

MONETARY
AUTHORITY OF
SINGAPORE

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MONETARY AUTHORITY OF SINGAPORE

ANNUAL REPORT 2003/2004

OUR MISSION

To promote sustained non-inflationary economic growth, as well as foster a sound and progressive financial centre.

OUR VISION

To conduct monetary policy and issue currency, and to manage the official foreign reserves and the issuance of government securities.

To supervise the banking, insurance, securities and futures industries, and develop strategies in partnership with the private sector to promote Singapore as an international financial centre.

To build a cohesive and integrated organisation of excellence.

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Board of Directors

A Lee Hsien Loong

Chairman
Deputy Prime Minister
Minister for Finance

B Tharman Shanmugaratnam

Member
Acting Minister for Education

C Dr Philip N Pillai

Member
Senior Partner,
Shook Lin & Bok

D Lim Chee Onn

Member
Executive Chairman,
Keppel Corporation Limited



A



B



C



D



E



F



G



H

E Lim Hng Kiang

Deputy Chairman
Minister, Prime Minister's Office
Second Minister for Finance

F Lim Siong Guan

Member
Head, Civil Service
Permanent Secretary, Ministry of Finance

G Chan Seng Onn

Member
Solicitor-General
Attorney General's Chambers

H Koh Yong Guan

Member
Managing Director,
Monetary Authority of Singapore

A portrait of Lee Hsien Loong, Chairman, smiling and sitting at a table. He is wearing a dark blue pinstripe suit, a light blue shirt, and a patterned tie. His hands are clasped on the table, which also holds a white teacup and saucer. The background is a bright, modern interior with large windows.

Lee Hsien Loong
Chairman

Chairman's Statement

It has been a promising start to 2004.

The world economy is experiencing a strong, synchronized recovery. The Singapore economy grew a robust 7.5% (year-on-year) in the first quarter of 2004, up from 4.9% in the last quarter of 2003. The Ministry of Trade and Industry has raised the GDP growth forecast for this year to 5.5-7.5%. Growth is expected to be broad-based across both the manufacturing and services sectors, while the labour market should register steady improvement through the year. Nevertheless, the favourable outlook is not without risks. These include a sharp economic slowdown in China, rising oil prices and security concerns.

Barring mishaps, we expect a sustained upturn for Singapore and the global economy. Confidence is high. As economic activity picked up, early signs of inflationary pressures emerged. Against this backdrop, in April 2004 we shifted the monetary policy stance from a zero per cent appreciation path to a policy of modest and gradual appreciation of the trade-weighted Singapore dollar.

The rapid recovery reminds us how volatile the global environment is, and how important it is to continue strengthening our ability to assess and manage risks. MAS made further progress in risk-focused supervision and risk-based capital requirements. We aim to manage risks in our financial system more precisely and sensitively, without placing unnecessary regulatory burdens on well-managed financial institutions. We are also making progress toward a longer term goal: applying equivalent prudential and market conduct standards to financial institutions across different sectors conducting similar business activities that are subject to similar risks.

In a more risky environment, financial institutions need to understand their statutory responsibilities as well as the desired outcome of MAS' supervision. To make our supervisory initiatives and policies more transparent, we published a monograph setting out our supervisory and regulatory approach for the financial sector.

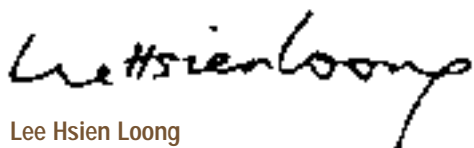
To benchmark ourselves against international best practice, we completed the IMF/World Bank's Financial Sector Assessment Programme (FSAP). The report published in April this year endorsed the resilience and robustness of Singapore's financial sector despite the difficult conditions. It also commended Singapore's high degree of observance of international standards and codes. We take heart from the FSAP findings but we will not be complacent. We must remain vigilant to maintain the soundness of our financial system and confidence in Singapore.

We have established good partnerships with industry. The research scheme introduced by MAS and the Singapore Exchange has produced encouraging results. Our consultation papers attracted valuable feedback, which helped us to formulate the new Business Trust Act, fine-tune the Securities and Futures Act and the Financial Advisers Act, and make other important regulatory changes.

In our disclosure-based regime, corporate governance, market discipline and a well-informed investor community are key to fair dealing. MAS, working with other government agencies, launched a national financial education programme (MoneySENSE) to enhance financial literacy and self-reliance of consumers. We will continue to work with market participants and industry associations to promote higher standards of market conduct.

Looking ahead, we must capitalise on the opportunities from the global and regional economic recovery. MAS will strive to keep Singapore an attractive regional hub for financial sector activities. Together with our counterparts in the region, we will develop initiatives to further strengthen, liberalise and integrate our financial markets. We will adapt and respond to market developments and enhance Singapore's position as a premier international financial centre.

I wish to take this opportunity to express my sincere thanks to Mr Lam Chuan Leong for his significant contributions to MAS and the financial sector. Mr Lam stepped down from the MAS Board in December last year, having served as a member since January 2000. I would also like to welcome Mr Lim Chee Onn back to the board.



Lee Hsien Loong
Chairman
Monetary Authority of Singapore

Board Committees

The MAS Act provides that the Board of Directors shall be responsible for the policy and general administration of the affairs and business of MAS. The board is assisted by the following committees:

Chairman's Meeting

The Chairman's Meeting makes decisions on major changes to the regulatory framework and supervisory policies. The Meeting also approves major changes to policies and strategies relating to financial centre development, and international and regional relations.

The Chairman's Meeting comprises DPM Lee Hsien Loong (Chairman), Lim Hng Kiang, Tharman Shanmugaratnam, Lim Siong Guan and Koh Yong Guan.

Monetary and Investment Policy Meeting

The Monetary and Investment Policy Meeting deliberates and decides on issues relating to the formulation and implementation of monetary policy with the objective of maintaining price stability for sustainable economic growth. The Meeting also oversees the investment of MAS' reserves.

The Monetary and Investment Policy Meeting comprises DPM Lee Hsien Loong (Chairman), Lim Hng Kiang, Tharman Shanmugaratnam, Lim Siong Guan, Koh Yong Guan, Lee Ek Tieng¹ and Heng Swee Keat².

Audit Committee

The Audit Committee provides an independent assessment of MAS' internal controls and financial reporting process. The Committee also reviews the efforts of MAS' internal and external auditors.

The Audit Committee comprises Lim Siong Guan (Chairman), Chan Seng Onn and Dr Philip N Pillai.

Risk Committee

The Risk Committee provides oversight and guidance on the management of risks faced by MAS. The Committee oversees the MAS-wide risk management framework, and reviews MAS' risk management policies and the processes for reporting of risks.

The Risk Committee comprises Lim Chee Onn (Chairman), Chan Seng Onn and Koh Yong Guan.

¹ Lee Ek Tieng is presently Group Managing Director of the Government of Singapore Investment Corporation.

² Heng Swee Keat is presently Permanent Secretary for the Ministry of Trade and Industry.

Management Team

Managing Director
KOH YONG GUAN

Deputy Managing Director
(Prudential Supervision)
JOHN PALMER

Assistant Managing Director
(Currency & Corporate Resource)
FOO-YAP SIEW HONG

Assistant Managing Director
(Economic Research & Financial Stability)
DR KHOR HOE EE

Assistant Managing Director
(Monetary Policy &
Investment/Development
& External Relations)
ONG CHONG TEE

Assistant Managing Director
(Complex Institutions/
Strategic Planning Office)
TEO SWE LIAN

Assistant Managing Director
(Market Conduct)
SHANE TREGILLIS

PRUDENTIAL SUPERVISION
John Palmer
Deputy Managing Director

BANKING SUPERVISION
Lee Boon Ngiap
Executive Director

COMPLEX INSTITUTIONS SUPERVISION
Teo Swee Lian
Assistant Managing Director

INSURANCE SUPERVISION
Hauw Soo Hoon
Executive Director

PRUDENTIAL POLICY
Low Kwok Mun
Executive Director

SPECIALIST RISK SUPERVISION
Enoch Ch'ng
Executive Director

MARKET CONDUCT
Shane Tregillis
Assistant Managing Director

MARKET & BUSINESS CONDUCT
Dr Andrew Khoo
Executive Director

SECURITIES & FUTURES SUPERVISION
Mimi Ho
Executive Director

DEVELOPMENT & EXTERNAL RELATIONS
Ong Chong Tee
Assistant Managing Director

EXTERNAL
Leo Mun Wai
Executive Director

FINANCIAL CENTRE DEVELOPMENT
Ng Nam Sin
Executive Director

ECONOMIC RESEARCH & FINANCIAL STABILITY
Dr Khor Hoe Ee
Assistant Managing Director

MACROECONOMIC SURVEILLANCE
Wong Fot Chyi
Executive Director

MONETARY POLICY & INVESTMENT
Ong Chong Tee
Assistant Managing Director

ECONOMIC POLICY
Dr Khor Hoe Ee
Assistant Managing Director

RESERVE & MONETARY MANAGEMENT
Jacqueline Loh
Executive Director

CURRENCY & CORPORATE RESOURCE
Foo-Yap Siew Hong
Assistant Managing Director

CORPORATE SERVICES
Shih-Teo Siew Poh
Executive Director

CURRENCY
Ho Kwen Chan
Executive Director

FINANCE
Tai Boon Leong
Executive Director

HUMAN RESOURCE
Tan-Tay Hwee Ling
Executive Director

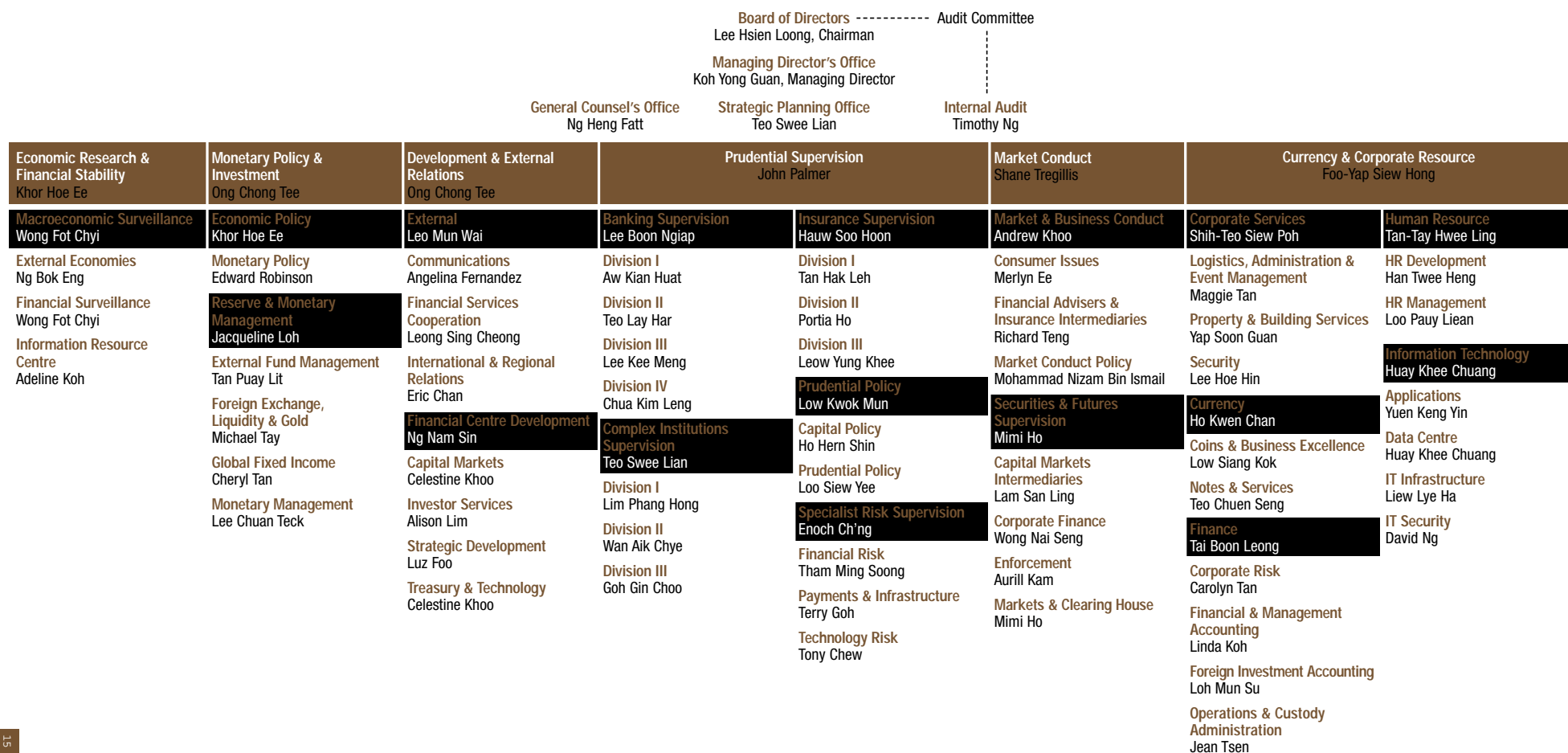
INFORMATION TECHNOLOGY
Huay Khee Chuang
Executive Director

GENERAL COUNSEL'S OFFICE
Ng Heng Fatt
General Counsel

STRATEGIC PLANNING OFFICE
Teo Swee Lian
Assistant Managing Director

INTERNAL AUDIT
Timothy Ng
Executive Director

Organisation Chart



Our Achievements and Work in Progress

ACHIEVEMENTS

WORK IN PROGRESS

REGULATION, DEVELOPMENT AND STABILITY OF THE FINANCIAL SECTOR

Manage within a riskier environment
Benchmarked our system of financial regulation and supervision against best practices by completing the IMF/World Bank's Financial Sector Assessment Programme. The study concluded that the financial sector is generally robust with few short-term vulnerabilities.

Enhanced our risk-based supervision methodologies and capabilities by modifying and updating specific supervisory practices. Notably, we completed the grouping of all banks by risk and impact profiles and allocated supervisory resources accordingly.

To enhance banking supervision as well as financial system surveillance, we revised regulatory returns from banks and merchant banks.

Improved efficiency of securities regulation by assuming primary responsibility for inspecting SGX Member firms.

We revised the capital adequacy requirements for Singapore-incorporated banks under the current Capital Framework.

To implement recommendations on offers of investments made by the Company Legislation and Regulatory Framework Committee (CLRFC) and improve consistency between the SFA and FAA, the two Acts were amended in phase one of the planned two-phase amendments.

Enhance operating environment
To enhance risk management in financial institutions, we consulted industry on comprehensive guidelines for internal controls, management of credit and market risks as well as outsourcing, and are finalising them for issuance.

To maximise the effectiveness of supervision, work is ongoing to further enhance frameworks for risk-focused and integrated supervision of financial institutions.

We continue to work with Singapore-incorporated banks to implement the New Basel Capital Framework. In the insurance sector, we will be applying the risk-based capital framework.

To strengthen our supervisory capabilities, we are enhancing the indicators for monitoring banks' activities and risk profiles.

To enhance market conduct standards, we will develop a risk-rating framework to dedicate more supervisory resources to companies with higher risk of market misconduct.

To keep our regulatory framework responsive and conducive to developments in capital markets, and to implement the remaining CLRFC recommendations, we will complete phase two of the SFA and FAA amendments.

REGULATION, DEVELOPMENT AND STABILITY OF THE FINANCIAL SECTOR

ACHIEVEMENTS

Manage within a riskier environment

Strengthened the scope of inspections by conducting thematic inspections to assess specific risks.

Improved the efficiency of payment infrastructures by including the Singapore Dollar in the Continuous Linked Settlement system and implementing the Cheque Truncation System.

Enhanced regulatory transparency by consolidating credit and charge card guidelines into a comprehensive set of regulations.

To enhance our financial surveillance, we compiled IMF-recommended Financial Soundness Indicators (FSIs), undertook studies to identify areas with stability concerns and conducted stress testing of the financial system. We also produced the first issue of the Financial Stability Report (FSR), in line with the practice of some major central banks.

To promote stability of the international financial system, we participated in various international fora such as the Financial Stability Forum and the Committee on the Global Financial System.

Strengthen partnership with industry

Tapped on industry expertise by formally adopting a policy of consulting industry on regulatory changes. From 1 April 2003 to 31 March 2004, we issued 19 public consultation papers.

WORK IN PROGRESS

Enhance operating environment

To add depth and vibrancy to Singapore's capital markets, we will introduce a new Business Trusts Act to regulate business trusts as a new business structure.

To ensure high standards of professionalism and business conduct in the trust service industry, we will establish a new regulatory framework for trust companies, including a new Trust Companies Act.

To promote safe and efficient payment systems in Singapore, we will enact the Payment Systems Oversight Act and implement a new generation Real Time Gross Settlement system, MEPS+, in 2005.

To provide a comprehensive and regular assessment of Singapore's financial stability, we will prepare the FSR on a semi-annual basis. We will also continue with regular stress testing, studies and surveys of financial institutions on various issues with stability implications.

We will continue to support international initiatives on financial stability including compilation of a consistent set of FSIs across countries (by IMF) and survey on stress testing (by BIS).

Enhance market discipline

To enhance corporate governance standards, we are finalising the regulations and guidelines on corporate governance for locally-incorporated banks and direct insurers.

ACHIEVEMENTS

WORK IN PROGRESS

ECONOMIC DEVELOPMENTS AND MONETARY POLICY

Strengthen partnership with industry

Strengthened partnership by initiating regular dialogue prior to our twice-yearly Monetary Policy Statement.

Enhanced transparency of monetary policy decisions and MAS economic analysis by publishing two Macroeconomic Reviews.

Further strengthened research efforts by publishing four staff papers, including a joint study with Ministry of Manpower to estimate the effects of higher education on wages.

Kept the industry abreast on inflation developments by publishing the Inflation Monthly on the MAS website.

Manage within a riskier environment

To assess the impact of SARS on the economy, we created an analytical framework by grouping the various sectors according to the severity that they were affected. We also assessed the effectiveness of the economic package put in place to assist households and businesses.

To enhance our understanding of the effects of exchange rate on the economy, we examined the relationship between S\$ exchange rate and macroeconomic volatility in a staff paper.

Strengthened our forecasting capabilities by launching a composite electronics leading index to predict the turning points in the global electronics cycle and to generate quantitative forecasts of domestic electronics production.

Enhance operating environment

In view of ongoing structural changes in the economy, we will implement initiatives to strengthen the robustness of forecasting, policy analysis and decision-making capabilities. This includes enhancing the MAS econometric model to better reflect the impact of demographic developments on the long-term sustainable growth path of the economy.

We will construct econometric models to better understand the monetary transmission mechanism in the economy.

With a view to understand long-term movements of the real exchange rate in Singapore, we will undertake research on its underlying determinants.

In order to better appreciate the inter-linkages and financial flows between sectors and economic units, we are constructing a flow of funds model for the Singapore economy.

ACHIEVEMENTS

WORK IN PROGRESS

CURRENCY ISSUANCE

Responsive currency issuance

To ensure no stock-out situations, we proactively managed the currency stock. As at 31 Mar 2004, the gross currency in circulation grew 5.2% to \$14.6 billion, and productivity for notes processing improved 2.5%.

To honour the efforts, courage and sacrifices of Singapore healthcare workers in battling SARS, we issued the "Tribute to our Healthcare Givers" Commemorative Coin.

To cater to a new market segment of numismatic collectors, we launched the first base metal proof coin set.

Improve consistency, cost-effectiveness, efficiency and quality of currency

To enhance the durability, quality and security of the notes in circulation, we will introduce the \$10 polymer portrait notes.

To improve effectiveness and efficiency of currency stocking and note distribution, we will review the current framework.

To promote greater interest among the new generation of collectors, we will inaugurate the third Chinese Almanac Series with the issue of the "Year of the Rooster Coin".

CONSUMER EDUCATION

Strengthen partnership with industry

To enable consumers to settle disputes with banks and insurers efficiently and at low cost, we facilitated the establishment of industry-sponsored but independently run complaints-handling mechanisms.

Enhance market discipline

To enhance the basic financial literacy of consumers and to empower consumers to take responsibility for their financial decisions, the government launched the MoneySENSE national financial education programme.

Empower consumers to achieve fair dealing

To enhance the efficiency of dispute-resolution mechanisms for consumers, we will facilitate the development of an industry-based mechanism for capital markets intermediaries and financial advisers and explore the development of an integrated scheme for the financial sector.

To measure current consumer confidence and understanding of financial matters, MoneySENSE will conduct a national financial literacy survey. The findings will help to measure progress and effectiveness of existing financial education programmes.

Enhance market discipline

To enable investors to better protect themselves, we will publish a list of those suspected of conducting regulated activities under the SFA and FAA without the requisite licence.

ACHIEVEMENTS

WORK IN PROGRESS

DEVELOPMENT & EXTERNAL RELATIONS

Focus and target our developmental efforts

Financial services sector grew 3.7%. The growth was strongly supported by the Asian Currency Unit segment, while foreign exchange (FX) trading, stock broking and fund management activities also performed well.

Healthy growth in the debt market. Total outstanding debt grew 16% year-on-year 2003, reaching S\$103 billion.

FX industry expanded in breadth and depth. FX turnover grew 24.5% in 2003 compared to 2002, with an average daily trading volume of US\$119.4 billion.

Achieved agreement in ASEAN to adopt a new negotiation modality to speed up the liberalisation of financial sector in the region.

Launched Asian Bond Fund I with our EMEAP colleagues and agreed on plans for the launch of EMEAP Asian Bond Fund II to promote the development of regional bond markets.

Concluded Bilateral Swap Agreement with Japan under the Chiangmai Initiative.

Co-chair with Japan the Working Group on Credit Rating Systems and Dissemination of Information under the ASEAN+3's Asian Bond Markets Initiative.

Co-chair with the US, Japan and Thailand the Working Group on Alternative Remittance Systems under the Asia Pacific Economic Cooperation Finance Process.

Work towards win-win outcomes for Singapore and the region

To promote financial training in Singapore and to create a critical mass in this area.

To grow commodities trading activities, we will leverage on treasury activities as financial institutions are now also major commodities players and most international financial institutions have presence in Singapore.

To increase market transparency and better monitor patterns of FX and OTC derivatives activity in the global financial system, we will participate in the BIS Triennial Central Bank Survey on FX and OTC Derivatives Market Activity 2004.

To increase depth and breadth of capital markets, we will explore greater collaboration among exchanges with our ASEAN counterparts.

To raise global investor interest in regional capital markets through the ASEAN Finance Ministers' Investors Seminar.

To promote progressive liberalisation of financial services, we will continue to work with ASEAN counterparts, Free Trade Agreement partners and World Trade Organisation members.

Continue to actively participate in the formulation of global financial sector regulatory standards and the international effort to combat money laundering and terrorist financing.

ACHIEVEMENTS

WORK IN PROGRESS

ORGANISATIONAL EFFECTIVENESS

Manage within a riskier environment

Further ensured that critical operations can continue in an emergency by conducting corporate-wide business continuity management exercises.

Implemented the risk management framework for a holistic and systematic approach to managing risks proactively across the organisation. This led to the identification of key risks and a risk mitigation plan to ensure that adequate measures were in place to address each key risk.

Build an organisational development culture

Enhanced performance management by introducing the 360-degree feedback system for division heads.

Enabled staff to gain more exposure and adopt a more holistic approach in their work by implementing external attachment programmes with local and overseas financial institutions and agencies.

Enhance our systems and structure

Enhanced internal communication and collaboration through knowledge sharing by building a knowledge management portal.

Strengthened the IT infrastructure by implementing system software and technology upgrades.

Enhanced the performance measurement framework by devising a set of performance indicators for MAS' functions.

Enhance organisational effectiveness

To maximise the potential of staff, we will adopt training roadmaps to develop functional competencies of staff.

Enhance operating environment

To enhance reserve and monetary management, we will implement a new integrated front, middle and back-office system.

Strengthen institutional framework

To strengthen accountability and transparency, we will undertake the second phase review of the MAS Act.

Improve resource planning

To improve the long-term effectiveness of MAS' operations, we will conduct a strategic planning exercise.



CONTINUITY

Change is constant.
We continue to strengthen
our regulatory and
supervisory framework
in step with the evolving
financial industry.



THE FINANCIAL SECTOR: KEY SUPERVISORY AND REGULATORY INITIATIVES

The Financial Sector: Key Supervisory and Regulatory Initiatives

SUPERVISION

MAS maintains high supervisory standards to foster Singapore's position as a sound and progressive financial centre. To do this, we continually review and fine-tune our risk-focused supervisory methodologies and capabilities. In April this year, MAS issued a monograph titled "Objectives and Principles of Financial Supervision in Singapore". The monograph spells out our objectives of supervision, the functions we perform, and the principles that guide our supervisory approach. A key theme of the monograph is that all stakeholders have a shared responsibility to achieve a sound and progressive financial services sector. Box 1 provides a summary of our supervisory objectives and principles.

Enhancing Risk-focused Supervisory Approach

MAS has put in place structured frameworks for assessing the key risks financial institutions face and their abilities to manage these risks, as well as the impact of these risks on Singapore's financial system and economy. During the year, we continued to enhance our risk-focused supervision using these frameworks. By early 2003, we had completed the grouping of all the financial institutions according to their risk and impact profiles. These profiles helped MAS design appropriate supervisory plans for each institution. Institutions that pose greater risk and/or impact will be allocated more supervisory attention and resources. MAS will assess the financial institution's risk and impact profiles regularly, and review the assessment frameworks from time to time to ensure their relevance. At the same time, MAS is planning to develop a risk-rating framework for financial advisers to ensure that adequate supervisory resources are allocated to companies with higher risks of market misconduct.

FOSTERING A SOUND AND PROGRESSIVE FINANCIAL SERVICES SECTOR**MAS' Supervisory Mandate**

The supervisory mandate of MAS is to foster a sound and progressive financial sector. The desired outcomes of our supervision are:

- A stable financial system.
- Safe and sound financial intermediaries.
- Safe and efficient financial infrastructure.
- Fair, efficient and transparent organised markets.
- Transparent and fair-dealing intermediaries and offerors.
- Well-informed and empowered consumers.

To achieve these outcomes, MAS performs various functions directly, such as regulation, authorisation, supervision, surveillance and enforcement. We also facilitate initiatives relating to corporate governance, market discipline, consumer education and consumer compensation.

We are guided by 12 key principles when carrying out our supervisory work. These principles collectively characterise our supervisory approach as risk-focused, stakeholder-reliant, disclosure-based and business-friendly.

The principles are:

- Emphasise risk-focused supervision rather than one-size-fits-all regulation.
- Assess the adequacy of an institution's risk management in the context of its risk and business profiles.
- Allocate scarce supervisory resources according to impact and risks.
- Ensure institutions are supervised on an integrated (across industry) and consolidated (across geography) basis.
- Maintain high standards in financial supervision, including observing international standards and best practices.
- Seek to reduce the risk of failure rather than prevent the failure of any institution.
- Place principal responsibility for risk oversight on the institution's board and management.
- Leverage on relevant stakeholders, professionals, industry associations and other agencies.
- Rely on timely, accurate and adequate disclosure by institutions rather than merit-based regulation of products to protect consumers.
- Empower consumers to assess and assume for themselves the financial risks of their financial decisions.
- Give due regard to competitiveness, business efficiency and innovation.
- Adopt a consultative approach to regulate the industry.

Enhancing MAS' Supervisory Capabilities

MAS took several steps in 2003 to enhance our risk-based supervisory capabilities.

These include:

- **Revision of Regulatory Reporting**

MAS completed a revision of the statistical returns from banks and merchant banks as part of our efforts to enhance off-site supervision and financial system surveillance as well as streamline data collection. A new data submission system was implemented to allow financial institutions to input their data offline, enabling better security of sensitive data. This system also enables auto-computation of form fields, saving effort and time. The first revised returns at end-March 2004 data were submitted in April 2004. Together with the revision of the returns, MAS is enhancing the quantitative indicators that we use for monitoring banks' activities, risk profiles, financial conditions and emerging trends, to complement the qualitative information from the risk-rating systems.

- **One-stop information portal for Financial Supervisors**

Following the introduction of the Banking Supervisory System in 2002, a similar web-based one-stop information portal was completed last year for supervising capital market intermediaries. This portal allows the supervisors to have easy access to key financial statistics and ratings as well as the licensing information and supervision plan for each capital market intermediary.

- **Tool-kit to improve the efficiency and consistency of technology risk assessment**

MAS developed a new supervisory tool-kit to facilitate our assessment of financial institutions' capability and effectiveness to manage their technology risks and implementing security controls. The tool-kit comprises a central risk profile database which integrates our control checklists, questionnaires, guidelines and security evaluation programmes. The tool-kit will reduce MAS' on-site inspection and off-site review of institutions, facilitate planning of supervisory work, and ensure more

Box 2

STRESS TESTING OF LIFE INSURERS

MAS carried out active stress testing of life insurers in 2003. It was part of our normal surveillance activities to assess the industry's and companies' capacity to cope with further declines in equity and fixed income values. The exercise revealed that most companies were well-prepared to deal with equity declines, having put in place adequate contingency plans. With good planning and the pick-up in equity markets, life insurance companies in Singapore are well-capitalised and generally in good financial health.

targeted inspection of important risk areas. It also allows us to customise the risk profile database to suit institutions of varying sizes and complexities. With the tool-kit, we have implemented a technology risk-rating system uniformly across all financial institutions.

Box 3

STREAMLINING INSPECTION FUNCTION

In the capital markets, both MAS and the Singapore Exchange (SGX) have inspection power over SGX members. With effect from 1 July 2003, MAS assumed the primary responsibility for the on-site inspections of SGX members for their compliance with rules and regulations under the securities legislation. SGX remains responsible for the members' compliance with membership rules and requirements. The streamlining of the inspection function is part of our continuing efforts to improve the efficiency of regulation in Singapore.

Thematic Inspections to Improve Surveillance

Besides institution-specific inspections, MAS conducted a series of thematic inspections to assess specific risks that the financial system faces. With rising defaults on consumer loans, MAS conducted inspections of major retail banks' unsecured lending to consumers.

MAS also began on-site inspections of financial advisers to enforce the standards established under the Financial Advisers Act (FAA) and ensure that consumers benefit from higher quality advice on investment products.

In addition, we carried out market-wide inspections of intermediaries undertaking diverse activities. The activities covered exempt fund management, securities research, corporate finance advisory, and Collective Investment Scheme (CIS) managers.

REGULATION

During the year, MAS consolidated, streamlined and fine-tuned our regulations to ensure that Singapore's financial system remains dynamic and relevant in a fast-paced environment. We worked closely with industry, listened to them and sought solutions to their needs. We issued 19 consultation papers in the last financial year. The feedback provided MAS the industry perspective on the proposed changes.

RISK-BASED REGULATORY REGIME

Risk-based Capital for Insurers and Banks

MAS worked on a risk-based capital (RBC) framework for insurance companies in close consultation with insurance practitioners and the actuarial and accounting professions. The RBC framework, which is near completion, focuses on the determination of risk-sensitive capital requirements for insurance companies and the valuation of assets and liabilities using a realistic basis.

Last year, we also amended the Insurance Act (IA) on provisions necessary to implement the RBC framework. Proposed regulations, notices and guidelines on the new valuation basis and capital requirements were released for public consultation in November 2003. In addition, further testing of the framework was conducted in early 2004.

The final Insurance (Valuation and Capital) Regulations, Insurance (Accounts and Statements) Regulations, Insurance (Actuaries) Regulations, Notice on the Valuation of Policy Liabilities of Life Business, and Guidelines on the Valuation of Policy Liabilities of General Business are targeted for issue in the latter part of 2004.

In May 2004, MAS issued details of changes to the capital adequacy requirements for Singapore-incorporated banks under the Current Accord. From 30 June 2004, MAS will lower Tier One capital adequacy ratio (CAR) requirement from 8% to 7%, and the total CAR requirement from 12% to 10%. In addition, MAS will also adjust the rules for computing CAR.

The Basel Committee on Banking Supervision finalised the New Basel Capital Framework (New Framework) in end June 2004. MAS intends to adopt the New Framework in tandem with the G10 countries. We will continue to work closely with the Singapore-incorporated banks to assess the impact of the New Framework and determine how best to adapt the proposals for Singapore.

Liquidity Requirement

Last year, MAS continued the assessments of banks under the Liquidity Supervision Framework (LSF) introduced in 2001, with more banks qualifying for liquidity relief under the framework. The LSF is a move away from a “one-size-fits-all” 18% statutory Minimum Liquid Assets requirement to one that is based on an individual bank’s liquidity risk profile and risk management capabilities.

Box 4

BEING PREPARED FOR EMERGENCIES

Financial institutions are expected to have sound Business Continuity Management (BCM) to cope with emergencies and unplanned disruptions to their operations. MAS continued to emphasise the importance of sound BCM in its overall supervisory assessment. MAS also conducted a thematic BCM review to assess the financial institutions' state of readiness against disruptions.

In June 2003, MAS issued BCM guidelines after consulting the public. The guidelines encompass seven principles which financial institutions are encouraged to adopt to strengthen their BCM. They may adapt the guidelines as necessary, taking into account their specific business activities and operating environments. The principles provide guidance on recovery time objectives for critical business functions, separation policy to address concentration risk, and catering for a wide-area outage scenario among others.

Financial institutions recognise the need to work together on BCM matters. The banking industry, through the Association of Banks in Singapore (ABS), formed a BCM Task Force to enhance the industry's resilience and responsiveness to crisis. The ABS BCM Task Force has set up an industry-wide crisis co-ordination framework. It also held meetings with service providers to better appreciate the interconnectedness of participants in the financial sector and their BCM preparedness. We support and participate in the Task Force.

FINE-TUNING REGULATORY FRAMEWORK

Amending the SFA and FAA

MAS embarked on a two-phased legislative amendment process on the Securities and Futures Act (SFA) and the FAA last year. The first phase of legislative amendments was passed by Parliament in September 2003 and came into force in December 2003. The amendments implemented recommendations made by the Company Legislation and Regulatory Framework Committee. They aimed to reduce the cost of raising capital in Singapore by rationalising and simplifying the requirements in the SFA for offers of investments. They also incorporated technical amendments to the SFA and FAA, taking into account industry developments and feedback since the Acts were enacted in 2001.

In September 2003, MAS issued a consultation paper on the key policy reforms that were being considered for the second phase of amendments to the SFA and FAA. The second phase reflected our policy reviews in areas such as offers of investments, markets and clearing houses, and the product scope of the FAA. We published our response to the public comments received in March this year.

Apart from regulatory changes proposed under the second phase of amendments, MAS further fine-tuned the regulatory framework of the FAA to adapt to changing market needs. The new measures include:

- Revising the minimum education requirements for financial adviser representatives.
- Developing the regulatory framework governing execution-related advice.
- Developing the regulatory framework for advising on foreign exchange (FX) and leveraged FX trading.

Enhancing Regulations for Investment-linked Policies and Unit Trusts

To enhance regulatory standards and further align the requirements between investment-linked policies (ILPs) and unit trusts, a consultation paper was issued in January 2004. The new regime looked at standardising disclosure requirements, investment guidelines, operational requirements, minimum death benefit and the length of the free-look period. Sales illustrations, business conduct requirements for ILP sub-fund managers, and the structure and governance of ILPs were also reviewed. The new legislation will lead to better disclosure for policyholders, and will offer them better protection. It will also minimise regulatory arbitrage between ILPs and unit trusts.

Consolidating Rules on Credit and Charge Cards

The guidelines on the use of credit and charge cards had been in place since 1983 to prevent excessive expansion of consumer credit and discourage individuals from spending beyond their means. In January 2004, MAS consolidated these guidelines into a comprehensive set of regulations to enhance regulatory transparency and for easy reference. MAS also removed the limit of two supplementary cards per principal card account and allowed issuers to issue additional cards to existing customers without having to receive an application first. The \$30,000 minimum annual income requirement and the maximum credit limit of two months' income remained.

In April 2004, in response to industry feedback, MAS allowed card issuers to issue a credit or charge card to any individual who does not meet the minimum income requirement, as long as he has deposits of more than S\$10,000 and the credit limit is fully secured by his deposits. This revision provides greater flexibility to individuals who may not qualify for an unsecured credit card, but have substantial savings and want the added convenience of a credit or charge card.

BOX 5**DEPOSIT INSURANCE SCHEME**

MAS has completed the second phase of the study to establish the Deposit Insurance (DI) scheme in Singapore. In April 2004, MAS released a second consultation paper on the scheme. The paper made recommendations on the implementation details for the administration of DI, including the mandate and governance of DI, coverage of specific deposits and depositors, the depositor payout process and management of the DI fund.

Risk Management Guidelines

Following consultation with industry, MAS is reviewing the proposed guidelines on Sound Risk Management Practices and incorporating industry feedback, where appropriate. The final guidelines are expected to be issued in the third quarter of 2004. In addition, we released a consultation paper on outsourcing guidelines in April 2004, setting out our expectations for financial institutions who entered into outsourcing arrangements with service providers. Based on international good practice, the guidelines focus on material outsourcing. They make clear that we expect financial institutions to establish risk management practices commensurate with their risk appetites. The guidelines complement the Internet Banking Technology Risk Management guidelines, released in June 2003, which address outsourcing of IT processing functions and operations.

Win-win Partnership with Industry

MAS organised the second Annual Risk Conference from 30 June to 1 July 2003 with the theme, "Managing Risk in a Changing Environment". The conference focused on consumer banking risk management and BCM issues. Bringing together industry practitioners and regulators, the conference facilitated greater sharing of information and perspectives on the challenges arising from these focus areas.

Divesting Non-financial Businesses

In August 2003, MAS announced that we would extend the grace period for Singapore-incorporated banks to divest their non-financial businesses by two years to July 2006 upon the banks' application. This was in view of the economic and market conditions over the past two years which had been more difficult than anticipated. In October 2003, we completed a public consultation on proposed rules restricting cyclical shareholding arrangements within the banking group. We issued regulations in May 2004 to set out the implementation details of the policy to separate financial and non-financial business of a bank, and to unwind cross-shareholdings within the local banking groups. We will continue to engage in dialogue with the banks on their restructuring and divestment plans.

Revised Regulations on Credit Files, Grading and Provisioning

Revised regulations on credit files, grading and provisioning, were issued for industry consultation in mid 2003. The revisions formalised existing practices on provisioning, valuation of collateral and 90-days arrears rule on loan classification, as well as file maintenance, credit reviews and provisioning requirements for consumer loans. The revised regulations will be issued in 2004.

ENSURING SOUND MARKET CONDUCT

Developing Framework for Composition of Offences

Under the SFA and FAA, MAS has the powers to take action against those who have committed certain offences without having to initiate court proceedings. MAS has begun to institutionalise the framework for the composition of offences.

Publishing Unlicensed Operators

MAS plans to publish a list of those suspected of conducting regulated activities under the SFA and FAA without the requisite licence. The list will enable investors to better protect themselves and exercise care when dealing with such parties.

BOX 6

INTEGRATED DISPUTE RESOLUTION SCHEME

MAS is facilitating the development of an integrated dispute resolution scheme for the financial sector. Currently, there are separate dispute resolution schemes for the banking and insurance sectors, but there is no similar mechanism for capital markets. An integrated scheme would benefit consumers by providing them with the convenience of a one-stop shop and ensure that consistent processes and procedures are applied across sectors. Financial institutions can also reap cost savings through economies of scale. MAS has set up an Integration Steering Committee to oversee the transition to an integrated scheme that can simultaneously address the gap in capital markets. The committee is chaired by Goh Joon Seng, the current chairman of both the Insurance Disputes Resolution Organisation and the banking industry's Consumer Mediation Unit. It also includes representatives of key consumer groups and industry associations.

Improving Corporate Disclosure

One initiative undertaken during the year to improve corporate disclosure was the issuance of an Operating and Financial Review (OFR) guide which promulgates good practices on OFR disclosure for listed companies in their annual reports. This was recommended by the Council of Corporate Disclosure and Governance and accepted by the government in February 2004. Such disclosure will enable investors to have a good understanding of the company's business, performance and future direction. The OFR guide will be included in the listing manual of SGX.

Enhancing Management of Insurance Agents

A Working Group comprising MAS and the Agents Registration Board (ARB) of the General Insurance Association of Singapore (GIA) was formed to enhance the management and supervision process for general insurance agents.

The Working Group's recommendations included:

- Having more robust principal-for-agent accountability rules.
- Enhancing the role of ARB as an information repository for the industry on agency matters.
- Establishing a centralised IT database on agency information to facilitate the tracking of all agents.

A public consultation will be conducted on these recommendations to gather relevant feedback before implementation.

Helping Consumers Better Understand "Critical Year"

Throughout 2003, many complaints were received from policyholders alleging that they had been mis-sold insurance policies with the Critical Year (CY) feature. These policyholders said they had been misled into taking up CY policies believing that they need not pay premiums after the illustrated CY. As these were commercial disputes between the insurance companies and their policyholders, MAS clarified that we have no power to arbitrate and that the disputes must be resolved between the two parties concerned. However, MAS takes a serious view of mis-selling and misrepresentation by insurance companies or their agents. We expect them to act in good faith and to handle all complaints fairly, promptly and consistently. We issued the "Policyholders' Guide to Insurance Policies with CY Feature" in June 2003 to help policyholders better understand the CY feature in their insurance policies.

In July 2003, American International Assurance (AIA) proposed a range of support packages for affected policyholders according to their circumstances. It also offered an adjudication process for policyholders who were dissatisfied with the benefits offered.

Following concerns raised by affected policyholders and the Consumers Association of Singapore, AIA announced an improved support package and adjudication process in October 2003. MAS welcomed this development and said AIA's move warranted careful consideration by affected policyholders and their representatives.

Regulatory Frameworks for Business Trusts and Trust Companies

MAS will be introducing a framework to regulate business trusts. A business trust is an alternative structure under which a business enterprise can be structured. The business' assets, which are held in trust and managed by a trustee, are beneficially owned by investors who hold units in the business trust. Introducing business trusts as a new asset class will add further depth and vibrancy to Singapore's capital markets.

The proposed regulatory framework for business trusts aims to:

- Set out the fundamental rights of investors and creditors in a business trust.
- Clearly establish the duties and accountability of trustees and their directors.
- Regulate offers of units in business trusts.

The public consultation on the policy framework to regulate business trusts was concluded in January 2004. The draft Business Trusts Act and related amendments to the SFA will be introduced in Parliament in the second half of 2004.

We are also creating a new regulatory framework for trust companies. Trust companies are service providers that engage in the business of acting as trustee or administering trusts. They may also create trusts or arrange for another person to act as trustee. Trust companies are currently regulated by the Accounting and Corporate Regulatory Authority under the current Trust Companies Act.

MAS will regulate trust companies under the new framework, which includes a new Trust Companies Act. The framework will increase legal clarity and provide guidance for trust companies in Singapore and ensure high standards of business conduct, professionalism and competence in the trust services industry. The new framework will apply to all trust companies and will incorporate measures not covered in the existing regulation, such as anti-money laundering.

Consulting Industry on CIS

We have also consulted the industry on the proposed amendments to the Code on CIS. The key changes include increasing the types of instruments that may be accepted as collateral in securities lending transactions by fund managers and introducing guidelines for CIS that invests in currencies and/or currency derivatives.

MONEYSENSE – SINGAPORE'S FINANCIAL EDUCATION PROGRAMME

To enhance the basic financial literacy of consumers, the government launched a national financial education programme called MoneySENSE in October 2003.

MoneySENSE is spearheaded by a public sector Financial Education Steering Committee comprising the Ministry of Community Development and Sports, Ministry of Education, Ministry of Manpower, Central Provident Fund Board and People's Association. A private sector MoneySENSE Industry Working Group, comprising representatives from the major industry associations and community organisations, has also been set up to work with the MAS-led Financial Education Steering Committee to implement a series of financial education initiatives.

The MoneySENSE programme covers three tiers of financial literacy:

- Tier I – Basic Money Management covers skills in budgeting and saving, and provides tips on the responsible use of credit.
- Tier II – Financial Planning equips Singaporeans with the skills and knowledge to plan for their long-term financial needs.
- Tier III – Investment Know-How imparts knowledge about the different investment products and skills for investing.

To kick-start the programme, seed money of S\$1 million per year for the first three years has been set aside to co-fund financial education initiatives.

MoneySENSE aims to reach out to all segments of the population through community talks and seminars, educational brochures and guides, and mass media activities.

Since its launch, MoneySENSE has supported a wide variety of programmes including a series of interactive skits on money management held at community venues; free seminars on life insurance and financial planning; a 12-part series on credit cards in a local newspaper; and a series of consumer guides on life insurance, health insurance, credit cards and car financing.

In 2003, MAS developed two consumer guides under MoneySENSE: "Dealing with a Financial Adviser: What to Look Out for?" and "Getting It Right: How to Resolve a Problem with Your Financial Institution".

In conjunction with MoneySENSE, MAS launched a new "For the Consumer" portal on our website. The portal serves as a central repository for all financial education materials, including activities and events that are organised under MoneySENSE. It also serves as an online feedback channel for consumers. Going forward, the portal will be enhanced with new content and interactive tools.

Over the next few months, MoneySENSE will conduct a national financial literacy survey to benchmark the current level of financial literacy among Singaporeans.

BOX 8**BOOSTING RESEARCH**

In September 2003, the stock-broking community received a boost from the SGX-MAS Research Incentive Scheme. Under the scheme, public-listed companies will be covered by at least two research firms and any research reports produced will be made available to the public free of charge on the SGX website.

Each participating research firm will provide regular research coverage on at least 15 stocks. As at May 2004, nine research firms and 122 listed companies participated in this scheme. More than 14,000 users have also signed up for access to the research reports.

Health Insurance and Changing Demographics

Given Singapore's changing demographics, including an ageing population, MAS enacted a new Health Insurance Regulatory Framework in the IA in 2004. There were previously no provisions in the IA which were specifically applicable to the health insurance business. Existing provisions were geared towards regulating short-term, yearly-renewable health insurance products. The IA has been amended to help ensure that insurers can better provide long-term health insurance coverage for consumers.

As a member of the Ministry of Health's 3Ms Review Committee, MAS is helping to review the Medisave, Medishield and Medifund schemes. The committee will also consider the medium- to long-term role of medical insurance in Singapore.

In addition, we participate in the Economic Review Subcommittee on policies related to taxation and wages. The subcommittee is looking into setting up the Transferable Medical Insurance Scheme, which will have two key features – transferability and continuity. The scheme will allow employees of selected companies to retain the coverage under their company's group policies for up to a year while they are between jobs.

In view of the importance of health insurance products to a wide spectrum of the population, MAS introduced a new regulatory framework for accident and health (A&H) insurance effective 1 April 2004. The new framework governs the conduct of intermediaries selling A&H products, ensuring that customers are adequately advised on how to make sound product choices. Rules under the new framework are aligned with those which intermediaries have to follow under the FAA. Insurers are also required to be more transparent in their policy documents so that customers are fully informed and aware of the features and implications of each health insurance policy.

During the year, MAS worked with the Life Insurance Association of Singapore (LIA) to standardise the definitions of critical illnesses (CI) used in CI policies. This helped to reduce confusion among consumers when comparing CI policies across insurers and ensure that they do not inadvertently end up with less coverage than they need. It also allows for greater competition and a more level playing field among the insurers. Currently, all insurers offering CI policies use the standardised CI definitions.

The Severe Acute Respiratory Syndrome (SARS) outbreak in 2003 had raised fears that, due to policy exclusions, insurance companies might not offer coverage against SARS, or withdraw this coverage if the situation deteriorated. MAS undertook a survey to investigate the extent of coverage. The survey revealed that coverage was largely available. A list of the insurers which provide SARS coverage is available on the websites of LIA and GIA.

Box 9:

COPING WITH E-BANKING RISKS

Cyber attacks have proliferated in recent years as more financial and banking systems are now running on the Internet to deliver online products and services. Financial systems that are inadequately prepared to combat the rising trend and sophistication of cyber attacks may become attractive targets for hackers, criminals and terrorists.

The predominant cyber threats are purportedly from digital worms, viruses, malicious software and malignant codes. Besides worms and viruses, internet scams such as phishing, web cloning, web cloaking, website redirection and email hyperlinks to fake websites have become quite prevalent. These growing e-security threats have compelled financial institutions to devote more effort and resources to combat cyber crime and digital menaces.

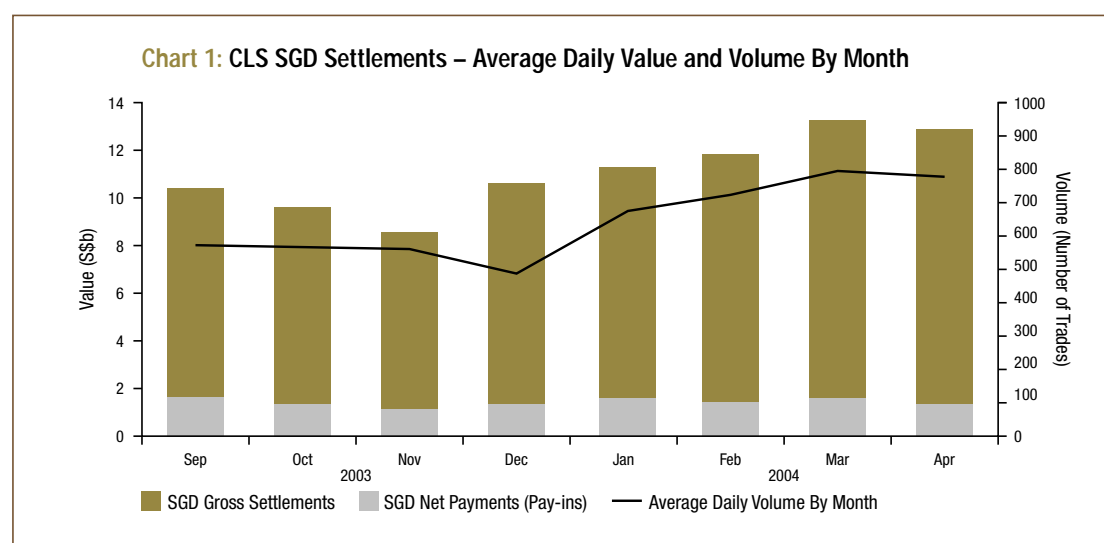
MAS issued two security advisories on internet kiosks and phishing scams to help financial institutions address these security risks. In collaboration with ABS, we encouraged banks to provide more customer education on how to conduct internet banking safely and to take adequate security precautions. Most banks warn their customers against revealing their passwords to anyone and advise them to always enter the domain name of their banks into their browsers when accessing internet banking. Consumers should not trust hyperlinks or redirections from any external source, especially emails or third party websites.

INNOVATIVE SYSTEMS FOR EFFICIENT PAYMENT AND SETTLEMENT

Global Settlement System for Foreign Exchange

On 10 September 2003, the Singapore Dollar (SGD) was included as one of the 11 currencies in the Continuous Linked Settlement (CLS) system. The other 10 currencies are the Australian Dollar, Canadian Dollar, Danish Krone, Euro, Japanese Yen, Norwegian Krone, Pound Sterling, Swedish Krona, Swiss Franc and the US Dollar.

CLS is the world's first simultaneous global multi-currency settlement system which eliminates FX settlement risk. The inclusion of the SGD represents a significant milestone for Singapore to create a safer FX settlement environment. As of April 2004, the CLS Bank settled about 649 SGD FX trades a day worth more than S\$11.1 billion. Since CLS only requires funding on a net basis, actual average daily payment (pay-in) is reduced by about 87.4% to S\$1.4 billion, resulting in improved liquidity efficiency and lower funding requirements for CLS users. A link from the MAS Electronic Payment System (MEPS) to the CLS system was also completed to include SGD as a CLS settlement currency.



MAS to Launch New Electronic Payment System

MAS will be implementing a new real-time gross settlement system (MEPS+) to replace the existing MEPS in the first half of 2005. The tender to develop and implement MEPS+ was awarded in September 2003 to a consortium comprising IBM, BCSIS and NewGens.

Since its implementation in 1998, MEPS has served the industry's needs well. However there are new commercial and regulatory challenges that demand more efficient liquidity management, improved risk management, and more streamlined payment flows. MEPS+ is thus designed to meet these new challenges and requirements, and support the progressive growth of Singapore as an international financial centre.

Key features of MEPS+ include:

- Use of SWIFT message formats and network.
- Advanced queue management capabilities.
- Automated collateralised intra-day liquidity facilities.
- Automated gridlock resolution.

Payment Systems Figures

Fund transfers by Interbank GIRO (IBG) have been growing significantly every year but payments by cheques declined. In 2003 the value of SGD cheque transactions fell 3.1% to S\$368 billion while the value of IBG transfers increased 17.5% to S\$108 billion.

The value of payments by NETS EFTPOS (Electronic Funds Transfer at Point of Sale) rose 13.9% to S\$7 billion, and payments by CashCard rose 13.4% to S\$271.4 million.

The major Automated Teller Machine (ATM) networks are the DBS Bank Ltd network, the United Overseas Bank Ltd-Oversea-Chinese Banking Corpn Ltd network and the Hongkong and Shanghai Banking Corporation Limited-Malayan Banking Bhd-Standard Chartered Bank network. The total number of ATMs increased marginally last year by 0.4% to 1,553 machines.

The volume of MEPS transactions grew 4.7% last year to 2.1 million, with the total value of these transactions falling 1.8% to S\$9.9 trillion.

BOX 10

A SPEEDIER, MORE EFFICIENT WAY OF CLEARING CHEQUES

On 12 July 2003, banks in Singapore migrated to a new cheque clearing system, known as the Cheque Truncation System (CTS). CTS improves the efficiency of the cheque clearing process by eliminating the need to move paper cheques physically between banks and clearing house. Cheque images and data are electronically captured and transmitted between the banks and the clearing house. CTS is the world's first nation-wide end-to-end image-based cheque truncation system. Its implementation was managed by the Singapore Clearing House Association.

A photograph of a busy city street. In the foreground, three people are walking, their figures blurred to convey motion. A woman in a bright blue long-sleeved top and dark trousers is the most prominent, walking towards the right. Behind her, a man in a dark suit and a woman in a dark blazer are also walking. To the left, a tall, dark sculpture with yellow and blue abstract patterns stands on the sidewalk. In the background, modern high-rise buildings with glass facades and concrete structures are visible under a clear blue sky. The overall scene suggests a fast-paced, urban environment.

VENTURE

Vision must be combined with venture. We continue to work towards building a more dynamic and robust financial industry in Singapore.



THE FINANCIAL SECTOR: PERFORMANCE AND GROWTH

The Financial Sector: Performance and Growth

MODEST RECOVERY IN 2003

Singapore's financial sector saw a modest recovery in 2003 as improvements in the global economic environment and a turnaround in equity markets lifted the various segments. The financial services sector grew 3.7%. The growth was strongly supported by the Asian Currency Unit (ACU) segment, while foreign exchange (FX) trading, stock broking and fund management also performed well. This marked a sharp reversal to the 6.3% contraction in value-added in 2002. Nevertheless, the financial sector saw mixed performance in the finance companies and insurance segments.

Loans to non-bank customers in both the domestic and offshore banking segments grew at 6.3% and 7.3% respectively, buoyed by household loans and the regional economic recovery. In the financial markets, stock market activity rose 94.6%, reaching a monthly average trading volume of 18.1 billion in 2003. FX turnover grew a strong 24.5% to a daily average of US\$119.4 billion. Activity in the fund management industry was also boosted by larger Asian equities mandates from institutional investors.

BOX 11

MAS' FINANCIAL SURVEILLANCE WORK

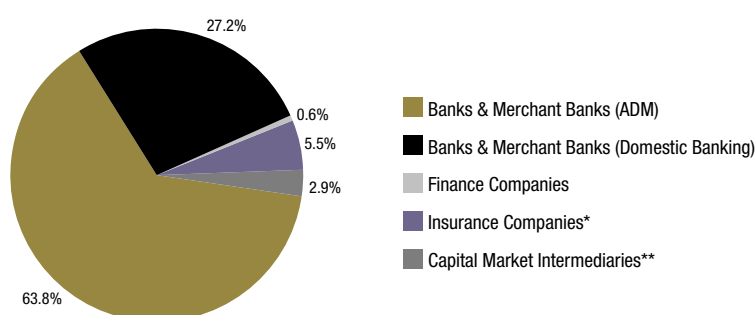
As part of MAS' systematic surveillance of the financial system, we monitor Financial Soundness Indicators recommended by the IMF and conduct stress testing to test the resilience of systemically important institutions to economic and financial shocks. To augment our regular financial surveillance work, we carry out in-depth studies of issues with financial stability implications. They include the impact of equity market fall in the second half of 2002 and early 2003 on financial institutions, negative housing equity, risk in interbank activity, banks' exposure to the property sector, credit card charge-offs and the IPO market. We produced our first issue of the Financial Stability Report (FSR), in line with the practice of some major central banks. Going forward, we will prepare the FSR on a semi-annual basis, to provide a regular assessment of Singapore's financial stability.

Structure of Financial Sector

As at end-2003, there were 115 commercial banks, 53 merchant banks and 3 finance companies in the financial sector. Overseas Union Trust and Oversea-Chinese Banking Corpn Ltd (OCBC) Finance were integrated into the banking sector in April 2003 and November 2003 respectively.

Total assets of financial institutions amounted to S\$1.36 trillion at end 2003, of which 63.8% were ADM assets, 27.2% domestic banking assets, 5.5% insurance companies' assets, 0.6% finance companies' assets and 2.9% capital market intermediaries' assets (See Chart 2).

Chart 2: Asset Distribution of Financial Institutions, 2003



* Insurance Companies includes Insurance Brokers

** These are Securities and Futures Companies as well as Financial Advisers

Note: 2003 figure refers to Capital Markets Services licensees, FA licensees are not included.

FINANCIAL MARKET ACTIVITY

Lending in the Domestic Market

Total assets of the commercial banks rose 2.7% to S\$362.5 billion in 2003. Commercial bank lending was robust, supported by household lending, particularly mortgages. Housing loans were boosted by bank-originated Housing & Development Board (HDB) loans which accounted for S\$4.5 billion of loans in 2003. S\$2.9 billion were new bank loans and S\$1.6 billion were due to refinancing (See Box 14). Commercial bank lending to non-bank customers rose to S\$171.4 billion at end last year, an increase of S\$10.2 billion over the year. Household lending accounted for S\$52.4 billion of total non-bank lending. Part of the increase was due to the integration of the loan portfolios of two finance companies, Overseas Union Trust and OCBC Finance with the banking sector during the year.

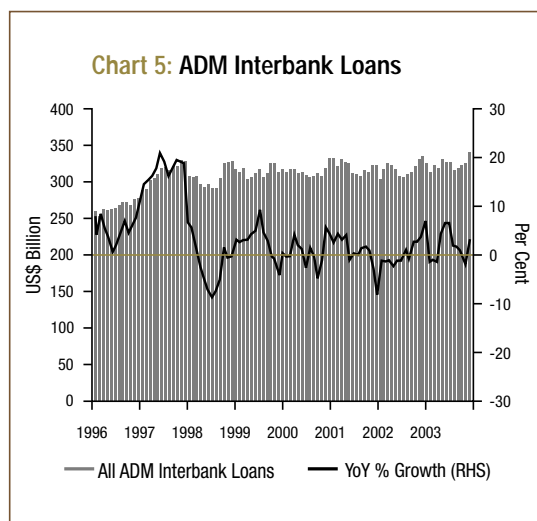
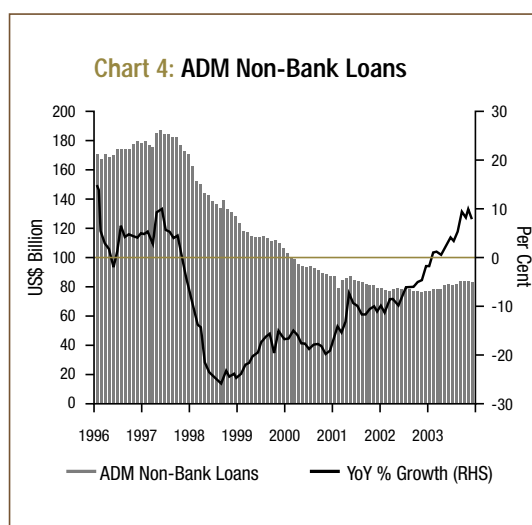
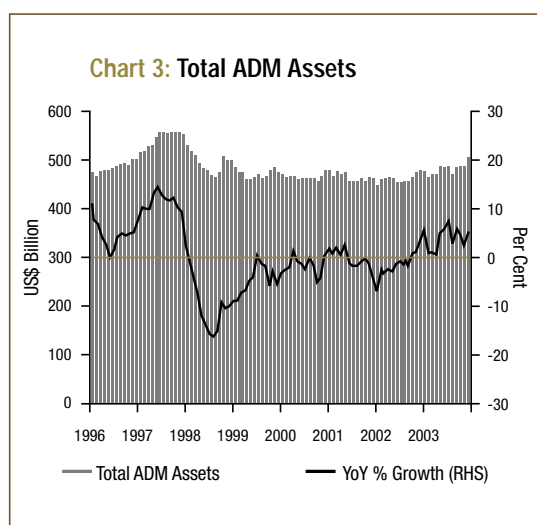
As lending among resident banks increased S\$3.9 billion, loans to banks outside Singapore¹ declined S\$3.2 billion, resulting in a modest S\$730.5 million rise in overall interbank loans in 2003. This decline in loans to banks outside Singapore was consistent with the greater allocation of funds to non-bank lending which picked up in 2003.

1. These include ACUs.

Deposits of non-bank customers grew a respectable 7.8% in 2003, compared to the mild 1.3% contraction in 2002. Deposits rose to S\$194.2 billion, a S\$14.1 billion increase from 2002, part of which was attributed to the integration of Overseas Union Trust and OCBC Finance with the banking sector. Fixed deposits increased S\$7.7 billion during the year, while savings deposits grew S\$3.6 billion.

Rise in Asian Dollar Market Lending

The Asian Dollar Market (ADM) rebounded in 2003, lifted by renewed optimism in the global economy (See Chart 3). Total assets in the ADM reached US\$509.1 billion at end 2003, up 5.5% from US\$482.6 billion at end 2002. The increase was largely due to the surge in the holdings of securities.



Mirroring developments in domestic lending, ACU loans to non-bank customers grew 7.3%, increasing from US\$77.9 billion at end 2002 to US\$83.6 billion at end 2003. With positive year-on-year growth for the first time since 1997, the decline of the ADM market may have finally bottomed out (See Chart 4). This turnaround was underpinned by an increase in lending to East Asia and the Americas.

Interbank lending in the ADM continued to be firm, amounting to US\$341.9 billion at end 2003, a modest 1.8% increase from US\$336 billion at end 2002 (See Chart 5). Most of the interbank lending in the ADM was directed to East Asia.

A ROBUST FINANCIAL SYSTEM

In September 2003, Singapore completed the Financial Sector Assessment Programme (FSAP). This is an external assessment by a team of International Monetary Fund (IMF), World Bank and regulatory experts, of a country's financial systemic stability and degree of compliance with and implementation of international financial sector standards and codes. The Financial System Stability Assessment report contains the main findings of the review and is available on the IMF website.

The FSAP team found Singapore's financial system to be generally robust, having weathered past negative economic shocks, including the financial crisis, the global electronics downturn and Severe Acute Respiratory Syndrome, without serious consequences. Stress tests generally indicate that Singapore's systemically important financial institutions remained resilient even under severe scenarios. The assessors nevertheless recommended that MAS continues to strengthen our macro-surveillance function. They noted a high level of observance of international standards and codes, technical competence, and standards of policy effectiveness.

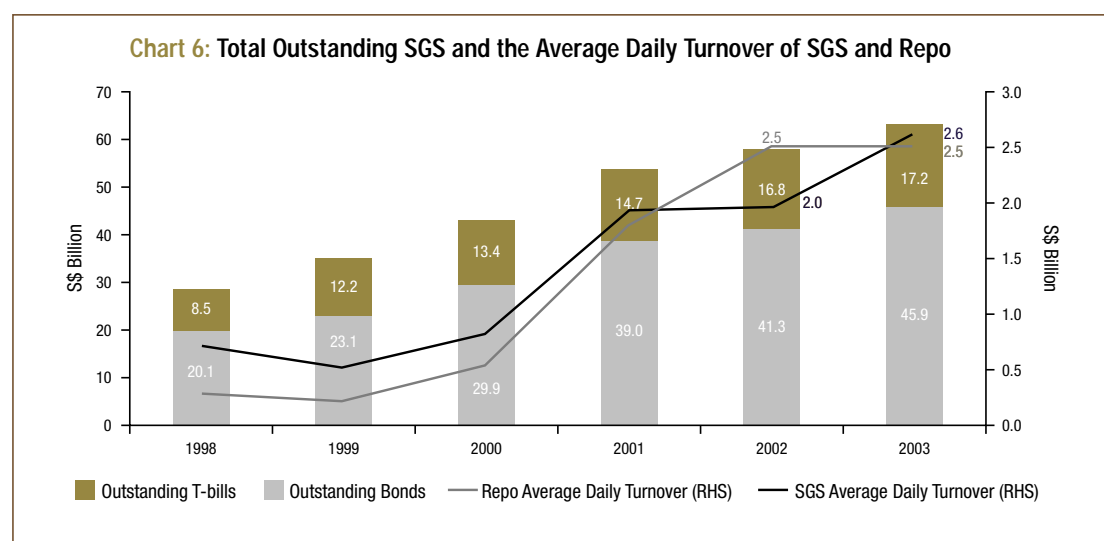
The FSAP team also assessed Singapore's anti-money laundering framework for compliance with the Financial Action Task Force (FATF) standards for Anti-Money Laundering and Countering the Financing of Terrorism. They found that Singapore complied well with most of the FATF standards and had in place a sound and comprehensive legal, institutional, policy and supervisory framework for countering money laundering and the financing of terrorism.

The FSAP team recommended three measures to address some medium-term vulnerabilities. MAS is generally agreeable with the FSAP team's findings and we have been taking steps to follow-up on them. The measures were:

- The risk-based regulatory and supervisory framework could be further enhanced through the completion of the review of the regulatory minimum capital requirements for local banks and the implementation of the risk-based capital framework for insurance companies.
- MAS should strengthen its accountability, independence and oversight capabilities by reducing the potential for conflicts of interest arising from the multiple official responsibilities of our chairman.
- MAS could further improve our monetary and financial policy transparency by disclosing more information to the public.

Deepening Singapore Government Securities Market

The Singapore Government Securities (SGS) market continued to grow, with total outstanding SGS growing S\$5 billion to S\$63.1 billion at end 2003 (See Chart 6).



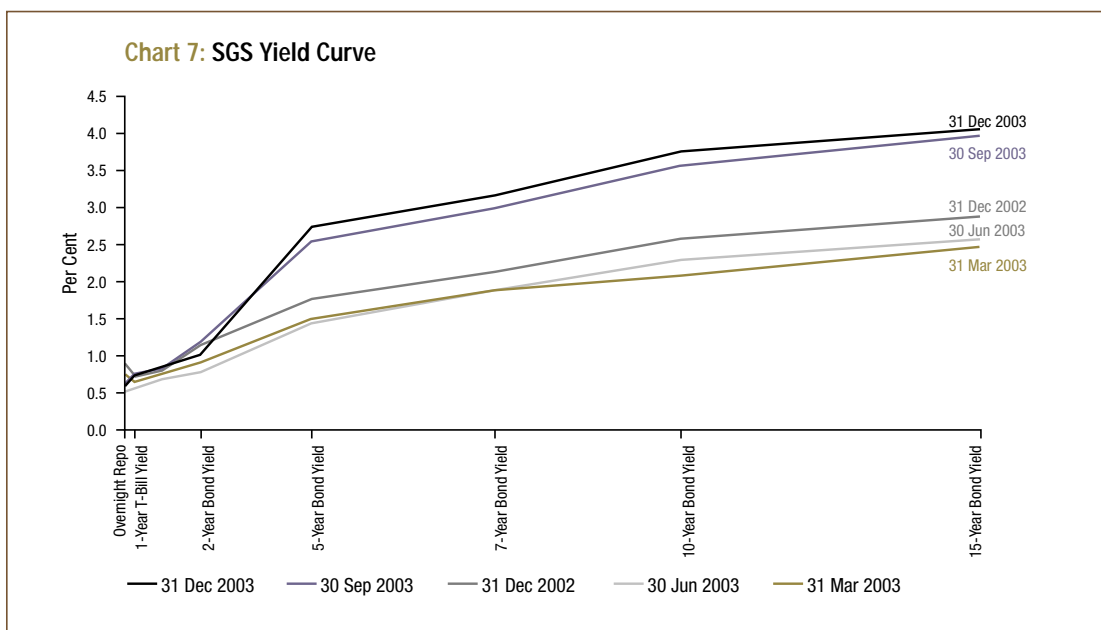
The gross issuance of SGS bonds rose to S\$9.6 billion in 2003, an increase of S\$1.2 billion from the previous year. With S\$5 billion of SGS bonds maturing during the year, net issuance amounted to S\$4.6 billion in 2003.

Activity in the SGS market was also strong with average daily trading volume rising to S\$2.6 billion in 2003, an increase of 30%. This increase largely reflected the sell-off in global bond markets in the second half of 2003, with average daily trading volume reaching a high of S\$4.2 billion in July 2003. This sell-off prompted a sharp rise in SGS outright trading in the third quarter of 2003 with average daily volume rising to S\$3.9 billion, more than twice the average daily volume in the previous quarter.

Trading in the SGS repo market continued to remain active with average daily turnover sustained at S\$2.5 billion (See Chart 6).

SGS yields fell to historical lows in the middle of 2003. The yields on 10-year SGS dropped to a low of 1.8% in May 2003 as global bond prices were bidded up sharply on the back of concerns over the war in Iraq, the impact of SARS and the poor economic outlook.

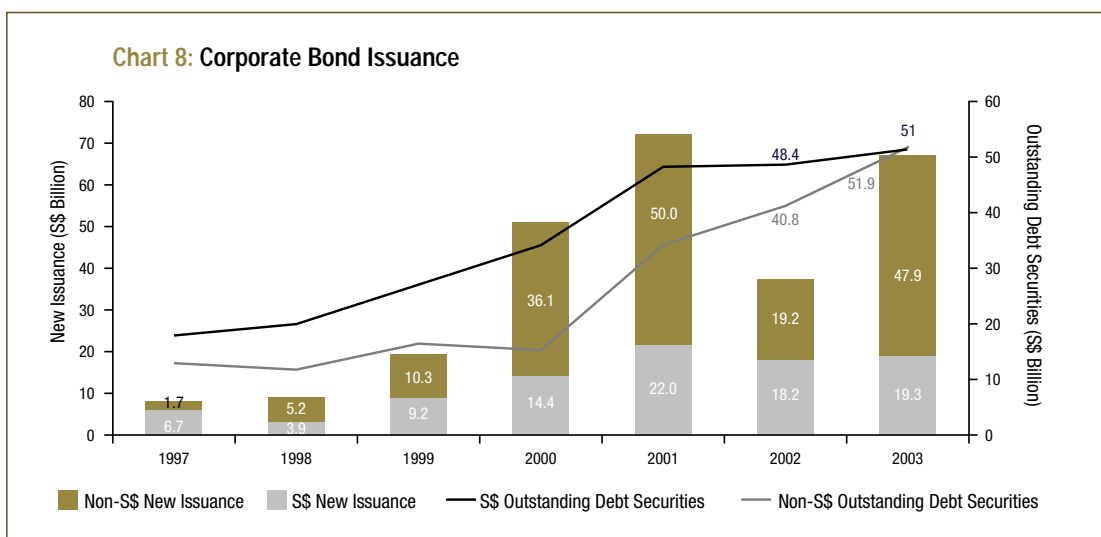
Following developments in the global bond markets, a sharp sell-off in the SGS market in July led to a steepening yield curve (See Chart 7). Global bond yields began to back up significantly in the latter half of 2003, driven by positive economic data, the rally in global stock markets, and expectations of a turnaround in the interest rate cycle.

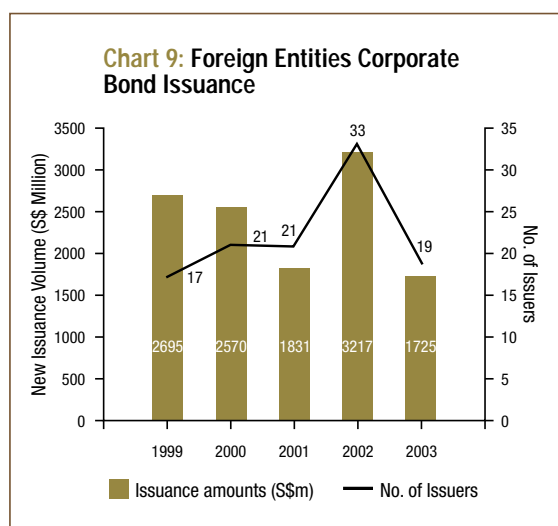


Healthy Growth in Corporate Debt Market

The corporate debt market also continued to grow in 2003, with total outstanding corporate debt securities rising 16% to S\$103 billion at year-end, as a diversified range of borrowers tapped the Singapore market. The volume of new corporate debt issuance also grew 79.7% to S\$67.2 billion at end 2003 (See Chart 8).

The bond market saw strong interest in structured products as investors sought higher yields in a low interest rate environment.





Foreign entity corporate bond issuance dipped slightly in value to \$1.7 billion (See Chart 9). Issuance in the first part of the year was low due to uncertainty brought about by the outbreak of SARS and the war in Iraq. However issuance started to pick up in the last quarter of 2003 and continued to be strong into the first quarter of 2004.

Active Trading in Equities and Futures Market

Market activity in early 2003 was characterised by sluggish trading volumes and languishing stock prices, as investor confidence was weighed down by concerns over the Iraq war in early 2003 and by the subsequent outbreak of SARS in April. The local market subsequently emerged from the doldrums with the containment of SARS and the end to the war. The Singapore economy's robust recovery from SARS and the broad improvement in the global economic climate prompted investors to shift their portfolios into equities and other cyclically sensitive assets. As at end 2003, the STI rose to 1,764.5 points, an increase of 31.6% from the start of the year.

Turnover value on the Singapore Exchange (SGX) rose to S\$162 billion in 2003, an increase of 36.4%. In volume terms, turnover grew 94.6% to 218 billion shares, with a significant portion of the increase concentrated in the second half of 2003. The joint market capitalisation of the Mainboard and SESDAQ rose 34% to S\$390 billion in 2003, boosted by the rise in equity prices and in the number of listed companies. As at end 2003, a total of 413 companies were listed on the Mainboard and 138 companies were listed on SESDAQ, up from 385 and 116 in 2002.

In 2003, the number of derivative contracts traded on Singapore Exchange Derivatives Trading (SGX-DT) increased 7.1% to a record 35 million, surpassing the previous record of 33 million set in 2002. This growth was mainly attributable to trading in the Nikkei 225 stock index futures contract, which grew 46% to reach 7.1 million contracts in 2003.

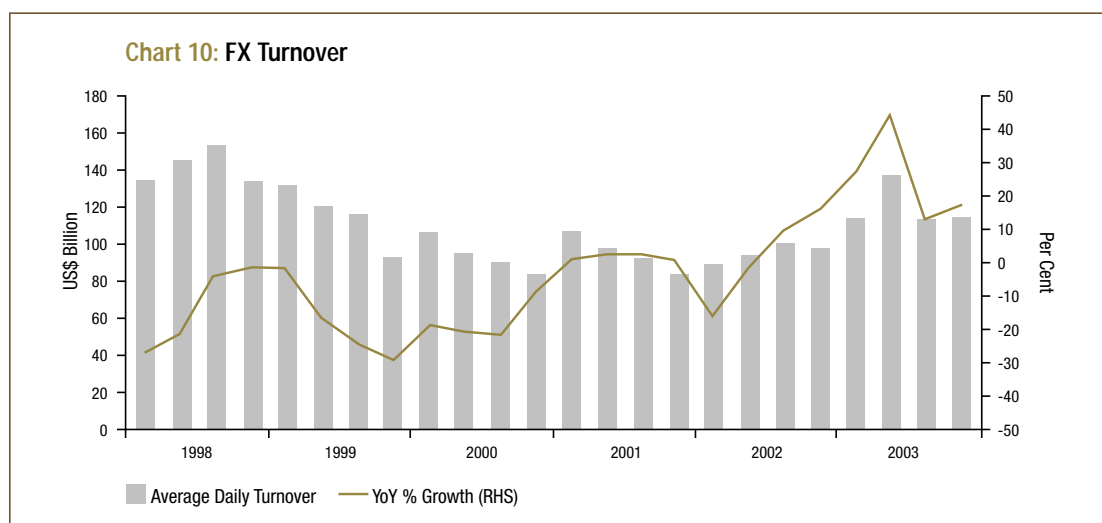
There continued to be strong interest in the Eurodollar interest rate futures contract with trading accounting for 53% of total volumes on SGX-DT. Other high volume contracts include the MSCI Taiwan index futures, Euroyen interest rate futures, and the five-year Singapore government bond futures contract, which all saw growth in 2003.

IPO Prospectus Registration and CIS Approval

Between 1 January 2003 and 31 December 2003, MAS registered 58 Prospectuses for initial public offers of shares by companies, authorised 56 Collective Investment Schemes (CIS) constituted in Singapore, and recognised 78 CIS constituted overseas.

Vibrant Treasury Market

The FX market sustained its growth momentum into 2003. Average daily trading volume picked up significantly in the first half of 2003 before moderating. Daily trading volume averaged US\$119.4 billion in 2003, peaking at US\$136.5 billion in the second quarter, the highest level since 1998 (See Chart 10). The surge in trading volume reflected heightened exchange rate volatility in major currency pairs such as Euro/US Dollar (USD) and USD/Japanese Yen (JPY), and coincided with a synchronised sell off in the USD amid concerns of slowing US growth, the sustainability of high US current account and budget deficits given the low interest rate environment, and the possibility of a protracted war in Iraq.



Major currencies like the USD, Euro and JPY maintained their dominance in the FX market. Trading in USD/SGD contributed almost 10% of total turnover in 2003.

THE SINGAPORE IPO MARKET

Initial Public Offer (IPO) market activity in Singapore picked up in mid 2003 after SARS was brought under control in Asia. The number of new listings rose 83% to 55 in 2003 but the amount raised rose by a smaller magnitude of 13% to S\$1.7 billion in 2003 (See Chart 11). In addition, IPOs listed in 2003 registered higher relative returns versus their peers listed in 2000 to 2002 (See Chart 12). The higher returns could be a result of an improved economic outlook, the stock market rally and conservative pricing of IPO shares. Demand for IPO shares soared as the average subscription level for IPO public tranches jumped from 24 times in 2001 to 167 times in 2003.

Chart 11: IPO Market Activity in Singapore

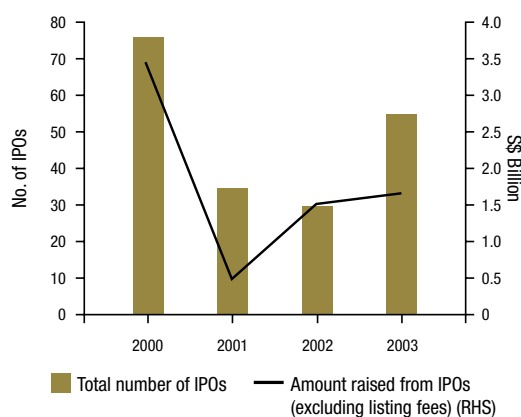
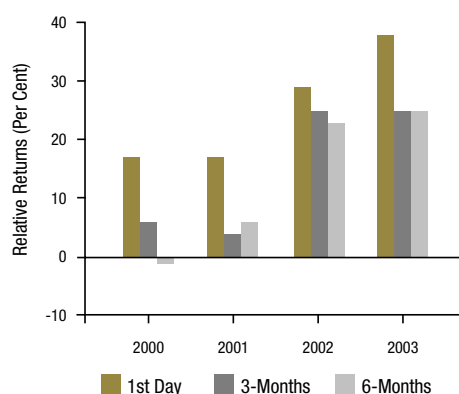


Chart 12: Average Relative Returns of IPO



While the IPOs in 2000 largely comprised of local companies, the IPOs in 2003 included both local and foreign IPOs, a majority of which were from China. The number of Chinese IPOs rose from zero in 2002 to 15 in 2003 (See Chart 13). They were mainly manufacturers from a number of different industries, including electronics, plastic and metal products industries. The amounts raised by these IPOs were not significantly different from that of the average IPO. The IPO market relative to the overall Singapore stock market moreover remains small, with the 55 IPOs listed in 2003 constituting only 1.3% of the SGX market capitalisation.

Foreign-based IPOs have contributed significantly to the IPO market but investors need to be aware of the risks involved. There is limited recourse in the event of fraud with regards to foreign-based IPOs. It may also be harder to conduct investigations of any wrongdoings committed at the foreign subsidiaries. Coverage of and information on foreign-based IPOs may also be more limited because of the geographic distance.

Chart 13: Origin of Companies Listed in Singapore

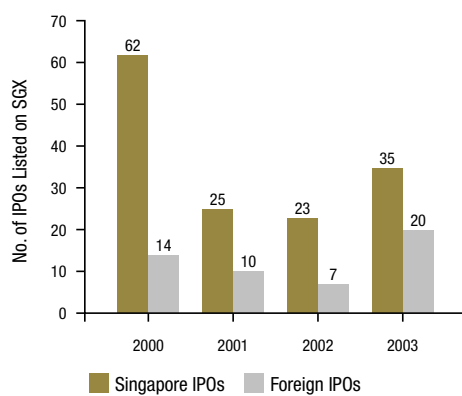
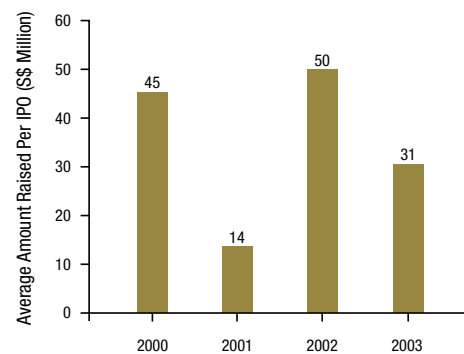
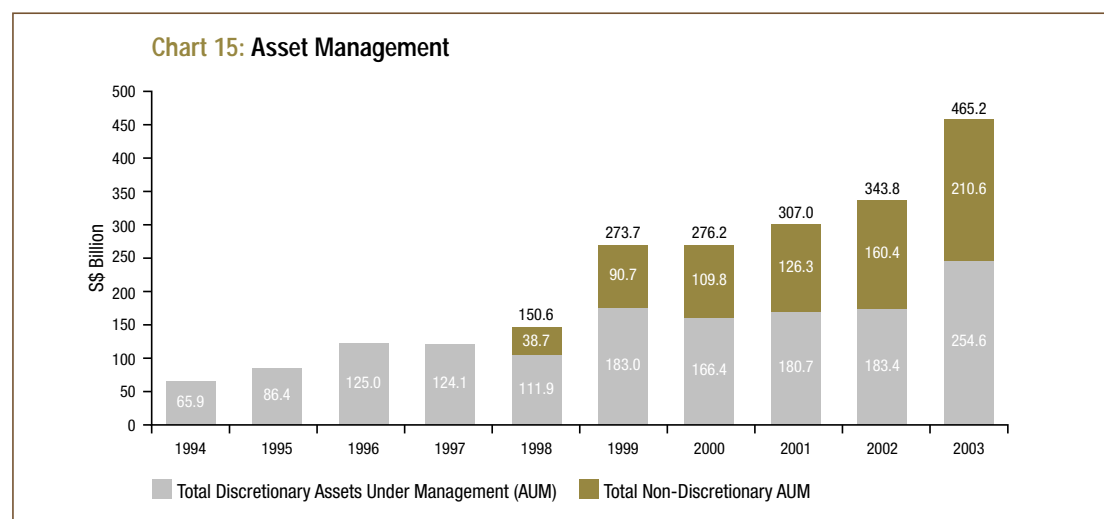


Chart 14: Average Amount Raised Per IPO



Asset and Wealth Management – Impressive Performance

The asset management industry continued to expand as fund managers added more functions such as regional trading desks and centralised their back offices in Singapore. Total assets managed by Singapore-based financial institutions grew 35.3% in 2003 to S\$465.2 billion, comprising S\$254.6 billion of discretionary assets and S\$210.6 billion of non-discretionary assets (See Chart 15). The increase in assets under management reflected renewed foreign investor interest in Asia, the centralisation of the management of regional portfolios in Singapore, and market appreciation.

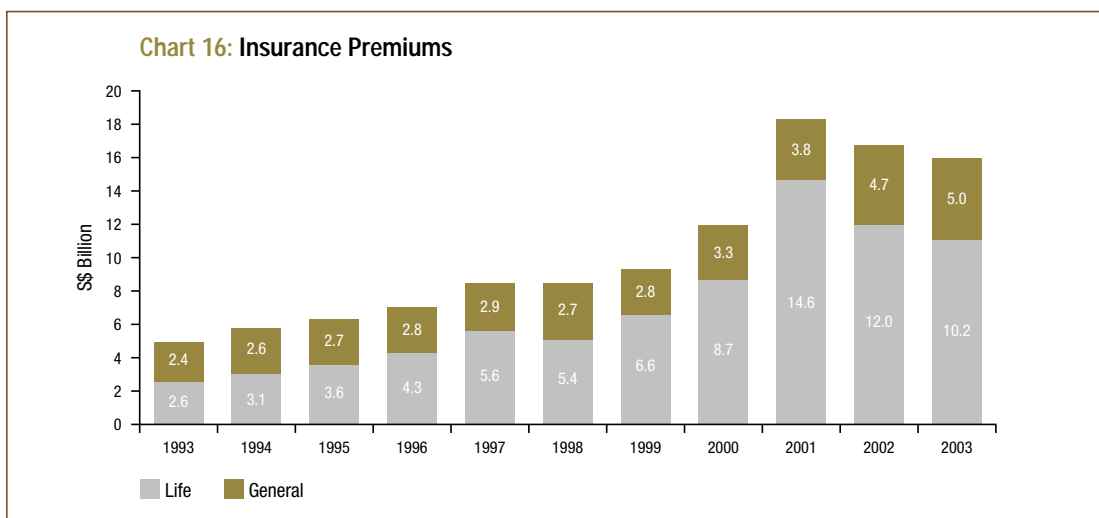


There has also been an increasing interest in alternative investments managed from Singapore, including Real Estate Investment Trusts (REITs), private equity and venture capital and hedge funds. In 2003, listed REITs announced better-than-expected results and MAS continued to work on a more flexible regulatory environment for the management of such investments. Hedge funds also performed well, reflecting the increased sophistication of investors. The number of hedge fund managers grew 34% from 41 at end 2003 to 55 at end May 2004. Alternative investment managers were attracted to Singapore's low business cost, conducive tax framework, transparent and sound supervisory framework, and investment-friendly environment.

Private banking also saw strong growth last year. Anecdotally, private banks have indicated to MAS continued strong performance both in terms of asset gathering as well as profits and revenues. Asia is currently the fastest growing market in the world for private wealth services. Demand for advice on estate and succession planning has been on an increasing trend. Employment in the industry has been strong with the creation of new jobs in relationship management, product specialisation as well as mid-office positions.

Mixed Performance for Insurance

The insurance industry's performance was mixed in 2003, with an improvement in general insurance but a drop in new life insurance business. While general insurance premiums increased, life insurance premiums continued to decline (See Chart 16).



General insurance premiums rose to S\$5 billion, a 5% increase, with domestic business written making up S\$2.3 billion of the total. Premiums from domestic business written grew 5.1%. Premiums from the motor and health categories also saw continued growth, growing 9.6% and 12% respectively. The increase in motor premiums to S\$698.4 million can be partly attributed to higher premium rates. Health insurance premiums amounted to S\$240 million.

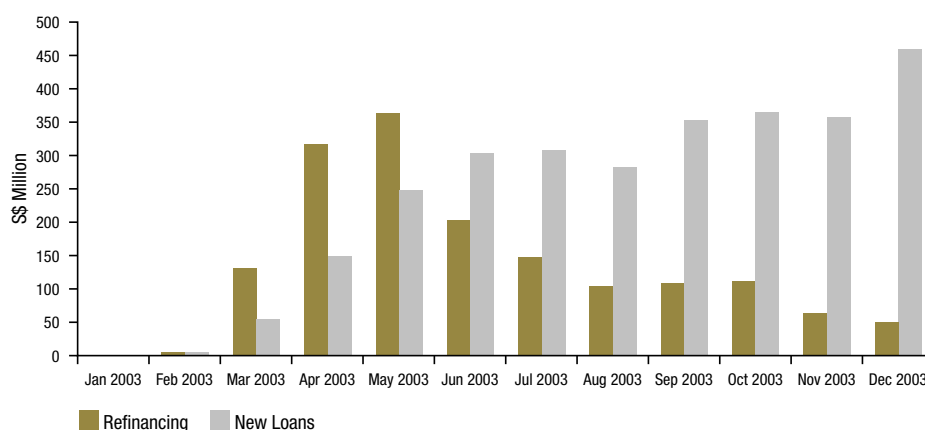
In contrast, the life insurance sector was affected by both the economic slowdown and SARS in March 2003. Premiums from single premium life insurance declined 22.4% to S\$4.6 billion due in part to a non-recurring surge in such business in 2001 and 2002. The sector experienced a strong recovery in investment-linked business in the second half of 2003.

Box 14

BANK LOANS TO HDB FLAT BUYERS

With the liberalisation of HDB mortgage market in January 2003, HDB has stopped providing market-rate loans to HDB flat buyers. Instead, flat buyers who are not eligible for HDB concessionary loans would have to obtain loans from the banks to finance their flat purchase at commercial rates and terms. Existing HDB mortgagors can continue their existing mortgages provided by HDB, or refinance their loans with banks if they choose to. Bank origination of HDB mortgage loans has grown steadily since the liberalisation, with many banks offering competitive mortgage packages. New HDB loans offered by banks reached S\$2.9 billion by the end of 2003 while refinancing of the existing stock of HDB market-rate loans totalled S\$1.6 billion¹.

Chart 17: Bank-Originated HDB Loans (by Month)



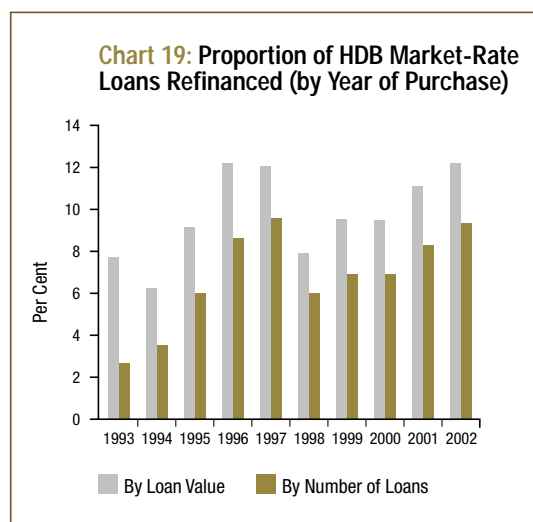
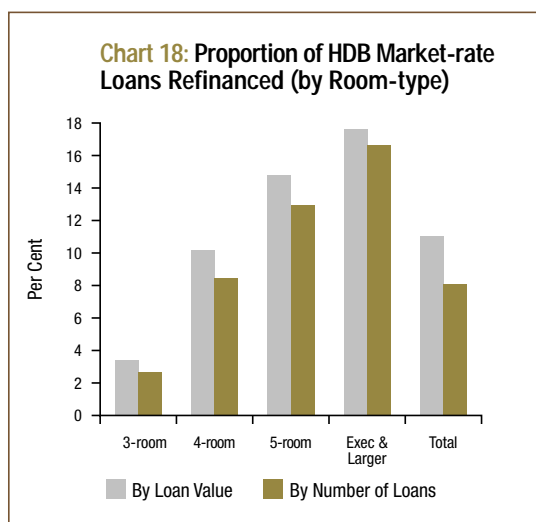
After an initial crest of refinancing activity from March to May, volume and value of refinancing declined from June onwards, down to less than S\$50 million in December² (See Chart 17). The total refinancing amount of S\$1.6 billion represented 11.7% of HDB's stock of market-rate loans as at end-2002. The modest amount of refinancing with banks of the existing stock of HDB loans could be because of borrowers' perceptions that banks might be less forbearing with late payments; or a required minimum refinancing threshold with banks.

¹ In this write-up, housing loans data include small amounts originating from finance companies.

² The refinanced loans include negligible amounts refinanced from HDB concessionary-rate loans.

Nevertheless, the S\$4.5 billion of total bank-originated loans has been an important part of the banks' overall loan growth, accounting for 65.5% of the net increase of S\$6.9 billion in the total stock of housing loans in 2003. Excluding the bank-originated HDB loan component, mortgage loan growth at end-2003 would have been 5.1%, instead of 14.9%.

Normalising the distribution of refinanced market-rate loans by room type and by year of purchase over the distribution in HDB's stock of market-rate loans, refinanced HDB loans were mostly for larger flats, particularly the four-room and five-room (See Chart 18). Larger flats were more likely to be refinanced in view of the higher loan quantum. In terms of the year of purchase, HDB properties purchased in recent years, and those purchased during the peak of the property price cycle in 1996 and 1997 were more likely to be refinanced (see Chart 19). The underlying factor could simply be the larger loan quantum and hence larger savings in interest payment due to the lower initial interest rates offered by the banks.



Following the liberalisation of the HDB mortgage loan market in 2003, HDB's stock of market-rate loans fell from S\$13.8 billion at end-2002 to S\$11.7 billion at end-2003³. Concessionary-rate loans also witnessed a decline from S\$50.4 billion to S\$49 billion.

³ Although HDB has officially stopped providing new market-rate loans, some S\$551.5 million was extended due to new or resale transactions booked before 1 January 2003 but completed only after 1 January 2003.



FUNDAMENTALS

The right fundamentals are necessary to develop a sound financial system and resilient domestic economy. We periodically review our policies to ensure they stay relevant.



ECONOMIC DEVELOPMENTS AND MONETARY POLICY

Economic Developments and Monetary Policy

The World Economy: Global Upswing

In the first half of the year, the combination of the Iraqi conflict and the outbreak of Severe Acute Respiratory Syndrome or SARS impacted the global economy, especially the Asian countries. However, affirmative measures to bring the economies back to gear generally resulted in encouraging economic data towards the second half.

The economic turnaround was led by the United States and Japan, the two largest economies in the world. China also expanded rapidly, helping to pull up the rest of Asia.

US: Vibrant Pace

The US economy responded to the highly accommodative monetary and fiscal policies to surge ahead in the second half of 2003. Household spending grew at a brisk pace, and after a period of consolidation, private capital spending also picked up, fuelled by low interest rates, robust corporate profits and accelerated depreciation allowance. Leading indicators suggest that the growth momentum will remain strong in 2004. The Institute of Supply Management's indices of manufacturing and non-manufacturing activities recorded high readings in the first five months of this year. Industrial output and capacity utilisation have picked up strongly amid robust retail sales. Indeed, consensus forecast for GDP growth this year has risen to 4.7%, the fastest in two decades.

Not surprisingly, the renewed strength in the US economy, rising employment and higher oil prices have reignited fears of rising inflation. Reflecting these fears, the yield on the benchmark 10-year Treasury note has backed up to about 4.7% in June, more than 100 basis point above its low in March. Rising optimism about the US economy has led to a brief strengthening of the US Dollar in the first few months of this year.

Europe: Mixed

The Euroland economy returned to positive, albeit modest, growth in the final two quarters of last year, after contracting in the first two. However, the pace of the recovery remains weak and lags well behind the current expansion in the US.

Asia: Broad-based Growth Expected

With the end of SARS, the Asian economies began to strengthen in the third quarter of 2003, as tourist arrivals picked up and consumption returned to more normal levels. Barring any unforeseen circumstances, Asia's growth, initially driven by exports, is likely to become more broad-based as income and employment growth pick up over time.

After being dormant for so long, the Japanese economy surprised with impressive annual growth of over 6% in the final quarter of last year and first quarter of this year. Growth was primarily driven by non-residential fixed investment spending on a rise in corporate profits. Exports also rose sharply despite the Yen's strength, with China becoming an increasingly important catalyst.

Box 15

DEBUNKING THE DEFLATION MYTH IN SINGAPORE

With inflation in a number of countries falling into negative territory, there were concerns that Singapore may also be caught in a deflationary cycle. Against this backdrop, MAS undertook a study to examine consumer price movements in Singapore over the past two decades¹.

There were three occasions when consumer prices declined over a fairly extended period of time, coinciding with the major recessions in 1986-87, 1998-99, and 2001-02. The study concluded that the periods of price declines were largely cyclical in nature and reflected efficient market adjustments to a fall in aggregate demand, thus preventing an even more severe adjustment in real economic activity. These price declines cannot be characterised as sustained deflation. The most recent episode in 2001-02 also reflected oil-related supply shocks and policy induced relief measures, suggesting the role of favourable supply-side developments.

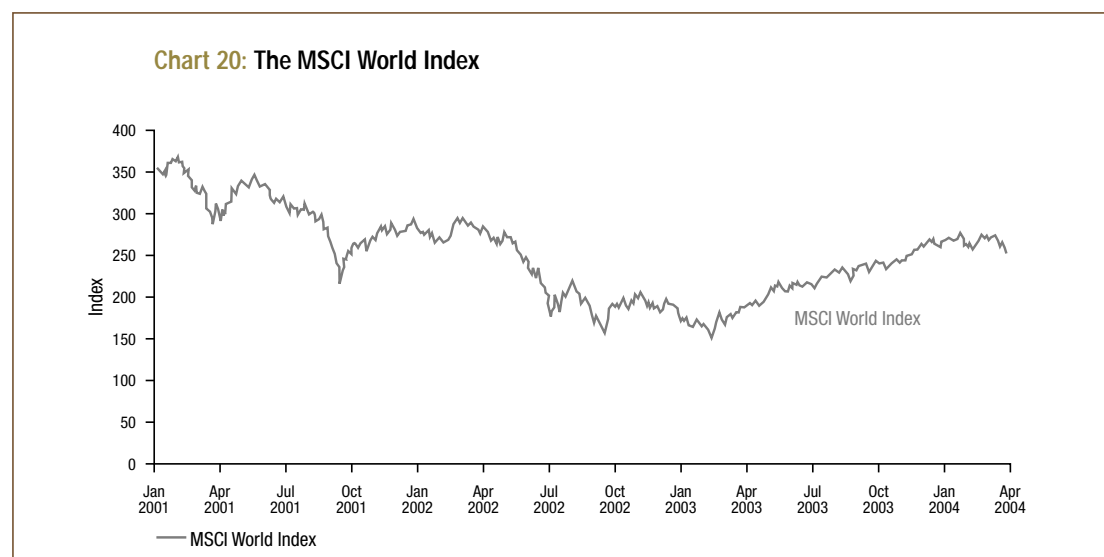
The study identified ongoing structural changes in the economy influencing prices as well. These include the benefits of globalisation, liberalisation and productivity improvements in the economy that have offered consumers a greater quality and variety of goods at reduced prices. As the economy recovers, the cyclical drag on prices will diminish, even as the ongoing structural developments continue to play a role in the longer-term evolution of prices.

China continued to spring ahead with GDP growth last year at 9.1%. Indeed, there are growing fears of overheating, driven in part by strong investment spending and credit demand. While significant, these pressures have been capped by timely measures to moderate demand growth.

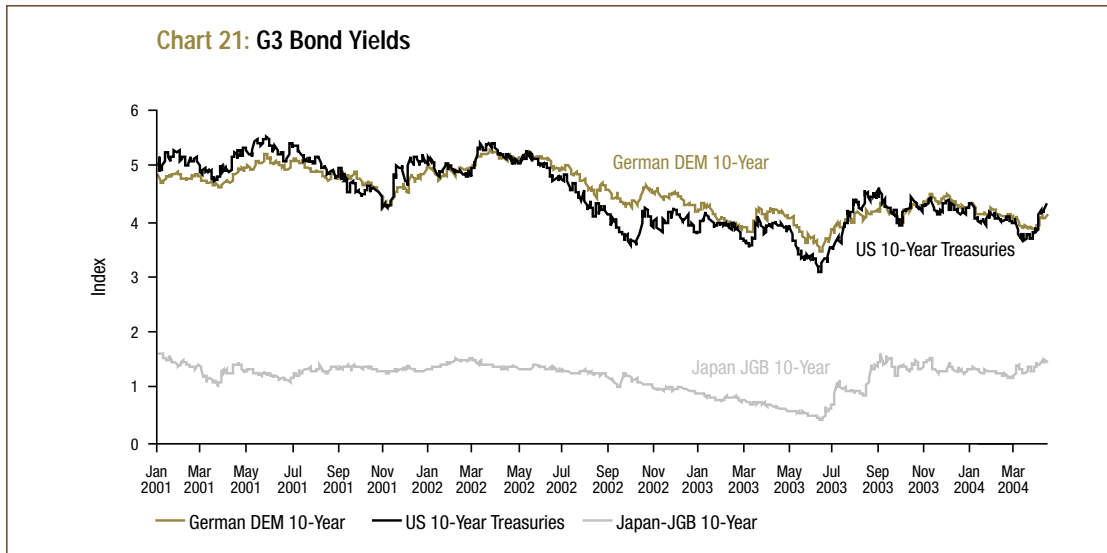
For South-east Asia, the growth momentum will continue to be propelled by strong external demand and rising consumption. Although private investments are starting to pick up, the recovery is expected to be gradual due in part to lingering political and security concerns. All in, conditions have generally become more favourable for a period of sustained growth in the region.

International Financial Markets: Broad Recovery Amid Uncertainty

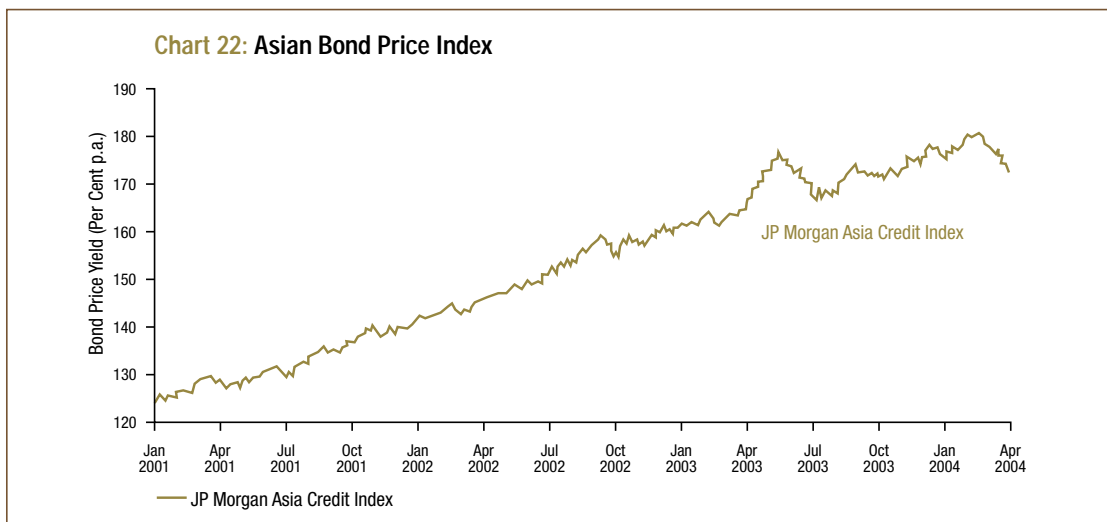
Global stock markets saw a lacklustre start to 2003 as economic uncertainty continued to weigh on market sentiment. Following the successful containment of SARS and the conclusion of the Iraq war, global equities recovered in the second half of the year, buoyed by a turnaround in the world economic environment. However, markets saw a sharp correction in March 2004 following the Madrid bombings and a rise in Middle East tensions. More recently, Asian stock markets have been unsettled by uncertainty over the timing and magnitude of a possible tightening in US interest rates and the risk of a hard landing in China (See Chart 20). Rising security concerns and political uncertainty also dampened South-east Asian stock markets.



Following the global stock market recovery, global bond yield backed up sharply in the third quarter of 2003, but thereafter returned to more moderate levels for the remainder of the year as concerns over a possible tightening of US interest rates diminished. Global bond yields have however started to rise again in recent weeks following market expectations that the Fed will begin to tighten interest rates over the next six months (See Chart 21).

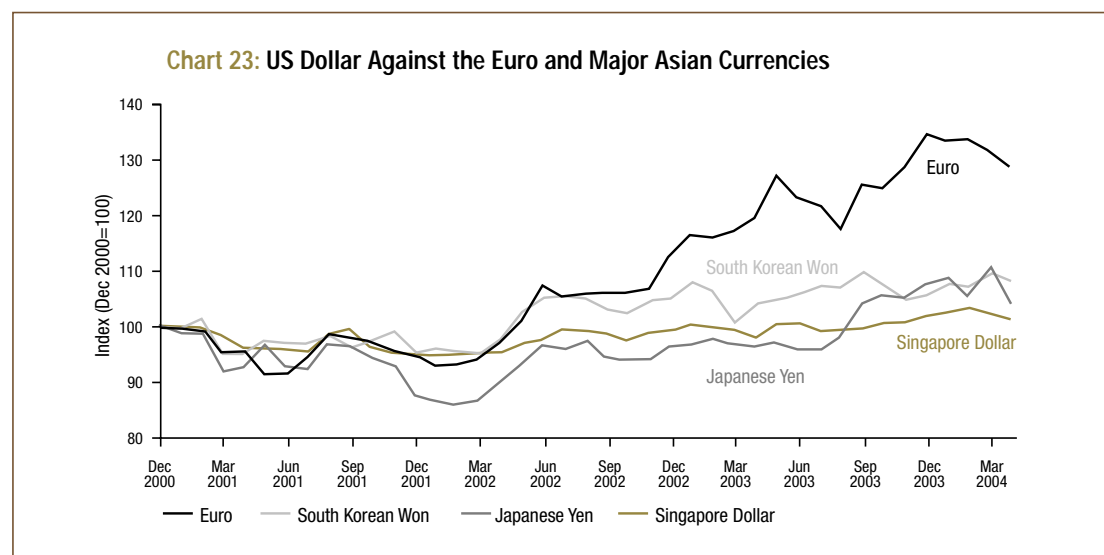


While Asian bonds have continued to perform well, bond prices have also begun to correct in March 2004 as concerns over the possibility of a US interest rate hike weighed adversely on prices (See Chart 22).



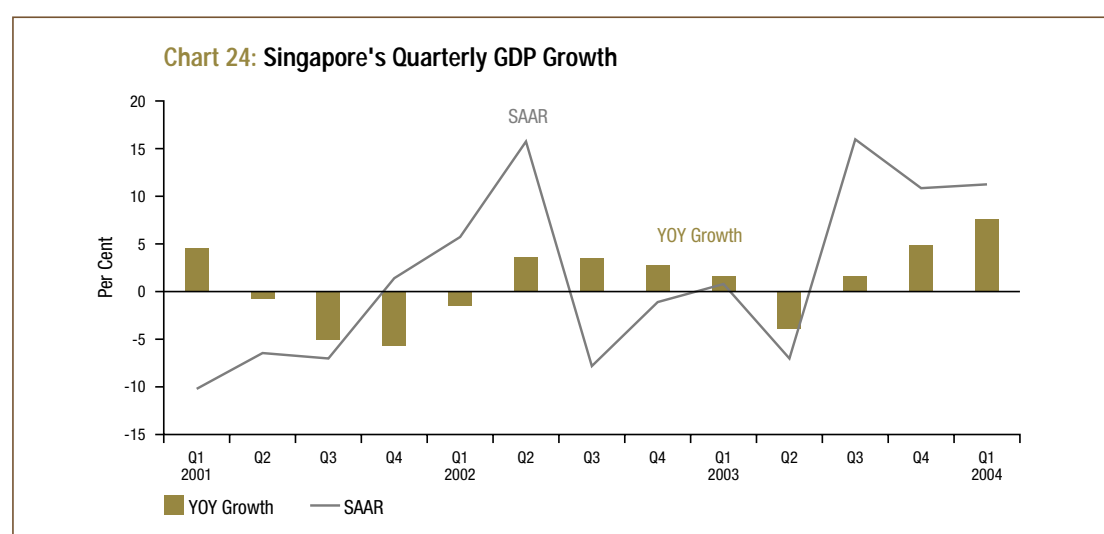
In the currency market, following a brief rally in the US Dollar with the successful conclusion of the Iraq war, concerns over the US current account deficit and US involvement in Iraq have continued to weaken the greenback from July 2003. In addition, the increasing perception that Asian currencies were undervalued against

the US Dollar has also contributed to further weakness in the greenback. Nascent signs of a Japanese economic recovery at the beginning of 2004 also strengthened the Yen and lifted the other East Asian currencies in tandem. The broad strengthening in East Asian currencies was also underpinned by the region's synchronised growth upswing. More recently, renewed concerns of a possible rise in US interest rates and a China economic slowdown have weakened Asian currencies somewhat (See Chart 23).



Singapore: Riding the Global Recovery

The year 2003 was an eventful one for the Singapore economy which expanded by 1.1% (See Chart 24). In the first quarter of the year, the economy plodded along against the backdrop of heightened uncertainties in the external environment. Concerns over the impending US-Iraq war weighed down on economic growth, especially the external-driven trade-related sectors.

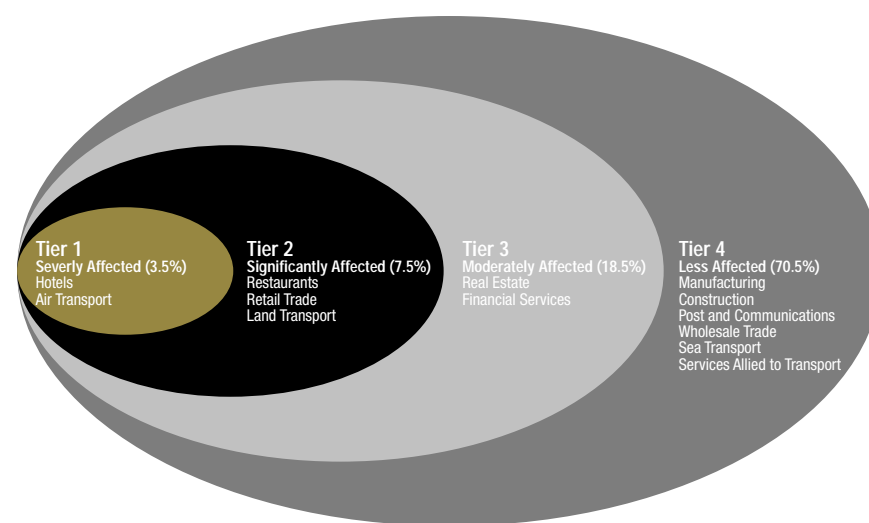


However, even before the war was over, the economy was hit by an unprecedented shock in the second quarter – SARS – which took a heavy toll on the domestic economy. SARS had an uneven impact on various sectors of the economy. A four-tiered framework to assess the impact on the respective sectors (See Chart 25) showed that the tourism and travel-related or Tier 1 industries were most severely hit. The negative impact of SARS was compounded by weakness in the manufacturing and trade-related services sectors, on the back of lacklustre demand in the global IT market. As a result, GDP growth contracted sharply by 7% on a seasonally adjusted annualised basis during the quarter.

Alongside the rapid containment of SARS and the synchronised upturn in the global economy, domestic economic activity rebounded strongly in the third and fourth quarter of 2003. The Singapore economy appeared to have finally turned the corner in the second half of last year. For the year as a whole, the economy registered a modest 1.1% growth.

Similarly in the labour market, SARS took a severe toll on employment. However, the strong cyclical recovery towards the end of 2003 coupled with the post-SARS rehiring, led to improved performance towards the fourth quarter. The seasonally adjusted unemployment rate fell from 5.5% in September 2003 to 4.5% in December 2003. This reduction in the unemployment rate reflected a better-than-expected pickup in the job market due to the sustained growth momentum in the services and manufacturing sectors.

Chart 25: Impact of SARS on the Domestic Economy*



* MAS internal estimates

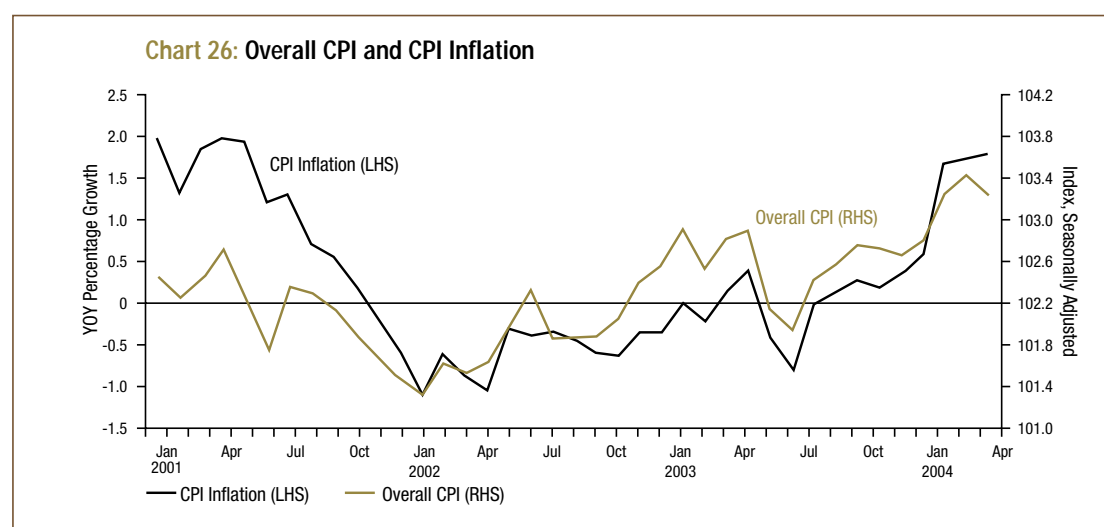
Note: Sectors are grouped according to how severely they were affected by SARS, with Tier 1 industries being the most affected.

() refers to percentage share of sectors in real GDP

Moving into 2004, latest indications suggest that the growth momentum has remained strong in the early part of this year, as the external environment continued to improve. More notably, the strong expansion in the first quarter of 2004 was broad-based across sectors. However, the recovery momentum could settle at a more moderate and sustainable pace in the quarters ahead, following three consecutive quarters of double-digit sequential growth since the third quarter of 2003. In addition, there are still some residual uncertainties as we move into the second half of the year. These include the sustainability of the strength of the US economy and global IT demand.

The recovery in the domestic economy is expected to filter down to the labour market, with the services sector expected to be the main engine of employment growth. Nevertheless, job growth may not be as strong as compared to previous upturns, given ongoing structural developments such as the global trend of outsourcing and offshoring. For 2004, the headline nominal wage growth is expected to come in within the 2-4% range, following a 1.7% growth in 2003, while the unemployment rate is projected to moderate to 4% by year-end.

Consumer Price Index (CPI) inflation averaged 0.5% for 2003, up from the marginal 0.4% contraction in 2002 (See Chart 26). The rise was driven by several cost-push factors, arising from both external and domestic sources. In particular, there were some commodity-related price pressures, as higher inflation of these commodity imports filtered into domestic consumer prices. A two-stage pass-through framework was used to analyse how external prices feed into domestic consumer prices. From our analysis, the rise in global oil prices over much of 2003 filtered through to domestic petrol prices and electricity tariffs. However, the increases in the former were moderated by domestic competition at the second stage, with an extended petrol price war among pump operators. Prices of food commodities generally trended up



as well, reflecting some supply-side constraints as well as rising demand alongside the global economic recovery.

On the domestic front, price increases of some consumer services continued to keep apace, while hikes in the Goods and Services Tax and some other administrative charges such as tobacco excise duties also contributed to the higher inflation. Nevertheless, overall CPI inflation was somewhat dampened by the general weakness in domestic demand conditions, as the uncertainties over the economic outlook due to the Iraq war and SARS took a toll on consumer confidence.

In early 2004, the recovery momentum in the domestic economy has improved consumer confidence and led to a turnaround in prices of some consumer items. For the rest of the year, consumer prices are expected to see a firmer recovery path. Several sentiment sensitive items are likely to see stronger increases, even as commodity-related price pressures continue to exert upward pressure on overall consumer prices. For 2004 as a whole, headline CPI inflation is expected to come in between 1.5-2%.

Box 16

EXCHANGE RATE AND MACROECONOMIC VOLATILITY

Do exchange rate fluctuations affect the volatility of macroeconomic variables, such as output, money supply, export volumes and interest rates? Past studies have shown that this is not so. MAS published a paper entitled “Investigating the Relationship between Exchange Rate Volatility and Macroeconomic Volatility in Singapore¹” which examines the characteristics of the volatility of the Singapore Dollar Nominal Effective Exchange Rate (S\$ NEER) and investigates how this affects the real economy.

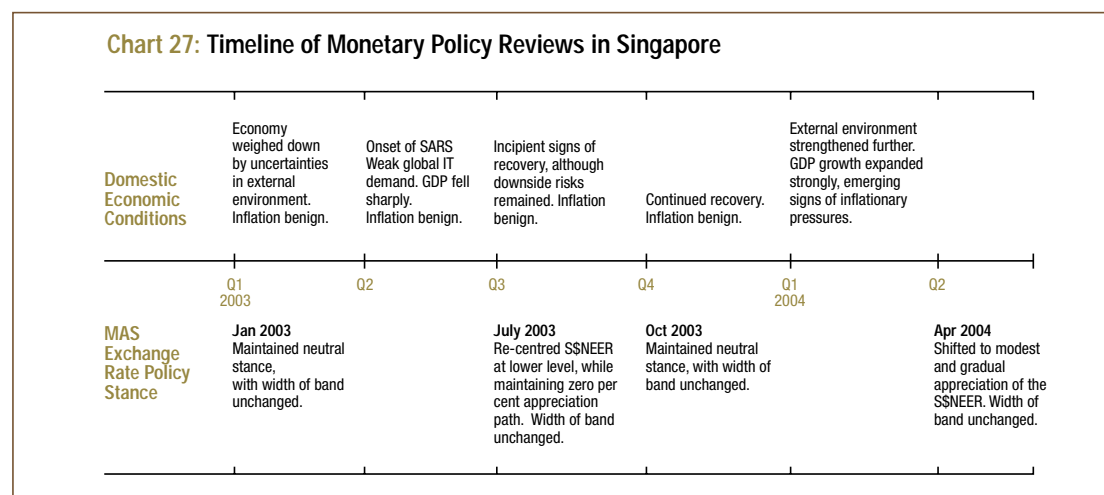
Our study found little evidence of a relationship between exchange rate volatility and the volatility displayed by a number of key macroeconomic variables. In addition, we specifically assessed the effects of exchange rate volatility on bilateral trade flows in Singapore using a standard “gravity” model as well as a multivariate error correction model and found the impact to be relatively small.

The study concluded that deep and efficient financial markets can provide an effective buffer against shocks in the external environment. In Singapore’s context, it was also found that the flexibility accorded by the presence of bands in MAS’ managed exchange rate float system, may have helped to prevent a spill-over of volatility into the real economy.

1 MAS Staff Paper No. 25 Investigating The Relationship between Exchange Rate Volatility and Macroeconomic Volatility in Singapore.

Monetary Policy in an Increasingly Volatile Environment

The eventful recovery path of the Singapore economy represented a major challenge to MAS on the policy making front. Against this setting, we adopted a flexible approach in terms of monetary policy management. Chart 27 below shows the timeline of the various monetary policy reviews by MAS in 2003 and 2004.



Amid the general climate of cost reduction (for example the Central Provident Fund cuts) and the slack in the domestic economy in 2003, MAS has allowed the exchange rate to adjust to the low cost environment to give the domestic economy adequate support. In particular, in July 2003, we re-centred the exchange rate policy band at the prevailing level of the trade-weighted S\$, while maintaining a zero per cent appreciation of the trade-weighted S\$ policy path, with no change in the width of the band. The re-centring of the policy band at a lower level represented an easing of the monetary policy stance, which was assessed to be appropriate in supporting the incipient recovery in the Singapore economy in a low inflation environment. Against the backdrop of a soft global interest rates environment, coupled with the easy domestic liquidity conditions, interest rates have remained low throughout 2003.

However, as signs of a firmer and more broad-based economic recovery emerged in late 2003, coupled with a potential rise in inflationary pressures, MAS signalled a shift in policy from a zero per cent appreciation path to a policy of modest and gradual appreciation of the trade-weighted S\$, starting from the mid-point of the policy band in April 2004. This policy stance was assessed to be supportive of economic growth, while ensuring low and stable inflation over the medium-term (See Chart 27).

Strengthening the Monetary Policy Formulation Process

In the context of an increasingly volatile environment, we intensified efforts to enhance the surveillance and forecasting framework for monetary policy. This includes a greater emphasis on quantitative policy analysis, which has allowed us to assess the

impact of various policy options under different scenarios. We also decided to shift the schedule of our semi-annual monetary policy cycle from January/July to April/October. A review of the experience in the past two years suggested that the shift in the policy cycle would facilitate the incorporation of the fiscal impact of the annual Budget on the economy in the April review of monetary policy. It would also allow MAS to make better use of the forecast and data releases by the Ministry of Trade and Industry and Department of Statistics to assess the economic outlook and the appropriate monetary policy stance. To enhance public understanding of price developments in the economy, MAS decided to release the Inflation Monthly report on our website.

Recent Policy Research and Analysis Against the Backdrop of More Frequent Shocks

Recent policy research has been geared towards enhancing the understanding of the structure and analytics of the Singapore economy, in view of the increased frequency of shocks and the ongoing structural changes (See Boxes 15 to 17). In addition, as part of our continuing efforts to raise the standard of research and analysis, we introduced a Visiting Scholar programme to leverage on the expertise of several eminent economists¹. We also benefited from the transfer of knowledge and technology. Many of the economists and visiting scholars delivered MAS-sponsored public lectures and conducted several internal lectures or seminars. Staff Papers prepared by these visitors are available on our website.

Box 17


CREATING AN ELECTRONICS LEADING INDEX

Given the importance of the electronics industry to the Singapore economy, the MAS Economic Policy Department has been tracking a series of indicators pertaining to the global electronics industry. We embarked on an empirical study last year to construct a composite electronics leading index (ELI) that can generate quantitative forecasts of domestic electronics production². The index includes both US and domestic indicators and is able to capture demand and supply dynamics by incorporating information on new orders, shipments, inventories and prices.

The development of the ELI possibly represents a first attempt at using rigorous econometric techniques to select the best plausible set of leading indicators, which can be combined to provide a useful assessment of global electronics activity.

1 In FY2003, the visitors included Professor Barry Eichengreen (University of California, Berkeley), Professor Ronald MacDonald (University of Strathclyde) and Professor Andrew Rose (University of California, Berkeley).

2 MAS Staff Paper No. 30 Using Leading Indicators to Forecast the Singapore Electronics Industry.



COOPERATION

We strive to enhance cooperation across borders. We collaborate to create more win-win outcomes for Singapore and the region.



MAS IN THE INTERNATIONAL ARENA

MAS in the International Arena

In 2003, Asian economies witnessed good recovery fueled by rising domestic demand and increased intra-regional trade. The momentum among regional governments to strengthen cooperation for sustained growth and to promote market development also gathered pace. MAS continues to play an active role in developing initiatives to enhance greater financial market collaboration and integration with a view to foster win-win partnerships for Singapore and the region. On a broader front, MAS continues to implement global best practices in financial regulation and proactively engage our international counterparts at various forums.

Fostering Regional Cooperation and Development

Singapore firmly supports efforts to achieve free flow of financial services regionally and globally. To this end, MAS worked with our Association of South-east Asian Nations (ASEAN) counterparts to speed up financial sector liberalisation in the region. MAS is also part of Singapore's team engaged in the trade negotiations with members of the World Trade Organization as well as in bilateral trade agreements with countries including India and South Korea.

We work closely with ASEAN members to foster greater cross-border collaboration in capital markets, including the ASEAN Finance Ministers' initiatives to forge linkages among securities markets. As part of this effort, MAS, together with the Ministry of Finance, will coordinate the ASEAN Finance Ministers' Investors Seminar to be held in September 2004 in New York.

Beyond ASEAN, MAS is actively involved in the initiative by the Executives' Meeting of East Asia Pacific Central Banks (EMEAP) to create a local currency Asian bond fund. We also participated in developing EMEAP's first Asian bond fund which was invested in US Dollar-denominated Asian sovereign and quasi sovereign bonds.

Formulating and Implementing Global Standards

On the regulatory front, MAS holds regular dialogues with our regional counterparts in banking, securities and insurance to exchange views. MAS is also one of two non-G10 members on the Financial Stability Forum which brings together senior representatives of national financial authorities, international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank to promote international financial stability.

We hosted the 25th EMEAP Deputies Meeting in December 2003, where pertinent economic and financial issues affecting the region were discussed. In 2004, Singapore will host the EMEAP Governors' Annual Meeting as well as the EMEAP-Eurosystem High Level Seminar.

Our involvement in the work of the EMEAP group of central banks is expected to grow. MAS will chair the EMEAP Working Group on Banking Supervision from 2004 to 2006. In addition, MAS is an observer on the Islamic Financial Services Board. The Board is set up by central banks of Islamic countries with the support of the International Monetary Fund (IMF), World Bank (WB) and the Bank for International Settlements to establish international standards and best practices for the supervision of Islamic finance.

We play an active role in the formulation of global regulatory standards in the financial sector. For example, we hosted the 10th Annual Conference of the International Association of Insurance Supervisors (IAIS) where the new set of 28 Insurance Core Principles were formally adopted. These principles serve as best practice benchmarks to align the standards of insurance sector supervision worldwide (See Box 18).

On the securities front, MAS has been elected as Chair of the Asia Pacific Regional Committee (APRC) of the International Organisation of Securities Commissions (IOSCO) and a member of the IOSCO Executive Committee for a period of two years. As Chair of the APRC, MAS' role is to create a conducive environment for promoting sound securities regulation consistently across the region through the sharing of views and information.

Box 18

MEETINGS OF MINDS

The 10th Annual IAIS Conference took place in Singapore in October 2003. Held for the first time in Asia, the meeting saw a record turnout of 364 participants.

Organised around the theme “Building Competencies in the Insurance Sector”, regulators and industry practitioners addressed topics such as solvency, reinsurance, asset/liability valuation and the reliance relationship between regulators and the industry. Several key initiatives, including the adoption of the new set of 28 Insurance Core Principles, were approved. The Principles serve as universal benchmarks for regulators.

On the capital markets front, MAS will organise the second Capital Markets Seminar, with the theme “Restoring Confidence in Turbulent Times”, in August 2004.

The seminar will provide a forum for securities regulators from the region to share their experiences on issues of common interest, as they seek to develop and maintain market confidence in a rapidly changing and challenging environment. The seminar will also include a focus on some of the leadership challenges in this new environment by securities regulators.

Singapore is also active in the international effort to combat money laundering and terrorist financing. Singapore is a member of the Financial Action Task Force (FATF), and is represented by an inter-agency team. As part of this team, MAS participates in FATF work including the revision of the FATF 40 Recommendations. Singapore will implement the revised recommendations soon. Singapore is also a member of the Asia Pacific Group on Money Laundering which encourages the adoption of international anti-money laundering standards within Asia Pacific.

On the Boards of IMF and WB

Minister in the Prime Minister's Office, Second Finance Minister and MAS Deputy Chairman Lim Hng Kiang has been appointed to chair the 2004 IMF and WB Group Boards of Governors Annual Meetings for a one-year period. The Boards of Governors are the two institutions' highest decision-making bodies mandated to preserve stability in the international monetary and financial system, and to reduce poverty worldwide. As Chairman, Minister Lim will preside over the 2004 IMF WB Annual Meetings, as well as the Joint Committee on Remuneration, which deliberates on the remuneration of Executive Directors of IMF and WB member countries and that of their Alternates.

Box 19

SINGAPORE TO HOST IMF AND WB MEETINGS IN 2006

The Boards of Governors of the IMF and WB, comprising finance ministers and central bank governors of 184 member countries, have endorsed Singapore's offer to host the annual meetings in 2006. The endorsement is recognition of Singapore as an international financial centre. Hosting the 2006 annual meetings of the IMF and WB demonstrates our deep commitment and support for the two institutions. The event will allow us to showcase the economic development and progress of Singapore and the region.

The annual meetings were last held in East Asia in 1997 when the region was in the midst of a financial crisis. Since then, many countries in the region have taken important steps to strengthen their financial systems and restructure their economies. It is therefore fitting that the meetings will be held in Asia in 2006. The meetings are a major international event with participation by finance ministers and central bank governors from member nations of the two institutions. The meetings also enable chief executives of leading financial institutions to attend and network at the many side events and seminars held in conjunction with the annual meetings.

SYNERGY

We work in tandem,
pulling in the same
direction to achieve
common goals.



ORGANISATIONAL INITIATIVES

Organisational Initiatives

CORPORATE SERVICES DEPARTMENT

Creating a Safe and Conducive Work Environment

Turnstiles were installed at the first floor of MAS Building to enhance access control. The building is being recladded to enhance the integrity of the building facade. This project should be completed by end 2004.

CURRENCY DEPARTMENT

Managing Dollars and Cents

The Currency Department (CD) proactively manages the currency stock to maintain the integrity and quality of the Singapore currency in circulation. As at 31 March 2004, the gross and active currency in circulation was S\$14.6 billion and S\$13.1 billion respectively. The gross currency in circulation increased 5.2% over the year. During the period, S\$29.5 billion worth of notes and coins were issued to banks and S\$28.9 billion returned.

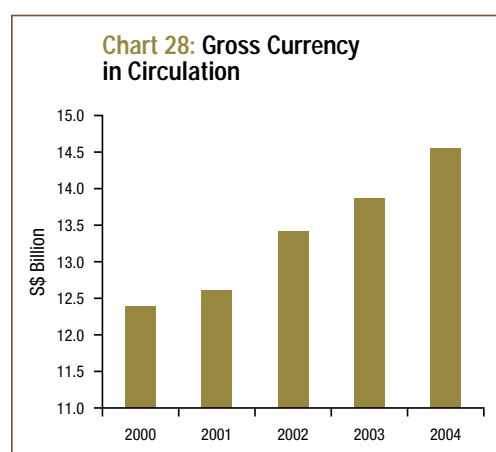
The Currency Interchangeability Agreement between Singapore and Brunei continued to operate in both countries. For the year in review, total Brunei currency repatriated to the Brunei Currency and Monetary Board was S\$678.7 million, S\$8 million less than in 2002. The amount of Singapore currency repatriated to Singapore decreased S\$2 million to S\$3 million in 2003.

The year 2003 marked several milestones for Singapore numismatic issues. In July, MAS issued a commemorative coin to honour our healthcare givers for their exemplary efforts, courage and sacrifices in battling Severe Acute Respiratory Syndrome (SARS). In August, we launched our very first base metal proof coin set. In December, we completed our second Chinese Almanac Series with the issue of the “Year of the Monkey Coin”.

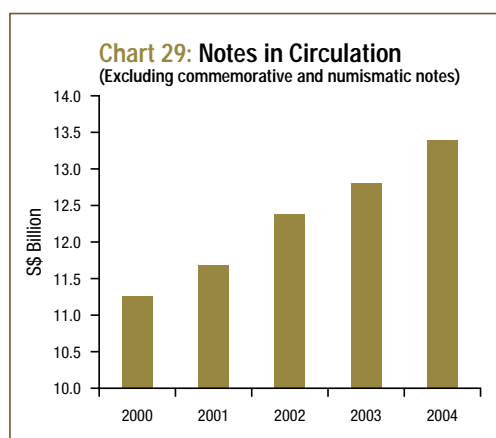
CD introduced several initiatives in 2003 to improve our productivity and cost-effectiveness. One initiative increased the number of notes recycled, without compromising the quality, for re-issuance to banks. This reduced the operating costs by about S\$200,000 annually and improved productivity by 2.5%.

As part of our continuous effort to improve the durability, quality and security of currency notes, CD will introduce S\$10 polymer portrait notes this year. As a start, 10 million notes will be issued. CD will also be reviewing its currency stocking policy and note distribution framework to further enhance the efficiency and effectiveness of circulation notes. This year will also see the inauguration of the third Chinese Almanac Series, with the issue of the “Year of the Rooster Coin”.

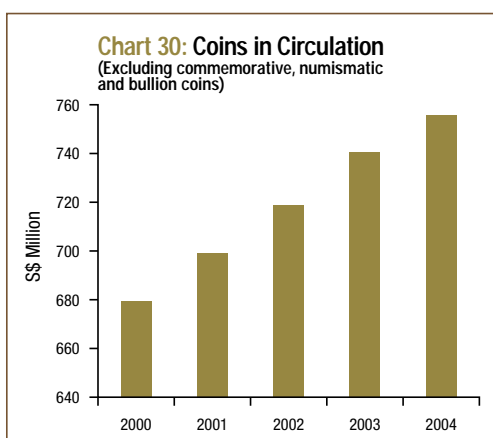
Key Currency Statistics



Gross Circulation (S\$ Million)	2000	2001	2002	2003	2004
Notes	11,508.10	11,704.16	12,486.27	12,897.53	13,599.84
Coins	871.36	895.12	918.97	942.62	960.58
Total	12,379.46	12,599.28	13,405.24	13,840.15	14,560.42



Denomination (S\$ Million)	2000	2001	2002	2003	2004
\$1	154.65	153.39	145.32	150.25	149.15
\$2	413.16	425.36	459.75	474.92	493.63
\$5	167.94	173.32	179.70	185.22	193.95
\$10	923.81	955.85	1,024.32	1,036.52	1,083.84
\$20	128.60	126.15	124.69	123.36	122.24
\$25	10.11	10.11	10.10	10.10	10.10
\$50	3,796.09	4,150.44	4,420.04	4,508.76	4,624.63
\$100	754.93	811.89	828.83	824.74	850.05
\$500	482.55	400.75	362.54	335.85	317.25
\$1000	3,258.50	3,361.97	3,651.50	3,995.06	4,372.14
\$10000	1,163.54	1,123.52	1,161.80	1,177.96	1,195.63
Total	11,253.88	11,692.75	12,368.59	12,822.74	13,412.61



Denomination (\$\$ Million)	2000	2001	2002	2003	2004
1¢	6.19	6.63	7.12	6.94	6.90
5¢	24.53	25.69	26.73	27.90	29.03
10¢	91.00	92.53	93.99	95.07	95.82
20¢	107.37	108.29	109.77	111.84	112.69
50¢	137.37	138.92	141.21	144.54	146.18
\$1	305.68	319.74	334.53	348.85	359.93
\$5	6.91	6.92	6.07	5.99	5.97
Total	679.05	698.72	719.42	741.13	756.52

FINANCE DEPARTMENT

Enhancing Risk Management

The Risk Committee was set up in 2000 to assist the Board of Directors to manage financial risks inherent in MAS' investment portfolios. In February 2004, the Committee's scope was expanded to include the oversight of MAS-wide risk management framework. This framework sets out the key risks faced by MAS, covering our core functions as well as our organisational effectiveness.

In line with the expanded scope of the Risk Committee, the Corporate Risk Division within the department, which supports the work of the Committee, has expanded its responsibilities to cover non-financial risks, including operational, legal and reputational risks.

BUSINESS CONTINUITY MANAGEMENT: READINESS IS THE BEST PROTECTION

We continue to focus on Business Continuity Management (BCM), viewed as an over-arching framework that includes policies, standards, and procedures which will enable MAS to continue to operate during disruptions. BCM emphasises the rapid recovery and resumption of critical operations and the restoration of necessary infrastructure that supports these operations.

An important component of BCM is the formulation of business continuity plans (BCPs) for all critical operations and the testing of those plans through comprehensive and regular exercises.

The following key activities last year served to further advance our BCM journey:

- An exercise was conducted with the Damage Assessment Team to provide assurance that the current risk assessment, activation and escalation process and procedures are appropriate.
- A call-tree and mobilisation exercise demonstrated that the recovery team members were contactable outside office hours and can be mobilised to MAS' alternate site within a reasonable time frame.
- During the SARS outbreak, critical staff were segregated and housed in two separate locations. In addition, workplace measures in line with Ministry of Health's guidelines were instituted to ensure the continuity of MAS' operations. Even after Singapore was declared "SARS-free", MAS continued to refine action plans to handle any recurrence.
- A disaster recovery exercise for the MAS Electronic Payment Systems (MEPS) was also conducted with participation from financial institutions.

Going forward, MAS will continue to enhance the governance and structure for the planning of business continuity including the development of BCM policies. MAS will also raise its level of BCM preparedness through greater awareness and more comprehensive exercises.

GENERAL COUNSEL'S OFFICE

Keeping an Eye on Legal Matters

The General Counsel's Office oversees all legal matters in MAS. Last year, it dealt with over 2,800 queries for legal advice from the other departments of MAS and completed the legislative programme to four Acts, as well other regulations, notices, directions and guidelines under MAS' purview. The inaugural issue of the Legal Bulletin was published to keep MAS officers abreast of significant legal issues affecting the financial services sector.

HUMAN RESOURCE DEPARTMENT

Partnering for Growth

We believe that our Human Resource (HR) initiatives should be aligned with our business strategies, and support the development of organisational capabilities required to meet our corporate objectives. It is essential for HR to work closely with other departments to develop and implement more effective HR programmes. For this purpose, we have formed three service groups, known as HR Partners, with each group responsible for a cluster of departments.

We also developed and implemented a more systematic approach to functional training, starting with the Financial Supervision Group (FSG). Staff will be equipped with the necessary technical competencies to perform their duties well and in pace with market developments. A training unit set up within FSG made good progress to introduce training programmes using the competency-based training roadmaps.

At MAS, training is paramount and a concerted effort has been made to develop leadership skills for all levels of staff. Employee training amounted to S\$2.3 million last year, equivalent to 3% of annual payroll.

Looking ahead, we will implement a rigorous training syllabus for all our officers. We have also stepped up efforts to increase the number of staff attachments to financial institutions to enhance our officers' understanding of commercial practices and considerations.

Box 21

ORGANISATIONAL PRIORITY – COMMUNICATING WITH OUR PEOPLE

An open environment is encouraged. We want an open culture, not just within groups and divisions but across the whole organisation. We encourage staff to innovate and adapt constantly.

To improve communication and enhance our organisational effectiveness, we set about to:

- Design and implement communication and change management workshops for management staff.
- Organise personal development plans as a follow-up to the 360-degree feedback exercise.
- Focus on initiatives such as improving organisational planning and work processes to optimise human resource allocation.
- Encourage external attachments for staff.
- Organise staff lunches to facilitate better interaction.

INFORMATION TECHNOLOGY DEPARTMENT

MAS Website Enhanced: eServices Made Easier

A new section – “For the Consumer” portal – was launched on the MAS website in October 2003 as a central repository for financial education materials.

IT Systems

As MAS expands its investment universe to include newer and more sophisticated products, a new integrated front, middle and back office system is being implemented for reserves and monetary management operations. The new system will bring about stronger and more timely management of investment and operational risks, improve data integrity and accuracy, and allow for more efficient processing and faster report-generation.

We embarked on the development of the next generation MAS Electronic Payment System Plus which will enable the industry to meet new commercial and regulatory challenges. MAS also continued to improve and develop internal IT systems to support risk-based supervision, surveillance and regulation of financial institutions.

Ensuring Integrity and Quality in our IT Infrastructure and Security

Key initiatives include:

- Upgrading system software and evaluating and implementing newer technologies to strengthen our IT infrastructure.
- Implementing Virtual Local Area Networks, a network technology to optimise network performance, ease data management and increase security of the network infrastructure. Email and web content filtering was also put in place.
- Adopting a proactive approach to conduct security reviews of all IT systems, along with establishing an incident management framework that efficiently deploys security patches in a timely manner.
- Implementing a pilot knowledge management portal which will provide staff with easy access to information and expertise.

INTERNAL AUDIT DEPARTMENT

Assessing the Control Environment in MAS

The Internal Audit Department (IAD) is an independent function that reports directly to the Audit Committee (AC). With approval of the AC, IAD conducted an extensive programme of risk-based audits during the year. These covered MAS' core functions including reserve and monetary policy management, currency and corporate resource management. For Financial Year 2003/04, the system of internal controls of the area covered by IAD was assessed to be satisfactory. Management also took efforts to implement mitigating measures to address audit concerns and enhance the internal processes.

IAD facilitated the implementation of a risk management framework to identify and manage risks across MAS. To raise awareness and foster a strong anti-fraud culture in MAS, IAD also led in formulating an anti-fraud policy.

Box 22

STRIVING TOWARDS ORGANISATIONAL EXCELLENCE

To foster greater organisational cohesion, MAS conducted the second Organisational Climate Survey in July 2003. The results showed that, compared to the previous survey in 2000, we made progress in almost all categories. These categories include performance management, work relationships in the organisation, training and development, organisational alignment and efficiency issues.

STRATEGIC PLANNING OFFICE

Enhancing our Systems and Structures

The Strategic Planning Office (SPO) is leading a comprehensive review of the MAS Act. The review, conducted in two phases, will enable MAS to meet the operational challenges ahead and to carry out its functions more effectively. The first phase amendments came into effect in January 2004. Work is underway on the second phase amendments.

Key events organised by SPO which help shape MAS' priorities and strategies include:

- MAS International Advisory Panel (IAP) meeting which brings together some of the world's leading financial experts to advise MAS on financial sector strategies.
- Corporate planning retreats for management.
- Annual staff seminar where the Chairman and Managing Director communicate the broad corporate priorities for the year ahead.

SPO conducted the Organisation Climate Survey in July 2003 to take stock of our organisational health (See Box 22).

The Frequent Flying Minds (FFM) staff suggestion scheme was enhanced to allow staff to make online redemption of points earned. SPO continued with initiatives to motivate staff to harness creative thinking in the course of their work. These include the quarterly innovation bulletin – i-News, the Innovation Speaker Series, the i-Awards and the FFM awards for outstanding staff suggestions.

In the year ahead, SPO will focus on strengthening organisational effectiveness. Key projects include enhancing MAS' performance measurement framework and the clarity of our decision-making framework.

TAPPING INTERNATIONAL EXPERTISE

International Advisory Panel

Set up in 1998, the IAP provides valuable advice on Singapore's financial sector reforms and strategies. The panel also provides important feedback to help Singapore and MAS keep abreast of market developments and policies in major international financial centres. The panel held its fourth meeting on 13 October 2003.

The IAP considered the impact of global trends such as financial dis-intermediation, where companies bypass middlemen like banks, and directly tap the markets for funds. Other topics discussed were outsourcing by financial institutions and the increasing popularity of alternative investments, as well as regional developments, such as the emergence of China and India.

The IAP members are:

Chairman:

Lim Hng Kiang

Minister, Prime Minister's Office and Second Minister for Finance

Members:

Dr Josef Ackermann

Spokesman of the Board of Managing Directors and Chairman of the Group Executive Committee, Deutsche Bank AG

Claude Bebear

Chairman of the Supervisory Board, The AXA Group

Sir Andrew Crockett

Former General Manager, Bank for International Settlements

Michael Diekmann

Chairman of the Board of Management, Allianz AG

Thomas H. Glocer

Chief Executive Officer, Reuters Group PLC

Rijkman Groenink

Chairman, ABN AMRO Bank NV

William B. Harrison, Jr.

Chairman and Chief Executive Officer, J.P. Morgan Chase & Co

John Mack

Former Chief Executive Officer, Credit Suisse First Boston

Sir Peter Middleton

Chairman, Barclays Bank PLC

Shigemitsu Miki

Chairman, Bank of Tokyo-Mitsubishi, Ltd

Marcel Ospel

Chairman, UBS AG

Henry M. Paulson, Jr.

Chairman and Chief Executive Officer, Goldman Sachs Group Inc

Michel Pebureau

Chairman, BNP Paribas

Philip Purcell

Chairman of the Board and Chief Executive Officer, Morgan Stanley

Robert Rubin

Chairman of Executive Committee, Citigroup Inc

Dr Junichi Ujiiie

Chairman, Nomura Holdings, Inc



MAS FY2003/2004 FINANCIAL STATEMENTS

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MAS FY2003/2004 FINANCIAL STATEMENT HIGHLIGHTS

MAS' total assets, including the Currency Fund, grew by S\$25,836 million during the year to S\$179,702 million as at 31 March 2004. The Currency Fund's assets, at the financial year-end, exceeded the S\$14,560 million currency in circulation, providing 110% asset backing.

Total liabilities, including the currency in circulation, increased by S\$24,143 million to S\$162,609 million as inter alia, money market borrowings rose. However, deposits of the Government held with the MAS declined.

The Authority posted a net profit of S\$4,985 million for the year due to higher returns on MAS' foreign investments as a result of more buoyant financial markets globally. Total expenditure rose by S\$113 million, mainly due to higher investment and interest expenses during the year.

In accordance with Section 3 of the Statutory Corporations (Contributions to Consolidated Fund) Act (Chapter 319A, 2000 Revised Edition), 22% of the net profit or S\$1,097 million will be paid into the Government's Consolidated Fund. In addition, the MAS Board has approved a return of S\$2,196 million to the Government under Section 6(3) of the Monetary Authority of Singapore Act (Chapter 186, 1999 Revised Edition).

The remainder of the net profit has been credited to the General Reserve Fund (S\$1,197 million) and the Currency Fund Reserves (S\$495 million).

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE MONETARY AUTHORITY OF SINGAPORE

For the year ended 31 March 2004

The financial statements of the Monetary Authority of Singapore (MAS) and the Currency Fund set out on pages 90 to 109 have been audited under my direction and in accordance with the provisions of the MAS Act (Chapter 186, 1999 Revised Edition). These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on the audit.

The audit was conducted in accordance with the MAS Act, the Currency Act (Chapter 69, 2002 Revised Edition) and the Singapore Standards on Auditing. Those Standards require that the audit be planned and performed in order to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing, within the context of applicable laws, the accounting principles used and significant estimates made by the Authority's management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

The financial statements disclose less information than would be required under the Singapore Financial Reporting Standards. As disclosed in Note 3.1(a) to the financial statements, the Authority, in preparing its financial statements, is allowed under section 34(3) of the MAS Act and Section 21(10) of the Currency Act to comply with accounting standards to the extent that it is, in the opinion of the Authority, appropriate to do so, having regard to its objects and functions. As also disclosed in Note 3.1(a), the Authority has considered its responsibilities for managing the Singapore dollar exchange rate and the Official Foreign Reserves and is of the view that, for effective management of Singapore's monetary policy, it would be appropriate not to meet, in some respects, the accounting standards.

Having regard to power given to the Authority under section 34(3) of the MAS Act and Section 21(10) of the Currency Act, in my opinion, the financial statements present fairly, based on the framework of accounting standards adopted by the Authority, the state of affairs of the Authority as at 31 March 2004 and the financial transactions of the Authority for the year ended on that date.

CHUANG KWONG YONG
Auditor-General
Singapore
21 June 2004

INCOME AND EXPENDITURE STATEMENT

For the year ended 31 March	Note	General Reserve Fund		Currency Fund		Total	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Income/(Loss) from Foreign Operations (after transfers to/from provisions)	4	4,616,435	595,585	524,495	(9,118)	5,140,930	586,467
Income from Domestic and Other Operations	5	217,981	295,198	1,145	1,220	219,126	296,418
Non-operating Income	6	5,889	8,006	—	—	5,889	8,006
Total Income/(Loss) (after transfers to/from provisions)		4,840,305	898,789	525,640	(7,898)	5,365,945	890,891
Less:							
Investment, Interest and Other Expenses	7	195,072	113,116	30,145	11,108	225,217	124,224
Personnel Expenditure	8	100,975	96,536	—	—	100,975	96,536
General and Administrative Expenditure	9	37,876	30,398	—	—	37,876	30,398
Depreciation/ Amortisation		16,683	16,310	—	—	16,683	16,310
		350,606	256,360	30,145	11,108	380,751	267,468
Profit/(Loss) for the Year (after transfers to/from provisions)		4,489,699	642,429	495,495	(19,006)	4,985,194	623,423
Less:							
Contribution to Consolidated Fund	19	1,096,743	137,153	—	—	1,096,743	137,153
Net Profit/(Loss) for the Year (after transfers to/from provisions)		3,392,956	505,276	495,495	(19,006)	3,888,451	486,270

The accompanying notes form part of the accounts.

BALANCE SHEET

As at 31 March	Note	2004 \$'000	2003 \$'000
CAPITAL AND RESERVES			
Authorised Capital		100,000	100,000
Issued and Paid-up Capital	10	100,000	100,000
General Reserve Fund	11	15,498,800	13,595,458
Currency Fund Reserves	12	1,494,524	1,705,115
		17,093,324	15,400,573
FINANCIAL SECTOR DEVELOPMENT FUND	13	612,149	491,470
		17,705,473	15,892,043

Represented by:

ASSETS

Cash and Bank Balances		225,256	124,817
Singapore Government Treasury Bills		694,514	337,085
Singapore Government Bonds		5,797,199	5,338,215
Gold and Foreign Assets	14	172,289,388	147,701,275
Other Assets	16	483,293	145,136
Fixed Assets	17	212,645	219,891
		179,702,295	153,866,419

Less:

LIABILITIES

Currency in Circulation		14,560,426	13,840,156
Deposits of Financial Institutions	18	6,757,495	6,714,521
Amounts Due to Singapore Government	19	3,292,443	724,161
Provisions and Other Liabilities	20	51,902,820	24,698,850
Deposits of Singapore Government		86,095,787	92,488,158
		162,608,971	138,465,846

NET ASSETS OF THE AUTHORITY		17,093,324	15,400,573
NET ASSETS OF FINANCIAL SECTOR DEVELOPMENT FUND	13	612,149	491,470
		17,705,473	15,892,043

The accompanying notes form part of the accounts.

LEE HSIEN LOONG
Chairman
Monetary Authority of Singapore
Singapore
21 June 2004

KOH YONG GUAN
Managing Director
Monetary Authority of Singapore
Singapore
21 June 2004

STATEMENT OF CHANGES IN EQUITY

	Issued and Paid-up Capital \$'000	General Reserve Fund \$'000	Currency Fund Reserves \$'000	Total \$'000
Balance as at 1 April 2002	100,000	11,897,723	–	11,997,723
Transfer of Reserves from Board of Commissioners of Currency, Singapore (BCCS)	–	–	3,416,580	3,416,580
Transfer of Reserves from Currency Fund	–	2,231,268	(2,231,268)	–
Net Profit/(Loss) for the Year (after transfers to/from provisions)	–	505,276	(19,006)	486,270
Transfer of Reserves from General Reserve Fund	–	(538,809)	538,809	–
Return of Profit to Singapore Government	–	(500,000)	–	(500,000)
Balance as at 31 March 2003	100,000	13,595,458	1,705,115	15,400,573
Net Profit for the Year (after transfers to/from provisions)	–	3,392,956	495,495	3,888,451
Transfer of Reserves from Currency Fund	–	706,086	(706,086)	–
Return of Profit to Singapore Government	–	(2,195,700)	–	(2,195,700)
Balance as at 31 March 2004	100,000	15,498,800	1,494,524	17,093,324

The accompanying notes form part of the accounts.

CASH FLOW STATEMENT

For the year ended 31 March	Note	2004 \$'000	2003 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the Year (after transfers to/from provisions)		4,985,194	623,423
Adjustments for:			
Depreciation/Amortisation of			
Fixed Assets	17	16,657	16,289
Other Assets		24	21
Assets Transferred from BCCS Capitalised		(703)	(239)
Net Loss/(Gain) from Disposals of Fixed Assets		42	(489)
Profit before Working Capital Changes		5,001,214	639,005
(Increase)/Decrease in			
Singapore Government Treasury Bills		(357,429)	169,951
Singapore Government Bonds		(458,984)	548,157
Gold and Foreign Assets		(24,588,113)	(8,044,563)
Other Assets		(337,547)	16,962
Increase/(Decrease) in			
Deposits of Financial Institutions	18	42,974	(595,598)
Provisions and Other Liabilities		27,201,738	(561,866)
Deposits of Singapore Government		(6,392,371)	9,902,688
NET CASH FROM OPERATING ACTIVITIES		111,482	2,074,736
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Fixed Assets		(7,207)	(14,540)
Proceeds from Sale of Fixed Assets/Other Assets		55	1,087
NET CASH USED IN INVESTING ACTIVITIES		(7,152)	(13,453)
CASH FLOWS FROM FINANCING ACTIVITIES			
Transfer of cash balances from BCCS		—	36,707
Increase in Currency in Circulation		720,270	506,253
Amounts Due to Singapore Government		(724,161)	(2,600,000)
NET CASH USED IN FINANCING ACTIVITIES		(3,891)	(2,057,040)
NET INCREASE IN CASH AND BANK BALANCES		100,439	4,243
CASH AND BANK BALANCES AS AT BEGINNING OF THE YEAR		124,817	120,574
CASH AND BANK BALANCES AS AT END OF THE YEAR		225,256	124,817

The accompanying notes form part of the accounts.

STATEMENT OF BACKING OF CURRENCY IN CIRCULATION

The Currency Fund is established under Section 21 of the Currency Act (Chapter 69, 2002 Revised Edition). Section 22 of the Act states that the external assets of the Currency Fund shall not be less than 100% of the face value of the Currency in Circulation.

As at 31 March, the value of external assets and the Currency in Circulation are:

	2004 \$'000	2003 \$'000
CURRENCY IN CIRCULATION	14,560,426	13,840,156
EXTERNAL ASSETS	16,135,643	15,985,732
LESS: PROVISIONS AND OTHER LIABILITIES	(80,693)	(440,461)
NET ASSETS	16,054,950	15,545,271

The accompanying notes form part of the accounts.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2004

These notes form an integral part of and should be read in conjunction with the accompanying accounts.

1 GENERAL

The Authority is established under the Monetary Authority of Singapore Act (Chapter 186, 1999 Revised Edition) and is located at 10 Shenton Way, MAS Building, Singapore 079117.

2 PRINCIPAL ACTIVITIES

The principal activities of the Authority are:

- a) the conduct of monetary policy, issuance of currency, management of the official foreign reserves and acting as the banker to and financial agent of the Government; and
- b) the supervision of the banking, insurance, securities and futures industries, and development of strategies in partnership with the private sector to promote Singapore as an international financial centre.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Compliance with the Monetary Authority of Singapore Act, Currency Act and Singapore Financial Reporting Standards

- a) The financial statements of the Authority, expressed in Singapore dollars, are prepared in accordance with the Monetary Authority of Singapore Act (Chapter 186, 1999 Revised Edition), Currency Act (Chapter 69, 2002 Revised Edition) and applicable Singapore Financial Reporting Standards (FRS). The financial statements disclose less information than would be required under the accounting standards. Section 34(3) of the Monetary Authority of Singapore Act and Section 21(10) of the Currency Act provide that the Authority, in preparing its financial statements, may comply with accounting standards to the extent that it is, in the opinion of the Authority, appropriate to do so, having regard to the objects and functions of the Authority. The Authority, having considered its responsibilities for managing the Singapore dollar exchange rate and the Official Foreign Reserves, is of the opinion that, for effective management of Singapore's monetary policy, it is appropriate not to meet, in some respects, the accounting standards.
- b) In addition, due to information system constraints, the Authority recognises interest income on a straight-line basis instead of on an effective yield basis as required by FRS 18. Premiums and discounts are also amortised on a straight-line basis over the remaining life of the securities, except for discounts on zero-coupon bonds that are amortised on an effective interest rate basis as required by this standard. Based on the Authority's estimation, the financial impact of the departure from FRS 18 is immaterial.
- c) FRS replace the Singapore Statements of Accounting Standards (SAS) for financial statements covering periods beginning on or after 1 January 2003. The transition from SAS to FRS does not have material impact on the accounting policies and figures presented in the financial statements for the financial year ended 31 March 2004.

3.2 Basis of Accounting

The accounts are prepared in accordance with the historical cost convention and on an accrual basis. Purchases and sales of investments are recognised on a settlement date basis.

3.3 Foreign Currency Translation

Assets and liabilities in foreign currencies have been translated into Singapore dollars at the rates of exchange ruling on the balance sheet date, except for shareholdings in Bank for International Settlements (BIS) and Society for Worldwide Interbank Financial Telecommunication (SWIFT) which are translated into Singapore dollars at the rates of exchange prevailing on the acquisition dates. Transactions in foreign currencies during the year have been translated into Singapore dollars at the rates of exchange prevailing on the transaction dates. Exchange differences are taken to the income and expenditure statement.

3.4 Income Recognition

- a) Interest income, licence fees and rental income are recognised on an accrual basis.
- b) Dividends from equities are recognised in the financial year in which they are declared payable.
- c) Premiums and discounts are amortised on a straight-line basis over the remaining life of the securities, except for discounts on zero-coupon bonds that are amortised on an effective interest rate basis. Premiums and discounts are recognised as interest expense and interest income respectively.
- d) Profits and losses on disposal of investments are taken to the income and expenditure statement.

3.5 Singapore Government Treasury Bills and Bonds

Singapore Government Treasury bills and bonds are stated at cost. Provision has been made for diminution in value, if any, based on the lower of cost and market value on an individual investment basis.

3.6 Gold and Foreign Assets

Gold and foreign assets are stated at cost. Provision has been made for diminution in value, if any, based on the lower of cost and market value on an individual investment basis, except for shareholdings in BIS and SWIFT. Foreign assets represent the Authority's investments in a global diversified portfolio.

3.7 Repurchase and Reverse Repurchase Agreements ("Repos" and "Reverse Repos")

Reverse Repos are treated as collateralised borrowing and the amounts borrowed are included in "Provisions and Other Liabilities" and "Gold and Foreign Assets – Foreign Currency Liabilities". The securities sold under reverse repos are treated as pledged assets and remain on the balance sheet as assets. Repos are treated as collateralised lending and the amounts lent are included in "Other Assets" and "Gold and Foreign Assets – Other Foreign Investments". The difference between the amount received and the amount paid under repos and reverse repos is recognised as interest income and interest expense respectively on a straight-line basis.

3.8 Derivative Instruments

Off-balance sheet financial derivatives include forwards, swaps, futures and options. Provision has been made for diminution in value, if any, based on the lower of cost and market value on an individual investment basis, except for forwards and currency swaps which are valued on a portfolio basis.

3.9 Operating Lease

- a) Leases where substantially all the rewards and risks of ownership remain with the lessors are accounted for as operating leases. Rental receipts or payments under operating leases are accounted for in the income and expenditure statement based on an accrual basis according to the receipts or payments due.
- b) When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an income or expense in the period in which termination takes place.

3.10 Employees' Benefits

Employees' benefits including leave entitlement are recognised on an accrual basis.

3.11 Fixed Assets and Depreciation

- a) Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of the fixed assets over their estimated useful lives as follows:

Leasehold Land	Period of lease
Buildings	50 years or period of lease whichever is lower
Building Improvements and Renovation	10 years
Mechanical and Electrical Installations	10 years
Computer Equipment and Software	3 to 5 years
Furniture, Fixtures, Motor Vehicles and Other Equipment	3 to 5 years

- b) Computer software costs of less than \$100,000 and other assets costing not more than \$1,000 are expensed off in the year of purchase.
- c) When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income and expenditure statement for the period.

4 INCOME FROM FOREIGN OPERATIONS

Income from foreign operations includes interest, dividends, realised capital gains/losses, exchange gains/losses and writeback of/additional provision for diminution in value of investment, based on the lower of cost and market value.

5 INCOME FROM DOMESTIC AND OTHER OPERATIONS

Income from domestic and other operations includes mainly interest and writeback of/additional provision for diminution in value of Singapore Government Treasury bills and bonds, licence and inspection fees, revenue from currency-related operations, custody fee and revenue from services rendered to banks and financial institutions on MAS Network and MAS Electronic Payment System which provides real-time gross settlement of payments.

6 NON-OPERATING INCOME

Non-operating income includes rental and carpark income, interest on loans to staff and management service fees.

7 INVESTMENT, INTEREST AND OTHER EXPENSES

Foreign investment expenses include management fees and bank, custody and other charges. Interest and other expenses comprise mainly interest paid on borrowings and reverse repurchase agreements and the cost of coin operations.

8 PERSONNEL EXPENDITURE

8.1 This includes the following:

	2004 \$'000	2003 \$'000
Salaries	80,412	73,636
Employer's Contribution to the Central Provident Fund	9,124	9,843
Training and Personnel Development	5,806	5,445
Staff Benefits	2,915	3,285
Directors' Fee	31	27

8.2 The number of directors whose remuneration package falls within the following bands is:

	2004	2003
Below \$750,000	—	—
\$750,000 – \$1,000,000	1	1
Above \$1,000,000	—	—

8.3 As at 31 March 2004, the Authority has 979 (31 March 2003: 969) employees.

9 GENERAL AND ADMINISTRATIVE EXPENDITURE

This includes the following:

	2004 \$'000	2003 \$'000
Information Technology Expenses	11,065	10,419
Building and Mechanical and Electrical Maintenance	2,898	2,069
Official Trips and Conferences	1,418	1,812
Property Tax and Quit Rent	1,060	1,393
Consultancy and Other Fees	1,007	2,878
IT Operating Lease Charges	660	1,019
Audit Fee	550	500
Entertainment	105	113

10 ISSUED AND PAID-UP CAPITAL

The issued and paid-up capital of \$100 million is wholly-owned by the Government of the Republic of Singapore.

11 GENERAL RESERVE FUND

The General Reserve Fund is established under Section 6(1) of the Monetary Authority of Singapore Act (Chapter 186, 1999 Revised Edition). Movements in the General Reserve Fund are set out in the statement of changes in equity.

12 CURRENCY FUND RESERVES

12.1 The Currency Fund, established under Section 21 of the Currency Act (Chapter 69, 2002 Revised Edition), is maintained and managed by the Authority in the manner prescribed by the Act.

12.2 The assets and liabilities of the Currency Fund as at 31 March 2004 are as follows:

	Note	2004 \$'000	2003 \$'000
External Assets			
Gold	14.1	277,049	291,750
Foreign Assets	14.1	15,858,594	15,693,982
		16,135,643	15,985,732
Less:			
Liabilities			
Active Currency in Circulation		14,382,185	13,774,559
Currency Held by the Authority		178,241	65,597
Currency in Circulation		14,560,426	13,840,156
Provisions and Other Liabilities		80,693	440,461
		14,641,119	14,280,617
Currency Fund Reserves		1,494,524	1,705,115

13 FINANCIAL SECTOR DEVELOPMENT FUND

13.1 The Financial Sector Development Fund (hereinafter called the Fund) is established under Section 30A of the Monetary Authority of Singapore Act (Chapter 186, 1999 Revised Edition). It is controlled and administered by the Authority. The Fund shall be used for the objects and purposes set out in Section 30B of the Act.

13.2 The assets and liabilities of the Fund as at 31 March 2004 are as follows:

	Note	2004 \$'000	2003 \$'000
Accumulated Fund			
Capital Account	13.6	471,635	471,635
Accumulated Surplus		140,514	19,835
		612,149	491,470
Represented by:			
Assets			
Cash and Deposits		126,830	58,146
Interest and Dividend Receivable		29,675	10,412
Receivable from SEL Holdings Pte Ltd		2,500	—
Funds managed by Fund Managers	13.3	459,538	431,663
		618,543	500,221
Less:			
Liabilities			
Accounts Payable		6,394	8,751
Net Assets		612,149	491,470

13.3 Details of Funds managed by Fund Managers are as follows:

	2004 \$'000	2003 \$'000
Bank Balances and Deposits	90,070	53,011
Treasury Bills, at cost	1,800	24,356
Fixed Income Securities, at cost	268,960	271,669
Less: Provision for Diminution in Value	(446)	(257)
(Market Value – 2004: \$274,714)	268,514	271,412
(Market Value – 2003: \$283,789)		
Equities, at cost	99,217	97,063
Less: Provision for Diminution in Value	(2,377)	(17,526)
(Market Value – 2004: \$113,013)	96,840	79,537
(Market Value – 2003: \$80,841)		
Provision for Diminution in Value of Futures	(194)	–
(Market Value – 2004: -\$112)		
(Market Value – 2003: \$ -)		
Provision for Diminution in Value of Forwards	–	(380)
(Market Value – 2004: \$977)		
(Market Value – 2003: -\$367)		
Prepayment and Other Receivables	3,587	4,187
Accrued Expenses and Other Payables	(1,079)	(460)
	459,538	431,663
(Total Market Value – 2004: \$482,969)		
(Total Market Value – 2003: \$445,357)		

13.4 The financial results of the Fund are as follows:

	2004 \$'000	2003 \$'000
Funds managed by Fund Managers		
Interest Income	8,143	10,334
Dividend Income	1,419	1,126
Realised Exchange (Loss)/Gain	(1,011)	69
Realised Capital Gain/(Loss)	4,012	(12,898)
Investment Expenses	(1,992)	(1,845)
Net Realised Portfolio Investment Income/(Loss)	10,571	(3,214)
Foreign Currency Translation Gain	2,124	7,971
Writeback of/(Additional) Provision for Diminution in Value	15,146	(9,085)
 Net Investment Income/(Loss)	 27,841	 (4,328)
Interest Income from Bank Deposits	341	238
Dividend on SGX Shares	100,818	18,489
Writeback of Over-provisions for Accruals	1,280	1,048
	130,280	15,447
 Less:		
Manpower Development Grants	1,940	1,381
Non-manpower Development Grants	7,661	9,197
	9,601	10,578
 Net Surplus for the year	 120,679	 4,869
Accumulated Surplus as at beginning of the year	19,835	14,966
Accumulated Surplus as at end of the year	140,514	19,835

13.5 **Significant Accounting Policies**

- The accounts are prepared in accordance with the historical cost convention. The Fund's investment assets are stated at the lower of cost and market value. Provision has been made for diminution in value, if any, on an individual investment basis, except for forwards which are valued on a portfolio basis.
- Quoted bid, mid or last market prices are used as a measure of market values. Where unavailable, market prices from independent brokers are used.

13.6 The Capital Account is funded from the net sale proceeds of the Singapore Exchange Limited's (SGX) shares.

13.7 As at 31 March 2004, SEL Holdings Pte Ltd (SEL) holds 249,991,184 SGX shares for the benefit of the Fund as stipulated under Section 11(2) of the Exchanges (Demutualisation and Merger) Act (Chapter 99B, 2000 Revised Edition). These SGX shares held have a total market valuation of \$415 million as at 31 March 2004 (31 March 2003: \$312 million). The net sale proceeds of these shares (after deducting expenses allowed under Section 10(1) and the par value of those shares) shall be paid by SEL into the Fund under Section 10(2) of the Act.

- 13.8 The non-manpower development grants include the Innovation in Financial Technology & Infrastructure Grant Scheme that was set up in November 2001 to encourage the development of innovation in technology and/or infrastructure in financial services. The scheme is co-funded by the Singapore Government and the Fund for selected projects. Grants accrued under the Scheme as at 31 March 2004 are as follows:

	2004 \$'000	2003 \$'000
Grants to be borne by		
Singapore Government	166	219
Financial Sector Development Fund	2,370	1,197
	2,536	1,416
Total grants since inception	3,952	1,416

- 13.9 The Fund has outstanding commitments, amounting to \$40.2 million in respect of grants approved but not accrued as at 31 March 2004 (31 March 2003: \$22.2 million).

14 GOLD AND FOREIGN ASSETS

14.1 These comprise the following:

	General Reserve Fund		Currency Fund		Total	
	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gold	77,798	81,926	277,049	291,750	354,847	373,676
Foreign Investments						
Securities	135,433,636	117,503,606	16,365,101	15,041,884	151,798,737	132,545,490
(including Treasury bills, bonds and equities)						
Bank Balances, Deposits and Negotiable Certificates of Deposit	16,714,495	11,862,404	124,902	535,748	16,839,397	12,398,152
Other Foreign Investments	2,296,648	1,117,132	107,089	118,084	2,403,737	1,235,216
Foreign Currency Liabilities	(70,161)	(386,921)	(738,498)	(1,734)	(808,659)	(388,655)
	154,452,416	130,178,147	16,135,643	15,985,732	170,588,059	146,163,879
International Monetary Fund Assets (see note 14.2)						
Reserve Tranche	1,091,479	1,019,537	—	—	1,091,479	1,019,537
Special Drawing Rights (SDRs)	452,868	321,005	—	—	452,868	321,005
Poverty Reduction and Growth Facility (PRGF)	109,488	97,023	—	—	109,488	97,023
Poverty Reduction and Growth Facility – Heavily Indebted Poor Countries (PRGF-HIPC)	—	106,835	—	—	—	106,835
Accrued Income	4,065	5,666	—	—	4,065	5,666
Currency Adjustment	(11,243)	(67,342)	—	—	(11,243)	(67,342)
	1,646,657	1,482,724	—	—	1,646,657	1,482,724
Shareholding in BIS (see note 14.3)	54,670	54,670	—	—	54,670	54,670
Shareholding in SWIFT	2	2	—	—	2	2
Total Gold and Foreign Assets	156,153,745	131,715,543	16,135,643	15,985,732	172,289,388	147,701,275

14.2 International Monetary Fund (IMF) Assets

- a) The Reserve Tranche represents the amount of the paid-up portion of the Singapore quota. Special Drawing Rights are interest yielding balances with IMF that can be exchanged for convertible currencies. Singapore participated in the IMF's PRGF (previously known as Enhanced Structural Adjustment Facility) with an initial loan of SDR40 million disbursed over four years from 1988 and another SDR40 million in 1994. The period of the loan is ten years from the date of disbursement. The first SDR40 million has been rolled over for another ten years upon maturity under the PRGF-HIPC. The second SDR40 million was repaid by IMF on 1 March 2004. The Authority's balance of SDR4,045,647 in the Post-Special Contingent Account-2 with IMF was transferred to the PRGF-HIPC on 24 April 2001 as an interest-free deposit maturing at the end of 2018.
- b) The Authority's allocations of Special Drawing Rights in IMF amounting to \$41 million as at 31 March 2004 (31 March 2003: \$40 million) is included in "Provisions and Other Liabilities".

14.3 Shareholding in Bank for International Settlements (BIS)

- a) The Authority's shareholding in the BIS comprises the 25% paid-up value of 3,000 shares with a nominal value of SDR5,000 each.
- b) On 1 April 2003, the BIS shares were redenominated from Swiss gold francs into Special Drawing Rights (SDRs). The value of the Authority's shareholding was not affected by this change.

15 FINANCIAL RISK MANAGEMENT

15.1 To assist the Board in its risk management responsibilities, a Risk Committee, chaired by an independent Board member, has been set up to provide oversight and guidance over the management of risks assumed by the Authority. This will encompass the management of financial risks inherent in the Authority's investment portfolios, amongst other organisational risks faced by the Authority.

15.2 An independent risk management unit provides senior management and the Risk Committee, with regular reports of the risk profiles of the Authority's investments. These reports cover risk measurement and analysis of the Authority's investment portfolios. The unit also formulates risk policies and controls, and performs independent compliance monitoring of the portfolios in accordance with the stipulated investment guidelines.

15.3 Interest Rate and Credit Risks

- a) Interest rate risk is the risk of loss arising from changes in market interest rates.
- b) Credit risk is the risk of loss arising from counterparty's failure to discharge its obligations under a financial contract. The Authority's credit exposures arise mainly from its business relationships with counterparties and custodians. These risks are managed by dealing only with highly-rated entities and assigning comprehensive credit limit to each of them. Credit risks are also mitigated by diversifying credit exposures across multiple entities.
- c) As the Authority invests mainly in high quality investment grade securities, issuer credit risk is minimal. The Authority's credit exposure at the end of the financial year, in relation to each class of recognised financial assets, is the carrying amount of those assets in the books.

16 OTHER ASSETS

16.1 These comprise the following:

	2004 \$'000	2003 \$'000
Loans, Deposits and Other Receivables	481,625	141,482
Corporate Club Memberships, at cost	653	722
Less: Amount amortised	(196)	(172)
	457	550
Staff Loans		
Amount repayable within 12 months	218	546
Amount repayable after 12 months	993	2,558
	1,211	3,104
	483,293	145,136

16.2 Staff loans include housing, conveyance, renovation and personal computer loans. The period ranges from 3 years for computer loans to 30 years for housing loans. The interest rates vary, ranging from 0% for personal computer loans to 1% below DBS Bank's housing loan rate (subject to a floor of 5% per annum) for the portion of housing loans exceeding \$750,000.

17 FIXED ASSETS

	Leasehold Land \$'000	Buildings \$'000	Building Improvements and Renovation \$'000	Mechanical and Electrical Installations \$'000	Computer Equipment and Software \$'000	Furniture, Fixtures, Motor Vehicles and Other Equipment \$'000	Work-in- Progress \$'000	Total \$'000
COST								
As at 1.4.2003	48,070	170,901	30,782	41,390	20,414	15,928	2,125	329,610
Additions	—	—	72	91	2,618	341	6,309	9,431
Disposals	—	—	—	—	(215)	(13)	—	(228)
Transfers	—	—	—	—	1,745	—	(1,745)	—
Adjustments	—	—	—	—	8	—	—	8
As at 31.3.2004	48,070	170,901	30,854	41,481	24,570	16,256	6,689	338,821
ACCUMULATED DEPRECIATION								
As at 1.4.2003	5,594	40,058	5,176	36,249	14,532	8,110	—	109,719
Additions	1,092	4,349	3,802	645	3,527	3,241	—	16,656
Disposals	—	—	—	—	(187)	(13)	—	(200)
Adjustments	—	—	—	—	1	—	—	1
As at 31.3.2004	6,686	44,407	8,978	36,894	17,873	11,338	—	126,176
Depreciation for FY 2002/2003	1,092	4,350	4,282	1,024	3,173	2,368	—	16,289
NET BOOK VALUE								
As at 31.3.2004	41,384	126,494	21,876	4,587	6,697	4,918	6,689	212,645
As at 31.3.2003	42,476	130,843	25,606	5,141	5,882	7,818	2,125	219,891

18 DEPOSITS OF FINANCIAL INSTITUTIONS

	2004 \$'000	2003 \$'000
Banks	6,284,565	6,394,213
Finance Companies	157,240	249,993
Securities Companies	4,500	6,100
	6,446,305	6,650,306
International Financial Institutions	310,805	63,891
Foreign Central Banks	385	324
	6,757,495	6,714,521

18 DEPOSITS OF FINANCIAL INSTITUTIONS (CONT'D)

Deposits from banks and finance companies in Singapore represent the minimum cash balances maintained by banks and finance companies with the Authority as required under the Banking Act (Chapter 19, 2003 Revised Edition) and the Finance Companies Act (Chapter 108, 2000 Revised Edition) respectively. Deposits from securities companies represent statutory deposits from holders of capital market services licences required under the Securities and Futures Act (Chapter 289, 2002 Revised Edition).

19 AMOUNTS DUE TO SINGAPORE GOVERNMENT

	2004 \$'000	2003 \$'000
Contribution to Consolidated Fund	1,096,743	224,161
Return of Profit to Singapore Government	2,195,700	500,000
	3,292,443	724,161

The contribution to be made to the Consolidated Fund is in accordance with the Statutory Corporations (Contributions to Consolidated Fund) Act (Chapter 319A, 2000 Revised Edition). The contribution is based on 22% (2003: 22%) of the profit for the year.

20 PROVISIONS AND OTHER LIABILITIES

Provisions have been made for contingencies under Section 6(2) of the Monetary Authority of Singapore Act (Chapter 186, 1999 Revised Edition). Other liabilities include borrowings from banks, borrowings under reverse repurchase agreements, the Authority's allocations of Special Drawing Rights in IMF, creditors, accounts payable and accruals.

21 STATUTORY DEPOSITS OF INSURANCE COMPANIES, REMITTANCE LICENSEES AND CAPITAL MARKET SERVICES LICENSEES

The following statutory deposits of insurance companies held by the Authority under the Insurance Act (Chapter 142, 2002 Revised Edition), the remittance licensees under the Money-Changing and Remittance Businesses Act (Chapter 187, 1996 Revised Edition) and the capital market services licensees under the Securities and Futures Act (Chapter 289, 2002 Revised Edition) are not included in the balance sheet:

	2004 \$'000	2003 \$'000
Insurance Companies		
Fixed Deposits	78,720	55,623
Bank Covenants	24,500	31,500
Singapore Government Bonds	7,450	7,550
	110,670	94,673
Remittance Licensees		
Bank Guarantees	16,800	17,700
Capital Market Services Licensees		
Bank Guarantees	200	—

22 COMMITMENTS

22.1 International Monetary Fund

- a) The Authority has an obligation to pay \$1,053 million (31 March 2003: \$1,073 million) which represents the unpaid portion of the Singapore quota due to IMF under Section 4 of Article III of the Articles of Agreement.
- b) As a participant in the IMF's 'New Arrangements to Borrow' (NAB), the Authority undertakes to provide a credit line of up to SDR340 million [\$845 million] (31 March 2003: \$825 million) in the event of a financial emergency as specified by the NAB. During the year, the Authority did not grant any loan under the NAB.

22.2 Bank for International Settlements

The Authority has a commitment, amounting to SDR11.3 million [\$28.0 million] as at 31 March 2004 (31 March 2003: \$31.3 million), in respect of the uncalled portion of its shareholding in the BIS.

22.3 Currency Swap Agreement

The Authority participated in a financing package organised for Thailand by the IMF. The financing package is in the form of a Currency Swap Agreement between the Bank of Thailand (BOT) and a number of Asian central banks and multinational institutions, including the Authority. Under the Agreement, the Authority entered into swap transactions to exchange US dollars for Thai Baht up to a maximum of US\$1.0 billion for a maximum period of 5 years. As at 31 March 2004, the outstanding principal due from BOT has been fully repaid (31 March 2003: US\$79.3 million [\$140 million]).

22.4 Repurchase Agreements with Other Central Banks

The Authority has entered into bilateral repurchase agreements with various Asian central banks to provide liquidity assistance in times of emergency. For the financial year ended 31 March 2004, there was no request for liquidity assistance from any counterpart.

22.5 ASEAN Swap Arrangement

The Authority has participated in the multilateral swap arrangement together with other ASEAN central banks and monetary authorities to provide short-term foreign exchange liquidity support for member countries that experience balance of payments difficulties. For the financial year ended 31 March 2004, there was no request for liquidity support from any member country.

22.6 Bilateral Swap Agreement

The Authority signed a bilateral swap agreement (BSA) with the Bank of Japan, an agent for Japan's Minister of Finance, in November 2003. The Japan-Singapore BSA is a one-way US dollar swap amounting to US\$1.0 billion (\$1.7 billion) under which Japan will provide the swap facility to Singapore. The terms are consistent with the framework agreed to by the ASEAN+3 member countries under the Chiang Mai Initiative. For the financial year ended 31 March 2004, there was no request to activate the facility.

22.7 Circulation Coin Operations and Management

A company has been appointed to undertake the coin management functions under a five-year contract from 1 October 1999. On expiry of the contract, the Authority would buy back from the company the balance of the coin stock purchased previously, up to a maximum value of \$3.8 million.

22.8 Capital Commitments

Capital expenditure not provided for in the accounts is as follows:

	2004 \$'000	2003 \$'000
Amount contracted for	23,966	775

22.9 Leases

a) Future minimum lease payments under non-cancellable operating leases are as follows:

	2004 \$'000	2003 \$'000
Less than 1 year	313	489
1 to 5 years	381	119
	694	608

b) Future minimum lease rental receipts under non-cancellable operating leases are as follows:

	2004 \$'000	2003 \$'000
Less than 1 year	2,226	2,172
1 to 5 years	469	1,961
	2,695	4,133

23 COMPARATIVE FIGURES

Comparative figures have been reclassified to conform with the presentation in the current year.

Calendar of Monetary and Financial Events

08.05.2003

Monetary Authority of Singapore awards 8 Wholesale Bank Licences.

22.05.2003

MAS releases consultation paper on proposed rules to restrict cyclical shareholding arrangements within the banking group.

26.05.2003

MAS releases consultation paper on proposed amendments to the Insurance Act which will see the introduction of frameworks for risk-based capital and health insurance.

28.05.2003

The Singapore Exchange (SGX) scraps 12-year-old ruling that bars brokers and broking house directors from sitting on the boards of listed companies.

02.06.2003

MAS welcomes and participates in the launch of the Asian Bond Fund by the Executives' Meeting of East Asia and Pacific Central Banks.

12.06.2003

MAS issues the 2003 Sterling Silver Proof Coin Set (5ct-S\$5).

13.06.2003

MAS releases staff paper investigating the relationship between exchange rate volatility and macroeconomic volatility in Singapore.

23.06.2003

SGX and MAS jointly establish a S\$7.5 million pool of funds for developing the securities and derivatives industry in Singapore.

30.06.2003

MAS Risk Conference "Managing Risk in a Changing Environment" examines issues in consumer banking risk management and business continuity management.

01.07.2003

MAS assumes primary responsibility for on-site inspection of SGX securities and derivatives members.

10.07.2003

MAS issues a Monetary Policy Statement, announcing a re-centring of the exchange rate policy band at the lower level of the Singapore dollar nominal effective exchange rate (S\$NEER), while maintaining a zero per cent appreciation path. The width of the band remains unchanged. In the Monetary Policy Statement, MAS also announces a shift henceforth in the schedule of its semi-annual monetary policy cycle from January/July to April/October.

12.07.2003

Banks in Singapore migrate to the Cheque Truncation System.

16.07.2003

MAS issues guidelines on applications for approval of arrangements under Paragraph 9 of the Third Schedule to the Securities & Futures Act.

22.07.2003

MAS issues the "Tribute to Our Healthcare Givers" Commemorative Coin.

25.07.2003

MAS (Anti-Terrorism Measures) (Amendment No. 2) Regulations 2003 takes effect.

22.08.2003

MAS announces that it will extend the grace period for Singapore-incorporated banks to divest their non-financial businesses by 2 years, upon application by the banks.

03.09.2003

MAS issues the Base Metal Proof Coin Set (5ct-S\$5).

11.09.2003

The Singapore dollar begins live settlement as an eligible member currency of the Continuous Linked Settlement foreign exchange settlement system.

25.09.2003

Singapore signs a Memorandum of Understanding (MOU) with the International Monetary Fund (IMF) and the World Bank (WB) Group in Dubai, confirming Singapore as host of the 2006 Boards of Governors Annual Meetings of the IMF and the WB Group.

26.09.2003

MAS (Anti-Terrorism Measures) (Amendment No. 3) Regulations takes effect.

Singapore accepts chairmanship for the 2004 IMF and the WB Group Boards of Governors Annual Meetings.

29.09.2003

SGX and MAS release details of the SGX-MAS Research Incentive Scheme.

01.10.2003

MAS organises the 10th Annual Conference of the International Association of Insurance Supervisors, bringing together 364 international delegates. The theme is "Building Competencies in the Insurance Sector", and the new 28 Insurance Core Principles are approved.

10.10.2003

MAS issues a Monetary Policy Statement, maintaining the neutral policy stance of a zero per cent appreciation of the S\$NEER policy path in the period ahead, with no change in the level at which the policy band is centred and in the width of the band.

13.10.2003

MAS signs a regulatory MOU with the Securities and Exchange Board of India.

MAS holds 4th meeting of the International Advisory Panel.

16.10.2003

MAS releases consultation paper on proposed regulatory framework for accident and health insurance business.

Launch of MoneySENSE national financial education programme.

17.10.2003

MAS releases the Macroeconomic Review, October 2003.

10.11.2003

SGX introduces a trading halt feature and other enhancements to the securities market, including modifications to the suspension mechanism.

Parliament passes the MAS (Amendment) Bill giving MAS greater flexibility to take measures to safeguard the country's financial system.

Parliament passes the Insurance (Amendment) Bill giving MAS the power to issue rules to clarify what makes up the income, receipts, liabilities and expenses of an insurance fund.

Singapore and Japan sign a currency-swap agreement.

17.11.2003

MAS releases consultation paper on the distribution of traded endowments and traded life policies.

19.11.2003

MAS revises qualifying criterion for the Designated Unit Trust scheme in which capital guaranteed and capital protected funds will be eligible for special tax status.

20.11.2003

SGX and the Chicago Mercantile Exchange (CME) extend their mutual offset system agreement to 4 February 2007, with provisions for automatic yearly renewals thereafter.

28.11.2003

MAS releases consultation paper on the proposed risk-based capital framework for insurance business.

01.12.2003

SGX amends its securities trading rules to ensure that the rules reflect current market practices. Consequential changes are made to the Central Depository Clearing Rules.

SGX amends its listing rules to implement the recommendations of the Company Legislation and Regulatory Framework Committee.

03.12.2003

MAS hosts the 2003 IMF Article IV Consultation on Singapore's economic developments and policies.

10.12.2003

MAS releases consultation paper on regulation of Business Trusts.

12.12.2003

SGX announces that it will introduce the world's first integrated trading engine for its securities and derivatives markets, known as SGX Quest, which will be developed by OMHEX.

18.12.2003

Singapore and IMF sign MOU to provide policy and economic related training for Asia-Pacific government officials at the IMF-Singapore Regional Training Institution.

22.12.2003

The Securities and Futures (Amendment) Act 2003 and the Financial Advisers (Amendment) Act 2003 take effect.

23.12.2003

The MAS (Anti-Terrorism Measures) (Amendment No. 4) Regulations 2003 take effect.

27.12.2003

MAS issues the "Year of the Monkey" Chinese Almanac Coins and the 2004 Uncirculated Coin Set (5ct-S\$5).

29.12.2003

SGX and Dow Jones Indexes sign MOU to pioneer the development of exchange-traded credit derivatives contracts.

14.01.2004

MAS releases consultation paper on proposed changes to MAS Notice 307 regarding investment-linked insurance policies.

16.01.2004

MAS conducts a monetary policy workshop for the media, which aims to clarify the understanding of the framework, formulation and implementation of monetary policy.

19.01.2004

MAS consolidates various guidelines on the issuing of credit and charge cards into a comprehensive set of regulations for ease of reference, as part of the current process to enhance regulatory transparency.

30.01.2004

MAS Notice 120 governing disclosure and advisory process requirements for accident and health insurance products comes into effect.

06.02.2004

Singapore launches the official logo of the Singapore 2006 IMF and WB Group Boards of Governors Annual Meetings. The official website for Singapore 2006, www.singapore2006.org, also goes "live".

23.02.2004

SGX adds the Nikkei 225 Futures contract onto its mutual offset link with CME.

27.02.2004

Government announces the 2004 Budget, with new tax incentives for the financial services sector.

01.03.2004

SGX no longer vets the routine circulars and company documents it oversees, shifting the responsibility for proper disclosure and preparation to companies themselves.

KEY ECONOMIC AND FINANCIAL STATISTICS

	1999	2000	2001	2002	2003
National Income Aggregates					
Gross Domestic Product					
At Current Market Prices (S\$m)	139,615.9	159,662.1	154,078.0	158,064.1	159,135.0
Growth Rate (% change)	1.8	14.4	-3.5	2.6	0.7
At 1995 Market Prices (S\$m)	147,834.4	162,162.3	159,073.0	162,493.2	164,265.9
Growth Rate (% change)	6.9	9.7	-1.9	2.2	1.1
Gross National Income					
At Current Market Prices (S\$m)	142,617.3	159,097.0	155,472.3	157,818.5	157,173.9
Growth Rate (% change)	1.1	11.6	-2.3	1.5	-0.4
Labour Force					
Unemployment Rate (%)	3.5	3.1	3.3	4.4	4.7
Productivity Growth (% change)	7.3	5.4	-5.2	3.6	2.3
Changes in Employment ('000)	39.9	108.5	-0.1	-22.9	-12.9
Average Monthly Earnings (% change)	2.7	8.9	2.3	0.8	1.7
Unit Labour Cost (% change)	-9.0	0.4	5.3	-2.3	-0.6
Savings and Investment					
Gross National Savings (S\$m)	70,644.6	73,984.6	67,150.2	67,238.5	70,351.3
As % of GNI	49.5	46.5	43.2	42.6	44.8
Gross Domestic Capital Formation (S\$m)	44,739.5	51,150.6	38,296.3	33,444.1	21,245.0
As % of GNI	31.4	32.2	24.6	21.2	13.5
Balance of Payments (S\$m)					
Goods Balance	21,067.4	21,948.0	28,169.9	35,543.8	51,079.4
Exports of Goods	210,812.7	257,472.3	239,511.1	245,799.6	274,932.6
Growth Rate (% change)	7.0	22.1	-7.0	2.6	11.9
Imports of Goods	189,745.3	235,524.3	211,341.2	210,255.8	223,853.2
Growth Rate (% change)	8.7	24.1	-10.3	-0.5	6.5
Services and Other Balances	4,837.7	886.0	684.0	-1,749.4	-1,973.1
Current Account Balance	25,905.1	22,834.0	28,853.9	33,794.4	49,106.3
As % of GNI	18.2	14.4	18.6	21.4	31.2
Capital and Financial Account Balance	-24,353.4	-10,202.6	-25,860.6	-24,404.5	-44,037.7
Balancing Item	5,769.5	-796.0	-4,595.2	-7,103.4	6,705.9
Overall Balance	7,321.2	11,835.4	-1,601.9	2,286.5	11,774.5
Official Foreign Reserves	128,457.0	139,260.0	139,942.1	142,721.3	163,189.5
Inflation (% change)					
Consumer Price Index	0.0	1.3	1.0	-0.4	0.5
GDP Deflator	-4.7	4.3	-1.6	0.4	-0.4

	1999	2000	2001	2002	2003
Monetary Aggregates (% change)					
M1	14.2	6.9	8.5	-0.7	8.1
M2	8.5	-2.0	5.9	-0.3	8.1
M3	7.3	-1.8	4.0	-0.8	5.9
Interest Rates (period average, % per annum)					
Prime Lending Rate	5.80	5.83	5.67	5.34	5.31
Banks' 3-month Fixed Deposit Rate	1.68	1.71	1.52	0.87	0.51
Banks' 3-month Domestic Interbank Rate	2.12	2.57	2.00	0.95	0.73
3-month US\$ SIBOR	5.41	6.53	3.78	1.80	1.22
Exchange Rates (period average, S\$ per)					
US Dollar	1.6949	1.7239	1.7917	1.7906	1.7422
Pound Sterling	2.7427	2.6134	2.5809	2.6885	2.8467
Euro	1.8093	1.5930	1.6050	1.6909	1.9703
100 Japanese Yen	1.4944	1.6001	1.4751	1.4309	1.5044
Malaysian Ringgit	0.4460	0.4537	0.4715	0.4712	0.4585
Banking and Finance					
Commercial Banks' Assets/Liabilities (S\$m)	321,045.4	335,816.0	373,747.9	353,115.0	362,528.4
Growth Rate (% change)	4.0	4.6	11.3	-5.5	2.7
Finance Companies' Assets/Liabilities (S\$m)	20,742.4	19,801.1	14,961.1	13,722.3	7,902.7
Growth Rate (% change)	-5.5	-4.5	-24.4	-8.3	-42.4
Merchant Banks' Assets/Liabilities (S\$m)	56,999.6	59,871.2	56,398.4	52,564.3	58,202.6
Growth Rate (% change)	-5.9	5.0	-5.8	-6.8	10.7
Asian Currency Units' Assets/Liabilities (US\$m)	477,241.7	481,693.0	465,472.8	482,612.3	509,145.9
Growth Rate (% change)	-5.1	0.9	-3.4	3.7	5.5
Insurance					
Life Insurers' Assets/Liabilities (S\$m)	29,138.9	35,397.9	48,714.2	54,658.7	63,865.6
Growth Rate (% change)	30.8	21.5	37.6	12.2	16.8
General Insurers' Assets/Liabilities (S\$m)	9,719.8	10,011.9	10,982.5	12,130.3	13,540.9
Growth Rate (% change)	6.7	3.0	9.7	10.5	11.6
CPF					
Excess of Contributions Over Withdrawals (S\$m)	14.7	-478.4	-566.5	1,304.1	4,001.7
Domestic Capital Market					
Net Funds Raised in Domestic Capital Market (S\$m)	24,383.6	28,919.7	36,408.5	29,014.3	35,037.8



STATISTICAL ANNEX

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A.1 MONETARY STATISTICS: MONEY SUPPLY

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	S\$ Million March 2004
Money Supply (M1)	25,349.2	27,040.0	27,510.9	27,239.1	31,109.1	33,261.9	36,082.9	35,828.2	38,722.6	41,418.6
Currency in active circulation ¹	9,906.5	10,293.1	10,703.8	10,146.2	11,315.4	11,289.2	11,867.8	12,360.3	12,838.4	13,094.5
Demand deposits	15,442.7	16,746.9	16,807.1	17,092.9	19,793.7	21,972.7	24,215.1	23,467.9	25,884.2	28,324.1
Quasi-money	76,618.1	84,910.8	95,932.5	133,544.8	143,365.3	137,635.9	144,825.6	144,479.9	156,106.0	160,242.6
Fixed deposits	54,908.2	59,987.0	72,704.6	81,294.6	85,988.3	83,043.8	83,308.2	81,597.5	89,706.3	92,610.6
Savings and other deposits	20,894.8	24,079.3	22,594.4	51,673.7	56,828.0	54,276.8	61,313.5	62,656.8	66,111.3	67,307.9
S\$NCDs	815.1	844.5	633.5	576.5	549.0	315.3	203.9	225.6	288.4	324.1
Money Supply (M2)	101,967.3	111,950.8	123,443.4	160,783.9	174,474.4	170,897.8	180,908.5	180,308.1	194,828.6	201,661.2
Net deposits with non-bank financial institutions	34,769.3	36,543.9	37,322.6	12,797.1 ²	11,709.3	12,014.9	9,408.4	8,507.3	5,215.8	5,257.9
Finance companies	13,273.7	13,192.0	13,969.3	12,797.1	11,709.3	12,014.9	9,408.4	8,507.3	5,215.8	5,257.9
POSBank	21,495.6	23,351.9	23,353.3	—	—	—	—	—	—	—
Money Supply (M3)	136,736.6	148,494.7	160,766.0	173,581.0	186,183.7	182,912.7	190,316.9	188,815.4	200,044.4	206,919.1

¹ Figures exclude commemorative, numismatic and bullion coins issued by the Monetary Authority of Singapore and cash held by commercial banks and other financial institutions. The Board of Commissioners of Currency, Singapore, merged with the Monetary Authority of Singapore in October 2002.

² From November 1998, with the acquisition of POSBank by the DBS Bank Ltd, POSBank's data has been incorporated as part of the banking system in M1 and M2, and not as a non-bank financial institution in M3.

A.2 MONETARY STATISTICS: OFFICIAL FOREIGN RESERVES¹

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	SS Million March 2004
Total Foreign Reserves	97,336.6	107,750.8	119,616.8	124,584.4	128,457.0	139,260.0	139,942.1	142,721.3	163,189.5	172,152.9
Gold & Foreign Exchange	96,666.2	107,072.5	118,764.7	123,570.3	127,161.0	137,974.9	138,548.7	141,292.9	161,533.3	170,510.3
Reserve Position in the IMF	430.3	428.8	564.3	614.5	908.5	868.0	919.8	925.2	1,092.1	1,080.2
Special Drawing Rights (SDRs)	240.1	249.5	287.8	399.6	387.5	417.1	473.6	503.2	564.1	562.4
Total Foreign Reserves (US\$ Million)	68,823.2	76,975.9	71,391.7	75,028.2	77,176.0	80,361.9	75,800.1	82,276.4	96,324.0	102,743.8

¹ Prior to May 1999, Singapore's official foreign reserves (OFR) were valued at book cost. With effect from May 1999, the book value of foreign reserve assets are translated at market exchange rates prevailing at the end of each reporting month.

A.3 MONETARY STATISTICS: EXCHANGE RATES

Period Average	1995	1996	1997	1998	1999	2000	2001	2002	S\$ Per Foreign Currency 1st Quarter	
									2003	2004
US Dollar	1.4174	1.4101	1.4848	1.6736	1.6949	1.7239	1.7917	1.7906	1.7422	1.6949
100 Japanese Yen	1.5154	1.2971	1.2277	1.2823	1.4944	1.6001	1.4751	1.4309	1.5044	1.5812
Euro	—	—	—	—	1.8093	1.5930	1.6050	1.6909	1.9703	2.1198
Pound Sterling	2.2369	2.2017	2.4334	2.7722	2.7427	2.6134	2.5809	2.6885	2.8467	3.1167
Swiss Franc	1.2009	1.1425	1.0245	1.1563	1.1306	1.0223	1.0630	1.1528	1.2957	1.3516
Australian Dollar	1.0510	1.1040	1.1024	1.0518	1.0933	1.0031	0.9274	0.9737	1.1355	1.2977
100 Korean Won	0.1838	0.1754	0.1587	0.1204	0.1426	0.1526	0.1389	0.1435	0.1463	0.1446
100 New Taiwan Dollar	5.3382	5.1354	5.1752	5.0004	5.2544	5.5231	5.3031	5.1801	5.0639	5.0752
Hong Kong Dollar	0.1832	0.1823	0.1918	0.2160	0.2184	0.2212	0.2297	0.2296	0.2237	0.2179
Malaysian Ringgit	0.5651	0.5605	0.5353	0.4271	0.4460	0.4537	0.4715	0.4712	0.4585	0.4460
Thai Baht	0.0569	0.0556	0.0488	0.0409	0.0448	0.0430	0.0403	0.0416	0.0420	0.0432
100 Indonesian Rupiah	0.0632	0.0606	0.0536	0.0173	0.0218	0.0207	0.0176	0.0193	0.0203	0.0200

Note: Currencies quoted are those frequently requested from the Authority.

A.4 MONETARY STATISTICS: DOMESTIC INTEREST RATES

Period Average	1995	1996	1997	1998	1999	2000	2001	2002	2003	Per Cent Per Annum 1st Quarter 2004
Banks¹										
Prime Lending Rate	6.37	6.26	6.30	7.49	5.80	5.83	5.67	5.34	5.31	5.30
Fixed Deposit Rate										
3-month	3.50	3.41	3.47	4.60	1.68	1.71	1.52	0.87	0.51	0.41
6-month	3.77	3.67	3.72	4.66	2.04	2.06	1.85	1.14	0.67	0.52
12-month	4.11	4.01	4.02	4.82	2.46	2.45	2.14	1.39	0.88	0.71
Savings Deposit Rate	2.81	2.72	2.75	3.11	1.36	1.30	1.13	0.56	0.28	0.23
Finance Companies²										
Fixed Deposit Rate										
3-month	3.28	3.14	3.32	4.61	1.77	1.85	1.54	0.98	0.52	0.48
6-month	3.68	3.48	3.62	4.73	2.23	2.31	1.78	1.19	0.75	0.69
12-month	4.20	3.93	4.03	4.94	2.73	2.82	2.14	1.42	0.99	0.94
Savings Deposit Rate	2.56	2.50	2.55	3.04	1.30	1.31	1.14	0.69	0.36	0.31
Interbank Rate³										
1-month	2.38	2.88	4.10	5.02	1.80	2.45	1.93	0.87	0.68	0.68
3-month	2.63	2.92	4.09	5.20	2.12	2.57	2.00	0.95	0.73	0.75
US\$ SIBOR										
1-month	5.99	5.45	5.64	5.57	5.26	6.41	3.88	1.77	1.21	1.10
3-month	6.05	5.52	5.74	5.56	5.41	6.53	3.78	1.80	1.22	1.12
6-month	6.11	5.58	5.83	5.54	5.52	6.65	3.74	1.89	1.23	1.18

1 Average of 10 leading banks.

2 Average of 10 leading finance companies.

3 Closing offer rates quoted by money brokers.

Note: Interest rates for banks (except for Prime Lending Rate) and finance companies refer to average of end of month rates.

B.1 FINANCIAL STRUCTURE: NUMBER OF FINANCIAL INSTITUTIONS IN SINGAPORE

End-March	1997	1998	1999	2000	2001	2002	2003	2004
Banks	152	154	142	140	133	120	117	115
Local ¹	12	12	9	8	8	6	5	5
Foreign	140	142	133	132	125	114	112	110
Full banks	22	22	22	23	23	22	22	23
Wholesale banks ²	13	13	13	16	20	33	31	37
Offshore banks	105	107	98	93	82	59	59	50
(Banking offices including head offices and main offices)	(482)	(474)	(561)	(538)	(485)	(444)	(404)	(398)
Asian Currency Units	224	226	205	195	184	169	164	160
Banks	144	146	135	133	127	115	112	110
Merchant banks	80	80	70	62	57	54	52	50
Finance Companies	19	19	15	14	11	7	5	3
(Finance companies' offices including head offices)	(125)	(119)	(109)	(101)	(79)	(65)	(59)	(39)
Merchant Banks	80	80	70	63	58	55	53	51
Insurance Companies	154	164	159	153	151	144	143 ³	133
Direct insurers	59	61	59	55	54	57	57	52
Professional reinsurers	45	51	49	47	46	36	36	30
Captive insurers	50	52	51	51	51	51	50	51
Insurance Brokers	—	—	—	—	88	90	57 ⁴	60

End-March	1997	1998	1999	2000	2001	2002	2003	2004
Representative Offices	64	70	69	66	62	55	51	50
Banks	61	68	69	66	62	55	51	50
Merchant banks	3	2	–	–	–	–	–	–
International Money Brokers	8	9	9	9	8	8	8	8
Licensed Financial Advisers⁵							49	52
Capital Markets Services Licensees⁶								
Dealing in Securities, of which:	89	89	78	77	81	79	59	60
Clearing Member Companies of SGX-ST	33	32	30	31	35	27	26	22
Non-Clearing Member Companies of SGX-ST	0	0	0	0	0	0	1	1
Non-Member Companies of SGX-ST	56	57	48	46	46	52	32	37
Trading in Futures Contracts, of which:	49	46	49	45	50	39	36	31
Clearing Member Companies of SGX-DT	35	35	32	30	31	27	25	21
Non-Clearing Member Companies of SGX-DT	13	11	13	11	10	6	6	6
Commercial Associate Member Companies of SGX-DT	1	0	4	4	9	6	5	4
Advising on Corporate Finance							22	26
Fund Management	156	156	148	154	167	167 ⁷	90	94
Leveraged Foreign Exchange Trading							11	10
Securities Financing							13	13
Providing Custodial Services for Securities							26	26

1 All local banks are full banks.

2 Previously known as restricted banks.

3 Figure includes 20 companies on run-off.

4 Figure excludes 26 direct life brokers. With effect from 1 October 2002, the regulation of direct life brokers was transferred to the Financial Advisers Act (FAA).

5 Financial Adviser's Licence is issued under the FAA which came into force on 1 October 2002.

6 In view of the single licencing framework under Securities and Futures Act (SFA) which was implemented from 1 October 2002, the data before and after 1 October 2002 are not directly compatible. The new licensing regime allows companies to engage in seven regulated activities. Before implementation of the SFA, the old regime was governed under the repealed Securities Industry Act and the Futures Trading Act which provided for five different licences to perform the full range of capital market activities. The five licences are: dealer's licences, investment adviser's licence, future broker's licence, futures trading adviser's licence, and futures pool operator's licence.

7 This shows the number of investment advisers operating pursuant to the Securities Industry Act and one futures pool operator operating pursuant to the Futures Trading Act.

C.1 COMMERCIAL BANKS: ASSETS AND LIABILITIES

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	SS Million March 2004
Assets										
Cash in hand	688.8	811.2	802.2	998.2	2,556.7	1,488.9	1,234.3	1,176.1	1,210.2	1,078.4
Balances with MAS	6,471.8	7,095.4	7,702.2	5,430.8	7,524.3	5,690.9	6,970.8	6,462.8	6,592.0	6,306.6
S\$NCDs held	104.9	198.5	212.5	175.0	162.5	149.7	167.3	34.1	163.7	163.0
Amounts due from banks	79,837.0	86,112.6	99,935.3	105,151.1	109,650.2	116,475.7	114,250.7	96,807.5	97,549.3	112,255.6
In Singapore	30,926.6	33,555.1	30,220.6	38,215.6	29,458.6	42,535.9	27,069.9	17,434.6	21,357.0	41,051.6
ACUs	25,398.6	24,851.9	34,517.1	27,994.4	34,760.9	26,614.2	39,024.1	41,871.2	39,856.0	36,058.3
Outside Singapore	23,511.8	27,705.6	35,197.5	38,941.1	45,430.7	47,325.6	48,156.7	37,501.7	36,336.3	35,145.6
Investments	22,299.0	24,633.3	26,405.9	35,238.1	40,260.7	45,463.5	70,847.4	61,537.8	64,133.2	67,273.3
In Singapore	21,169.8	23,339.4	25,078.3	33,857.5	37,595.1	42,072.6	66,988.8	55,918.2	58,248.5	60,308.9
Government securities	15,753.9	17,537.9	18,883.4	26,477.3	30,948.5	33,718.9	40,511.7	42,621.2	45,555.8	46,306.7
Others	5,415.9	5,801.4	6,194.9	7,380.3	6,646.6	8,353.8	26,477.1	13,297.0	12,692.7	14,002.2
Outside Singapore	1,129.2	1,293.9	1,327.5	1,380.5	2,665.6	3,390.8	3,858.5	5,619.7	5,884.7	6,964.4
Loans and advances to non-bank customers	108,974.0	126,987.7	143,243.8	151,640.9	147,185.5	154,042.1	162,920.8	161,283.4	171,443.5	173,011.7
of which bills financing	6,879.2	8,693.4	9,363.5	4,924.5	5,118.1	3,584.3	3,636.6	3,047.7	3,889.2	4,241.2
Fixed and other assets	6,203.2	6,884.7	11,270.6	10,146.6	13,705.5	12,505.3	17,356.6	25,813.3	21,436.6	26,559.4
Liabilities										
Paid-up capital and reserves	18,904.1	20,977.3	23,709.6	23,323.8	25,318.6	24,492.1	36,855.7	30,560.9	32,724.5	36,423.5
Deposits of non-bank customers	108,885.5	118,201.5	124,143.0	162,310.3	174,454.1	171,316.4	182,551.4	180,138.4	194,231.5	201,528.9
S\$NCDs issued	920.0	1,043.0	846.0	751.5	711.5	465.0	371.3	259.8	452.1	487.1
Amounts due to banks	86,063.1	101,576.8	125,856.1	104,107.8	98,182.8	118,034.2	118,349.8	106,060.1	103,559.0	108,441.4
In Singapore	29,881.0	34,328.6	31,134.2	29,769.5	23,124.0	34,334.2	28,544.0	18,218.6	15,201.7	18,273.1
ACUs	26,293.3	31,293.4	50,049.6	43,034.2	44,623.1	53,662.4	61,177.4	61,777.0	63,191.4	64,317.3
Outside Singapore	29,888.8	35,954.8	44,672.3	31,304.0	30,435.7	30,037.5	28,628.3	26,064.5	25,165.9	25,851.0
Bills payable	503.4	589.2	552.5	478.8	754.1	598.4	516.7	606.1	578.2	763.1
Other liabilities	9,302.6	10,335.6	14,465.2	17,808.4	21,624.3	20,909.9	35,103.1	35,489.8	30,983.2	39,004.0
Total Assets/Liabilities	224,578.7	252,723.4	289,572.3	308,780.6	321,045.4	335,816.0	373,747.9	353,115.0	362,528.4	386,647.9

C.2 COMMERCIAL BANKS: LOANS AND ADVANCES BY INDUSTRIAL CLASSIFICATION

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	S\$ Million March 2004
Agriculture, mining and quarrying	159.3	132.8	187.6	223.6	191.4	178.7	113.0	162.1	305.5	446.1
Manufacturing	11,003.1	12,248.2	12,472.0	12,249.2	11,574.7	11,620.7	11,964.7	10,819.2	10,595.5	10,157.8
Building and construction	16,712.9	21,401.2	26,234.8	25,580.0	23,444.0	25,644.7	26,578.4	23,863.0	24,029.5	23,713.5
Housing loans	17,482.8	20,402.3	22,934.8	31,788.5	35,154.1	38,562.5	41,733.2	44,719.1	52,388.1	53,591.3
General commerce	21,643.9	23,931.8	26,349.5	21,549.1	19,949.3	18,967.5	17,693.0	16,887.2	16,857.3	17,751.1
Transport, storage and communication	2,178.1	2,618.7	3,575.7	4,459.7	3,743.3	4,124.2	6,148.9	4,554.7	4,133.8	3,996.2
Non-bank financial institutions	16,888.6	19,448.3	20,997.4	22,724.1	21,062.8	20,864.7	21,569.2	22,926.8	21,633.8	22,081.1
Professional and private individuals	16,889.5	20,256.1	22,775.4	21,766.1	21,594.2	24,722.1	27,740.9	27,634.0	32,551.2	32,774.3
Others	6,015.8	6,548.3	7,716.5	11,300.6	10,471.7	9,356.9	9,379.4	9,717.3	8,948.8	8,500.4
Total	108,974.0	126,987.7	143,243.8	151,640.9	147,185.5	154,042.1	162,920.8	161,283.4	171,443.5	173,011.7

C.3 COMMERCIAL BANKS: TYPES OF LOANS AND ADVANCES TO NON-BANK CUSTOMERS

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	S\$ million March 2004
Overdrafts	26,965.7	30,306.9	36,063.2	32,680.6	28,302.8	27,020.7	23,880.4	20,001.1	16,829.1	15,027.4
Bills discounting	6,879.2	8,693.4	9,363.5	4,924.5	5,118.1	3,584.3	3,636.6	3,047.7	3,889.2	4,241.2
Trust receipts	6,734.6	6,468.9	7,011.8	5,026.7	4,589.3	4,857.2	4,435.4	4,179.1	3,995.2	3,913.4
Term loans and others	68,394.5	81,518.5	90,805.3	109,009.0	109,175.1	118,580.0	130,968.3	134,055.6	146,730.0	149,829.6
Total	108,974.0	126,987.7	143,243.8	151,640.9	147,185.5	154,042.1	162,920.8	161,283.4	171,443.5	173,011.7

C.4 COMMERCIAL BANKS: TYPES OF DEPOSITS INCLUDING S\$NCDS

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	S\$ Million March 2004
Demand	17,537.8	18,862.7	18,297.4	18,427.1	21,676.0	23,650.0	25,966.6	25,178.1	27,902.2	30,586.6
Fixed	67,389.6	71,802.7	80,089.1	88,658.1	92,118.7	89,774.6	90,845.1	87,879.2	95,729.2	99,038.3
Savings	23,501.3	27,168.2	25,439.4	54,862.4	60,271.8	57,477.4	65,331.1	66,690.8	69,861.3	71,140.5
S\$NCDS (net)	815.1	844.5	633.5	576.5	549.0	315.3	203.9	225.6	288.4	324.1
Others	456.8	368.0	317.2	362.7	387.6	414.4	408.7	390.4	738.8	763.4
Total	109,700.6	119,046.0	124,776.5	162,886.8	175,003.1	171,631.7	182,755.3	180,364.0	194,519.9	201,852.9

C.5 COMMERCIAL BANKS: LIQUIDITY POSITION

Period Average	1995	1996	1997	1998	1999	2000	2001	2002	2003	S\$ Million 1st Quarter 2004
Liabilities Base	100,138.0	114,828.5	122,777.4	134,282.4	162,193.4	168,185.3	177,264.5	185,568.9	193,451.6	196,608.1
Liquid Assets										
(a) Minimum Requirement	24,033.1	27,558.9	29,466.6	30,125.4	34,060.6	35,318.9	37,225.5	38,969.5	36,481.4	34,985.1
(b) Total Actual Liquid Assets	25,039.1	28,632.1	30,556.7	31,968.6	37,419.2	39,518.6	44,342.4	46,845.5	50,325.8	52,414.3
(c) Free Liquid Assets (b) – (a)	1,006.0	1,073.3	1,090.2	1,843.2	3,358.6	4,199.7	7,116.8	7,876.0	13,844.4	17,429.2
Liquidity Ratios	25.0	24.9	24.9	23.9	23.1	23.5	25.0	25.2	26.0	26.7

D.1 FINANCE COMPANIES: ASSETS AND LIABILITIES

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	S\$ Million March 2004
Assets										
Reserves with MAS	836.1	812.7	871.8	401.7	357.5	368.5	286.1	252.8	155.3	157.2
Deposits with banks and other financial institutions	2,666.1	2,165.9	1,904.2	2,721.8	2,729.7	1,664.5	1,241.9	1,345.7	312.3	325.4
Banks	1,998.3	1,734.1	1,628.1	2,408.1	2,654.4	1,635.2	1,218.0	1,345.7	312.3	318.5
Other institutions	667.8	431.8	276.1	313.7	75.4	29.4	23.9	0.0	0.0	6.9
Loans and advances	16,251.9	16,762.7	17,900.2	16,779.4	15,636.4	15,790.9	11,983.0	10,815.9	6,657.2	6,722.1
Housing loans	2,637.3	3,221.1	3,721.7	3,821.2	3,500.1	2,768.0	1,884.7	1,547.9	756.3	799.1
Hire purchase	5,580.2	4,982.4	4,958.8	4,331.6	4,413.3	5,700.1	4,394.8	4,034.4	2,459.0	2,397.5
Lease finance	20.2	8.7	6.1	2.4	1.4	1.1	0.8	0.3	0.0	0.0
Others	8,014.2	8,550.5	9,213.7	8,624.2	7,721.6	7,321.8	5,702.7	5,233.3	3,441.9	3,525.5
Securities and equities	1,089.8	1,139.4	1,201.6	1,705.2	1,691.5	1,680.4	1,257.0	1,115.8	687.4	690.6
Other assets	291.6	308.8	332.8	333.8	327.3	296.7	193.1	192.0	90.6	90.5
Liabilities										
Capital and reserves	2,621.0	3,014.7	3,268.5	3,371.2	3,408.1	3,164.9	2,425.5	2,111.2	1,406.3	1,425.2
Deposits	15,417.8	15,071.6	15,611.8	15,344.6	14,321.9	13,645.9	10,641.4	9,855.7	5,530.2	5,585.2
Fixed	13,584.6	13,311.8	15,124.9	14,882.9	13,875.5	13,425.4	10,431.4	9,612.0	5,373.4	5,426.7
Savings	348.8	371.6	392.7	341.7	344.3	194.6	202.4	222.6	149.7	150.1
Others	1,484.4	1,388.2	94.2	120.0	102.1	26.0	7.6	21.1	7.1	8.4
Borrowings	1,215.0	1,381.9	1,398.0	1,180.4	899.2	998.5	254.3	254.9	119.9	126.5
Other liabilities	1,881.7	1,721.2	1,932.2	2,045.6	2,113.2	1,991.8	1,639.9	1,500.5	846.4	849.1
Total Assets/Liabilities	21,135.5	21,189.4	22,210.6	21,941.9	20,742.4	19,801.1	14,961.1	13,722.3	7902.7	7,985.9

E.1 MERCHANT BANKS: CONSOLIDATED ASSETS AND LIABILITIES¹

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	S\$ Million March 2004
Assets										
Amounts due from banks	21,678.6	21,796.7	28,222.0	27,632.0	27,337.8	30,386.1	25,703.8	22,156.6	22,291.5	22,242.7
In Singapore	715.2	771.9	1,221.3	1,771.2	1,704.7	1,554.7	1,427.1	891.2	1,481.6	1,630.1
Outside Singapore ²	20,963.4	21,024.8	27,000.7	25,860.8	25,633.1	28,831.4	24,276.7	21,265.4	20,809.9	20,612.6
Loans and advances to non-bank customers	15,258.2	17,348.9	21,777.5	19,321.2	20,846.5	21,833.8	20,309.8	19,674.8	24,229.0	25,661.9
Securities and equities	10,550.1	11,678.3	14,339.0	9,662.9	6,934.8	6,263.4	9,354.9	9,511.3	10,109.9	11,908.7
Other assets	2,766.3	2,756.7	2,322.8	3,929.2	1,880.5	1,387.9	1,029.9	1,221.6	1,572.2	2,882.5
Liabilities										
Capital and reserves	6,089.9	6,646.0	8,193.7	7,597.8	8,008.6	8,296.2	8,094.0	7,742.7	8,233.8	8,429.3
Amounts due to banks	30,543.6	34,571.8	41,111.3	30,363.7	26,501.8	26,943.4	27,617.9	24,858.7	29,304.7	32,088.8
In Singapore	657.5	481.5	974.2	1,083.2	649.0	671.8	895.1	501.3	724.3	891.4
Outside Singapore ²	29,886.1	34,090.3	40,137.1	29,280.5	25,852.8	26,271.6	26,722.8	24,357.4	28,580.4	31,197.4
Borrowings from non-bank customers	8,779.6	9,030.0	13,814.9	17,751.6	18,914.6	21,587.0	17,861.3	17,729.8	18,207.0	18,508.7
Other liabilities	4,840.0	3,332.9	3,541.2	4,832.3	3,574.6	3,044.7	2,825.2	2,233.1	2,457.1	3,669.1
Total Assets/Liabilities	50,253.1	53,580.6	66,661.2	60,545.4	56,999.6	59,871.2	56,398.4	52,564.3	58,202.6	62,695.8

¹ Data are derived from the consolidation of merchant banks' domestic and Asian dollar operations.

² Including Asian Currency Units.

E.2 MERCHANT BANKS: ASSETS AND LIABILITIES OF DOMESTIC UNIT OPERATIONS¹

	S\$ Million									
End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	March 2004
Assets										
Amounts due from banks	5,191.9	5,339.3	6,553.5	6,753.9	6,454.7	5,958.0	5,743.8	5,264.3	5,985.7	5,999.7
In Singapore	712.3	761.7	1,215.8	1,769.2	1,702.7	1,545.1	1,425.5	881.9	1,479.4	1,628.2
Outside Singapore ²	4,479.6	4,577.6	5,337.7	4,984.7	4,752.0	4,412.9	4,318.3	4,382.4	4,506.3	4,371.6
Loans and advances to non-bank customers	1,295.1	1,246.6	1,089.8	834.2	675.8	791.8	801.1	809.0	768.2	784.3
Securities and equities	406.1	494.2	513.2	430.0	449.8	485.1	609.2	477.3	350.7	598.2
Other assets	351.7	416.4	555.8	574.5	319.8	303.8	249.5	219.0	272.2	434.5
Liabilities										
Capital and reserves	4,036.7	4,104.7	4,889.6	5,254.6	4,874.0	4,802.7	4,734.5	4517.2	4,702.2	4,553.3
Amounts due to banks	1,509.7	1,720.2	2,046.5	1,855.6	2,053.7	1,677.3	1,659.3	1,529.8	1,771.5	2,031.1
In Singapore	412.0	297.7	284.6	183.3	411.3	395.5	658.3	501.1	724.0	888.7
Outside Singapore ²	1,097.7	1,422.5	1,761.9	1,672.3	1,642.4	1,281.8	1,001.0	1,028.7	1,047.5	1,142.5
Borrowings from non-bank customers	1,324.9	1,194.3	1,082.0	786.0	516.3	565.5	562.7	336.5	446.0	623.6
Other liabilities	373.5	477.3	694.2	696.5	456.1	493.1	447.1	386.3	457.0	608.7
Total Assets/Liabilities	7,244.8	7,496.5	8,712.3	8,592.6	7,900.1	7,538.6	7,403.6	6,769.7	7,376.7	7,816.7

¹ Corporate financial advisory services, underwriting activities and operations in the gold market are not reflected in the data.

² Including Asian Currency Units.

F.1 INSURANCE INDUSTRY: ASSETS AND PREMIUMS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	S\$ million April 2004
Total Assets of Insurance										
Industry (End Period)	20,451.3	24,622.6	28,165.9	31,378.1	38,858.7	45,409.8	59,696.7	66,789.0	77,406.4	N.A
Direct Insurers	17,599.3	21,516.2	24,628.1	27,823.4	34,918.8	41,058.8	54,710.3	61,537.0	71,323.8	N.A
Professional Reinsurers	1,969.3	2,222.0	2,581.0	2,710.7	3,081.2	3,504.3	4,208.7	4,361.4	4,697.4	N.A
Captive Insurers	882.7	884.4	956.8	844.0	858.7	846.7	777.7	890.5	1,385.2	N.A
General Business: Gross Premiums										
Total General Business	2,716.1	2,793.8	2,914.9	2,670.9	2,752.6	3,269.6	3,821.2	4,756.4	4,996.2	1,266.1
Domestic Business	1,544.7	1,616.4	1,645.4	1,527.9	1,479.2	1,622.2	1,800.5	2,230.9	2,344.2	668.1
Offshore Business	1,171.4	1,177.4	1,269.5	1,143.0	1,273.4	1,647.4	2,020.7	2,525.5	2,652.0	598.0
Life Business: Premiums										
Premiums in Force (End Period)	3,016.0	3,538.0	4,202.5	4,468.6	4,680.5	5,071.6	5,221.9	5,417.9	5,547.9	5,555.4
New Business Premiums										
Annual Premium Policies	584.5	656.7	837.1	540.5	552.6	705.6	455.1	686.7	499.8	110.7
Single Premium Policies										
Life Insurance	551.5	699.5	1,288.1	529.3	1,785.1	3,337.7	8,961.6	5,948.3	4,613.4	1,720.2
Annuity	74.5	104.2	120.8	103.7	174.3	266.2	450.2	602.6	231.6	47.1

G.1 NON-BANK FINANCIAL INSTITUTIONS: CENTRAL PROVIDENT FUND BOARD

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	S\$ million 1st Qtr 2004 **
Excess Of Contributions										
Over Withdrawals (During Period)	6,270.0	4,078.3	4,398.3	2,370.5	14.7	-478.4	-566.5	1,304.1	4,001.7	1,613.4
Members' Contributions	13,536.1	14,623.0	15,873.8	15,999.8	12,826.6	14,092.8	18,322.3	16,165.7	15,870.0	4,418.7
Withdrawals*	7,266.1	10,544.7	11,475.5	13,629.3	12,811.9	14,571.2	18,888.8	14,861.6	11,868.3	2,805.3
Approved Housing Schemes ¹	4,590.7	5,058.4	5,786.7	7,834.7	9,528.4	8,655.1	8,262.5	8,208.1	6,909.8	1,718.0
Under Section 15 ²	1,450.0	1,633.0	1,548.2	1,847.0	1,671.1	1,679.9	2,226.1	2,026.8	2,384.8	529.3
Medical Schemes ³	360.0	389.5	420.8	441.0	445.0	518.1	531.6	763.2	722.0	132.4
Others	865.4	3,463.8	3,719.8	3,506.6	1,167.4	3,718.1	7,868.6	3,863.5	1,851.7	425.6
Interest Credited										
to Members' Balances (During Period)	2,116.2	2,452.8	2,692.6	3,248.9	3,105.3	2,379.8	2,489.5	2,897.3	3,115.3	828.3
Advanced Deposits										
with MAS (During Period) ⁴	8,184.6	8,075.9	6,337.8	5,967.5	3,576.7	577.7	1,648.9	3,820.2	7,130.1	2,486.8
Interest Earnings										
from Investments (During Period)	2,198.7	2,596.6	2,853.0	3,479.6	3,309.8	2,537.8	2,662.4	3,054.9	3,260.5	870.7
Holdings of Government										
Securities (End Period) ⁵	45,120.0	51,620.0	57,120.0	59,620.0	62,620.0	60,620.0	89,410.3	94,444.1	100,750.4	103,517.2
Members' Balances (End Period)	66,035.4	72,566.6	79,657.4	85,276.8	88,396.9	90,298.3	92,221.2	96,422.6	103,539.6	105,981.3

Source: Central Provident Fund Board

* Includes refunds and transfers to Reserve Account.

¹ Housing schemes include Public Housing and Residential Properties Schemes.

² Section 15 of the CPF Act allows withdrawals to be made on any of the following grounds: a) member having reached the age 55 years; b) leaving Singapore and West Malaysia; c) physical incapacity; d) unsound mind; e) death; and f) Malaysian citizen (leaving Singapore).

³ Medical Schemes include Medisave & MediShield Schemes.

⁴ Deposits placed with MAS during the year excluding: a) interest on bonds & interest on Advance Deposits retained as deposits by MAS; and b) conversion and redemption of Government Bonds.

⁵ Excludes advance deposits with MAS.

** Provisional

H.1 DOMESTIC CAPITAL MARKET: NET FUNDS RAISED IN THE DOMESTIC CAPITAL MARKET

	1995	1996	1997	1998	1999	2000	2001	2002	2003	S\$ million 1st Qtr 2004
A Net funds raised by Government	10,417.9	10,096.6	6,626.4	11,491.6	8,973.9	8,873.2	12,883.1	7,014.9	11,741.2	3,602.0
1) Gross issue of Government securities ¹	7,200.0	12,150.0	10,460.0	12,800.0	12,430.0	12,100.0	44,990.3	22,433.8	24,906.3	8,166.8
Less:										
Redemption of Government securities	4,000.0	3,998.0	5,008.2	5,438.3	6,549.2	7,636.9	7,080.0	15,136.8	14,524.4	4,500.0
Government holdings of Government securities	—	-2.8	-15.2	-0.1	-0.1	0.1	0.0	0.0	0.0	0.0
Conversion from accumulated advance deposits	3,000.0	8,000.0	7,000.0	5,000.0	5,000.0	0.0	30,790.3	14,033.8	6,306.3	2,766.8
2) New advance deposits	10,217.9	9,941.8	8,159.4	8,829.8	6,093.0	2,910.2	4,238.1	13,216.7	7,165.6	2,502.0
3) Net issues of statutory boards' securities	—	—	—	300.0	2,000.0	1,500.0	1,525.0	535.0	500.0	200.0
B New capital raised by the private sector	1,680.1	3,150.6	3,928.0	1,606.1	6,144.7	5,514.8	3,118.2	3,838.0	4,015.5	1,423.5
1) Public issues of shares	644.6	906.2	1,379.3	411.2	2,019.6	3,393.9	485.7	1,685.4	1,893.9	740.6
2) Rights issues	571.5	1,154.8	1,769.6	822.2	1,325.7	341.2	192.5	1,427.8	345.3	113.1
3) Private placements of listed shares	463.9	1,089.6	779.1	372.7	2,799.4	1,779.7	2,440.0	724.8	1,776.3	569.8
C Issues of debt securities	3,766.6	2,309.5	6,680.0	3,897.0	9,265.0	14,531.7	20,407.2	18,161.4	19,281.1	6,377.8
1) Listed bonds, debentures and loan stocks ²	1,695.0	589.5	1,168.1	721.4	6,067.1	8,727.4	11,814.2	7,737.9	8,139.9	2,018.8
2) Unlisted bonds*	1,784.6	1,620.0	5,511.9	3,013.6	2,955.4	5,754.3	8,443.0	10,296.7	10,809.9	4,329.0
3) Revolving underwriting facilities/ Note issuance facilities	280.0	—	—	—	92.5	—	—	—	—	—
4) Negotiable certificates of deposits ³	7.0	100.0	—	162.0	150.0	50.0	150.0	126.8	331.3	30.0
Total net funds raised (A+B+C)	15,864.6	15,556.7	17,234.4	16,994.7	24,383.6	28,919.7	36,408.5	29,014.3	35,037.8	11,403.2

¹ Government securities, excluding treasury bills.

² Singapore dollar-denominated bonds listed on the Singapore Exchange (SGX).

³ Refers only to S\$ reserve-free NCDs issued during the year.

* This includes bonds that are not listed on the SGX but listed on other exchanges.

I.1 ASIAN DOLLAR MARKET: ASSETS AND LIABILITIES

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	US\$ Million March 2004
Assets										
Loans to non-bank customers	173,264.7	180,505.5	173,286.3	131,712.7	110,593.9	89,446.0	79,324.2	77,906.3	83,602.8	87,264.5
Interbank funds	258,769.8	278,743.1	330,685.5	329,464.5	315,618.9	333,728.5	323,902.2	335,973.7	341,917.7	360,497.2
In Singapore	18,591.6	22,357.2	29,846.3	25,930.5	26,781.7	31,221.6	33,054.5	35,599.0	37,151.2	38,309.9
Inter-ACU	39,669.5	40,236.8	48,882.9	40,696.6	34,698.2	31,512.8	30,916.8	31,415.4	29,360.2	31,262.3
Outside Singapore	200,508.7	216,149.1	251,956.3	262,837.4	254,139.0	270,994.1	259,930.9	268,959.3	275,406.3	290,925.0
NCDs held	6,450.4	7,952.7	5,837.0	3,378.7	3,777.6	3,226.6	3,012.2	3,059.6	2,167.2	2,573.3
Other assets	39,747.8	39,668.8	47,384.7	38,325.2	47,251.3	55,291.9	59,234.1	65,672.8	81,458.1	91,996.7
Liabilities										
Deposits of non-bank customers	80,603.6	95,373.8	113,683.4	113,077.0	121,319.5	124,651.5	122,472.3	126,151.6	137,116.0	138,268.5
Interbank funds	376,106.5	389,469.6	414,526.2	364,750.5	323,384.9	316,890.4	310,151.7	320,896.7	330,911.0	358,915.5
In Singapore	25,133.5	25,257.4	32,271.9	20,006.3	25,040.5	23,213.6	25,746.8	28,369.1	34,243.1	28,630.8
Inter-ACU	39,670.2	40,243.3	48,905.3	40,694.4	34,701.6	31,517.0	30,926.4	31,394.8	29,401.4	31,283.2
Outside Singapore	311,302.8	323,968.9	333,349.0	304,049.8	263,642.8	262,159.8	253,478.5	261,132.8	267,266.5	299,001.6
NCDs issued	1,737.5	2,229.5	2,198.1	1,571.6	1,148.1	594.1	636.6	1,500.9	1,690.3	2,018.2
Other liabilities	19,785.2	19,797.3	26,785.9	23,481.7	31,389.3	39,556.9	32,212.3	34,063.1	39,428.6	43,129.4
Total Assets/Liabilities	478,232.9	506,870.2	557,193.5	502,881.1	477,241.7	481,693.0	465,472.8	482,612.3	509,145.9	542,331.7

I.2 ASIAN DOLLAR MARKET: MATURITY TRANSFORMATION BY ASIAN CURRENCY UNITS

End of Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	US\$ Billion March 2004 ¹
Net Position										
Up to 6 months	-91.2	-101.2	-93.5	-78.5	-74.7	-67.3	-81.4	-84.6	-80.3	-79.8
Over 6 months to 1 year	19.5	31.5	20.0	16.7	19.5	15.6	15.8	16.1	18.4	23.7
Over 1 to 3 years	38.0	36.6	35.0	27.1	23.8	20.3	25.3	26.7	24.9	26.0
Over 3 years	33.8	33.2	38.5	34.7	31.4	31.4	40.3	41.8	37.0	32.7
Claims										
Up to 6 months	359.6	371.3	428.0	393.8	370.0	374.1	345.8	355.4	375.1	382.8
Over 6 months to 1 year	33.0	47.5	38.0	29.3	31.1	32.3	33.6	35.0	39.2	44.6
Over 1 to 3 years	42.4	42.7	40.4	33.3	30.9	29.7	32.7	32.6	35.0	36.9
Over 3 years	43.3	45.4	50.8	46.5	45.3	45.6	53.4	59.6	59.9	49.0
Liabilities										
Up to 6 months	450.8	472.5	521.5	472.3	444.7	441.4	427.2	440.0	455.4	462.6
Over 6 months to 1 year	13.5	16.0	18.0	12.6	11.6	16.7	17.8	18.9	20.8	20.9
Over 1 to 3 years	4.4	6.1	5.4	6.2	7.1	9.4	7.4	5.9	10.1	10.9
Over 3 years	9.5	12.2	12.3	11.8	13.9	14.2	13.1	17.8	22.9	16.3

1 Data exclude those claims or liabilities with unallocated maturity periods. Therefore the sum of all the maturity categories for claims may not be equal to the sum of all the maturity categories for liabilities.

The first part of the paper discusses the importance of the research and the objectives of the study. It then presents a literature review of the existing research on the topic. The second part of the paper describes the methodology used in the study, including the data collection and analysis techniques. The third part of the paper presents the results of the study and discusses the implications of the findings. The final part of the paper concludes the study and provides recommendations for future research.

Glossary

A&H	Accident and Health
ABS	Association of Banks in Singapore
ACU	Asian Currency Unit
ADM	Asian Dollar Market
AIA	American International Assurance
APRC	Asia Pacific Regional Committee
ARB	Agents Registration Board
ASEAN	Association of South-east Asian Nations
ATM	Automated Teller Machine
BCCS	Board of Commissioners of Currency, Singapore
BCM	Business Continuity Management
BCP	Business Continuity Plan
BIS	Bank for International Settlements
CAR	Capital Adequacy Ratio
CI	Critical Illness
CIS	Collective Investment Schemes
CLS	Continuous Linked Settlement
CME	Chicago Mercantile Exchange
CPI	Consumer Price Index
CTS	Cheque Truncation System
CY	Critical Year
DI	Deposit Insurance
EFTPOS	Electronic Funds Transfer at Point of Sale
EMEAP	Executives' Meeting of East Asia Pacific Central Banks
FAA	Financial Advisers Act
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Programme
FSI	Financial Soundness Indicators
FSR	Financial Stability Report
FX	Foreign Exchange
GDP	Gross Domestic Product
GIA	General Insurance Association of Singapore
GNI	Gross National Income
HDB	Housing & Development Board
IA	Insurance Act
IAIS	International Association of Insurance Supervisors
IAP	International Advisory Panel

IBG	Interbank GIRO
ILP	Investment-linked Policy
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IPO	Initial Public Offer
JPY	Japanese Yen
LIA	Life Insurance Association of Singapore
LSF	Liquidity Supervision Framework
MAS	Monetary Authority of Singapore
MEPS	MAS Electronic Payment System
MSCI	Morgan Stanley Capital International
MOU	Memorandum of Understanding
NCD	Negotiable Certificate of Deposit
OFR	Operating and Financial Review
OTC	Over-the-Counter
POSBank	Post Office Savings Bank
RBC	Risk-based Capital
REIT	Real Estate Investment Trust
\$SNEER	Singapore Dollar Nominal Effective Exchange Rate
SAAR	Seasonally Adjusted Annual Rate
SARS	Severe Acute Respiratory Syndrome
SDR	Special Drawing Rights
SESDAQ	SGX's second board which provides an alternative avenue for small and medium-sized companies to raise funds for their business expansion.
SFA	Securities and Futures Act
SGD	Singapore Dollar
SGS	Singapore Government Securities
SGX	Singapore Exchange
SGX-ST	SGX-Securities Trading
SGX-DT	SGX-Derivatives Trading
SIBOR	Singapore Interbank Offered Rate
USD	United States Dollar
WB	World Bank

