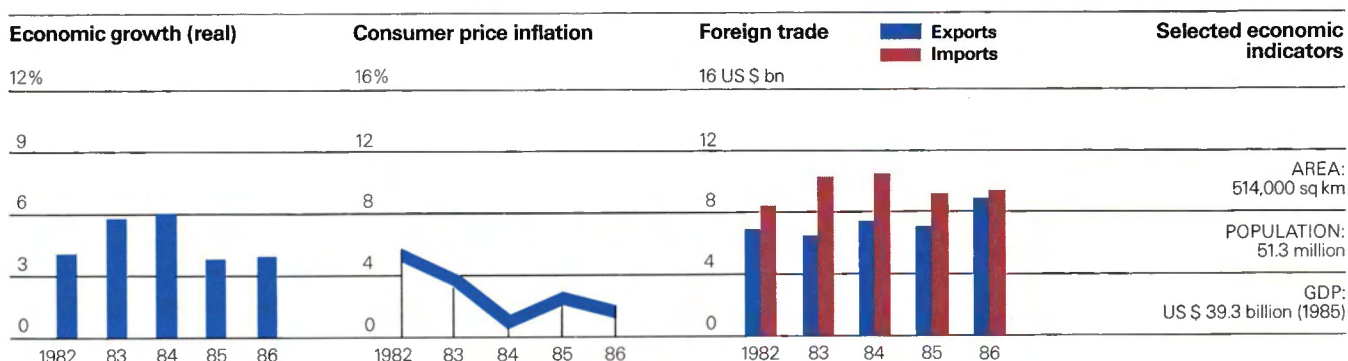
A customer of our Taipei Branch recently delivered this German manufactured simulator for navigational training of shipping officers in Keelung.





One of our customers in Bangkok is a prominent Thai brewery which imports German hops for its beer.

Thailand



According to provisional data from the central bank, real gross domestic product (GDP) expanded by 3.8 per cent in 1986. Although this represented only a slight acceleration against last year's rate – revised down to 3.7 per cent –, Thailand continued to occupy the top rank in economic growth among all six ASEAN countries. Moreover, this annual average masked the emergence of a considerably brighter economic outlook especially in the second half of 1986. Therefore, the most recent forecasts for 1987 mainly predicted a faster GDP rise in the range of 5 per cent, accompanied again by only a moderate increase in the general price level (approx. 2.5 per cent after 1.8 per cent in 1986).

Besides a cautious relaxation of hitherto restrictive monetary and fiscal policies, the upward business trend in some important sub-sectors of the Thai economy primarily stemmed from external influences. Scarcely any other national economy in Southeast Asia profited as strongly from the plunge in oil prices as did the Kingdom. Thus, the heavily reduced cost of energy imports alone led to foreign exchange savings of some US\$ 1 billion, helping the country to record its first current account surplus in 20 years. Consequently, external borrowing could be strongly curtailed. At the end of November 1986, official international reserves (excluding gold holdings) totalled US\$ 2.7 billion, compared with merely US\$ 1.9 billion in the same month of the preceding year.

Apart from lower production costs resulting from reductions in electricity and fuel prices as well as cuts in

interest and tax rates, during the year under review Thailand's international competitiveness was further enhanced by surging exchange rates of the yen and leading European currencies vis-à-vis the baht which is largely tied to the US dollar. Altogether, in 1986 exports of Thai merchandise increased by almost 20 per cent in baht terms, although the export values of traditional products such as rice and tin suffered from unfavourable conditions on world markets. The remarkable export growth was chiefly based on manufactured goods which nowadays, at around 50 per cent, already make a larger contribution to total exports than unprocessed agricultural products. Besides garments, newer export lines which are expanding rapidly include jewelry, integrated circuits, canned fish and sports shoes. This visibly demonstrates the fact that Thailand is on the verge of joining the group of newly industrialized countries, in the process of which the commodity sector is losing in relative importance.

Except for capacity expansion in some export industries, private investment activity in general still remained at previous year's level but, under the influence of a more favourable export scenario, showed signs of recovery in the latter half of the year. From plans which have since become known, it appears that Japanese investors, in particular are shifting attention increasingly towards Thailand as a location for production in Southeast Asia.

Rate of exchange at the end of December 1986 (1985) US\$ 1 = baht 26.130 (26.650)

Review of Business

In the year under review the countries in the Asia-Pacific region presented mixed economic performances. In particular, Hongkong, Korea and Taiwan achieved distinct upswings with growth rates ranging from 9 to 12 per cent. By comparison, the weaker economic trend in other countries such as Indonesia, Malaysia and Singapore could not yet be thoroughly overcome, mainly due to the situation on the world commodity markets and on account of structural problems. Hence, also for these reasons, we continued our consolidating measures.

Moreover, the development of the business volume and earnings of the Bank were substantially determined by the strength of the Deutsche mark: the currencies of our operating area – being generally aligned with the US dollar – lost on average some 24 per cent in value against the DM.

Against this background, business volume (total assets plus endorsement liabilities on rediscounted bills, guarantees and letters of credit) decreased by DM 1.6 billion, or 17.8 per cent, to DM 7.4 billion. Claims on customers fell by DM 0.5 billion, or 19.2 per cent, to DM 2.2 billion. As a result of the fact that customer deposits declined to a lesser extent – namely by DM 0.3 billion, or 12.5 per cent, to DM 2.3 billion –, the Bank's customer deposit funding ratio further improved to 104.7 per cent. After adjusting for currency fluctuations, claims on customers increased by about 4 per cent and customer deposits even rose by about 12 per cent.

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 among the countries of Asia – and also other working capital facilities, remittances and other services related to foreign trade. Further expansion was recorded in our investment management activities.

The Bank's total liquidity showed no significant change. However, the securities portfolio was reduced by DM 0.3 billion during the year under review. The weakness of the US dollar was also reflected in the reduction of liabilities to banks by DM 0.9 billion, or 22.7 per cent, to DM 2.9 billion; on the other hand claims on

banks decreased by only DM 0.2 billion, or 6.4 per cent, to DM 2.9 billion.

Essentially as a further consequence of the weakness of the US dollar against the DM, net interest income and earnings from services fell short by 11.5 and 23.3 per cent respectively compared to the preceding year's levels. In spite of the aforementioned currency movements, administrative expense rose by 3.4 per cent because of the impact of continued measures in the field of banking technology and personnel which should bear fruit in the future. Therefore, operating profits declined by about 37 per cent in DM terms.

With due regard to the weaker economic development and the still not fully satisfactory outlook in some countries within our area of operation, all discernible risks have been provided for in the statement of accounts for 1986. Furthermore, some of the guarantees which shareholders had issued to assist the Bank in previous years, could be released.

In the year under review the Bank's shares in European Asian of Australia Ltd., Sydney, were sold to Deutsche Bank Australia Ltd., Melbourne.

The number of staff rose by 91 to 1,645 in 1986. The training centre in Singapore, established jointly with Deutsche Bank AG in 1985, successfully carried on the training and further education of the staff, both from branches and head office. We wish to express our thanks to our staff and their representative bodies, in Germany and abroad, for their trusting cooperation, commitment and the results achieved.

In May 1986, Amsterdam-Rotterdam Bank N.V. and Generale Bank sold their shares (9 per cent each) in our Bank to Deutsche Bank AG and Creditanstalt-Bankverein. These institutions now hold 75 and 25 per cent respectively of our capital which remains unchanged at DM 196 million. With our shareholders' consent we changed our name to "Deutsche Bank (Asia) Aktiengesellschaft" emphasizing our membership in the Deutsche Bank Group, thus enhancing our competitive position in the Pacific region.

The Bank maintained business relations with Deutsche Bank AG and several subsidiaries in which the latter has a direct or indirect interest, as well as with

In November 1986 our Bangkok Branch moved into new and larger premises. The office is in the depicted 25-storey building on bustling South Sathorn Road.



its own subsidiaries in the ordinary course of banking business.

In the report for 1986 regarding 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.

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 – decreased from DM 229.7 million to DM 144.6 million. Balances with the Deutsche Bundesbank and foreign central banks dropped to DM 141.0 million.

The sum of liabilities to credit institutions and other creditors, including own acceptances in circulation and sundry liabilities, amounted to DM 5,377.5 million (DM 6,556.9 million last year). The relation of the cash reserve to this figure (*cash liquidity ratio*) was 2.7% (3.5% 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 1,330.3 million to DM 1,124.0 million. The proportion of liabilities covered by liquid funds (*total liquidity*) was 20.9% (20.3% last year).

Securities

Treasury bills and non-interest-bearing Treasury bonds and debt instruments decreased in total by DM 290.8 million to DM 427.1 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 156.0 million (DM 225.0 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 955.8 million or 19.1% to DM 4,040.4 million. Thereof, claims on customers dropped by DM 534.9 million or 19.3% to DM 2,243.5 million and discounts by DM 17.8 million or 4.5% to DM 376.1 million.

The breakdown of the volume of credit as at the end of 1986 and 1985 is given below.

Of bills in hand amounting to DM 146.4 million, DM 79.3 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 1,278.8 million to our customers (DM 1,643.7 million last year).

Volume of credit	End of 1986		End of 1985	
	DM millions	% share	DM millions	% share
Claims on non-bank customers				
short- and medium-term	1,947.1	48.2	2,318.2	46.4
long-term	296.4	7.3	460.2	9.2
	2,243.5	55.5	2,778.4	55.6
Discounts	376.1	9.3	393.9	7.9
Lending to credit institutions	1,420.8	35.2	1,823.9	36.5
<i>Total volume of credit</i>	4,040.4	100.0	4,996.2	100.0

Trade investments

with book values exceeding DM 0.1 million

European Asian Finance (HK) Ltd., Hongkong*
European Asian Capital B.V., Amsterdam
P.T. Euras Buana Leasing Indonesia, Jakarta
Export Credit Insurance Corporation of Singapore Ltd., Singapore
Liquiditäts-Konsortialbank GmbH, Frankfurt am Main

Others

AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main
Credit Guarantee Corp. Malaysia Berhad, Kuala Lumpur
Deutsch-Indonesische Tabak-Handels-GmbH, Bremen
Deutsch-Indonesische Tabak-Handels-GmbH & Co. KG, Bremen
Society for Worldwide Interbank Financial Telecommunication S.C. (SWIFT), Brussels
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 am Main
Malaysia Export Credit Insurance Berhad, Kuala Lumpur
Privatdiskont AG, Frankfurt am Main

*Renamed DB Asia Finance (HK) Ltd. in early 1987.

Adjustments and provisions were made for all discernible risks in the lending business. Guarantees issued in previous years by the shareholders for assistance could partly be released.

Trade investments

This item decreased by DM 22.6 million to DM 16.3 million reflecting our sale of European Asian of Australia Ltd., Sydney.

The trade investments involved obligations to pay up a maximum of DM 3.4 million and a contingent liability for the obligations of other partners in the Liquiditäts-Konsortialbank GmbH, Frankfurt am Main.

The liabilities for calls on shares, arising from trade investments, amounted to DM 6.4 million.

Fixed assets

The item *land and buildings* decreased to DM 4.1 million after ordinary depreciation of DM 0.2 million.

Office furniture and equipment increased to DM 20.0 million, after additions of DM 12.2 million, disposals of DM 1.0 million, ordinary depreciation of DM 4.7 million, special depreciation of DM 0.5 million and reductions of DM 3.3 million on items brought forward

caused by foreign currency rate adjustments.

Other assets

The item *sundry assets* amounting to DM 23.6 million included DM 15.3 million refundable taxes, DM 6.1 million rental deposits and other security deposits.

Transitory items of DM 12.9 million essentially consisted of advance interest and rent payments.

Funds from outside sources

Total funds from outside sources declined by DM 1,195.7 million or 18.4% to DM 5,289.6 million during the year under review. The share of deposits from non-bank customers slightly increased to 44.4%.

An analysis of developments of funds from outside sources as at the end of 1986 and 1985 is given on page 44.

Own acceptances and promissory notes in circulation increased by DM 15.1 million to DM 85.3 million. The amount includes mainly acceptance credits of our foreign branches to finance customer credits in accordance with foreign money market practices.

<i>Funds from outside sources</i>	End of 1986		End of 1985	
	DM millions	% share	DM millions	% share
Liabilities to credit institutions				
demand deposits	720.4	13.6	606.4	9.4
term deposits	2,218.4	42.0	3,195.9	49.2
customers' drawings on credits opened at other institutions . .	1.1	0.0	—	0.0
	<u>2,939.9</u>	<u>55.6</u>	<u>3,802.3</u>	<u>58.6</u>
Liabilities to non-bank customers				
demand deposits	618.5	11.7	536.5	8.3
term deposits	1,723.8	32.6	2,136.4	32.9
savings deposits	7.4	0.1	10.1	0.2
	<u>2,349.7</u>	<u>44.4</u>	<u>2,683.0</u>	<u>41.4</u>
<i>Total funds from outside sources</i>	<u>5,289.6</u>	<u>100.0</u>	<u>6,485.3</u>	<u>100.0</u>

Provision for special purposes

Provisions for pensions were increased by DM 1.9 million in accordance with the actuarial computation.

Other provisions shown at DM 79.8 million (DM 96.0 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 2.5 million and *transitory items* totalling DM 13.2 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 1.2 million to DM 4.4 million in accordance with the Developing Countries Tax Law.

Contingent liabilities

Endorsement liabilities on rediscounted bills rose by DM 18.1 million or 9.1% to DM 216.5 million.

Liabilities arising from guarantees given, bills of exchange, cheques guaranteed and warranty contracts decreased by DM 364.9 million or 22.2% to DM 1,278.8 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 651.0 million to DM 434.9 million. Against this revenue stood *interest and similar expense* of DM 306.0 million (DM 505.3 million last year). The net interest income, which decreased to DM 128.9 million, was adversely affected by the weakening of the major operating currencies of the foreign branches.

Earnings from services

Net commissions and other revenue from services decreased by DM 13.4 million to DM 44.1 million.

Other revenue

Other revenue, amounting to DM 3.5 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 amount reported included revenue from rentals, refunded expenses 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 were set aside to cover all discernible risks in the loan business.

Staff and other operating expense

Staff expense increased by DM 2.8 million or 4.5% to DM 65.3 million due to additional staff as well as both collectively agreed and voluntary increases in payments. The number of employees grew by 91 to 1,645 in 1986.

Other operating expense rose by 1.4% from DM 35.9 million to DM 36.4 million.

The development of the operating expense was influenced by the weakening of the Bank's operating currencies.

Taxes

Taxes on income, earnings and property amounted to DM 18.5 million (DM 26.7 million last year).

Other taxes amounting to DM 4.4 million included capital investment tax and turnover tax on interest levied in foreign countries.

Other expense

Other expense included DM 2.2 million charges with respect to early repayment of deposits.

Total remuneration of the Board of Managing Directors amounted to DM 1,597,458.-. 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 39,264.-.

Hamburg, February 16, 1987

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 discussions and meetings, about the development of the Bank's business, as well as its liquidity and profitability situation.

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

The Report and Accounts for the year ending 31st December 1986, as well as the Bank's books, have been audited by TREUVERKEHR AG Wirtschaftsprüfungsgesellschaft, Frankfurt am 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.

On 30th September 1986 Mr. Tjark H. Woydt resigned from the Board of Managing Directors. With effect from 1st October 1986 Mr. Karlheinz Albrecht was appointed Member of the Board of Managing Directors.

Hamburg, March 30, 1987

THE SUPERVISORY BOARD



Chairman

Balance Sheet
as at December 31, 1986

Profit and Loss Account
for the period from January 1 to December 31, 1986

	DM	DM	31.12.1985 in DM 1,000
Cash in hand		3,385,160	5,821
Balances with the Deutsche Bundesbank		63,095,148	59,977
Balances with foreign Central Banks		77,926,346	163,758
Balances on postal giro accounts		240,590	105
Cheques on other banks, matured bonds, interest and dividend coupons, and items received for collection		2,409,087	6,020
Bills discounted		146,360,752	195,407
including:			
a) rediscountable at the Deutsche Bundesbank DM 79,252,503			
b) own drawings DM 2,723,944			
Claims on credit institutions			
a) payable on demand	470,586,757		331,686
b) with agreed life, or subject to agreed period of notice, of			
ba) less than three months	979,216,754		910,754
bb) at least three months, but less than four years	1,374,585,507		1,800,509
bc) four years or longer	46,283,927		23,385
		2,870,672,945	3,066,334
Treasury bills and non-interest-bearing Treasury bonds			
a) of the Federal Republic and the State Governments	—		—
b) others	8,938,935	8,938,935	17,652
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 6,511,643			289
ac) others DM 12,042,916	18,554,559		62,602
including: eligible as collateral			
for Bundesbank advances DM —			
foreign bonds of comparable quality DM 18,554,559			
b) with a life of more than four years			
ba) of the Federal Republic and the State Governments DM 177,156,071			271,526
bb) of credit institutions DM 136,919,887			222,765
bc) others DM 85,561,877	399,637,835		143,039
including: eligible as collateral		418,192,394	700,221
for Bundesbank advances DM 185,908,780			
foreign bonds of comparable quality DM 213,678,393			
Securities, so far as they have not to be included in other items			
a) shares marketable on a stock exchange and investment fund certificates	4,782,707		6,597
b) other securities	—	4,782,707	—
including: holdings of more than one tenth of the shares			6,597
in a joint stock corporation or mining company, excluding investments			
in subsidiaries and associated companies DM —			
Claims on customers with agreed life, or subject to agreed period of notice, of			
a) less than four years	1,947,078,384		2,318,189
b) four years or longer	296,433,676		460,219
including:		2,243,512,060	2,778,408
ba) secured by mortgages on real estate DM 6,642,295			
bb) communal loans DM —			
Equalisation claims on Federal and State authorities under the Currency Reform Laws of 1948		132,068	146
Loans on a trust basis at third party risk		11,892,518	15,200
Trade investments		16,319,781	38,853
including: in credit institutions DM 4,806,879			
Land and buildings		4,118,107	4,264
Office furniture and equipment		19,963,602	17,286
Sundry assets		23,567,268	33,396
Transitory items		12,934,825	19,218
Total Assets		5,928,444,293	7,128,663
The assets and the rights of recourse in respect of the liabilities shown below the liabilities side include			
a) claims on associated companies		305,946,846	271,873
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)		22,963,268	6,173

Liabilities

[illegible]

Expense

Profit and Loss Account

	DM	DM	1985 in DM 1,000
Interest and similar expense		306,017,582	505,274
Commissions and similar expense in respect of service transactions		1,904,931	1,792
Depreciation and adjustments on claims and securities, and allocations to provisions for possible loan losses		36,708,102	369,981
Salaries and wages		53,876,311	51,416
Social security contributions		4,309,110	4,042
Expenditure on retirement pensions and other benefits		7,122,248	7,008
Expenditure on material for the banking business		36,359,732	35,910
Depreciation and adjustments on land and buildings, and on office furniture and equipment		6,048,345	6,550
Write-downs of trade investments		6,518,559	—
Taxes			
a) on income, earnings and property	18,469,116		26,717
b) others	<u>4,431,898</u>		<u>3,468</u>
Other expense		22,901,014	30,185
Year's net earnings		4,823,907	1,649
		—	—
Total Expense		486,589,841	1,013,807

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 1,067,200 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 107 %, 111 %, 114 %, 123 % and 135 % of that amount.

Hamburg, February 16, 1987

DEUTSCHE BANK (ASIA) AG

The Board of Managing Directors

Albrecht

Offen

Steffen

Zeidler

Revenue

[illegible]

Hamburg, February 27, 1987

Fandré

Brackert

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Deutsche Bank (Asia) – our Range of Products and Services at a Glance

Deutsche Bank (Asia), linked with other Deutsche Bank Group outlets, is one of the best represented international banks in the Asia-Pacific region. Our diversified range of products and services is specially structured to the needs of internationally operating companies; it includes:

Customer Accounts/Payments/Foreign Exchange

- accounts in local and foreign currencies
- demand and term deposits in local and foreign currencies
- all types of documentary and non-documentary payments
- tailor-made import and export schemes
- domestic and international transfers
- international cash management via “db-direct”
- dealing in foreign – especially Asian – currencies

Financing

- international trade finance
- bid, performance, advance payment bonds and guarantees in local and foreign currencies
- local currency financing in
 - Baht (Thailand)
 - Hongkong dollar
 - Indian rupee
 - Pakistan rupee
 - Pataca (Macau)
 - Ringgit (Malaysia)
 - Rupiah (Indonesia)
 - Singapore dollar
 - Sri Lanka rupee
 - New Taiwan dollar
 - Won (Korea)
- onshore and offshore financing in Asia- and Eurocurrencies

- a forfait finance
- investment banking including medium- and long-term financing for projects in the Asia-Pacific region, also linked with export finance programmes

Investment Advice, Securities Transactions/Portfolio and Money Management

Information and Counselling Services

- information on Asia-Pacific countries and markets, inter alia within the “db-international service: Asia-Pacific” and via “db-data”
- international trade contacts, foreign direct investment advice
- information on tenders

Information desk of our Kuala Lumpur Branch at the German industrial exhibition (GermineX). This exhibition took place at the end of 1986, the second of its kind in the Malaysian capital since 1982.



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Corporate Banking

Volker Müller-Scheessel

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General Manager

Lutz-Henning Pabst

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Public Relations

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Archibald B. Davidson

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General Manager

Jürgen Fitschen

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China, The People's Republic of

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Hongkong

DB Capital Markets (Asia) Ltd.

Japan

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Deutsche Bank AG – Osaka Branch

Deutsche Bank AG – Nagoya Representative Office

DB Capital Markets (Asia) Ltd. – Tokyo Branch

Singapore

Deutsche Bank (Asia Credit) Ltd.

