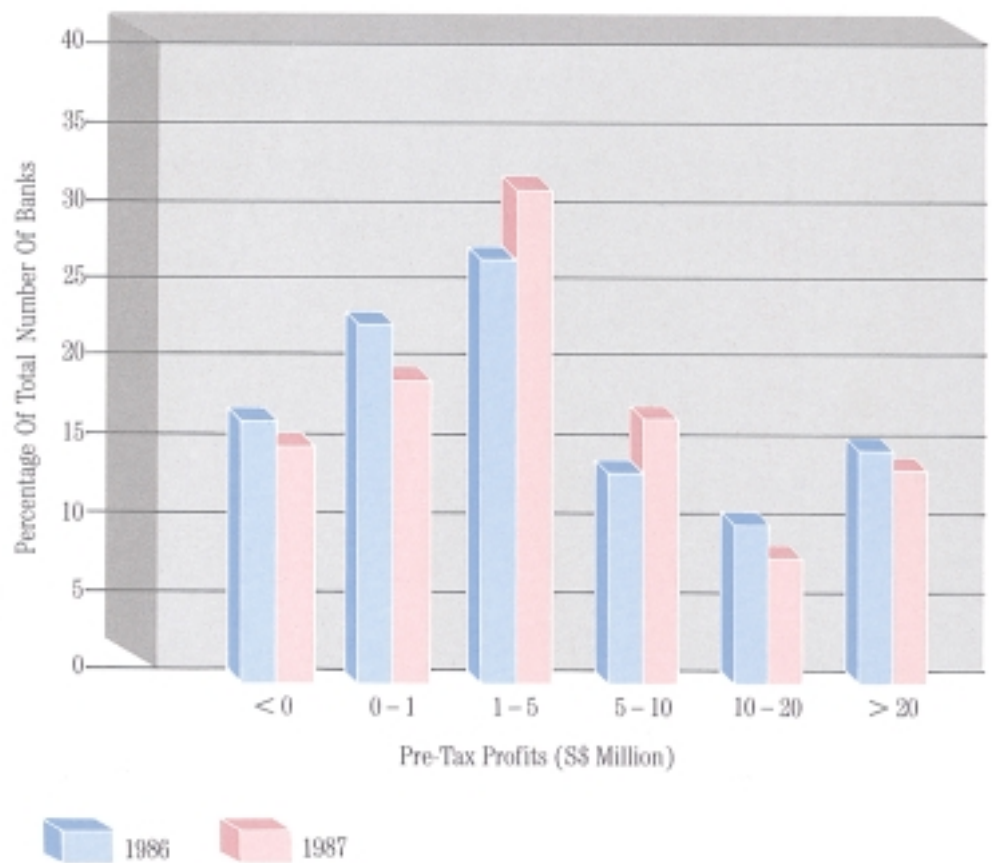


MAS SURVEY: PROFITABILITY OF TREASURY AND SECURITIES ACTIVITIES

The second survey of treasury* income and expenditure showed that banks had another record year in 1987. The average pre-tax profit of treasury operations in 1987 rose to S\$8.4 million, bettering the S\$8 million reported in 1986. Total treasury profits for the group as a whole was also higher at S\$1.3 billion, compared with S\$1.2 billion in 1986, and contributed the bulk of overall bank income. Also, two-thirds of the group surveyed made profits above S\$1 million, higher than the 60% observed in 1986. Twenty banks, or 13% of the group, accounted for two-thirds of total treasury profits, having made large profits of more than S\$20 million each, while 14% made losses. Broadly speaking, banks were more profitable in their treasury operations in 1987 than 1986 and profits were also more evenly distributed (Chart I).

Chart I: Treasury Pre-Tax Profits Of Banks



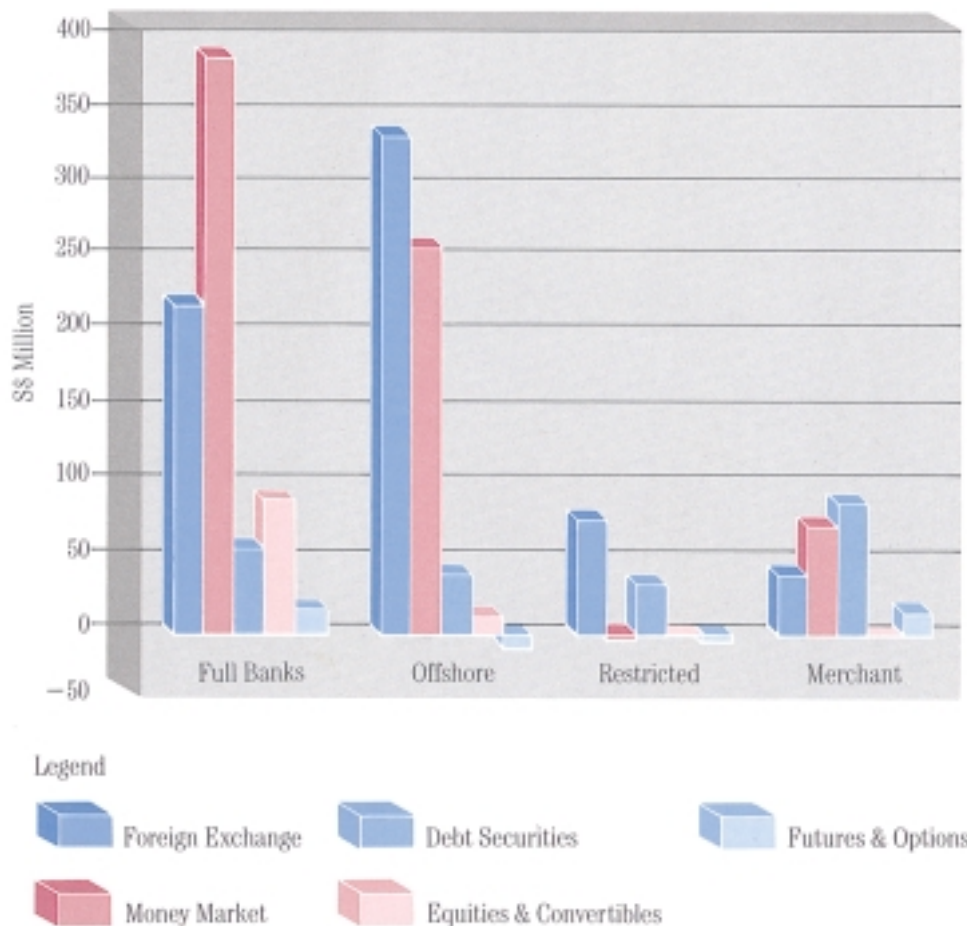
* Throughout this report, the term "treasury" covers securities activities as well.

Treasuries in full-licence banks were again the most profitable, averaging S\$20.3 million each, substantially higher than the S\$17.1 million recorded in 1986. Offshore bank treasuries were the second most profitable, averaging S\$6.7 million, reflecting the presence of many of the leading banks in this group. Merchant bank and restricted bank treasuries reported profits averaging S\$3.9 million and S\$5.5 million respectively, the merchant banks registering a 47% fall in treasury profits from 1986.

In 1987, treasuries derived 82% of their gross income from foreign exchange and money market activities, with an equal contribution from each. Both registered a 24% increase over 1986 contributions, indicating the continued importance of these core activities. The share from debt securities trading was lower at 12%. Equities, convertibles, futures and options trading registered a small but positive contribution.

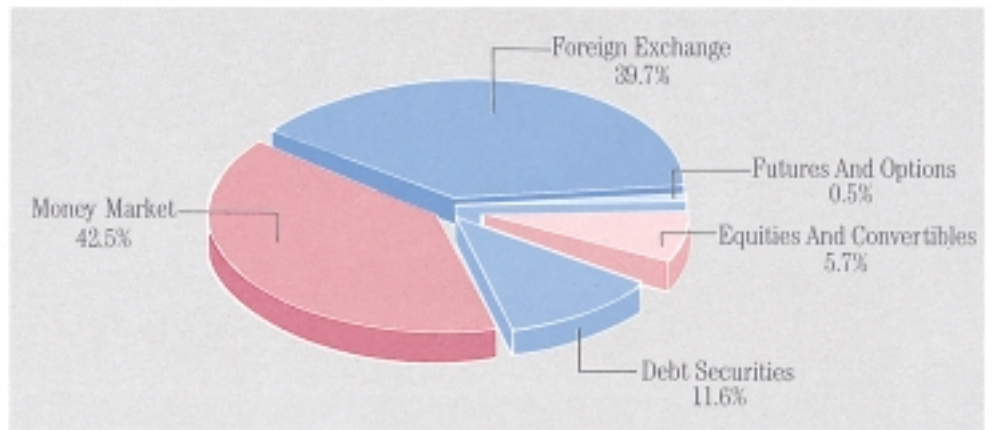
Money market operations generated by far the most income for full bank treasuries. But for offshore and restricted banks, foreign exchange was the main treasury source of income followed closely by ACU activities. Merchant banks, in contrast, earned most from debt securities and money market (ACU) operations, where their area of specialisation lies (Chart II).

Chart II: Income from Various Treasury Activities



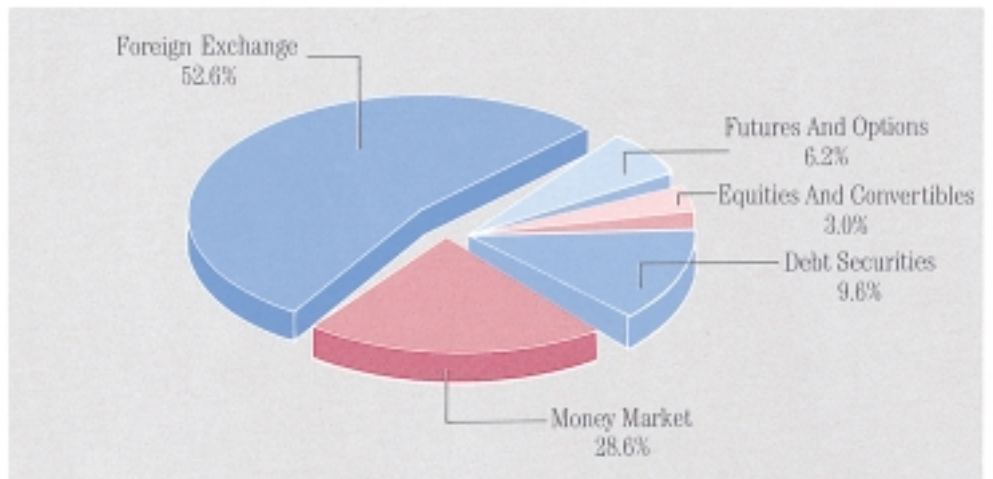
Across the industry, money market and foreign exchange operations generated about 82% of total income (Chart III).

Chart III: Revenue Distribution of Treasury Activities



Banks with large turnover generally featured high on the list of profitable treasuries. The top 10 banks which accounted for 51% of foreign exchange turnover recorded a 31% share in pre-tax treasury profits, about the same as in 1986.

Chart IV: Distribution of Professional Treasury Staff in Singapore



Labour productivity, measured by gross treasury income per professional, was S\$1.4 million, higher than the S\$1.3 million achieved in 1986. In fact, 40% of all treasuries had dealers contributing over S\$1 million each on average. The survey also confirmed the previous year's observation that average profit per professional staff increased with the number of professionals in the dealing team (see Table 6). Treasuries with more than 30 professionals averaged S\$2.4 million a person, 2.8 times higher than treasuries with five dealers or fewer. The large treasuries also enjoyed an increase of 74% in average profit per professional employee over 1986, substantially higher than treasuries in all other categories.

Table 6: Average Profit per Professional Staff of All Treasuries

No of Professional Staff	Percentage of Banks Surveyed	Average Profit per Professional Staff (\$'000)
> 30	3.3	2,435
21 — 30	5.3	1,036
11 — 20	9.2	993
6 — 10	33.5	768
0 — 5	48.7	856

In 1986, when the survey was first conducted, the results were open to question about data reconciliation because of the differing accounting systems of individual banks. This second survey has confirmed the conclusions reached previously. There can be no doubt about the importance of treasury and securities activity in the banking and financial sector. The information need only be updated less frequently in the future.