

# MONETARY AUTHORITY OF SINGAPORE

ANNUAL REPORT 2005/2006

Before 1970, the various monetary functions associated with a central bank were performed by several government departments and agencies. As Singapore progressed, the demands of an increasingly complex banking and monetary environment necessitated streaming of these functions. Therefore in 1970, Parliament passed the Monetary Authority of Singapore (MAS) Act leading to the formation of MAS on 1 January 1971. The MAS Act gives MAS the authority to regulate all elements of monetary, banking and financial aspect of Singapore.

MAS was entrusted to manage Singapore's exchange rate and monetary policies, supervision of the financial sector and the development of Singapore as an international financial centre.

MAS now administers the various statutes pertaining to money, banking, insurance, securities and the financial sector in general. After merging with the Board of Commissioners of Currency, Singapore, on 1 October 2002, MAS also assumed the function of currency issuance.



Monetary Authority of Singapore



Monetary Authority of Singapore

10 Shenton Way MAS Building Singapore 079117 [www.mas.gov.sg](http://www.mas.gov.sg)

# MONETARY AUTHORITY OF SINGAPORE

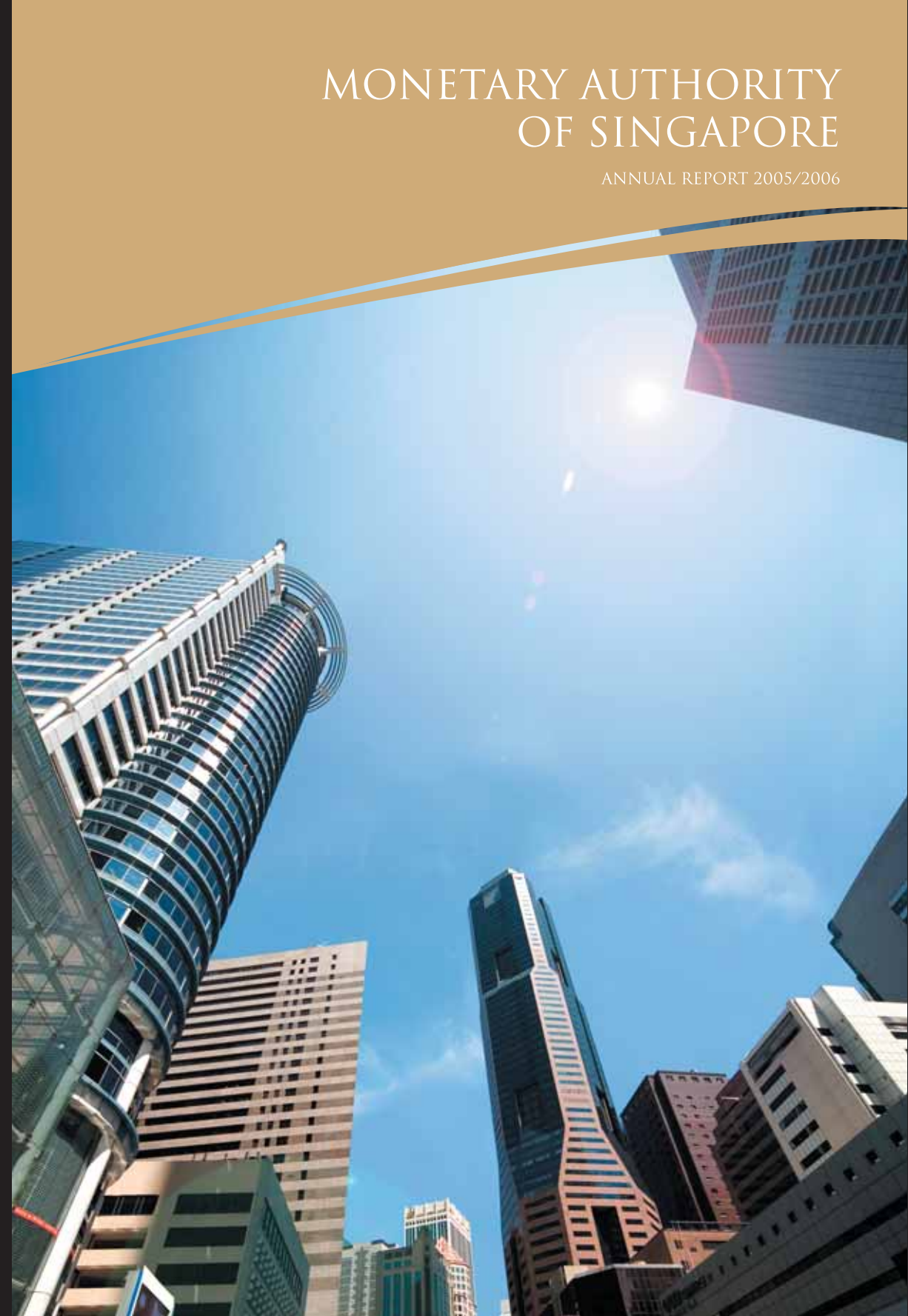
ANNUAL REPORT 2005/2006

Singapore's development as an international financial centre began in the late 1960s. Over the years, sound economic and financial fundamentals, conducive regulatory and business environment, strategic location, skilled and educated workforce, excellent telecommunications and infrastructure, and high living standards attracted many reputable international financial institutions to set up operations here. Today, financial services account for about 11% of Singapore's GDP while employing only 5% of the workforce.

There is a large and diversified group of local and foreign financial institutions, numbering more than 600, located in Singapore and offering a wide range of financial products and services. These include trade financing, foreign exchange, derivatives products, capital market activities, loan syndication, underwriting, mergers and acquisitions, asset management, securities trading, financial advisory services, and specialised insurance services. The presence of these leading institutions contributes to the vibrancy and sophistication of Singapore's financial industry.

MAS

Monetary Authority of Singapore



Monetary Authority of Singapore





# Monetary Authority of Singapore

Annual Report 2005/2006

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## OUR MISSION

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

## OUR OBJECTIVES

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.

# Contents

## A INTRODUCTION

Board of Directors	8
Chairman's Statement	10
Board Committees	14
Organisation Chart	15
Management Team	16
Our Achievements and Work in Progress	17

## B THE FINANCIAL SECTOR: KEY SUPERVISORY AND REGULATORY INITIATIVES

### Supervision 32

Common Risk Assessment Framework Techniques	32
---	----

### Inspections and Supervisory Reviews 32

BASEL II Implementation	32
Box 1 – BASEL II Implementation in Singapore	33
Thematic Inspections Relating to Anti-Money Laundering/Countering Financing of Terrorism	34
Thematic Inspections on Asset-Liability and Capital Management for Life Insurers	35
Box 2 – Monitoring Hedge Funds in Singapore	36
Thematic Inspections of Corporate Finance Advisers	37
Thematic Inspections on E-trading of Futures Contracts	37
Inspections of Fund Management Companies	37
Box 3 – Developing and Enforcing Supervisory Regimes for Real Estate Investment Trust	38
Box 4 – Thematic Supervisory Work on Financial Advisers	39

### New Legislation 41

Strengthening Corporate Governance Regulations & Guidelines	41
Box 5 – Enhancing Corporate Governance Framework	41
Box 6 – Deposit Insurance Scheme	42
Box 7 – Nomination of Beneficiaries Framework	43
Box 8 – New Framework for Trust Companies to Facilitate Wealth Management	44

### Enhancing Regulatory Frameworks 45

Regulations for Islamic Finance	45
Revision to Requirements on Submission of Annual Audited Accounts	45
Revision to Regulatory Framework for Money Changers/Remittance Agents	46
Box 9 – Policy Owners' Protection Fund Scheme	46
Phase II Amendments to the Securities Futures Act and Financial Advisors Act	47
Keeping Pace with Product Innovation	49

Reviewing the Authorisation Framework for Representatives	49
---	----

Establishing Sound Risk Management Guidelines	49
---	----

Box 10 – Enhancing Internet Banking Security	50
--	----

### Market and Business Conduct 51

Enhancing Market Discipline	51
Survey on Establishment and Maintenance of the Insurance Broking Premium Account	51
Box 11 – MoneySENSE	52
Enhancing Consumer Recourse	54
Financial Industry Disputes Resolution Centre Launched	54
Box 12 – Investigating Across Borders	55

### Risk Management 55

Financial Crisis Management Exercise	55
Industry-wide Business Continuity Exercise-Exercise Raffles	56

## C THE FINANCIAL SECTOR: PERFORMANCE AND GROWTH

### Financial Market Activity 58

Active Corporate Debt Market	58
Box 13 – Introduction of Electronic Bond Platform for Trading of Singapore Government Securities	59
Growth in Asset and Wealth Management	60
Trading in the Equities and Futures Market	60
Strong Growth in the Treasury Market	61
Box 14 – Islamic Finance Development in Singapore	62
Box 15 – Regional Commodity Derivatives Trading	64

### Building a World Class Talent Pool 65

Building a Deep Pool of Quality Workforce	65
Attracting Global Financial Talent	66
Building a Hub for Financial Knowledge, Innovation and Learning	66

### Forging Alliances with the International Financial Community 67

International Advisory Panel	67
------------------------------	----

## D ECONOMIC DEVELOPMENTS AND MONETARY POLICY

### The World Economy: Robust Growth on the Strength of the US Economy 70

### International Financial Markets: Resilience in the Face of Uncertainties 71

### Singapore Financial System Remains Sound 74

### Singapore Economy: Ending on a High Note 74

### Monetary Policy Amid Continued Growth and Emerging Inflationary Pressures 77

### Strengthening the Monetary Policy Formulation Process 77

<b>Pushing the Frontier of Monetary Policy Research and Analysis</b>	<b>78</b>	Statement of Changes in Equity	103
Box 16 – Assessing Market Response to MAS’ Monetary Policy	79	Cash Flow Statement	104
		Statement of Backing of Currency in Circulation	105
		Notes to the Financial Statements	106
<b>E MAS IN THE INTERNATIONAL ARENA</b>		<b>H CALENDAR OF MONETARY AND FINANCIAL EVENTS</b>	<b>127</b>
Box 17 – Singapore on the World Map – IMF-World Bank Annual Meetings	82	<b>I KEY ECONOMIC AND FINANCIAL STATISTICS</b>	<b>133</b>
<b>Strengthening Regulatory and Regional Financial Cooperation</b>	<b>83</b>	<b>J STATISTICAL ANNEX</b>	<b>137</b>
Banking	83	Money Supply	137
Insurance	84	Official Foreign Reserves	138
Capital Markets	84	Exchange Rate	139
Anti Money Laundering, Countering the Financing of Terrorism	85	Domestic Interest Rates	140
<b>Strengthening Financial Stability</b>	<b>85</b>	Number of Financial Institutions in Singapore	141
<b>Promoting Information Exchange and Technical Assistance</b>	<b>86</b>	Assets & Liabilities	143
Box 18 – MAS and IMF Jointly Host High-Level Seminar	87	Loans and Advances by Industrial Classification	145
		Types of Loans and Advances to Non-Bank Customers	146
<b>F ORGANISATIONAL INITIATIVES</b>		Types of Deposits Including S\$NCDs	147
<b>Corporate Services Department</b>	<b>89</b>	Liquidity Position	148
Ensuring A Safe and Secure Work Environment	89	Assets & Liabilities	149
<b>Currency Department</b>	<b>89</b>	Consolidated Assets and Liabilities	150
Dollars and Cents Management	89	Assets and Liabilities of Domestic Unit Operations	151
<b>Finance Department</b>	<b>90</b>	Assets and Premiums	152
Raising Awareness of Risk Management	90	Central Provident Fund Board	153
<b>General Counsel’s Office</b>	<b>91</b>	Net Funds Raised in the Domestic Capital Market	154
Dealing with Legal Matters	91	Assets and Liabilities	155
<b>Human Resource Department</b>	<b>92</b>	Maturity Transformation by Asian Currency Units	156
Developing Our People	92	<b>K GLOSSARY</b>	<b>157</b>
<b>Information Technology Department</b>	<b>92</b>		
Enhancing Supervision and Payment Systems	92		
Promoting International Collaboration – EMEAP	93		
Enhancing MAS’ Websites	93		
Maintaining a Secure IT Environment	93		
<b>Internal Audit Department</b>	<b>94</b>		
Assessing the Control Environment in MAS	94		
<b>Strategic Planning Office</b>	<b>95</b>		
Enhancing Integration and Providing Strategic Focus	95		
<b>G MAS FINANCIAL STATEMENTS</b>			
Statement by Directors	98		
Financial Statement Highlights	99		
Auditor’s Report	100		
Income Statement	101		
Balance Sheet	102		

## Board of Directors



**Goh Chok Tong**  
*Chairman*  
Senior Minister



**Lim Hng Kiang**  
*Deputy Chairman*  
Minister for Trade & Industry  
(with effect from 1 June 2006)



**Tharman Shanmugaratnam**  
*Member*  
Minister for Education &  
Second Minister for Finance  
(Deputy Chairman 20 August 2004 - 31 May 2006)



**Lim Chee Onn**  
*Member*  
*Executive Chairman*  
Keppel Corporation Limited



**Lucien Wong Yuen Kuai**  
*Member*  
*Managing Partner*  
Allen & Gledhill



**Koh Yong Guan**  
*Member*  
*Chairman*  
Central Provident Fund Board



**Lim Siong Guan**  
*Member*  
*Permanent Secretary*  
Ministry of Finance



**Chao Hick Tin**  
*Member*  
*Attorney-General*  
Attorney General's Chambers



**Heng Swee Keat**  
*Member*  
*Managing Director*  
Monetary Authority of Singapore

\* Mr Lee Seiu Kin served as a member of the Board from 1 January - 11 April 2006



GOH CHOK TONG  
CHAIRMAN

## Chairman's Statement

Following 8.4% growth in 2004, the Singapore economy grew by a robust 6.4% in 2005 and 6.8% (SAAR) in the first quarter of 2006. Strong external demand, especially in the IT and financial sectors, supported this performance. The global economy expanded at a strong pace in 2005, with growth broadening to all major economic regions around the world. In particular, the US economy proved resilient against a backdrop of rising interest rates and oil prices, as well as events like hurricane Katrina. Business confidence rose in Europe, boosted by increased private investments. Japan's economy continued its resurgence, with growth reaching a record high in the fourth quarter of 2005.

Looking ahead, the Singapore economy is expected to grow by 5-7% in 2006. Leading economic indicators suggest that the global economy is likely to maintain its resilience. Coupled with continued strength of the global IT sector, Singapore's economic momentum should be sustainable for the rest of 2006. Against this backdrop, MAS reaffirmed its monetary policy stance of a modest and gradual appreciation of the Singapore dollar in April 2006.

Global financial markets were resilient in the face of potentially destabilising events in 2005, including hurricane disasters in the US and the terrorist bombings in London. The transition to more flexible exchange rate regimes in China and Malaysia last year and the more recent exit from quantitative targeting regime by the Bank of Japan also went smoothly.

The outlook for Singapore's financial services industry is promising. It expanded at a robust rate of 6.5%. Corporate debt issuance has been active, with total outstanding debt registering a significant increase of 11.5% in 2005. We have also done well in asset management with assets under management reaching S\$720 billion at the end of 2005, a 26% increase from 2004. Given the increasing wealth in Asia and the attractiveness of Asian markets, there is further growth potential in this area. We also expect good growth in the alternative investments sector, such as in hedge funds, real estate and infrastructure investments and commodity derivatives.

To strengthen Singapore's status as an international financial centre through its ability to offer a wide and complete range of financial services, MAS stepped up its efforts on the development of Islamic financial services. We have so far seen encouraging results. MAS has also stepped up our involvement in the standard-setting work of the Islamic Financial Services Board as part of our commitment to contribute to the development of Islamic finance.

On the supervisory front, we continued the implementation of a risk-focused and comprehensive supervisory framework that began with the introduction of a harmonised risk assessment framework in 2004. To enhance the quality and consistency of our supervisory assessments, we initiated a quality assurance framework for risk-based supervision of financial institutions.

MAS continued to enhance corporate governance requirements for locally-incorporated banks, financial holding companies, significant direct life insurers, and the Singapore Exchange. This reflects MAS' ongoing commitment to promote in Singapore's financial sector sound corporate governance standards aligned with global best practices.

A deposit insurance scheme was introduced to protect the core savings of Singapore depositors and strengthen protection for small depositors. Deposit insurance will set out explicitly the scope of protection given to depositors in the event of a bank failure, and dispel any misperception that there is an implicit government guarantee of deposits.

As part of ongoing efforts to ensure high market conduct standards among financial institutions, MAS embarked on a pilot mystery shopping survey. Financial advisers from the banking, insurance, and securities sectors were assessed on their compliance with regulatory requirements and also on the adequacy of their financial advisory process.

To ensure high standards of professionalism and business conduct in the trust services industry, trust companies have been brought under MAS' regulatory framework. This is to facilitate the unified regulatory oversight of trust services, private banking, and wealth management activities, which are often

complementary. A sound and comprehensive framework for the regulation of the trust services industry can also facilitate the establishment of Singapore as a preferred location for trust business.

On the international front, Singapore will host the 2006 Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group in September. MAS has been preparing for this major international financial event for many months now. At this coming Annual Meetings, we hope to see consensus among policy makers and the international financial community on measures to sustain economic growth, reduce poverty, and enhance the global financial architecture. We also hope that global investors will get to see first hand the tremendous potential in Southeast Asia, amidst robust growth in this dynamic region.

Looking ahead, MAS will strive to reinforce Singapore's position as a leading financial centre and as an attractive hub for financial sector activities. We will also maintain our high standards of regulation and supervision, while ensuring that we remain responsive to market developments.

I wish to take this opportunity to express my sincere thanks to Dr Philip Pillai and Mr Chan Seng Onn for their contributions to MAS and to the financial sector. Dr Pillai and Mr Chan stepped down from the MAS Board in December last year. I would like to welcome Mr Lim Hng Kiang, Mr Chao Hick Tin and Mr Lucien Wong to the Board.

**Goh Chok Tong**

Chairman

## 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 Goh Chok Tong (Chairman), Lim Hng Kiang, Tharman Shanmugaratnam, Lim Siong Guan and Heng Swee Keat.

### 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 Goh Chok Tong (Chairman), Lim Hng Kiang, Tharman Shanmugaratnam, Lim Siong Guan, Lee Ek Tieng<sup>1</sup> and Heng Swee Keat.

### 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), Chao Hick Tin and Lucien Wong.

### 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 processes for the reporting of risks.

The Risk Committee comprises Lim Chee Onn (Chairman), Chao Hick Tin and Heng Swee Keat.

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

# Organisation Chart



Monetary Policy, Investment & Research	Development & External Relations	Prudential Supervision	Market Conduct	Currency & Corporate Resource
Khor Hoe Ee* (Economics) Edward Robinson	Ong Chong Tee Leong Sing Chiong	Teo Swee Lian Low Kwok Mun	Shane Tregillis Aurill Kam	Foo Yap Siew Hong Winnfred Chen
Macroeconomic Surveillance* External Economics Ng Bok Eng Financial Surveillance Peh Kian Heng Information Resource Centre Susan Song Lim	Banking Supervision Leo Mun Wah Division I Aw Kian Huat Division II Teo Lay Har Division III Low Yin Fong Division IV Diane Leong Prudential Supervision & Technology Pei Sai Fan Complex Institution Supervision Lee Boon Ngjap Strategic Development Loo Siew Yee	Investment Supervision Division I Ho Hern Shin Division II Leow Yung Khee Division III Beng Di Manlar Prudential Policy Chia Der Jun Capital Policy Wong Nai Seng Prudential Advisory Pro Risk Ming Regulatory Framework Development Tan Yee Theng Specialist Risk Supervision Chua Kim Leng Financial Risk Shaji Chandrasenan Payment Infrastructure Terry Goh Technology Risk Tony Chew	Market & Business Conduct Consumer Issues Christina Tan Financial Advisers & Insurance Intermediaries Merlyn Ee Market Conduct Policy Mohammad Nizam Bin Ismail Securities & Futures Supervision Andrew Khoo Capital Markets Intermediaries Lam San Ling Corporate Finance Richard Teng Enforcement Tan Boon Gin Markets & Clearing Houses Neo Boon Sim	Human Resource Winnfred Chen HR Development Winnfred Chen HR Management Lee Keng Yi Information Technology Huay Khie Chiang Applications Yuen Keng Yin Data Centre Huay Khie Chuang IT Infrastructure Liew Lye Ha IT Security David Ng
Economic Policy* Edward Robinson	Financial Centre Development Ng Nam Sin Asset Management Luz Fook Business Development Alison Lim Strategic Development Loo Siew Yee	Prudential Policy Chia Der Jun Capital Policy Wong Nai Seng Prudential Advisory Pro Risk Ming Regulatory Framework Development Tan Yee Theng Specialist Risk Supervision Chua Kim Leng Financial Risk Shaji Chandrasenan Payment Infrastructure Terry Goh Technology Risk Tony Chew	Currency Ho Kwen Chan Cities & Business Excellence Low Seng Kok Notes & Services Philip Woo (Acting) Finance Tai Boon Leong Financial & Management Accounting Linda Koh Corporate Risk Division Carolyn Tan Foreign Investment Accounting Christina Aw Operations & Custody Administration Jean Tean	Currency & Corporate Resource Ho Kwen Chan Cities & Business Excellence Low Seng Kok Notes & Services Philip Woo (Acting) Finance Tai Boon Leong Financial & Management Accounting Linda Koh Corporate Risk Division Carolyn Tan Foreign Investment Accounting Christina Aw Operations & Custody Administration Jean Tean
Modelling & Economic Analysis Tan Min-Ching Domestic Surveillance & Reporting Fong Sing Celine Sia	Asset Management Luz Fook Business Development Alison Lim Strategic Development Loo Siew Yee	Prudential Policy Chia Der Jun Capital Policy Wong Nai Seng Prudential Advisory Pro Risk Ming Regulatory Framework Development Tan Yee Theng Specialist Risk Supervision Chua Kim Leng Financial Risk Shaji Chandrasenan Payment Infrastructure Terry Goh Technology Risk Tony Chew	Currency Ho Kwen Chan Cities & Business Excellence Low Seng Kok Notes & Services Philip Woo (Acting) Finance Tai Boon Leong Financial & Management Accounting Linda Koh Corporate Risk Division Carolyn Tan Foreign Investment Accounting Christina Aw Operations & Custody Administration Jean Tean	Currency & Corporate Resource Ho Kwen Chan Cities & Business Excellence Low Seng Kok Notes & Services Philip Woo (Acting) Finance Tai Boon Leong Financial & Management Accounting Linda Koh Corporate Risk Division Carolyn Tan Foreign Investment Accounting Christina Aw Operations & Custody Administration Jean Tean
Reserve & Monetary Management Jacqueline Loh	Financial Markets Strategy Lee Chuan Teck / Hoip Liu Debt Market & Treasury Valerie Lau Equity Market Ong Puay See	Specialist Risk Supervision Chua Kim Leng Financial Risk Shaji Chandrasenan Payment Infrastructure Terry Goh Technology Risk Tony Chew	Finance Tai Boon Leong Financial & Management Accounting Linda Koh Corporate Risk Division Carolyn Tan Foreign Investment Accounting Christina Aw Operations & Custody Administration Jean Tean	Finance Tai Boon Leong Financial & Management Accounting Linda Koh Corporate Risk Division Carolyn Tan Foreign Investment Accounting Christina Aw Operations & Custody Administration Jean Tean
International Operations - London Office Mimi Ho	International Operations - New York Office Mimi Ho	Specialist Risk Supervision Chua Kim Leng Financial Risk Shaji Chandrasenan Payment Infrastructure Terry Goh Technology Risk Tony Chew	Finance Tai Boon Leong Financial & Management Accounting Linda Koh Corporate Risk Division Carolyn Tan Foreign Investment Accounting Christina Aw Operations & Custody Administration Jean Tean	Finance Tai Boon Leong Financial & Management Accounting Linda Koh Corporate Risk Division Carolyn Tan Foreign Investment Accounting Christina Aw Operations & Custody Administration Jean Tean
International Operations - London Office Mimi Ho	International Operations - New York Office Mimi Ho	Specialist Risk Supervision Chua Kim Leng Financial Risk Shaji Chandrasenan Payment Infrastructure Terry Goh Technology Risk Tony Chew	Finance Tai Boon Leong Financial & Management Accounting Linda Koh Corporate Risk Division Carolyn Tan Foreign Investment Accounting Christina Aw Operations & Custody Administration Jean Tean	Finance Tai Boon Leong Financial & Management Accounting Linda Koh Corporate Risk Division Carolyn Tan Foreign Investment Accounting Christina Aw Operations & Custody Administration Jean Tean

\* Dr Khor Hoe Ee has direct oversight of the Macroeconomic Surveillance and Economic Policy departments.

## Management Team

**Heng Swee Keat**  
*Managing Director*

**Ong Chong Tee**

*Deputy Managing Director*  
(Monetary Policy, Investment & Research / Development & External Relations)

**Teo Swee Lian**

*Deputy Managing Director*  
(Prudential Supervision)

**Shane Francis Tregillis**

*Deputy Managing Director*  
(Market Conduct)

**Foo-Yap Siew Hong**

*Assistant Managing Director*  
(Currency & Corporate Resource)

**Dr Khor Hoe Ee**

*Assistant Managing Director*  
(Economics)

MONETARY POLICY,  
INVESTMENT & RESEARCH

Ong Chong Tee  
*Deputy Managing Director*

Dr Khor Hoe Ee  
*Assistant Managing Director*  
(Economics)

ECONOMIC POLICY &  
MACROECONOMIC SURVEILLANCE

Edward Robinson  
*Executive Director*

RESERVE & MONETARY  
MANAGEMENT

Jacqueline Loh  
*Executive Director*

DEVELOPMENT &  
EXTERNAL RELATIONS

Ong Chong Tee  
*Deputy Managing Director*

EXTERNAL

Leong Sing Chiong  
*Director*

FINANCIAL CENTRE  
DEVELOPMENT

Ng Nam Sin  
*Executive Director*

FINANCIAL MARKETS STRATEGY

Lee Chuan Teck  
*Executive Director*

Kola Luu  
*Executive Director*

INTERNATIONAL OPERATIONS-  
NEW YORK OFFICE

Mimi Ho  
*Executive Director*

PRUDENTIAL SUPERVISION

Teo Swee Lian  
*Deputy Managing Director*

BANKING SUPERVISION

Leo Mun Wai  
*Executive Director*

COMPLEX INSTITUTIONS  
SUPERVISION

Lee Boon Ngiap  
*Executive Director*

INSURANCE SUPERVISION

Low Kwok Mun  
*Executive Director*

PRUDENTIAL POLICY

Chia Der Jiun  
*Executive Director*

SPECIALIST RISK  
SUPERVISION

Chua Kim Leng  
*Director*

MARKET CONDUCT

Shane Francis Tregillis  
*Deputy Managing Director*

MARKET & BUSINESS  
CONDUCT

Aurill Kam  
*Director*

SECURITIES & FUTURES  
SUPERVISION

Dr Andrew Khoo  
*Executive Director*

CURRENCY & CORPORATE  
RESOURCE

Foo-Yap Siew Hong  
*Assistant Managing Director*

CORPORATE SERVICES

Shih Siew Poh  
*Executive Director*

CURRENCY

Ho Kwen Chan  
*Executive Director*

FINANCE

Tai Boon Leong  
*Executive Director*

HUMAN RESOURCE

Winnifred Chen  
*Executive Director*

INFORMATION TECHNOLOGY

Huay Khee Chuang  
*Executive Director*

GENERAL COUNSEL'S OFFICE

Ng Heng Fatt  
*General Counsel*

INTERNAL AUDIT

Timothy Ng  
*Executive Director*

RISK & TECHNOLOGY

Wong Fot Chyi  
*Executive Director*

S2006 PROJECT

Goh Chye Boon  
*Executive Director*



Our Achievements and  
Work in Progress

## REGULATION AND SUPERVISION

### Achievements

#### Inspections and Supervisory Reviews

- Following the launch of our harmonised risk assessment framework (CRAFT), we completed refinement to CRAFT methodology and initiated work on an internal quality assurance process.
- To strengthen on-site supervision, MAS completed thematic inspections on corporate finance advisors, custodians and exempt fund managers. Following the introduction of SGX Quotation and Execution System (QUEST), MAS has conducted thematic inspections on financial institutions that offer electronic trading services to customers.
- To address the problem of improper switching and churning in the financial advisory industry, MAS conducted a thematic inspection on 23 licensed and exempt financial advisers between August and October 2005. Upon completion of our review of the inspection findings, we will work with the Central Provident Fund (CPF) Board and industry associations to address any outstanding issues.
- To better understand the quality of the advisory and sales process in the financial advisory industry, MAS conducted its first mystery shopping survey on 100 representatives from the banking, insurance and capital markets sectors. MAS has shared the survey findings with the industry and launched two new online guides to help consumers ask the right questions when purchasing investment products.
- To facilitate cross-border implementation of the new international standard on bank capital, called Basel II, MAS organised and hosted a supervisory college meeting in May 2005 for host supervisors in jurisdictions where Singapore banks have substantial operations. We have also participated in 11 supervisory college meetings with overseas banking supervisors to-date.
- MAS initiated a supervisory validation process for banks that intend to use the more sophisticated forms of credit risk measurement under Basel II, and through additional staff training, we have strengthened our supervisory resources required for these assessments.

## Enhancing Regulatory Frameworks

- To date, we have issued eight consultation papers on Basel II. These contain substantially all the guidance for implementing the new capital framework in Singapore.
- To facilitate the implementation of Basel II, MAS has established an industry working group to look at disclosure requirements and regulatory reporting under the new framework.
- We embarked on a review to ensure the relevance of the existing policy owners' protection fund (PPF) scheme for the insurance sector. The review will be carried out in two phases. The first phase of the review encompassing membership, coverage and funding of the PPF scheme has been completed. MAS has finalised details of the recommendations following feedback received from the public consultation conducted in December 2005.
- In line with changes in accounting standards, especially developments in FRS 39 on the recognition and measurement of financial instruments, MAS revised its notices to banks and merchant banks on the information that they are required to submit with their annual accounts. The equivalent notice for finance companies is being finalised.
- To raise standards in the industry and to better reflect the focus on Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) in MAS' supervisory approach towards remittance and money-changing licensees, the Money-Changing and Remittance Businesses Act and regulations have been amended with effect from 2 November 2005. Pursuant to the Act, MAS also issued new notices in January 2006.
- As part of MAS' efforts to facilitate the development of Islamic finance in Singapore, we refined our banking regulations in September 2005 to allow banks to offer financing based on the Murabaha concept.
- To operationalise Phase II amendments to the Securities and Futures Act (SFA) and Financial Advisers Act (FAA), MAS issued subsidiary instruments in the form of regulations, notices and guidelines. The Phase II amendments were aimed at keeping pace with market developments, strengthening the foundations underpinning our disclosure-based regime, and ensuring that our regulatory framework remains business friendly.

- To enhance the regulatory regime for real estate investment trusts (REITs), we revised the REITs guidelines and released them on 20 October 2005.
- Amendments to the Offers of Investments provisions under the SFA came into effect on 15 October 2005.
- To provide financial institutions with guidance on sound risk management practices, we issued a set of Risk Management Guidelines on 27 February 2006. This set of guidelines covers Board and Senior Management, Internal Controls, Credit Risk and Market Risk.
- To deal with the increasing trend in e-banking threats and internet attacks, we issued a circular to all banks on 22 November 2005 asking them to implement two-factor authentication for all their internet banking systems.

### New Legislation

- To establish a deposit insurance scheme in Singapore, Parliament passed the Deposit Insurance Act in September 2005. The deposit insurance scheme, which commenced on 1 April 2006, provides limited compensation for deposits held by individuals and charities in the event of the failure of a bank or finance company.
- To enhance corporate governance requirements of financial institutions, MAS issued Regulations on Corporate Governance to locally incorporated banks, financial holding companies and significant direct life insurers (with total fund asset size of at least S\$5 billion). Together with these regulations, MAS also issued Guidelines on Corporate Governance to all locally-incorporated banks and financial holding companies as well as all direct insurers. The Regulations came into effect on 8 September 2005, but existing institutions are given up to their respective annual general meetings in 2007 to comply with them. Corporate governance regulations for approved exchanges and designated clearing houses were also issued on 29 November 2005.
- To enhance clarity and flexibility in the disbursement of insurance policy proceeds, MAS proposed a new framework for the nomination of beneficiaries (NoB). This framework will be incorporated into the Insurance Act. A public consultation paper was issued on 7 December 2005 to outline the key recommendations of the proposed NoB framework.
- MAS launched a new regulatory framework for trust companies. The Trust Companies Act (TCA) was passed in Parliament in February 2005, and the

Regulations, Notices and Guidelines pursuant to the TCA were published on 22 December 2005. The trust companies framework took effect on 1 February 2006.

- To provide oversight of payment systems and stored value facilities in Singapore, Parliament passed the Payment Systems (Oversight) Act in January 2006.

### Market & Business Conduct

- Civil penalty enforcement actions were taken against five individuals/entities for insider trading contraventions under the SFA.
- Between January 2005 to March 2006, MAS took a total of 38 formal regulatory and enforcement actions against companies and individuals for market conduct breaches. MAS' Publication policy, announced in November 2004, is intended to enhance market discipline and signal clearly the market conduct standards MAS expects of market participants.
- We issued best practice guidance circulars to address regulatory concerns arising from investigations. Among the topics covered were the proper procedures for communicating price-sensitive information when marketing share placements.
- On 2 December, MAS issued a Notice on Dual Currency Investments (DCIs) under the FAA. The Notice imposed additional market conduct rules on DCIs to address the higher market conduct risks posed by such products compared to traditional deposits and other types of structured deposits.

### Risk Management

- We issued a circular to financial institutions on 6 January 2006 to provide further guidance on Business Continuity Management (BCM), focusing on flu pandemic and security threats.

## Work in Progress

### Inspections and Supervisory Reviews

- We continue to work closely with Singapore banks to implement the new bank capital rules under Basel II effectively. In order to facilitate this process we have set up working groups, and initiated a supervisory validation process for banks that intend to use the more sophisticated approaches for credit risk measurement. At the same time MAS remains committed to working with foreign banking supervisors to ease the cross-border implementation of Basel II for Singapore banks and foreign banks operating in Singapore.
- To ensure that our industry requirements on prevention of money laundering and the countering of financing of terrorism are being met, MAS will continue with the thematic inspection of selected financial institutions.

### Enhancing Regulatory Frameworks

- MAS will proceed with the final phase of the PPF review in 2006, which will cover issues on the PPF administrator, payout procedures and public education.
- To improve the customer due diligence regime, MAS will issue revised Notices on AML/CFT to banks and other financial institutions.
- To enhance the consistency and robustness of our supervisory assessments, we are strengthening the quality assurance process on supervision of banks, finance companies, insurance companies and capital market intermediaries.
- To allow local funds to invest in financial derivative instruments as an asset class, MAS is amending the Code on Collective Investment Schemes (CISs).

### New Legislation

- To improve governance and disclosure requirements for the participating life insurance business, MAS will be issuing a new Notice on the Management of Participating Life Insurance by the third quarter of 2006. This Notice will set out the mandatory governance and disclosure requirements for the participating life insurance business.
- We will continue with the legislative drafting and approval process to incorporate the NoB framework into the Insurance Act for implementation by the first quarter of 2007.

- To implement the Payment Systems (Oversight) Act, we are drafting subsidiary legislation.
- To keep pace with industry developments, strengthen depositor protection and introduce greater risk-sensitivity to the regulatory framework, we are proposing to update the Banking Act in the fourth quarter of 2006.

### Market & Business Conduct

- In response to industry feedback, MAS is in the process of reviewing the authorisation framework for individuals conducting regulated activities in the securities and financial advisory sectors.

## STABILITY OF THE FINANCIAL SECTOR

### Achievements

- In our continuing efforts to provide timely and comprehensive assessment of Singapore's financial stability, we issued the Financial Stability Review (FSR) in June and December 2005. The Review assesses the health of Singapore's financial system by identifying potential sources of risks and vulnerabilities.
- We conducted several assessments on the health and resilience of the banking sector. These included surveys to determine the local banks' exposure to the property sector and negative housing equity, and analysis of the banking systems' liquidity risk and exposure to hedge funds. Two stress tests using the scenarios of a sustained increase in oil prices, severe downturn in the global electronics cycle and sharp depreciation of the USD were also conducted to assess the resilience of the banks in coping with potential shocks.
- In view of the importance of external developments for Singapore's financial stability and growth, we undertook semi-annual assessments of macroeconomic development and outlook for the G3 and key regional economies. Greater focus was given to the risk assessment of the regional economies' financial systems including general trends in credit growth and indebtedness among companies and households. The analysis was also used in our monetary policy review and formulation.
- To keep track of developing trends in the global and regional economies, we conducted a number of topical research studies, including an assessment of the impact of high oil prices.

## Work in Progress

- To enhance our surveillance of the financial sector, we are strengthening our framework and approaches in identifying potential risks and vulnerabilities. We are also working towards expanding the number of financial soundness indicators used and improving their robustness.
- To enhance the effectiveness of our financial stability assessment, we are working on a monograph that explains the methodology used in our analysis.
- We will continue to support international initiatives on financial stability, including the International Monetary Fund's (IMF) coordinated compilation exercise of Financial Soundness Indicators.
- We will undertake background studies aimed at furthering our understanding of regional integration trends in Asia.

## CONSUMER EDUCATION

### Achievements

- To provide consumers with recourse to an independent and efficient dispute resolution mechanism, we launched the Financial Industry Disputes Resolution Centre (FIDReC) in August 2005. FIDReC specialises in the resolution of disputes between consumers and financial institutions in the banking, insurance and capital market sectors.
- To benchmark the current level of financial literacy among Singaporeans, MoneySENSE conducted the first national financial literacy survey and published its findings. The survey revealed that Singaporeans had inadequate savings for emergencies, poor retirement planning and a lack of understanding of common financial products.
- To reach out to specific groups and meet their differing needs for financial education, MoneySENSE worked with various community groups to develop customised programmes. For example, basic money management programmes were organised for low-income families and financial education games were created for students.

## Work in Progress

- MoneySENSE will develop and deliver more financial education initiatives to address areas for improvement revealed in the national financial literacy survey findings.
- We are working with the Ministry of Trade and Industry (MIT) to conduct a public consultation on the application of the Consumer Protection (Fair Trading) Act (CPFTA) to financial services, the consequent modifications proposed to certain provisions of the CPFTA, as well as the proposed draft financial services regulations.

## ECONOMIC ANALYSIS AND MONETARY POLICY

### Achievements

- As part of our core price stability function, we conducted our semi-annual monetary policy review and conveyed the policy decision and the supporting economic assessment through the Monetary Policy Statement (MPS) and Macroeconomic Review (MR) in April and October.
- In our exchange rate policy review, we carried out a series of industry consultations to gather feedback on Singapore's exchange rate and the industry outlook. We also participated in the semi-annual Singapore Economic Roundtable jointly organised by the Institute of Policy Studies and the Business Times. This forum discusses the outlook for the global and domestic economies.
- In our continuing effort to strengthen our forecasting, policy analysis and formulation capabilities, we reviewed and enhanced MAS' Monetary Model of Singapore. In particular, we incorporated into the model the latest 2000 input output data and rebased national accounts. We also conducted in-depth studies on the IT and financial sectors, the labour market, and the impact of increases in crude oil prices on retail petrol pump prices.
- To disseminate our research findings, we issued four Staff Papers. Among the papers released was one on macromodelling at MAS, which documented the evolution of macromodelling tools and techniques for economic forecasting and policy analysis since 1986.

- In order to better understand the monetary transmission mechanism in the economy, we developed a model utilising Structural Vector Auto Regression (SVAR) and Kalman filtering techniques to analyse the transmission mechanism of monetary policy and potential output gap of Singapore respectively.
- In support of greater dialogue on key economic policy issues amongst academics and policymakers, we co-organised the Monetary Policy Forum during the 50th Anniversary Conference of the Singapore Economic Review. Professor Edward Prescott, 2004 Nobel Laureate in Economics, delivered the keynote address at the conference. We also organised a public lecture by Professor Peter Montiel from Williams College on macroeconomic stability in developing countries.

### Work in Progress

- To study the impact of changing demographics on the Singapore economy, a long-term model will be built to project key economic variables such as potential output, total factor productivity and the saving-investment gap under various policy scenarios.
- In support of financial sector development strategies, we are conducting a study of global and regional capital flows, and examining the performance of the domestic financial sector clusters. The impact of financial sector activities on the other sectors of the economy is being traced through information from financial institutions' survey returns.

## CURRENCY ISSUANCE

### Achievements

- MAS introduced the \$2 polymer notes on 12 January 2006. The notes were well received by the public and machine acceptance was good.

### Work in Progress

- MAS will evaluate the performance of the \$2 polymer note and consider converting other denominations to polymer.

- To enhance the effectiveness and efficiency of the note distribution arrangements, we will continue to consult with the banks and security couriers.

## FINANCIAL SECTOR DEVELOPMENT & EXTERNAL RELATIONS

### Achievements

- MAS continued as Chair of the Executives' Meeting of East Asia-Pacific Central Banks Working Group on Banking Supervision (EMEAP WGBS) for a second year. During the year, the Working Group facilitated the adoption of international standards for banking supervision and financial system stability in the region, contributed to regional feedback in the development of these international standards, and promoted cooperation among regional bank regulators. The Working Group has established study groups to look into issues relating to Basel II implementation and macro-surveillance and shared its work and experience with the Basel Committee and other regional supervisory groupings.
- To enhance information sharing and cross-border enforcement among regulators in an increasingly globalised securities sector, we became a signatory to the International Organisation of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding.
- Vietnam and Singapore entered into a Framework Agreement on Vietnam-Singapore Connectivity in December 2005.
- MAS chaired the Asia-Pacific Regional Committee (APRC) Meeting in April 2005. The APRC is a regional committee of regulators under the IOSCO. The APRC seeks to promote sound and consistent securities regulation across the region.
- MAS and the China Securities Regulatory Commission co-chaired the APRC Work Group of the IOSCO which studied and distilled good practices in risk-based inspection methodologies. The study is based on the practices in selected APRC and IOSCO members. The Work Group's report, which contained the findings of the study and suggested good practices in risk based inspection methods, was endorsed at the APRC Meeting in Hong Kong in June 2006.
- Singapore hosted the Bank for International Settlement (BIS) working party meeting for monetary policy and the Islamic Financial Services Board (IFSB) meetings of the various standard setting working groups in June 2006.
- MAS continued to support other international and regional initiatives on AML/CFT. In December 2005, MAS assisted the IMF in conducting a training workshop

- on AML/CFT for officials from the Asia-Pacific Group on Money Laundering (APG) countries held at the IMF-Singapore Regional Training Institute.
- Under the US\$2 billion EMEAP Asian Bond Fund 2 (ABF2) initiative, EMEAP launched the Pan Asian Index Fund, which is domiciled in Singapore. In August 2005, the ABF Singapore Bond Index Fund, a part of ABF2, became the first Exchange-Traded Funds (ETF) bond fund to be launched in Singapore.
  - In July 2005, MAS launched the Programme on Risk Management and Financial Innovation to stimulate increased research and training in these areas.
  - To promote Singapore as an international financial centre, MAS led two outreach initiatives to the US (New York, Boston) and Australia (Sydney) in September 2005 and March 2006 respectively. We held information sessions to tell students about the career opportunities in Singapore's financial centre. We also had networking sessions with Singaporean student leaders and working professionals and participated in career fairs and other events at top universities in these cities.
  - Singapore's treasury and debt capital market continued to grow strongly. Singapore retained its position as the world's fourth largest foreign exchange (FX) trading centre after London, New York and Tokyo. FX trading activity increased by 10% year-on-year to reach a high of US\$170 billion. Outstanding corporate debt in Singapore continued to grow, expanding by 11.5% to S\$137 billion on a year-on-year basis in 2005. Singapore's wealth management industry has also seen strong growth with assets under management increasing by 26% in 2005 to reach S\$720 billion.
  - Singapore's capital markets continued to grow in diversity. The REITs market has grown and as at December 2005, there were seven listed REITs worth S\$12 billion. The Singapore Exchange also saw the listing of the first infrastructure fund. The structured warrants market in Singapore has also flourished and is now the seventh largest warrant trading centre in the world.

### Work in Progress

- We will continue to contribute to regional finance and central bank cooperation, in areas such as capital market development and capacity building, through our leadership roles in ASEAN, ASEAN+3, EMEAP and other forums.
- Singapore will be hosting the Financial Stability Institute (FSI)-EMEAP Seminar in October 2006.

- MAS will be participating in the World Trade Organisation Doha Development Agenda and the fourth round of financial services negotiation with ASEAN members. As a regional trading group, ASEAN is engaged in free trade agreement (FTA) negotiations with China, Japan, the Republic of Korea, and Australia and New Zealand. MAS is negotiating FTAs with Middle East countries such as Qatar and Kuwait. MAS and the Financial Service Agency of Japan are working on the broader review of the Agreement between Japan and Singapore for a New-Age Economic Partnership (JSEPA).
- MAS is working closely with industry and academia partners to identify key areas of research that are relevant to the financial industry and where Singapore can play a leading role. We launched the Programme on Risk Management and Financial Innovation in July 2005 to encourage financial research and training in this area. The first project under this programme is the Berkeley-NUS Risk Management Institute, a partnership between the National University of Singapore (NUS) and the University of California, Berkeley.
- On 6 October 2005, Singapore Investment Banking Association (SIBA) announced that they will be establishing a task force to explore how to further grow equities derivatives and structured products in Singapore. MAS is working with the task force to identify the appropriate range of derivative products, study the competitiveness of Singapore as an equity derivative centre, and determine the infrastructure necessary to support the growth of this industry.
- To capitalise on the growth of the commodities market, the Commodities Trading Strategy Group (CTSG), comprising representatives from Maritime and Port Authority (MPA), MTI, Economic Development Board (EDB), International Enterprise Singapore (IES) and chaired by MAS commissioned a study which recommended the introduction of an over-the-counter (OTC) clearing facility for oil and forward freight agreements (FFA) derivatives. The facility, developed by the Singapore Exchange (SGX), was officially launched on 16 May 2006. Its launch provides a good opportunity for Singapore to strengthen its position as a risk management centre for regional commodities.

## ORGANISATIONAL EFFECTIVENESS

### Achievements

- To monitor MAS' effectiveness in carrying out our four core objectives, we conducted the External Perception Survey to assess stakeholders' perceptions of our performance as a central bank, regulator and financial centre developer.
- To improve the long-term effectiveness of MAS' operations, we conducted strategic planning exercises for our management staff in July and October 2005. The exercise outlined broad outcomes for the organisation as well as the business and organisational priorities for MAS to support these outcomes.

### Work in Progress

- To strengthen our accountability and transparency, we will continue to work on the second phase of the MAS Act review.

## HUMAN RESOURCE INITIATIVES

### Achievements

- MAS adopted a more integrated approach to our talent review which will help establish a more structured organisation-wide coverage pipeline for leadership and critical business positions, as well as develop strategies for recruitment targets, job rotation, retention, leadership and functional development to meet MAS' talent needs.
- As part of our employee communications plan to create a more engaged workforce and build greater employee affiliation, we implemented several initiatives to foster a culture of feedback and engagement with our staff.

### Work in Progress

- To further develop our staff, we will conduct a mentoring program for officers who have been identified as mentors for our trainee officers and a coaching program for identified officers.



## SUPERVISION

### Common Risk Assessment Framework Techniques

In 2006, we strengthened our supervision process by building on the harmonised risk assessment framework, known as Common Risk Assessment Framework and Techniques (CRAFT), introduced the year before. We developed guidance materials and provided training to our supervisory staff in assessing the risk profile of financial institutions using CRAFT. We also instituted measures to improve the consistency and robustness of ratings.

We have also begun work on the implementation of a quality assurance (QA) framework for risk-based supervision of institutions supervised by MAS, including banks, finance companies, insurance companies and capital market intermediaries. The QA activities enhance the quality and consistency of supervisory assessments across sectors, and promote a culture of continuous improvement in supervision within MAS.

## INSPECTIONS AND SUPERVISORY REVIEWS

In 2005, MAS continued to implement its supervisory cycle under the CRAFT framework. We stepped up home-host banking supervisory co-operation with home supervisors of major foreign banks operating in Singapore. We visited several home supervisors in Europe, the US and Asia as well as the head-offices of a number of major foreign bank branches. We also hosted several foreign regulators who visited banks in Singapore under their home jurisdiction and conducted supervisory visits/inspections of overseas operations of local banks.

### Basel II Implementation

To implement the new Basel framework, MAS initiated a supervisory validation process for banks that intend to use more sophisticated forms of credit risk measurement.

In May 2005, MAS organised a supervisory college meeting with host supervisors from jurisdictions where Singapore banks have substantial operations. This meeting

addressed home-host issues that may affect the banks' plans for the implementation of the New Basel Capital Framework. To facilitate cross-border implementation of this framework by major foreign banks operating in Singapore, MAS also participated in 11 supervisory college meetings organised by the banks' home supervisors.

#### BOX 1 BASEL II IMPLEMENTATION IN SINGAPORE

Since 2004, MAS has been working closely with the Singapore-incorporated banks to implement new regulatory capital standards (commonly referred to as "Basel II") proposed by the Basel Committee on Banking Supervision (BCBS).

MAS believes the more risk-sensitive framework under Basel II will lead to improvements in the banks' risk management practices. This would in turn promote the safety and soundness of our banks, and sharpen their competitive edge.

MAS consulted with the banks to determine how to implement the Basel II proposals in Singapore. To date, we have issued eight consultation papers on Basel II. These contain substantially all the guidance for implementing the new capital framework in Singapore. Besides formal consultations, MAS engaged the banks regularly through meetings and onsite visits to assess their implementation progress. With the banks' help, MAS also participated in a study coordinated by the BCBS to assess the impact of Basel II.

We are working with industry groups that have been set up to look into the disclosure requirements and regulatory reporting under the new framework.

The new framework also has a number of cross-border implications. In order to avoid the duplication of efforts of both banks and regulators, MAS has actively supported collective initiatives by supervisors from different jurisdictions. These initiatives seek to improve communication and cooperation between supervisors on various implementation

issues for banks with overseas operations, including the supervisory validation of the advanced approaches to risk measurement.

Basel II will apply to Singapore-incorporated banks from January 2008, in line with most G10 countries. MAS expects a smooth transition to the new framework as the banks continue to improve their risk management capabilities.

### Thematic Inspections Relating to Anti-Money Laundering/Countering Financing of Terrorism

In keeping with evolving international Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) standards, MAS has been reviewing its AML/CFT regulations for the financial sector. Revisions to the regime will include: expansion of measures to cover both money laundering and terrorist financing risks in a single regulation, a more comprehensive set of customer due diligence measures, and introduction of an element of risk sensitivity in performing customer due diligence.

During the year, MAS remained vigilant in its AML/CFT efforts. We continued to inspect and review internal and external audit reports on the adequacy of banks' AML/CFT measures, and their compliance with MAS' regulations. In line with our risk-based supervision, the inspections were either targeted or part of regular inspections of the financial institutions. Since January 2005, 43 banks and merchant banks have been inspected on the adequacy of their AML/CFT measures.

The banks and merchant banks inspected were generally in compliance with MAS' Notice on Prevention of Money Laundering and Anti-Terrorism (Measures) Regulations. However, a number of them had room for improvement in one or more of the following areas: updating of policies and procedures, staff training, customer due diligence measures, comprehensiveness of screening of customers' identity and remittances, and transaction monitoring processes and systems. MAS is following up with the institutions concerned to ensure that they institute the necessary improvements expeditiously and satisfactorily.

During the year, MAS also inspected 12 money changing and remittance licensees for their compliance with relevant laws and regulations, including the adequacy of

their AML/CFT systems and procedures. MAS has extended the AML/CFT regulations, which already cover licensees' outward remittance business, to include their inward remittance operations. The AML/CFT regulations require licensees to conduct customer due diligence, screen customers against updated terrorist lists, and comply with the requirements for maintenance of proper records and reporting of suspicious transactions.

MAS also assesses the life insurers' compliance with MAS' AML/CFT regulations in the course of our inspections of these insurers.

The life insurers inspected to date were generally in compliance with MAS' Notice 314 on the Prevention of Money Laundering and Anti-Terrorism (Measures) Regulations. While these life insurers' AML/CFT measures were adequate relative to their size and risk profile, they need to continue to enhance their systems in order to ensure robust ongoing monitoring of customer transactions.

MAS continues to emphasise to all financial institutions the need to have in place robust AML/CFT policies, procedures and controls, and to regularly review and enhance them.

### Thematic Inspections on Asset-Liability and Capital Management for Life Insurers

With the recent introduction of the risk-based capital (RBC) framework for insurers in Singapore and the increasing focus on the need for sound risk management practices, MAS commenced, in April 2006, thematic inspections on the capital management and asset-liability management of life insurers. The objective of these thematic inspections is to provide MAS with a deeper understanding of individual life insurers' internal policies and procedures for monitoring and managing their capital and asset-liability positions. The inspections revealed that the life insurers employed systems and tools of varying degrees of complexity.

MAS also assessed the effectiveness of the Board and senior management's oversight over the insurers' capital and asset-liability management functions. We observed that there was sufficient understanding and exchange of views between the insurers'

management and the Boards regarding risk assessment practices and the insurers' overall risk and capital management systems and processes, largely brought about by an increased risk awareness and familiarity with the RBC framework. MAS also noted that some life insurers planned to dedicate more resources to capital and asset-liability management in the near future.

#### BOX 2 MONITORING HEDGE FUNDS IN SINGAPORE

Hedge funds and hedge fund managers are an increasingly important segment of our asset management industry. The number of hedge fund managers grew by 51% to 109 in 2005. Correspondingly, hedge funds assets under management more than doubled year-on-year to US\$6.1 billion.

Singapore-based hedge fund managers employ a multitude of investment strategies, including equity long-short, distressed debt, convertible arbitrage and multi-strategy. In terms of geographical coverage, these hedge fund managers range from pan-Asian to global in focus.

With the continued growth of the hedge funds industry in Singapore, we conducted a survey covering all banks and merchant banks to determine the Singapore banking sector's exposure to hedge funds. The survey showed that, as at May 2005, the banking industry did not have significant exposure to the hedge funds industry.

Most of the hedge fund managers operating in Singapore restrict their fund management activities to not more than 30 qualified investors and are therefore exempted from licensing. Effective July 2005, exempt fund managers and their key officers are required to comply with the Guidelines on Fit and Proper Criteria, and report the size of assets under management and whether they are managing hedge funds.

MAS will continue to monitor international developments in the hedge fund industry and fine-tune our regulatory approach in Singapore in consultation with market participants.

## Thematic Inspections of Corporate Finance Advisers

MAS conducted a series of thematic inspections of corporate finance advisers in 2005. The objective was to assess industry adherence to the Guidelines on Due Diligence in the Context of an Initial Public Offering in Singapore, issued by the Singapore Investment Banking Association (SIBA) in August 2004. Some common observations from the thematic inspections were inadequate due diligence procedures and insufficient controls over areas such as staff trading and conflict management. We shared the overall findings from the thematic inspections at an industry roundtable to raise awareness of industry best practices. We also set out our expectations on due diligence and internal controls required of corporate finance advisory firms.

## Thematic Inspections on E-Trading of Futures Contracts

The Singapore Exchange (SGX) introduced an electronic trading (e-trading) engine for futures contracts in August 2004. The SGX Quotation and Execution System (QUEST) has allowed brokers to offer e-trading services to customers. Following its introduction, MAS conducted thematic inspections in 2005 on brokers offering e-trading services to their customers. The inspections uncovered a few key risk areas that needed improvements, such as the lack of verification of trading limits, inadequate trade surveillance and lax security controls over trading terminals. These findings were shared at a Compliance Roundtable held in December and the brokers concerned are reviewing their systems and controls to address potential weaknesses.

## Inspections of Fund Management Companies

MAS conducted inspections on fund management companies in 2005. The focus of the inspections was on their management and compliance oversight, controls and procedures relating to the investment and dealing processes, as well as their compliance with laws and regulations. The inspections revealed varying standards in the level of compliance and the internal control environment. Following the inspections, MAS requested special audits by external auditors to review and rectify the control weaknesses in two of the fund management companies.

**BOX 3      DEVELOPING AND ENFORCING SUPERVISORY REGIMES FOR REAL ESTATE INVESTMENT TRUSTS**

The Singapore real estate investment trusts (REITs) market has grown significantly since the first REIT was listed on the SGX in July 2002. There are now ten listed REITs with an aggregate market capitalisation of about S\$13 billion as at 31 May 2006. These REITs provide investors with exposure to income streams from shopping malls, office buildings, industrial properties and serviced residences located in Singapore, Hong Kong, Australia and other Asia Pacific countries.

MAS strengthened the Property Fund Guidelines in October 2005 with the aim of creating a robust regulatory regime for REITs that will safeguard investors' interests while providing adequate flexibility to facilitate commercial transactions, and support the long term development of our REITs market. Key changes include new disclosure requirements for REITs and requirements relating to interested party transactions. To accommodate domestic and overseas expansion, the revised guidelines give REITs more flexibility in the management of their capital structure and also facilitate the partial ownership of properties by REITs. The additional flexibility given is subject to safeguards to protect the interests of REIT unitholders.

We also strengthened the admission criteria for REIT managers in the revised guidelines. REIT managers now have to meet minimum financial requirements and must have a physical presence in Singapore. They also need to have a designated CEO and at least two professional staff. Their directors, CEO and professional staff must satisfy MAS' Guidelines on Fit and Proper Criteria. MAS will be introducing legislative amendments to license and regulate REIT managers and the management of REITs under the Securities and Futures Act/Securities and Futures Regulations.

**BOX 4 THEMATIC SUPERVISORY WORK ON FINANCIAL ADVISERS****Mystery Shopping**

In 2005, MAS embarked on its first mystery shopping survey on practices in the financial advisory industry. The objective of the survey was to assess the quality of the sales and advisory process and not the quality of advice. The survey was conducted from October 2005 to February 2006, and covered 100 representatives from 30 financial advisers (FAs) comprising licensed FAs, banks, insurance companies and capital markets services (CMS) licence holders.

MAS appointed a market research company to recruit mystery shoppers to pose as interested clients seeking advice. The mystery shoppers were asked to approach the FAs based on the following scenarios: either having a lump sum of S\$10,000 to invest or a monthly budget of S\$300 to purchase an insurance policy for protection of dependents. The mystery shoppers were not required to commit to a purchase. In developing the survey methodology and questionnaire, MAS sought input from a panel of industry practitioners, academics and consumer representatives.

Overall, the survey revealed that most representatives conduct a basic fact-find before making a recommendation. However, there are gaps in the quality of disclosure and manner in which the reasons for recommendations are documented. The survey also found that FAs generally had better processes for investments as compared to insurance sales.

MAS noted that FAs have over the last few years put in place systems and procedures to provide needs-based advice. However, FAs need to improve on the implementation of these processes and monitor their representatives to meet the standards expected. MAS has shared the findings of the mystery shopping survey with the industry associations and made recommendations to help FAs address the gaps identified.

MAS also launched two new online guides to help consumers understand the products they are buying and the risks involved in these products.

### Thematic Inspection on Switching of Investment Products

In March 2005, MAS conducted a survey of all FAs active in the distribution of investment products to determine the adequacy of controls, processes and procedures in place to address improper switching activities. Between August and October 2005, we conducted a thematic inspection on 23 FAs comprising licensed FAs, banks, insurance companies and CMS licence holders to assess the adequacy of their controls to monitor and deter improper switching and churning activities.

The thematic inspection focused on FAs' compliance with the Guidelines on Switching of Designated Investment Products ("the Guidelines") issued under the Financial Advisers Act in October 2004. The Guidelines provide guidance to the FA industry on tackling improper switching and churning activities conducted for the purpose of generating fees and commissions without taking into account the interests of clients.

The thematic inspection showed that most FAs have some front-end monitoring controls. These included warnings to customers on the possible costs and disadvantages associated with switching from one investment product to another, as well as requiring customers to declare if they have been advised by the representative to make a switch. However, the standard of front-end monitoring controls varied across different FAs. Most FAs were found to be weaker in their back-end monitoring controls, such as checking customers' past transactions.

MAS will be sharing its inspection findings with the individual FAs inspected, and following up actively with the FAs to tighten and enhance procedures where needed. We will also be sharing the consolidated findings of the inspection and good practices observed with the industry and other relevant stakeholders.

## NEW LEGISLATION

### Strengthening Corporate Governance Regulations & Guidelines

To further enhance corporate governance requirements of financial institutions, MAS issued regulations on corporate governance to locally incorporated banks, financial holding companies and significant direct life insurers in September 2005.

#### BOX 5 ENHANCING CORPORATE GOVERNANCE FRAMEWORK

##### Corporate Governance Regulations and Guidelines for Banks and Direct Insurers

MAS issued Corporate Governance Regulations on corporate governance to locally incorporated banks, financial holding companies and significant insurers (ie direct life insurers with total fund asset size of at least S\$5 billion) on 8 September 2005. Together with these regulations, MAS also issued Guidelines on Corporate Governance to all locally-incorporated banks and financial holding companies as well as all direct insurers. The issuance of the Corporate Governance Regulations and Guidelines reflect MAS' ongoing commitment to promote sound corporate governance practices in Singapore's banking and insurance sectors, and to align them with global best practices.

The Banking (Corporate Governance) Regulations and the Insurance (Corporate Governance) Regulations, which are mandatory, form the minimum corporate governance standards required of financial institutions. The Regulations include requirements on the:

- Composition of the Board of Directors and Board committees in relation to independence from substantial shareholders, management and business relationships.
- Establishment, composition and responsibilities of various Board committees.
- Separation of roles for the Chairman of the Board and Chief Executive Officer.

Banks and significant insurers are given until their respective annual general meetings in 2007 to comply with the Regulations.

The Guidelines on Corporate Governance are adopted from the Code of Corporate Governance issued by the Council of Corporate Disclosure and Governance. They are best practice guidelines on the roles and responsibilities of board and management, risk management and internal controls. Banks and direct insurers have been strongly encouraged to adopt the Guidelines, which will also take effect from the institutions' annual general meetings in 2007.

#### Corporate Governance Regulations for Approved Exchanges, Designated Clearing Houses and Approved Holding Companies

On 29 November 2005, the Securities and Futures (Corporate Governance of Approved Exchanges, Designated Clearing Houses and Approved Holding Companies) Regulations were issued. The Regulations, modeled on the Corporate Governance Regulations for banks and significant insurers, will apply to the SGX group of companies. The main difference between the two sets of Regulations is the need to take into account SGX's distinctive regulatory role over its members. The definition of director independence has therefore been widened to include independence from members in addition to independence from business and management relationships. SGX has been given until its Annual General Meeting (AGM) in 2007 to comply with the Regulations.

#### BOX 6 DEPOSIT INSURANCE SCHEME

The deposit insurance scheme, which commenced on 1 April 2006, will compensate individuals and charities for the first S\$20,000 of their SGD deposits in standard savings, current and fixed deposit accounts, net of liabilities, if their bank or finance company fails. Moneys held under the Central Provident Fund (CPF) Investment Scheme will be insured

separately from the depositor's other deposits, up to S\$20,000. This follows the enactment of the Deposit Insurance Act in September 2005.

The Singapore Deposit Insurance Corporation (SDIC), a separate entity incorporated as a company limited by guarantee under the Companies Act, will administer the deposit insurance scheme and manage the deposit insurance fund. Its board of directors will be accountable for its actions and decisions to the Minister in charge of MAS.

The scheme compensates depositors through a fund built up from annual contributions by full banks and finance companies. The fund will raise a sum of S\$120 million from banks and finance companies over ten years.

Banks operating in Singapore are required to meet MAS' high prudential standards. However, while the risk of failure of a strong and well-managed bank is low, it can never be reduced to zero. To protect the core savings of Singapore depositors, the Government decided to introduce a deposit insurance scheme while the economy and the banking system are strong. A deposit insurance scheme in Singapore will strengthen protection for small depositors who are often not in a position to assess the safety and soundness of the banks they deal with.

The deposit insurance scheme will set out explicitly the scope of protection given to depositors and remove the perception that the government will guarantee deposits in case of a bank failure. The scheme has been carefully designed to meet these objectives while at the same time minimising costs to banks and depositors.

#### BOX 7 NOMINATION OF BENEFICIARIES FRAMEWORK

Presently, there are no provisions in the Insurance Act (IA) to govern the nomination of beneficiaries (NoB) to the proceeds from insurance

policies. However, a nomination by the policyholder of his spouse and/or children on his life insurance policy is governed by section 73 of the Conveyancing and Law of Property Act (CLPA). This will automatically create a statutory trust in favour of the nominees. Some insurers and policyholders are concerned about the apparent ambiguities in the application and effect of section 73 of the CLPA.

MAS will be amending the IA to bring under its purview a NoB framework. This is to accord policyholders greater choice and flexibility in the disbursement of their policy proceeds, and to make the process of nominating beneficiaries clearer. Section 73 of the CLPA will be correspondingly repealed.

The new NoB framework will:

- Deal with both revocable and irrevocable nominations.
- Govern disbursement of proceeds from insurance policies.
- Clarify the legal standing of nominations vis-à-vis wills and other legal instruments.

Following the feedback from the public consultation conducted in December 2005, MAS will draft the provisions of the NoB framework into the IA for implementation by the first quarter of 2007.

#### **BOX 8      NEW FRAMEWORK FOR TRUST COMPANIES TO FACILITATE WEALTH MANAGEMENT**

In February 2005, the new Trust Companies Act (TCA) was passed in Parliament. MAS subsequently published the Regulations, Notices and Guidelines pursuant to the TCA on 22 December 2005. The TCA framework was operationalised on 1 February 2006.

Under the new TCA framework, MAS takes over the regulation of trust companies from the Accounting and Corporate Regulatory Authority (ACRA), the administrator of the previous Trust Companies Act (Cap.336). This transfer of responsibilities allows for a single regulator, MAS,

to supervise the complementary activities of trust services, private banking and wealth management.

This move is aimed at establishing a sound framework for the regulation of the trust services industry and at attracting top professionals and their clients to do more trust business in Singapore.

To ensure high standards of probity, professionalism and business conduct in the trust services industry, licensing is now mandatory for trust companies. Higher standards of regulation and supervision have also been established to ensure fit and proper persons operating in the industry, and the industry's observance of anti-money laundering requirements.

MAS is also working closely with industry and the Institute of Banking and Finance (IBF) to expand the talent pool of trust professionals, and to raise their level of expertise, skills and competency.

## ENHANCING REGULATORY FRAMEWORKS

### Regulations for Islamic Finance

After a review and industry consultation, MAS has opted to regulate Islamic banking under the existing banking regulatory framework as many of the supervisory processes and prudential measures are common to both conventional and Islamic banking activities. In September 2005, we fine-tuned banking regulations so that banks in Singapore can offer Murabaha financing, where the bank purchases the goods upon the request of a customer and on-sells them to the customer at an agreed profit margin, with payment made on a deferred basis.

### Revision to Requirements on Submission of Annual Audited Accounts

In view of changes in accounting standards, especially developments in Financial Reporting Standard (FRS) 39 on the recognition and measurement of financial instruments, MAS has updated its requirements governing the information that

banks, merchant banks and finance companies submit to MAS with their annual accounts. The revised MAS Notices on the requirements for banks and merchant banks were issued on 9 March 2006. The equivalent regulations for the finance companies are being finalised for issuance.

### Revision to Regulatory Framework for Money Changers/Remittance Agents

The Money-Changing and Remittance Businesses (Amendment) Act 2005 and the Money-Changing and Remittance Businesses Regulations 2005 came into operation on 2 November 2005. The amendment to the Act was made to raise standards in the industry and to better reflect MAS' supervisory approach towards remittance and money-changing licensees, which is now focused on AML/CFT. The regulations also specify the revised fees payable, the requirement to furnish security by remittance licensees for each additional place of business and requirements for the submission of returns. MAS also issued new notices pursuant to the Act to replace licensing conditions issued previously for such businesses. The notices, which came into effect in January 2006, provide MAS with the flexibility to impose fines in case of breaches, instead of being limited to license revocation as the only course of action.

#### BOX 9 POLICY OWNERS' PROTECTION FUND SCHEME

The policy owners' protection fund (PPF) scheme is a privately funded compensation scheme for policy owners. It is aimed at reducing the financial impact on individuals in the event of an insurer failure or default. This scheme will enhance policy owners' confidence in the insurance industry and limit the potential disruption to society and the economy.

MAS reviewed the PPF scheme, as provided for in the IA since 1986 to ensure that the existing PPF scheme was still relevant in light of market developments.

There are two phases in the review. The first phase of the review, which covers issues on membership, coverage and funding of the PPF scheme has been completed. MAS has finalised details of the

recommendations, taking into account the feedback received from the public consultation in December 2005.

Some of the key changes to the PPF scheme include:

- Extending PPF coverage to all Accidental & Health policies written in the life or general insurance fund.
- Extending PPF coverage to certain selected personal lines insurance policies such as personal motor insurance, personal property insurance and foreign domestic maid insurance.
- Setting up a credible pre-funded PPF through imposing risk-based levies on participating insurers.
- Allowing risk-based levies to be charged to the shareholders' fund, subject to certain limits.

The second and final phase of the review will focus on the implementation details of the PPF scheme. This covers the structure, organisation and mandate of the PPF administrator, the payout procedures and public education. MAS will conduct further public consultations on these issues before the implementation of the revised PPF scheme.

### Phase II Amendments to the Securities Futures Act and Financial Advisors Act

The Securities and Futures (Amendment) Bill 2005 and the Financial Advisers (Amendment) Bill 2005 were passed by Parliament in January 2005. MAS subsequently issued Subsidiary Legislation and Guidelines operationalising these amendments in the second half of 2005, after taking into account feedback received in the course of public consultations.

These amendments were aimed at strengthening the market and disclosure-based regulatory approach underpinning the Securities and Futures Act (SFA) and the Financial Advisors Act (FAA), enhancing confidence in our markets, and encouraging continued innovation and growth.

Some of the Regulations and Guidelines issued were:

*Regulations and Guidelines for Markets, Clearing Facilities and Approved Holding Companies*

The SFA amendments are designed to clarify MAS' framework for regulating markets as approved exchanges or recognised market operators depending on their systemic importance. We introduced a new designation approach for clearing facilities to replace the approval regime. This approach allows MAS to designate and regulate clearing and settlement systems that are systemically important. We also set out an approval process for amendments to business rules of approved exchanges and designated clearing houses.

Through the issuance and refinement of guidelines, we provided market participants with a better understanding of how MAS will administer the legislative provisions relating to markets and clearing facilities.

*Regulations Relating to Offers of Investments*

The amendments to the offers of investments provisions in the SFA aim to strengthen our disclosure-based regulatory regime and clarify existing rules to enhance Singapore's position as an international financial centre. All offers of investments must now be accompanied by prospectuses unless exempted. Small offers raising up to S\$5 million and private placements made to no more than 50 persons (both within any 12-month period) will not need to be accompanied by a prospectus. These new 'safe harbour' offerings enable small issuers to raise funds with less regulatory costs. Separate disclosure requirements have also been introduced to facilitate offers of structured notes. In addition, the disclosure requirements for prospectuses have been augmented to improve the content of prospectuses. These regulatory amendments are part of MAS' on-going efforts to facilitate capital fund-raising and promote innovative financial products, while safeguarding the public interest.

### *Regulations Pursuant to the FAA*

To ensure that the regulation of financial advisers remains relevant and risk-focused, MAS exempted financial advisers (FAs) from complying with certain business conduct requirements when providing services to institutional investors, related corporations, connected persons, and overseas investors. We also put in place new requirements to ensure that FAs disclose to overseas investors such exemptions, and disclose to accredited and expert investors any exemptions granted under the FAA.

### *Keeping Pace with Product Innovation*

MAS brought the regulation of structured deposits within the ambit of the FAA to ensure high standards of market and business conduct. We also imposed additional market conduct rules on dual currency investments (DCIs) under the FAA, taking into account the higher risks of DCIs compared with traditional deposits and other types of structured deposits.

### *Reviewing the Authorisation Framework for Representatives*

Representatives conducting regulated activities in the capital markets and financial advisory sectors are currently either licensed or exempted from licensing depending on the licensing status of the financial institutions they represent. To ensure consistency and to minimise any potential regulatory arbitrage arising from this framework, MAS is reviewing the authorisation framework for representatives.

### *Establishing Sound Risk Management Guidelines*

As part of our effort to further strengthen the risk management practices of financial institutions in Singapore, MAS issued a set of guidelines on sound risk management practices in February 2006. The guidelines emphasise four key pillars of effective risk management:

- The role of a financial institution's board of directors in its oversight of risk management policies and their implementation.

- The role of senior management in ensuring that sound policies, effective procedures and robust systems are in place.
- The presence of sound risk management processes and operating procedures that integrate prudent risk limits with appropriate risk measurement, monitoring and reporting.
- The presence of competent personnel in the risk management, control and audit functions.

These guidelines, together with our earlier guidance on Internet Banking Technology Risk Management, Business Continuity Management and Outsourcing, serve as a useful guide to financial institutions seeking to enhance their risk management practices. While the guidelines can be broadly applied, they are not intended to be exhaustive nor do they prescribe a uniform set of risk management standards for all financial institutions, especially given the diverse players and wide-ranging activities in Singapore's financial sector.

Financial institutions should implement an appropriate risk management framework based on the four key pillars, taking into account the nature, size and complexity of their operations. They should regularly review their existing practices, identify areas for improvement, and implement the recommended practices where appropriate.

MAS will update the guidelines as industry standards and practices evolve, and as risk issues emerge. We will be issuing more industry-specific guidance, for example on the insurance industry, in the near future.

#### BOX 10 ENHANCING INTERNET BANKING SECURITY

Internet banking has become a mainstream electronic delivery channel for a large number of banks. Bank customers regularly log into banks' websites to conduct a wide range of both personal and business banking transactions.

In recent years, there has been a marked rise in the sophistication and rate of online phishing scams and other targeted attacks on internet banking. Given the rapid increase in the capture or misappropriation

of customer PINs by hackers and cyber criminals globally, there are growing doubts about the continuing reliance on single-factor PINs for internet access to customer accounts and financial transactions.

Since 2003, MAS has encouraged banks to adopt two-factor authentication for internet banking. On 25 November 2005 through a security advisory issued to banks, we set out our expectation that two-factor authentication at login for all types of internet banking systems should be implemented by 31 December 2006. Financial regulators in other countries have also issued similar guidelines on two-factor authentication.

## MARKET AND BUSINESS CONDUCT

### Enhancing Market Discipline

MAS announced its policy on publishing formal regulatory and enforcement actions for market conduct breaches in November 2004. Between January 2005 and March 2006, MAS took a total of 38 formal regulatory and enforcement actions against companies and individuals for market conduct breaches. These comprised the composition of fines (29), the imposition of civil penalties (4), the revocation of representatives' licences (3), as well as the issuance of written directions (1) and a reprimand (1). The majority of actions taken involved the failure of substantial shareholders to notify the securities exchange of material information on substantial shareholdings and changes to these shareholdings on a timely basis. This is an offence under section 137 of the SFA. For the period January 2005 to March 2006, MAS also took other forms of regulatory and administrative action in another 157 cases. Publication of regulatory and enforcement actions is intended to signal clearly the market conduct standards MAS expects of market participants.

### Survey on Establishment and Maintenance of the Insurance Broking Premium Account

The IA and FAA require insurance brokers and financial advisers who receive any money from or on behalf of policyholders and insurers in connection with an

insurance policy to deposit such moneys into an Insurance Broking Premium Account (IBPA). The legislation also stipulates that no moneys may be withdrawn from the IBPA without the prior written approval of MAS except for the types of withdrawal specified in the legislation.

In the third quarter of 2005, MAS requested all insurance brokers and financial advisers to conduct a special review of the adequacy and effectiveness of their internal systems and controls to ascertain whether their IBPA moneys are handled, and their IBPA are maintained and managed, in full compliance with the relevant legislation. We also asked them to provide details of their internal systems and controls for the establishment and maintenance of the IBPA. A total of 61 insurance brokers and 41 financial advisers were covered in the survey.

Based on the survey, we found that most companies have generally put in place procedures and controls for the handling of the IBPA moneys. However, several companies failed to properly segregate the IBPA moneys handled for general insurance policies and life insurance policies in accordance with the IA and FAA requirements. MAS will be following up in relation to these instances of non-compliance.

#### BOX 11    MONEYSENSE

##### MoneySENSE – Enhancing Financial Education

MoneySENSE is spearheaded by the Financial Education Steering Committee (FESC) comprising the Ministry of Community Development, Youth and Sports, Ministry of Education, Ministry of Manpower, Central Provident Fund Board, People's Association and MAS. The MAS-led FESC works with the MoneySENSE Industry Working Group, made up of representatives from the major industry associations and community organisations, to implement financial education initiatives.

Since its launch in October 2003, MoneySENSE has organised more than 140 talks, seminars, courses and workshops for over 15,000 Singaporeans, and published over 100 educational articles in the media. In the last year, MoneySENSE launched several new initiatives.

- In March 2005, MoneySENSE commissioned the first national financial literacy survey. The findings showed that Singaporeans have healthy attitudes toward managing their finances but lack an understanding of common financial products. Singaporeans could also improve in their planning for emergencies and retirement. Respondents also indicated that they preferred to receive financial education through the mass media.
- To address these areas, MoneySENSE launched MoneySENSE Matters, a quarterly newsletter in the main newspapers, to highlight simple steps that Singaporeans can take to better manage their finances. MoneySENSE also developed worksheets that consumers can use to draw up their budgets and assess their debt commitments.
- To enhance Singaporeans' understanding of common financial products, MoneySENSE worked with the local media to publish fortnightly columns featuring common financial documents and key areas that consumers should take note of. MoneySENSE also partnered industry associations to organise seminars on health, motor and investment-linked insurance, unit trusts and securities investments.
- To further extend its reach, MoneySENSE held the inaugural MoneySENSE 2006 Roadshow at the HDB Hub from 31 March to 2 April. The event, which attracted over 89,000 visitors, disseminated simple financial tips and messages through games, skits and seminars.
- To complement MoneySENSE's broad-based programmes with targeted initiatives, MoneySENSE developed a worksheet to guide senior citizens in managing their retirement funds, and worked with the Securities Investors Association of Singapore (SIAS) and the Singapore College of Insurance to launch a new series of "Financial Planning for Families" talks. MoneySENSE also launched radio programmes, with key messages for different audiences, in the first quarter of 2006.

- MoneySENSE has been working closely with Community Development Councils (CDCs) to organise basic money management workshops for low-income families. To further build up capabilities, Southeast CDC implemented a train-the-trainer workshop for CDC officers and family service centre social workers.

### Enhancing Consumer Recourse

The Consumer Protection (Fair Trading) Act (CPFTA) came into effect in March 2004. It seeks to protect consumers who lack the expertise or financial resources to guard against unfair trade practices, and empower consumers who encounter unfair practices to obtain civil remedy.

As part of the overall review of the CPFTA by the Ministry of Trade and Industry (MTI), MAS is currently working with MTI to implement the inclusion of financial services under the CPFTA. MAS will join MTI and the relevant government agencies in a public consultation on the proposed changes to the CPFTA. Specifically, MAS will consult on the application of the Act to financial services, the modifications proposed to certain provisions in the Act, as well as the proposed draft financial services regulations.

### Financial Industry Disputes Resolution Centre Launched

The Financial Industry Disputes Resolution Centre (FIDReC) was officially launched by Heng Swee Keat, Managing Director of MAS, on 31 August 2005. FIDReC is a cost-effective and independent institution specialising in the resolution of disputes between financial institutions and consumers. It is accessible and affordable for consumers who may not have the financial means to go to court. FIDReC's board of directors is chaired by retired Supreme Court judge Goh Joon Seng and is staffed by full-time employees familiar with the relevant industry practices of the financial sector.

**BOX 12 INVESTIGATING ACROSS BORDERS**

As financial transactions become increasingly global in nature, wrongdoings in capital markets are likely to span multiple jurisdictions. To safeguard the integrity of our markets, MAS must be prepared to pursue cases involving such wrongdoings.

In February 2006, MAS took civil penalty action against two individuals who used a share trading account located in Hong Kong to carry out insider trading in shares of a company listed in Singapore. The action was the result of investigation work carried out by MAS in Singapore, and in Hong Kong with the assistance of the Hong Kong authorities using existing mutual cooperation arrangements. This case highlights the importance of international regulatory cooperation in ensuring market integrity in cross border transactions.

The two individuals paid a total of S\$305,000 in civil penalties to MAS without court action. This enforcement action is a clear signal that MAS is prepared and able to pursue infractions of our securities law, even where perpetrators seek to avoid detection and enforcement through the use of cross border transactions.

**RISK MANAGEMENT****Financial Crisis Management Exercise**

MAS conducted a financial crisis management exercise in December 2005 to strengthen its ability to manage financial institutions in financial distress. The exercise simulated a key institution facing financial difficulties and allowed MAS to test and exercise its financial crisis management process and response plans, including decision-making processes and communications strategy. It also allowed MAS officers to familiarise themselves with their respective roles and responsibilities and with the draft handbook for managing situations when financial institutions face difficulties. MAS will be conducting a more complex exercise in Financial Year 2006/07 to address the key issues identified in the December exercise, cement the earlier learning points, as well as finalise the handbook.

## Industry-Wide Business Continuity Exercise - Exercise Raffles

On 9 May 2006, Singapore held its first large-scale industry-wide business continuity exercise for the financial sector. Code named “Exercise Raffles”, the exercise tested industry-wide coordination and response to a major operational disruption affecting the financial sector as a result of terrorist attacks. In addition, it allowed participating institutions to test and exercise their own decision-making process, as well as crisis management and business continuity plans. More than 4000 participants from over 170 financial institutions, infrastructure providers<sup>1</sup>, civil authorities<sup>2</sup>, SGX and MAS were involved in the real-time exercise spanning three-and-a-half hours. Singapore is the only financial centre outside of London to have conducted an exercise of such magnitude and complexity.

<sup>1</sup> Banking Computer Services Pte Ltd, CAPS Pte Ltd, Singapore Exchange Ltd, SWIFT and key disaster recovery service providers.

<sup>2</sup> Ministry of Home Affairs, Singapore Police Force, Singapore Civil Defence Force and Land Transport Authority.



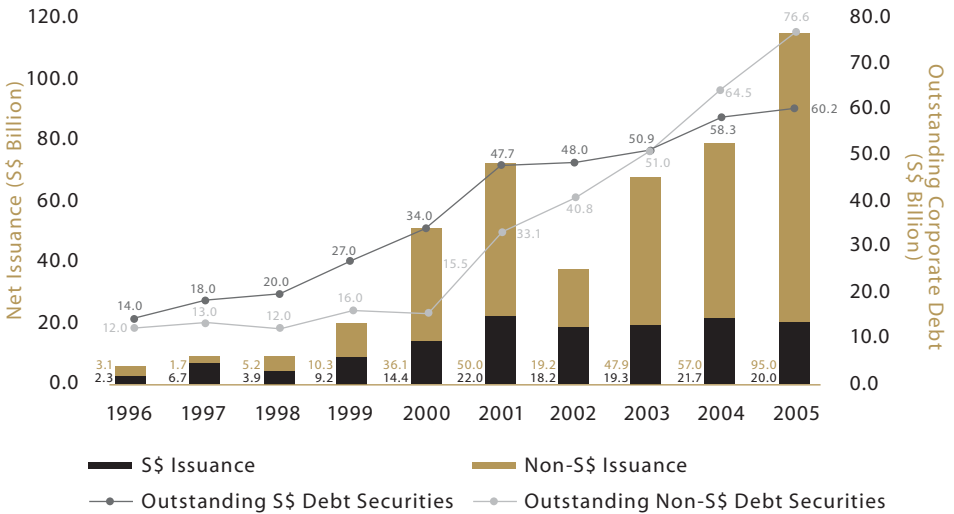
Section C:  
Financial Sector:  
Performance and Growth

## FINANCIAL MARKET ACTIVITY

### Active Corporate Debt Market

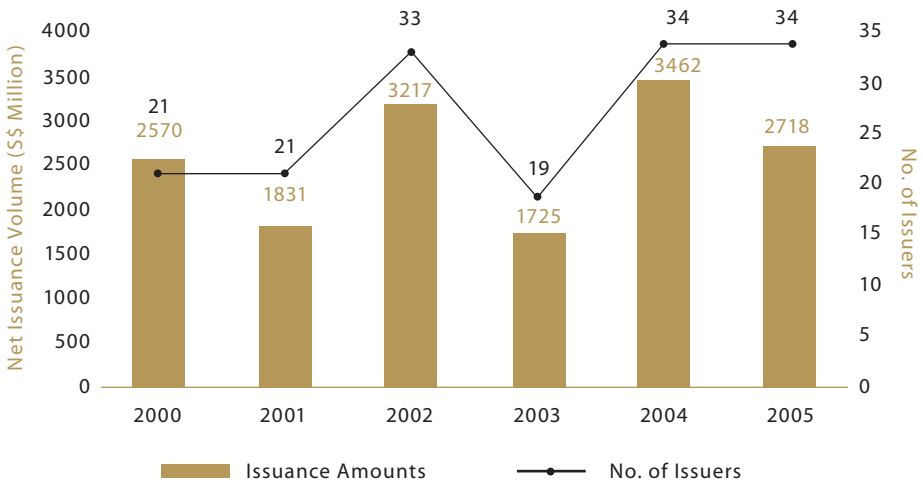
The corporate debt market in Singapore turned in a healthy performance in 2005, with total outstanding volume of corporate debt increasing by 11.5% to S\$137 billion on a year-on-year basis. 2005 also recorded the highest total amount of corporate debt issuance in Singapore over the past ten years, growing by 46% from S\$79 billion in 2004 to S\$115 billion in 2005. (See Chart 1 below).

Chart 1: Corporate Bond Market



34 foreign entities tapped the SGD debt market in 2005, with issuance totaling S\$2.7 billion. Notable issuers include Central American Bank for Economic Integration, General Electric Capital Corporation and The Export-Import Bank of Korea.

Chart 2: Foreign Entity Issuance



Box 13

**INTRODUCTION OF ELECTRONIC-BOND PLATFORM FOR TRADING OF SINGAPORE GOVERNMENT SECURITIES**

In July 2005, we introduced an electronic bond trading platform (SGS E-bond) for secondary trading of Singapore Government Securities (SGS) among primary dealers. The launch of the MAS E-bond platform has significantly improved market transparency, by making available information on transaction time, prices, and volumes for trades executed between primary dealers using the platform. This has enhanced market stability and encouraged wider participation in the SGS secondary market.

The platform is currently available only to primary dealers. It may be expanded to include other market participants such as non-primary dealer banks and insurance companies. It could also be enhanced to allow trading of other financial instruments.

## Growth in Asset and Wealth Management

Singapore's asset management industry has seen double-digit annual growth over the past five years. As at end 2005, funds managed in Singapore totaled S\$720 billion, a jump of 26% from 2004.

Singapore has become a leading asset management centre in the Asia Pacific as a result of various advantages: socio-political stability, sound economic fundamentals, a robust and efficient legal and judicial framework, a well-regulated international financial sector, and a ready pool of talent and expertise.

In terms of talent and expertise, there were close to 1,300 investment professionals in Singapore as at end 2005. Many asset management companies have expanded their services in Singapore to include research, regional trading desks, and centralised their middle and back office functions.

## Trading in the Equities and Futures Market

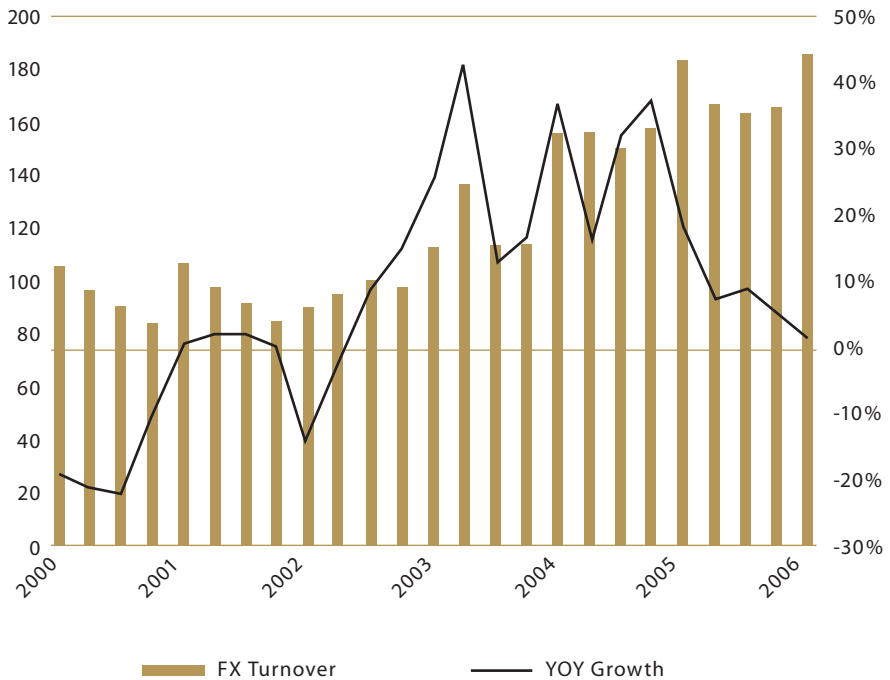
The Straits Times Index rose to 2,347 points at end 2005, delivering a 14% year-over-year return. Trading volumes for 2005 as a whole increased by 18% this year.

Turnover value on the Singapore Exchange (SGX) rose 12% to S\$205 billion in 2005. In volume terms, turnover increased 14% to 204 billion shares. The joint market capitalisation of the Mainboard and SESDAQ declined 5% in 2005. As at end 2005, a total of 492 companies were listed on the Mainboard and 171 companies were listed on SESDAQ, up from 462 and 163 respectively in 2004.

In the derivatives market, Asian equity derivatives continued to enjoy strong growth. SGX Nikkei 225 Index Futures has delivered strong performance since it started full electronic trading on 1 April 2005. Volume surged 54%, with nearly 12 million contracts traded in 2005. Mini-Japanese Government Bond (JGB) Futures, which also went fully electronic on 1 April 2005, grew 33% to over 1 million contracts, and MSCI Taiwan Index Futures rose 16% to 8 million contracts in 2005. Last year also saw strong growth in warrants activity, with close to 400 warrants listed on the SGX as at end 2005.

## Strong Growth in the Treasury Market

Chart 3: FX Turnover



Building on a strong performance in 2004, foreign exchange turnover continued to reach new highs in 2005, with average daily trading volume rising by 9.7% to US\$170 billion. The first quarter of 2005 saw strong turnover, with a significant jump in trading activity from the previous quarter. The market continued to attract record volumes not seen since 1997, with the latest figure standing at US\$185 billion in the first quarter of 2006.

**Box 14 ISLAMIC FINANCE DEVELOPMENT IN SINGAPORE**

Islamic finance has a current market size of around US\$300 billion internationally and is growing rapidly at about 15% per annum. Strong performance of the Middle East economies, high energy prices and rapid financial innovation has set the stage for Islamic finance to grow and flourish.

Capitalising on this growth, Singapore is encouraging the growth of Islamic finance to widen the array of financial services and strengthen its status as an international financial centre.

**Initiatives to Promote Islamic Finance***Regulatory Treatment*

Given that many of the supervisory processes and prudential measures are common to both conventional and Islamic banking activities, MAS has opted to regulate Islamic banking under the existing framework. However, we recognise that there are differences between Islamic and conventional finance and are prepared to refine the regulations to accommodate and facilitate the development of Islamic finance. For example, in September 2005, the regulations were fine-tuned to allow banks in Singapore to offer financing based on the **Murabaha** concept. We will continue with this approach in close consultation with the industry. Islamic banks interested in establishing a presence in Singapore will be assessed based on the existing admission framework.

*Tax Treatment*

Given that the nature and structure of Islamic financial products tend to attract more tax than their conventional counterparts, MAS is seeking to align the tax treatment of Islamic contracts with the treatment of similar conventional financing contracts. In line with this policy, the Ministry of Finance announced several changes, in the areas of stamp duties, income tax, and goods and services tax, in the 2005 and 2006 budgets.

### *Growth and Development of Islamic Products*

Selected Islamic banking products and services are currently offered in a few conventional banks in Singapore via Islamic “windows”. Prior to 2005, the only Islamic banking product available here was **Wadiah** deposit accounts. In 2005, a slew of new products were introduced into the market, including **Murabaha** financing facilities and **Shari’ah**-compliant term products. Islamic insurance or **Takaful**, has also been successful in Singapore with over S\$500 million **Takaful** funds under management. There are now about S\$2 billion **Shari’ah**-compliant real estate funds managed out of Singapore.

### *Islamic Equity Index*

In recognition of the increasing interest of Middle East investors in diversifying and tapping the growth opportunities in Asia, the first **Shari’ah**-compliant pan-Asian equity index was launched in Singapore in February 2006. This index serves as a benchmark for **Shari’ah**-compliant funds investing in Asian equities, and paves the way for the growth of **Shari’ah**-compliant funds seeking Asian exposures.

## Other Developments

### *IFSB membership*

The Islamic Financial Services Board (IFSB) was formed in November 2002 to serve as an international standard setting body to ensure the soundness and stability of the Islamic financial services industry. To show our commitment to the Islamic finance industry and to deepen our knowledge in Islamic finance, MAS joined the IFSB in December 2003 as an observer member and became a full member in April 2005. MAS is currently part of the IFSB Supervisory Review Process Working Group and the IFSB Islamic Money Market Taskforce.

## Box 15

## REGIONAL COMMODITY DERIVATIVES TRADING

As a sign of the growth of commodity derivatives trading in Singapore, several global banks have set up their regional trading desks here. At the same time, existing commodity players have continued to expand their operations here. These developments are in response to the increased demand from Asian clients, most notably in energy and metals on over-the-counter (OTC) markets.

Singapore is developing several initiatives to facilitate the growth in commodity derivatives trading.

#### Strengthening Market Infrastructure

One important initiative is strengthening the market infrastructure for commodity derivatives. The growth in commodity derivatives in Asia is creating a demand for a central counterparty clearing facility. Such a facility would mitigate counterparty risks and bring about operational efficiencies for the marketplace.

The SGX has taken the lead in developing and implementing an OTC clearing facility, initially covering a product range of two wet forward freight agreements (FFAs), nine dry FFAs, and seven energy derivatives. The facility was officially launched on 16 May 2006.

#### Establishing an Asian Commodity Derivatives Market

To meet the increasing demand for hedging Asian product prices, SGX and the Chicago Board of Trade (CBOT) formed a 50/50 joint venture company to establish a commodity derivatives market known as the Joint Asian Derivatives Exchange (JADE). Palm oil futures and rubber futures are among the initial suite of Asian commodity derivatives being developed. All trades will be cleared by the SGX derivatives clearing house. JADE is targeted to be launched by the end of 2006.

### Building a Pro-business Environment

To further grow the commodities market, two initiatives were introduced to encourage the trading and clearing of commodity derivatives:

- Enhancement of the Commodity Derivatives Trading (CDT) Scheme to offer financial institutions and intermediaries concessionary tax rates on income derived from trading in commodities derivatives, including FFAs.
- Concessionary tax rates on income derived from the provision of clearing services in Singapore.

## BUILDING A WORLD CLASS TALENT POOL

To support Singapore's development as an internationally competitive financial centre, MAS works with industry players and other government agencies to build a quality workforce with deep knowledge, attract global financial talent, and develop Singapore as a hub for financial knowledge, innovation and learning.

### Building a Deep Pool of Quality Workforce

To raise the quality of Singapore's financial sector workforce and training providers, the Institute of Banking & Finance (IBF) led over 90 financial institutions in developing the Financial Industry Competency Standards (FICS) for 52 job families across the financial sector. The initiative was supported by MAS and the Workforce Development Agency (WDA). On 2 September 2005, the FICS certification and accreditation frameworks were launched, and competency standards for four job families - Relationship Management-High Net Worth, Trading-Financial Markets, Claims Handling-General Insurance and Claims Handling-Life Insurance - were released. Standards for the remaining job families have been released in June 2006. In December 2005, Credit Suisse became the first financial institution to be accredited as an FICS training and assessment service provider for its relationship management programme. In the commercial training space, the Wealth Management Institute (WMI) was the first financial training provider to offer FICS-accredited programmes.

Following the launch of the Financial Sector Manpower Conversion Scheme in mid-2004, MAS introduced a new programme on middle office product control in July 2005, in addition to the existing programmes on private banking and settlement operations. To date, a total of 300 participants have been trained in these three areas.

Besides focusing on working professionals, MAS also partnered IBF, the industry and tertiary institutions to nurture a steady pipeline of graduates for the financial sector. We launched the Financial Sector Seminar Series in 2005 in all three local universities to promote a better understanding of the range of financial sector opportunities and careers available.

### Attracting Global Financial Talent

Singapore continued to be a choice location for global financial talent. The Economist's "World in 2005" publication rated Singapore as the best place to live in Asia, and the International Institute of Management Development (IMD) World Competitiveness Yearbook 2005 rated Singapore as the most attractive Asian economy to foreign high-skilled professionals, ahead of other locations such as Switzerland, Hong Kong and Ireland. These results affirmed the country's attractiveness as a destination to work, live and play. During the year, MAS participated in various outreach initiatives abroad and locally to showcase Singapore's financial sector to students and professionals. We met with finance professionals and students at top universities in New York, Boston and Sydney, as well as MBA students at INSEAD's Asia Campus in Singapore. MAS will continue to work with industry and other government agencies to profile Singapore in other major cities.

### Building a Hub for Financial Knowledge, Innovation and Learning

Drawing on our strength as a centre for knowledge and intelligence on Asia, MAS actively promotes the establishment of regional financial training and research facilities in Singapore. In July 2005, we launched the Programme on Risk Management and Financial Innovation to catalyse increased research and training in these areas. We will co-fund the establishment of world-class research and training institutes and programmes, and encourage multi-disciplinary research and greater industry-

academia collaboration, so as to develop Singapore as a centre of excellence in risk management and financial innovation.

In June 2006, the National University of Singapore (NUS) announced that it is partnering with the Haas School of Business at the University of California, Berkeley to jointly establish the Berkeley-NUS Risk Management Institute (RMI) at NUS. RMI will generate and disseminate leading-edge knowledge on risk management through financial research, executive education and certification programmes. Going forward, MAS will continue to work with academia and industry partners to enhance financial research, education and training, so as to support the next phase of growth of Singapore's financial centre.

## FORGING ALLIANCES WITH THE INTERNATIONAL FINANCIAL COMMUNITY

### International Advisory Panel

Established in 1998, the International Advisory Panel (IAP) provides MAS with a global perspective on financial sector issues. It keeps MAS abreast of market developments and policy initiatives in major international financial centres. Comprising some of the world's leading experts in the business and financial sectors, the IAP also provides important feedback on MAS' financial sector policies.

The IAP presently comprises the following members:

- Tharman Shanmugaratnam<sup>1</sup>, Minister for Education and Deputy Chairman of MAS (Chairman of IAP)
- Lim Hng Kiang, Minister for Trade and Industry and Deputy Chairman of MAS (Chairman of IAP)
- Dr Josef Ackermann, Spokesman of the Board of Managing Directors and Chairman of the Group Executive Committee, Deutsche Bank AG
- Jacques Aigrain, Chief Executive Officer, Swiss Re
- Claude Bebear, Chairman of the Supervisory Board, The AXA Group
- Michael Diekmann, Chairman of the Board of Management, Allianz AG
- David Fisher, Chairman, Capital International

<sup>1</sup> Tharman Shanmugaratnam was the Deputy Chairman of MAS and Chairman of IAP until 31 May 2006.

- Rijkman Groenink, Chairman, ABN AMRO Bank NV
- William B. Harrison, Jr., Chairman, J.P. Morgan Chase & Co.
- Kenneth D. Lewis, Chairman, Chief Executive Officer & President, Bank of America Corporation
- John Mack, Chairman of the Board and Chief Executive Officer, Morgan Stanley Dean Witter & Co.
- Shigemitsu Miki, Chairman, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- Stanley O'Neal, Chairman of Board, Chief Executive Officer & President, Merrill Lynch & Co., Inc
- Marcel Ospel, Chairman, UBS AG
- Henry M. Paulson, Jr., Chairman and Chief Executive Officer, The Goldman Sachs Group Inc
- Michel Pebereau, Chairman, BNP Paribas
- Charles Prince, Chief Executive Officer, Citigroup Inc.
- Ratan Tata, Chairman, Tata Sons Ltd
- Dr Junichi Ujiie, Chairman, Nomura Holdings, Inc
- John Varley, Group Chief Executive, Barclays PLC



## THE WORLD ECONOMY: ROBUST GROWTH ON THE STRENGTH OF THE US ECONOMY

Despite higher oil prices, rising interest rates and natural disasters, the global economy expanded at a robust pace in 2005. This growth momentum continued unabated in the first quarter of 2006.

The strength of the US economy was a major factor underpinning the continued growth of the world economy last year. The US economy displayed remarkable resilience against the backdrop of hurricane Katrina and 11 successive increases in the Fed funds rate from 2.25% at the beginning of 2005 to 5% in May 2006. In the first quarter of 2006, growth picked up strongly, led by a rebound in consumer spending and business investment spending on equipment and software.

In Europe, private investment picked up sharply in 2005 as business confidence rose. This led to new job creation and a decline in the unemployment rate for the first time in four years. Concomitantly, in response to indications of a pick-up in core inflationary pressures, the European Central Bank hiked its policy rate by 75bp between December 2005 and June 2006 to 2.75%.

The Japanese economy expanded at a robust pace last year as it continued to reap the fruits of structural reforms. The expansion was broad based, with strong household consumption supported by significant gains in employment. Business investment also grew as profits rose, while exports benefited from firm global demand. Growth in the first quarter of 2006 continued to be held up by strong private domestic demand and exports.

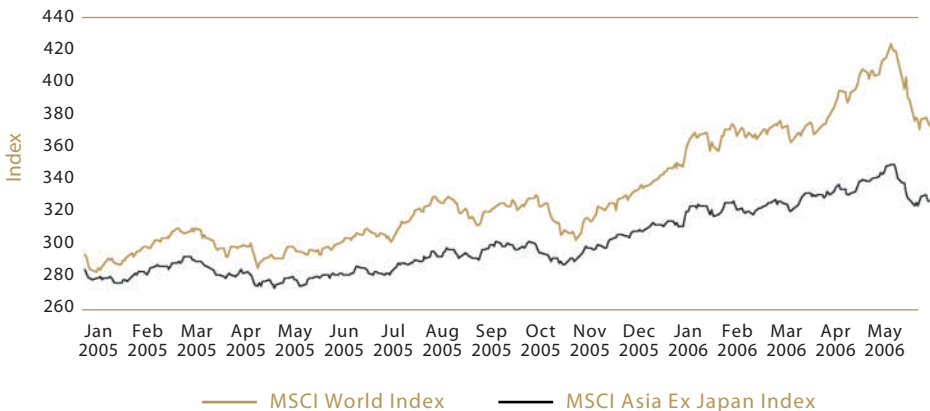
Other Asian economies performed well despite higher energy prices and rising interest rates, as governments rolled back fuel subsidies and central banks tightened monetary policy to curb inflationary pressures. Domestic demand, particularly consumer spending, continued to play a significant role in fuelling economic growth in the region. Exports from the region also remained fairly strong despite some appreciation of the regional currencies against the USD. The transition to more flexible exchange rate regimes in China and Malaysia was smooth with no major impact on the regional financial markets.

## INTERNATIONAL FINANCIAL MARKETS: RESILIENCE IN THE FACE OF UNCERTAINTIES

Since April 2005, international financial markets performed well despite sustained high oil prices and continued monetary policy tightening. Financial markets were also resilient in the face of shocks and uncertainties such as the Katrina hurricane disaster in the US, terrorist bombings in London, and more recently, the risk of a global avian flu outbreak. Financial markets also reacted calmly to the ending of the Bank of Japan's (BOJ) quantitative easing policy in March 2006.

While equity markets were weighed down periodically in the course of the year by concerns of high energy prices and rising interest rates, they were lifted in the later part of 2005 and early 2006 by buoyant corporate profits and optimism about global growth prospects (See Chart 4). Foreign capital flows into emerging markets in search of higher yields also supported Asian equities. However, global equity

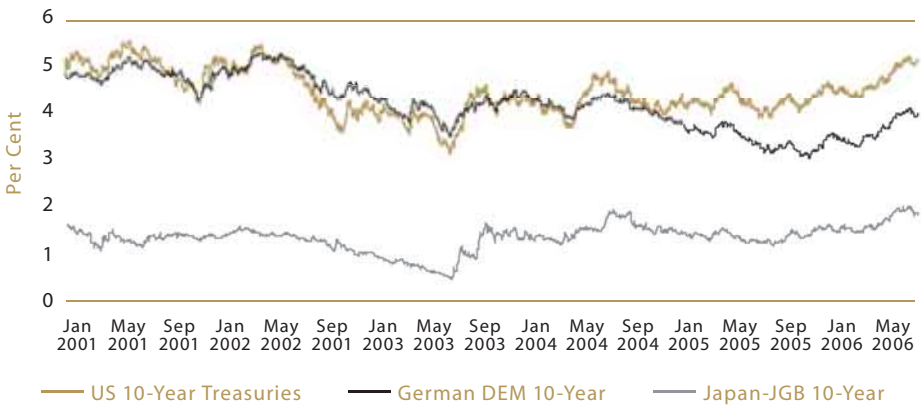
Chart 4: MSCI World & Asia Ex Japan Indices



markets came under heavy selling pressure in May 2006 triggered by concerns over heightened inflationary pressures in the US. The spectre of potentially higher US interest rates also triggered worries about a slowdown in the US economy and consequently, the demand for Asian exports. The episode however, does not appear to be the result of a shift in fundamental factors, and the general lack of discrimination across sectors or countries suggests that the rise in net foreign selling was triggered by external factors not unique to Asia.

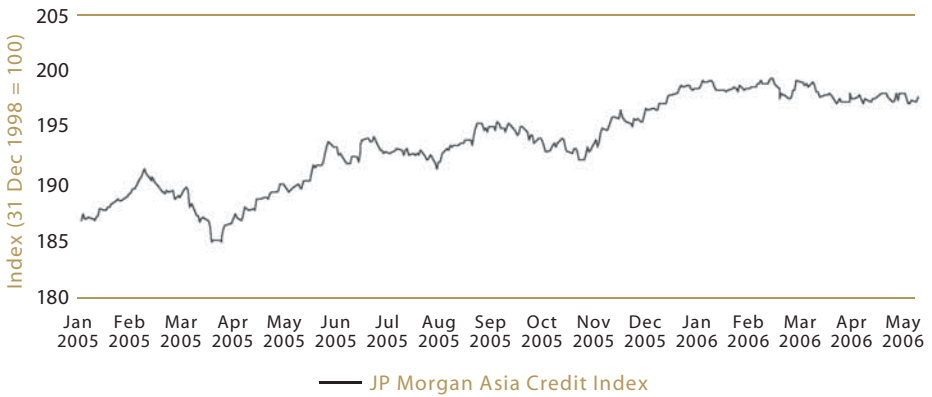
On the whole long-term government bond yields in developed markets remained low. The low risk premiums has been attributed to both cyclical as well as structural factors such as well-anchored inflationary expectations, weakness in global investment and a structural shift of pension and life insurers towards longer-term maturity assets. However bond yields have generally moved up since the middle of last year amid signs of robust growth in the US economy as well as on the back of inflationary concerns. Yields in the US have risen above 5% while yields in Japan have also increased as the BOJ announced an end to its quantitative easing policy (See Chart 5). After a brief period of correction during February and March 2005, Asian bonds

Chart 5: G3 Long-Term Bond Yields



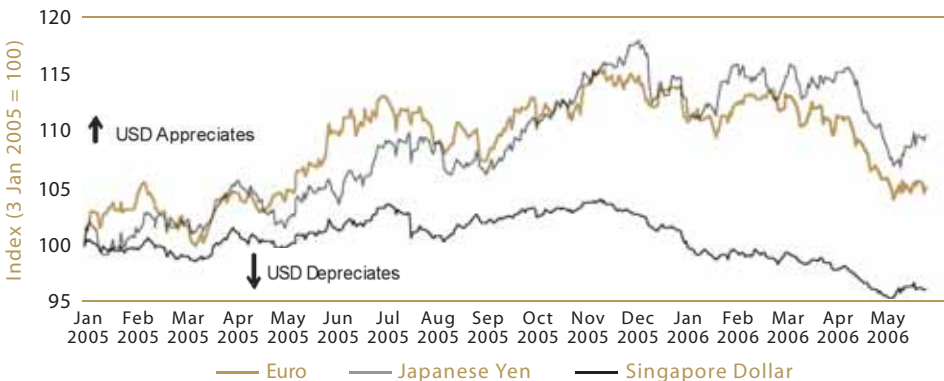
rallied over April 2005 to January 2006 as investors continued to search for yields in the low interest rate environment. Continued inflows helped support Asian bonds as investor risk appetite remained supportive of emerging market papers, although the heightened volatility in world financial markets in May this year have led to some reversal of these flows (See Chart 6).

Chart 6: Asian Bond Price Index



In the foreign exchange market, the USD strengthened over a large part of 2005 driven by increasing interest rate differentials as the US Federal Reserve (Fed) continued to raise the Fed Funds rate over the course of the year. Since December 2005, however, concerns over the sustainability of the US current account deficit have heightened as the Fed Funds rate draws closer to neutral territory, leading to a general weakening trend of the USD. The USD appreciated briefly against the Euro and Yen in late January and early February 2006 on expectations of continued increases in interest rates by the US Fed, amidst indications of underlying economic strength. In May, the USD appreciated again, driven by expectations of further interest rate increases as the Fed strongly reaffirmed its commitment to maintaining price stability. (See Chart 7).

Chart 7: USD Against Euro & Major Asian Currencies



## SINGAPORE FINANCIAL SYSTEM REMAINS SOUND

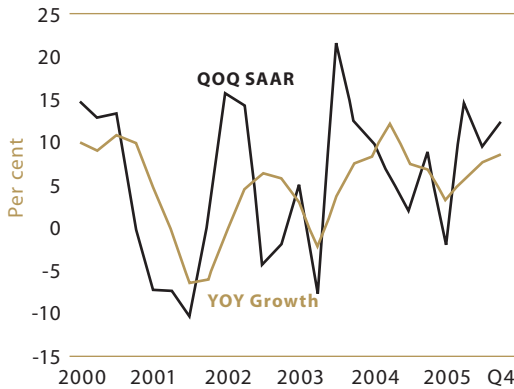
While the sell-off in global equity markets in May 2006 and the recent volatility in foreign exchange markets suggest some nervousness in international financial markets following a strong run-up in asset prices, the conditions underpinning Singapore financial system stability remain firmly intact. MAS conducts a regular assessment of Singapore's financial system by identifying potential sources of risks and vulnerabilities, and assesses the ability of the financial system to withstand these potential shocks. The results of the analysis are contained in the Financial Stability Review (FSR). In MAS' assessment, the Singapore financial system remains sound, supported by healthy financial positions of the corporate and household sectors. Firms' profitability and other financial indicators have continued to improve, while household wealth has strengthened further.

The strong financial performance of Singapore banks has also allowed them to build up significant financial buffers to absorb potential shocks arising from the tightening of financial conditions and a sharp contraction in economic growth. To assess the resilience of the Singapore banking system, stress tests were conducted on scenarios of a significant downturn in the global economy and decline in asset prices. The stress test results showed that banks in Singapore would be resilient to shocks under these scenarios.

## SINGAPORE ECONOMY: ENDING ON A HIGH NOTE

The Singapore economy grew by a robust 6.4% in 2005, exceeding earlier growth forecasts. Gross Domestic Product (GDP) growth was supported by firm external demand, reflecting the resilience in the global economy, IT sector and financial markets. The growth momentum was particularly strong in the latter half of the year, notching up strong sequential annualised growth of 9.6% and 13% in the final two quarters of the year, respectively (See Chart 8).

Chart 8: Singapore's GDP Growth



The economic expansion in 2005 was largely supported by the manufacturing and trade-related sectors. The financial services sector also put in a good showing, growing apace with GDP, at 6.5%. Financial advisory and other emerging services, including healthcare and education services, have provided the additional fillip to growth. These emerging services were identified by the Economic Review Committee in 2002 as the “additional cylinders for the services engine”.

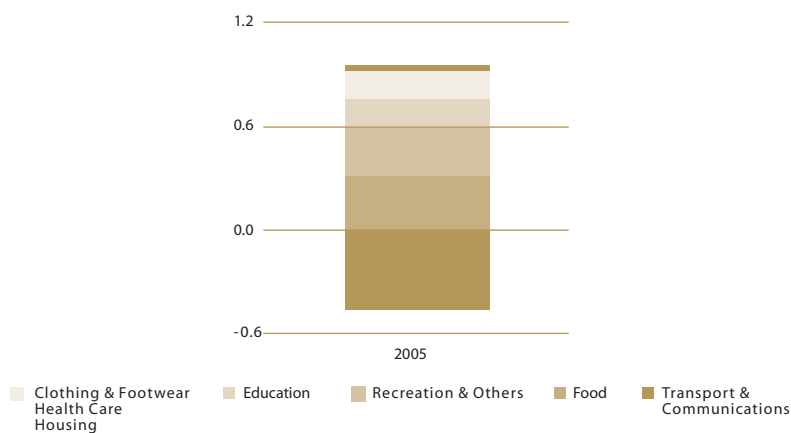
Alongside the broad-based economic expansion, the labour market saw spectacular improvement, with total job creation last year amounting to a record 113,300. This is the strongest employment growth since the peak of 120,300 in 1997. Job creation was broad-based across the manufacturing and services sectors, with construction employment notably turning around after four years of contraction. In tandem with the strong employment growth, the unemployment rate fell to a four-year low of 2.6% in December 2005.

In the early months of 2006, some signs of easing in the domestic economy emerged with growth momentum slowing to 6.8% in Q1. However, this is not indicative of a broad-based slowdown, but rather a retraction to a more sustainable pace of growth. Indeed, the continued growth in the global economy and further expansion in the global IT industry should provide support for the domestic economy to grow in line with potential this year. Activity in the manufacturing sector is expected to be sustained at high levels, led by steady, albeit modest growth in the electronics sector. In addition, trade-related services should strengthen further alongside sustained growth momentum in the region. The domestic-oriented sectors, such

as retail sales and business services, should also see further improvement, given the favourable outlook for the labour market and the uptrend in tourism inflows. Barring any shocks, Singapore's GDP growth is expected to come in at 5-7% in 2006.

Consumer price inflation came in at a mild 0.5% for 2005, after averaging 1.7% in 2004. The low headline inflation rate masked a somewhat faster pace of price increases across a number of major categories of the Consumer Price Index (CPI) basket. A significant decline in car prices (subsumed under "transport & communications") last year dampened overall inflation by about 0.7% points (See Chart 9). Indeed, abstracting from the influence of car prices, the MAS underlying inflation measure (which excludes accommodation and private road transport costs) came in above the headline rate, at 1.3% during the year.

Chart 9: % Point Contribution to CPI Inflation, 2005



Although the headline CPI inflation and the MAS underlying inflation measures picked up in the first four months of 2006, this reflected low "base effects" arising from energy-related items which experienced a sharp acceleration in the second half of 2005 as petrol discounts were gradually rolled back and electricity tariffs raised. Headline inflation is expected to moderate into the second half of 2006, as some of the base effects dissipate. Overall, domestic inflationary pressures are likely to remain well-contained, as the economy largely expands along its potential path. For 2006 as a whole, the headline CPI inflation is projected to come in at 1-2% before moderating somewhat in 2007.

## MONETARY POLICY AMID CONTINUED GROWTH AND EMERGING INFLATIONARY PRESSURES

As the economy moved back to its potential output path, monetary policy has gradually been less accommodative in the past two years. In April 2005, MAS reaffirmed the current policy of a modest and gradual appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S\$NEER) policy band adopted since April 2004. This policy stance was reiterated in July 2005, following the announcements of changes to the exchange rate systems in China and Malaysia, and reaffirmed in October 2005.

Against the backdrop of continued underlying growth support for the Singapore economy, MAS announced in its latest Monetary Policy Statement (MPS) on 11 April 2006 that it would maintain the current policy of a modest and gradual appreciation of the S\$NEER policy band, with no re-centring of the policy band, and no changes to its slope or width. We assessed that overall domestic inflationary pressures would be contained under this policy stance, especially since liquidity conditions have tightened significantly since the October 2005 policy review.

## STRENGTHENING THE MONETARY POLICY FORMULATION PROCESS

MAS has over the years gradually shifted towards adopting a more open and communicative approach in monetary policy. We are devoting greater attention to communicating our objectives more clearly and frequently to the market, the media and the public. We are also revealing more information about our methodology and views, including information about our forecasting methods, the internal models and the impact of potential external shocks and policy changes. In July 2005 for example, we released a Staff Paper<sup>1</sup>, which documented the evolution of our macromodelling tools and techniques for economic forecasting and policy analysis since 1986.

MAS' continued efforts to increase monetary policy transparency and communication appear to have paid off in terms of the alignment of market expectations to policy decisions. A recent study conducted by MAS staff found that market participants are better able to understand and anticipate monetary policy decisions and respond more efficiently to economic data and news, following MAS' monetary policy transparency initiatives (See Box 16).

1 The paper benefited tremendously from the contributions of our consultant, Chris Murphy (Econtech).

On the macromodelling front, the Monetary Model of Singapore (MMS) was reviewed and enhanced to strengthen MAS' forecasting, policy analysis and decision-making capabilities. The MMS now includes the specification of a satellite model for foreign input prices, an exogenous variable in the model. We are also developing a demographic extension to the model. In addition, the MMS was updated early this year to incorporate the latest input-output data and the rebased national accounts.

## PUSHING THE FRONTIER OF MONETARY POLICY RESEARCH AND ANALYSIS

As part of our continuing efforts to enhance the understanding of the structure and analytics of the Singapore economy, MAS has carried out a broad range of policy research studies. In particular, in order to better comprehend the monetary transmission mechanism in the economy, MAS completed a study of the various channels of transmission with the help of Assistant Professor Anthony Tay from the Singapore Management University. The study involved the construction of a model utilising Structural Vector Autoregressive and Kalman filtering techniques to analyse the transmission mechanism of monetary policy and potential output gap of Singapore, respectively. Over the past year, MAS also conducted several in-depth studies on the IT and financial sectors, the labour market, and the impact of increases in crude oil prices on retail petrol pump prices.

In addition, MAS issued four Staff Papers and two Macroeconomic Reviews in 2005. These papers and reports allowed us to disseminate our research findings and share the basis for our policy decisions in the MPSs. Two of the Staff Papers were written by visiting academics under the Visiting Scholar programme. Professor Peter Montiel (Williams College) wrote on the macroeconomic reform agenda of developing countries in the 1990s<sup>2</sup>, and Dr Andrew Feltenstein (IMF Institute) examined the welfare analysis of trade reforms among ASEAN countries<sup>3</sup>. Professor Bennett McCallum of Carnegie Mellon University also contributed a Staff Paper this year, on the relevance of Singapore's exchange rate regime for China<sup>4</sup>.

2 "Macroeconomic Stability in Developing Countries: How Much is Enough?", MAS Staff Paper No. 40, September 2005.

3 "The Welfare Analysis of a Free Trade Zone: Intermediate Goods and the Asian Tigers", MAS Staff Paper No. 41, December 2005.

4 "Singapore's Exchange Rate-Centred Monetary Policy Regime and its Relevance for China", MAS Staff Paper No. 43, April 2006.

Going forward, MAS will continue to press ahead with various studies to enhance our understanding of the Singapore economy. These include:

- The impact of changing demographics on the Singapore economy, which will involve the construction of a long-term model to project key economic variables such as potential output, total factor productivity and the saving-investment gap under various policy scenarios.
- The performance of the domestic financial sector clusters and quantifying the spillovers from such activities using survey returns from the financial institutions.
- The evolution of capital markets, and an analysis of the determinants of cross-border capital flows.

In support of greater dialogue on key economic policy issues between academics and policymakers, MAS and the Economic Society of Singapore co-organised the Monetary Policy Forum during the 50th Anniversary Conference of the Singapore Economic Review. The Conference was attended by many eminent academics including Professor Edward Prescott, 2004 Nobel Laureate in Economics, who delivered the keynote address.

#### BOX 16 ASSESSING MARKET RESPONSE TO MAS' MONETARY POLICY STATEMENTS

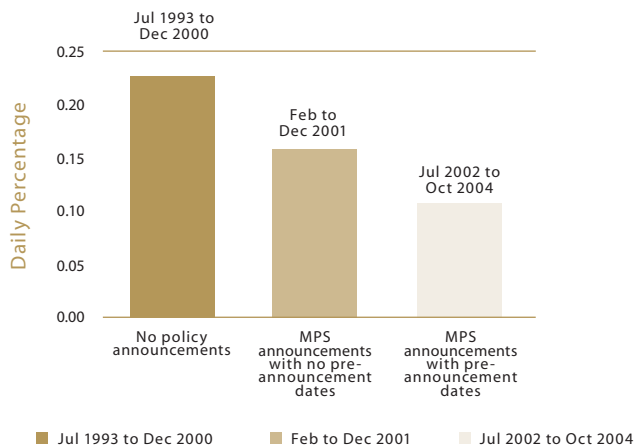
In the October 2005 issue of the Macroeconomic Review, the Economic Policy Department published a study that examined the market response to MAS' monetary policy actions. The study found that market participants were better able to understand and anticipate monetary policy following MAS' increased transparency initiatives.

In particular, the study examines the characteristics of the market response of the S\$NEER around the time of policy actions or announcements in the semi-annual MPS. The response of the SGD exchange rate to announced changes in monetary policy is used to provide a measure of the extent to which the market was surprised by MAS' policy actions. In other words,

the magnitude of the exchange rate movements contains information on the predictability of policy and the ability of investors to read future policy intent from current information. With increased transparency, one would expect that over time, financial market participants would be in a better position to anticipate policy moves. This in turn implies that the market response would be more muted around the period of the policy announcement and implementation.

Chart 10 plots the average absolute daily change in the S\$NEER for three sample periods over a two-day window. The first sample period from 1993 to 2000 corresponds to the regime when no announcements on policy changes were made. The second period covering 2001 captures the period where unscheduled MPS announcements were made. The third sample period, from July 2002, captures scheduled MPS announcements and the advance release of the announcement date and time. Indeed, market responses have become more muted with increased disclosure and transparency of MAS' monetary policy, as reflected in the declining average market movements around policy dates.

Chart 10: Average Absolute Change in S\$NEER Following Policy Moves / Announcements





Section E:

# MAS in the International Arena

Against a backdrop of resilient economic growth, regional economies have made progress with initiatives that enhance financial stability, regulatory cooperation and the development of capital markets. Cooperation in these areas is important in fostering regional financial integration. MAS participates actively in these initiatives in both the international and regional arena.

Singapore has also been preparing to host to the 2006 Annual Meetings of the Boards of Governors of the International Monetary Fund (IMF) and the World Bank Group. Finance Ministers and Central Bank Governors from around the world will gather in Singapore for discussions on the state of the world economy and improving the global financial infrastructure. The meeting will allow Singapore to highlight Asian growth and opportunities to a global audience.

**BOX 17 SINGAPORE ON THE WORLD MAP – IMF-WORLD BANK ANNUAL MEETINGS**

In September 2006, Singapore will welcome 16,000 delegates and visitors to the 2006 Annual Meetings of the Boards of Governors of the IMF and the World Bank Group. This is the largest international meeting Singapore has ever hosted and a key event on the calendar for the international financial community.

MAS and the Ministry of Finance lead an inter-agency committee that is working on all aspects of organising this significant event.

This year, the Annual Meetings return to Asia after a nine-year break. As host, Singapore intends to focus the world's attention on the vibrancy and dynamism of Asia after the Asian financial crisis and how Asian countries are working together to accelerate growth and investments in this region.

Apart from the Annual Meetings, there will be other significant meetings and events held on the sidelines. These include the Group of Seven, Group of Ten and Group of 24 Finance Minister Meetings, and the Program of Seminars jointly organised by IMF, World Bank and the host government for the first time.

A number of international forums will also be held to facilitate interaction, networking and the exchange of ideas among the government delegates and chief executives from the leading financial institutions. These include the Per Jacobsson Lecture by the Per Jacobsson Foundation, the International Banking Seminar by the Group of Thirty, the Institute of International Finance Annual Membership Meeting and the Raffles Forum by the Lee Kuan Yew School of Public Policy.

Taking place from 13 to 20 September 2006 and collectively known as Singapore 2006, these meetings will showcase Singapore as a global city with a world of opportunities. Heads of government, finance ministers and central bank governors from 184 countries, global chief executives from leading companies and financial institutions as well as the international media will be attending the event. Singapore 2006 will allow these senior business leaders and decision makers to experience first hand, Singapore's strengths as a leading international business and financial centre.

## STRENGTHENING REGULATORY AND REGIONAL FINANCIAL COOPERATION

### Banking

On the international stage, MAS is a member of the Core Principles Liaison Group established by the Basel Committee on Banking Supervision, and plays an active role in the Basel Committee's project to review the Core Principles for Effective Banking Supervision. We are also involved in the development of supervisory guidance undertaken by various Basel Committee subgroups, including those on the implementation of Basel II and on accounting issues.

MAS continued as Chair of the Executives' Meeting of East Asia-Pacific Central Banks Working Group on Banking Supervision (EMEAP WGBS) for a second year. During the year, the Working Group facilitated the adoption of international standards for banking supervision and financial system stability in the region, and promoted cooperation and communication among regional bank regulators. The Working Group has also established study groups to look into issues relating to Basel II implementation and macro-surveillance. Some of these issues were shared with the Basel Committee and other regional supervisory groupings.

In November 2005, MAS as the EMEAP WGBS chair, jointly hosted a meeting on the Implementation of Basel II in Asia with the Financial Stability Institute. The meeting provided a platform for G10 and Asia central banks and supervisors to discuss key implementation challenges faced in their respective jurisdictions. This was followed by a separate interaction session, hosted by MAS, between the EMEAP WGBS and key members of the Basel Committee on Banking Supervision. This interaction helped to enhance the understanding between the international standard-setting body and regional central banks, particularly in respect of the Basel Committee's recent work and key future initiatives.

### Insurance

MAS continues to be one of the three Asian representatives in the Executive Committee of the International Association of Insurance Supervisors (IAIS) and has contributed to IAIS initiatives to enhance the effectiveness of insurance supervision. In particular, we are an active member in IAIS' Insurance Contracts Subcommittee, which provides inputs to the second phase of the International Accounting Standards Board's project on insurance contracts accounting.

Regionally, MAS participates in the ASEAN Insurance Regulator's Meeting (AIRM), which is an annual forum for regional insurance supervisors to exchange views and updates on new developments. MAS is also a member of the ASEAN Insurance Research and Training Institute's (AITRI) Management Board (which oversees the running of AITRI. The other members of the management board are from Malaysia, Indonesia, Thailand and the Philippines. Together with the other ASEAN insurance regulators MAS also sits on the Board of Trustees of AITRI.

### Capital Markets

MAS is an active member of the Asia Pacific Regional Committee (APRC), a regional committee of regulators under the International Organisation of Securities Commissions (IOSCO). The APRC seeks to promote sound and consistent securities regulation across the region. MAS chaired the APRC Meeting during the 2005 IOSCO Annual Conference in Colombo, Sri Lanka. Together with the China Securities Regulatory Commission, we co-chair a workgroup on the good practices of risk-based inspection.

In addition, MAS co-chairs a workgroup with the Australian Securities and Investment Commission (ASIC). This workgroup's objective is to facilitate cross border offering of collective investment schemes (CIS) among interested APRC jurisdictions by permitting an entity to offer CIS products in participating jurisdictions on the basis of compliance with a single framework.

Under the ASEAN Capital Market Forum, MAS and other ASEAN securities regulators continued work on harmonising regional standards in areas such as disclosure, distribution rules, accounting and auditing standards and professional qualifications.

MAS and the Thai Securities and Exchange Commission also entered into a Letter of Intent (LOI) in September 2005 that sets out initiatives for bilateral co-operation. The LOI covered cooperation in areas such as cross-border trading of collective investment funds, mutual recognition of professional qualifications and certification of financial professionals working in the field of securities and exploration of cross-border trading linkages between Singapore and Thailand. The proposed mutual recognition agreements will facilitate the cross-border distribution of mutual funds by reducing compliance costs and improving time-to-market. They will also make it easier for financial market professionals to work in member countries.

### Anti-Money Laundering, Countering the Financing of Terrorism

MAS continues to contribute to the development and promulgation of global regulatory standards on market integrity. We participate in the anti-terrorism and anti-money laundering work done by the Financial Action Task Force (FATF) and its associated body in the Asia-Pacific region, the Asia-Pacific Group on Money Laundering (APG). Singapore hosted a plenary meeting of the FATF in June 2005.

## STRENGTHENING FINANCIAL STABILITY

Within the region, the Chiang Mai Initiative, a self-help short-term emergency financing facility, was enhanced when the size of bilateral swap agreements among ASEAN+3 countries was enlarged from about US\$40 billion to over US\$70 billion. As part of this enlargement, we renewed and increased the value of our bilateral swap agreement with Japan in November 2005. MAS also participated actively in

international forums organised by the Bank for International Settlements (BIS) and the Financial Stability Forum (FSF) by sharing our views on global and regional financial stability.

## PROMOTING INFORMATION EXCHANGE AND TECHNICAL ASSISTANCE

As part of our regulatory cooperation, MAS is actively involved in technical assistance initiatives through collaboration with central banks and financial agencies.

MAS organised the inaugural and second run of the MAS Regional Banking Supervisors' Training Programme in May and November 2005 respectively. The two runs of the training programme were well-received by participants from 12 countries. MAS organised the third run of this training programme in May 2006.

MAS also provided trainers and speakers for programmes organised by the Southeast Asian Central Banks Centre for training, the Asian Development Bank, Asia-Pacific Economic Cooperation Financial Regulators Training Initiative and the International Monetary Fund-Singapore Training Institute (IMF-STI).

In December 2005, MAS helped the APG conduct a training workshop on anti-money laundering and counter-terrorism financing for officials from APG countries. The workshop was held at the IMF-STI and co-hosted by the IMF-STI and MAS. In addition, we hosted study visits and attachments and provided resource persons for assessment programs like the Financial Sector Assessment Programme (FSAP).

To promote capacity building and enhance regulatory cooperation in the securities arena, MAS hosted the Capital Markets Seminar, a regional training programme for securities regulators, in August 2005. From 2007 onwards, MAS will work with the Toronto Centre to host a joint Regional Securities Markets Regulation Leadership Program.

**BOX 18 MAS AND IMF JOINTLY HOST HIGH-LEVEL SEMINAR**


In September 2005, MAS and the IMF jointly hosted a high-level seminar on regional financial integration. Finance ministers, central bank governors and senior officials from the Asian region as well as from the IMF and the Asian Development Bank, participated in the seminar.

There was strong consensus that financial integration in Asia needed to catch up with real sector integration. At the same time, participants felt that the region should focus on capacity building aimed at strengthening supervisory capacities and domestic financial systems. This would involve training the personnel who are essential to making financial markets work well. Above all, delegates agreed that all economies had to remain outward-looking and connected to the multilateral global system in order to enhance intra-Asia integration.

As a testimony to the success of the seminar, the governors and ministers met again in May 2006.

At the second high level seminar, participants acknowledged the need to further advance regional financial integration in order to channel Asian savings more efficiently to investment projects in the region. On the issue of greater monetary cooperation, participants discussed prospects for a common regional currency framework. They agreed that there were increasing commonalities in their respective monetary policy frameworks. However, they also noted the merits in preserving exchange rate flexibility to better accommodate cross-border flows of funds.

The discussions on issues raised at the seminar will continue at the IMF and World Bank (WB) annual meetings to be held in Singapore this September.



Section F:  
Organisational Initiatives

## CORPORATE SERVICES DEPARTMENT

### Ensuring A Safe and Secure Work Environment

The Corporate Services Department provides logistics and administrative support to MAS departments, maintains MAS properties, and oversees the safety and security of MAS property and assets. The MAS Building facade recladding project was completed during the year.

## CURRENCY DEPARTMENT

### Dollars and Cents Management

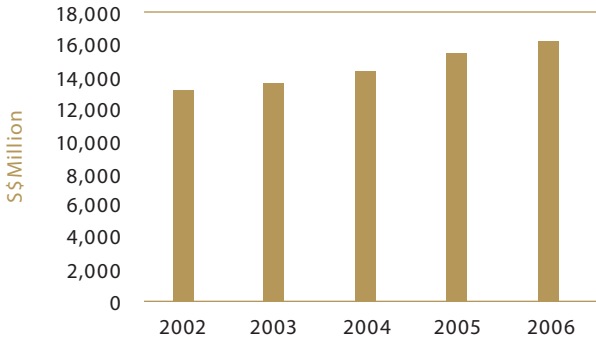
The Currency Department (CD) is responsible for the issuance of currency. It maintains the integrity and quality of the Singapore currency and proactively manages the currency stock. As at 31 March 2006, the gross and active currency in circulation was S\$16.4 billion (See Chart 11) and S\$14.7 billion respectively. The gross currency in circulation increased 5.3% over the year, with S\$33.5 billion worth of notes and coins issued to banks and S\$32.7 billion returned.

The Currency Interchangeability Agreement between Singapore and Brunei continues to operate in both countries. For the year in review, the total Brunei currency repatriated to the Brunei Currency and Monetary Board was BN\$640.3 million, BN\$30.6 million less than in 2004. The amount of Singapore currency repatriated to Singapore increased by S\$2.5 million to S\$6.7 million in 2005.

In July 2005, we launched a set of coins with the National Day Parade (NDP) 2005 logo to commemorate Singapore's 40 years of independence. This was the first time that the NDP logo was featured on a Singapore commemorative coin.

Following favourable feedback from the public, banks and note handling machine operators on the S\$10 polymer notes issued in 2004, MAS decided to issue S\$2 polymer notes from January 2006.

Chart 11: Gross Currency in Circulation (Notes and Coins)



Gross Circulation (S\$ Million)	2002	2003	2004	2005	2006
Notes	12,486.27	12,897.53	13,599.84	14,553.91	15,354.54
Coins	918.97	942.62	960.58	979.30	1,002.83
Total	13,405.24	13,840.15	14,560.42	15,533.21	16,357.37

## FINANCE DEPARTMENT

### Raising Awareness of Risk Management

Over the year, MAS continued to enhance its corporate risk management framework through refining existing initiatives, as well as developing and implementing new ones.

We held an inaugural Management Risk Day in October 2005, where we assessed the current environment and identified ten key risks that threaten MAS' achievement of its vision, mission, objectives and business outcomes. Mitigating measures have since been developed to address these risks and will be implemented over 2006.

To raise staff's awareness of risk issues, we launched a risk management portal to serve as a one-stop information kiosk on risk management matters. We also held regular information sharing sessions with staff to update them on risk management initiatives within the organisation. We will continue to build an environment where every staff member is aware of potential risks and makes an effort to manage them well.

## GENERAL COUNSEL'S OFFICE

### Dealing with Legal Matters

The General Counsel's Office (GCO) provides proactive and solution-oriented legal services on supervisory and regulatory issues, financial and commercial matters, and international agreements. Working together with the supervisory and policy departments in MAS, GCO provides legal services in developing the regulatory framework for a sound and progressive financial centre in line with international best practices.

In the past year, GCO dealt with 3000 queries for legal advice and drafted two new Bills and amendments to three Acts. It also revised other regulations, notices and directions. In addition, GCO provided legal advice in the negotiation of Free Trade Agreements entered into by Singapore and for the Memorandum of Understanding of Cooperation between financial regulators. It also published two issues of the GCO Legal Bulletin, an in-house legal journal. In the international arena, GCO represents MAS in the Global Contact Group of the Financial Markets Law Committee. The Group, which is made up of central bank lawyers, addresses current legal issues in the financial markets.

## HUMAN RESOURCE DEPARTMENT

### Developing Our People

Our Human Resource initiatives continue to focus on developing and nurturing our people to meet the challenges and needs of the financial industry. We are also committed to providing our employees with meaningful careers at MAS. Last year, 3% of our eligible senior officers were attached to leading financial institutions and regulators overseas. In addition to these attachments, senior officers continued to be actively engaged in and contributed to international fora and inter-agency as well as other special work-group projects. These experiences allowed our officers to keep abreast of evolving trends and developments in the financial sector as well as best practices in central banking and financial supervision.

We also complemented on-the-job training and exposure with our structured general and functional training programs for staff at all levels.

Our priorities this year include the development of leadership as well as functional expertise skills of our staff. We are also enhancing employee communications to encourage and maintain an open culture of feedback and staff engagement.

## INFORMATION TECHNOLOGY DEPARTMENT

### Enhancing Supervision and Payment Systems

In line with the move towards a risk-based regulatory regime, we implemented a new web-based Capital Markets Supervisory System to assist in the supervision of capital markets intermediaries. The one-stop information portal allows comprehensive access to key financial statistics and risk ratings, as well as electronic supervisory plans that map out the supervisory scope for capital market firms.

The launch of MAS' next generation real-time gross settlement system, MAS Electronic Payment System (MEPS+), has been shifted to the fourth quarter of 2006. This is to allow the system to be properly tested under various stress scenarios.

### Promoting International Collaboration – EMEAP

MAS hosted the annual Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) IT Directors' Meeting Workshop from 12 to 13 January 2006. The focus of this annual meeting was on "IT Risk Management". The workshop was attended by IT directors from all the EMEAP countries. It provided a platform for participants to discuss evolving issues on IT Risk Management, as well as to share their perspectives and experiences on IT risk management in central banks.

### Enhancing MAS' Websites

We introduced a new service on MAS' Consumer Issues Website to help the public lodge complaints against financial institutions. As a result of the initiative, we were able to handle and monitor complaints more efficiently and effectively.

Moving forward, we will be revamping MAS' websites to improve signposting and navigation around the sites, as well as to make it more user-friendly. This is in line with the Singapore Government's effort to standardise the "look and feel" of all government websites.

### Maintaining a Secure IT Environment

To ensure a highly secure and reliable IT environment, MAS is always on the look out for new threats and vulnerabilities. Besides enhancing MAS' desktop security software with an additional layer of protection against spyware and adware, we also rolled out hard disk encryption software to protect the confidentiality and integrity

of MAS' information assets. In addition, we set up a framework for IT outsourcing to address the associated risks in outsourcing and the corresponding roles and responsibilities of various stakeholders in managing such risks.

## INTERNAL AUDIT DEPARTMENT

### Assessing the Control Environment In MAS

The Internal Audit Department (IAD) reports to the Audit Committee (AC). Over the year, IAD conducted an extensive program of risk-focused audits to ascertain the adequacy and effectiveness of controls and procedures across a wide spectrum of MAS' operations. The audits covered MAS' core functions and systems such as reserve and monetary policy management, currency and corporate resource management, financial sector supervision and development as well as the IT infrastructure supporting these functions. For the financial year, IAD assessed that the internal controls of the audited areas were satisfactory. MAS promptly implemented mitigating measures to address audit concerns and enhance internal processes.

IAD also advised MAS management on best practices and helped improve the effectiveness and efficiency of risk management, internal controls and the governance process. To provide advice on best practices and assurance that adequate security and controls are built into the solution, IAD participated in the Steering Committees and Working Groups for the implementation of the MEPS+ for SGD high-value interbank payments and Singapore Government Securities (SGS) settlement, and the front, middle and back office system for MAS reserves and monetary operations.

During the year, IAD conducted a self-assessment of its compliance with the International Standards for the Professional Practice of Internal Auditing (Standards) set by the Institute of Internal Auditors (IIA). The review concluded that IAD was generally compliant with the IIA Standards. An external quality review of IAD will be conducted by an inter-statutory board group in the coming year.

## STRATEGIC PLANNING OFFICE

### Enhancing Integration and Providing Strategic Focus

The Strategic Planning Office (SPO) advances the collective formulation of corporate priorities, strategies and initiatives in support of MAS' core objectives.

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

- MAS International Advisory Panel meeting which brought together some of the world's leading business and financial experts to advise MAS on financial industry strategies.
- Strategic planning exercise for the Leadership Community to develop a set of business priorities for MAS.
- Organisation development retreat for the Leadership Community to identify organisational priorities to support the achievement of MAS' business priorities.
- Annual staff seminar where the Chairman and Managing Director convey the broad business and corporate priorities for the year ahead.

SPO conducted the second External Perception Survey to measure and track our stakeholders' views on our performance and effectiveness as a central bank, regulator and financial centre developer. Stakeholders dealing with MAS rated us well in achieving our core objectives.

SPO is committed to building a culture that will make MAS a more cohesive, integrated and effective organisation. In addition to initiatives that encourage innovation and enterprise at the workplace, we will focus this year on enhancing our performance measurement framework, employee communications and developing our leadership.

SPO created a new category of Staff Suggestion Awards for departments that implemented the highest proportion of ideas. The new award aims to improve the implementation ratio of ideas by recognising the departments that quickly followed up and implemented their suggestions. A new section in MAS' internal newsletter was also created to generate greater awareness of the best ideas in the organisation and encourage sharing of best practices.



## Statement by Directors

For the financial year ended 31 March 2006

In the opinion of the directors, the financial statements of the Authority as set out on pages 101 to 126 are drawn up so as to present fairly the state of affairs of the Authority as at 31 March 2006, the results and changes in equity of the Authority for the financial year ended on that date, and of the cash flows of the Authority for the financial year then ended.

On behalf of the Board of Directors,

**GOH CHOK TONG**  
CHAIRMAN

**HENG SWEE KEAT**  
MANAGING DIRECTOR  
21 June 2006

## MAS FY2005/2006 Financial Statement Highlights

MAS' total assets, including the Currency Fund, grew by S\$11,435 million during the year to S\$205,923 million at 31 March 2006. The Currency Fund's net external assets of S\$18,309 million at the financial year-end, exceeded the currency in circulation, providing 110% asset backing.

Total liabilities, including the currency in circulation, increased by S\$12,863 million to S\$189,451 million, due mainly to deposits of the Singapore Government with the MAS that grew by S\$10,601 million.

Compared to the previous year, the Authority posted a lower net profit of S\$1,216 million for the year as interest rates rose globally and the Singapore dollar strengthened against the major currencies. Total expenditure rose S\$255 million to S\$812 million, mostly due to higher interest and investment expenses.

In accordance with Section 3 of the Statutory Corporations (Contributions to Consolidated Fund) Act (Chapter 319A, 2000 Revised Edition), 20% of the net profit or S\$243 million, will be paid into the Singapore Government's Consolidated Fund. The remaining S\$973 million of the net profit for the year will be credited to the General Reserve Fund (S\$866 million) and the Currency Fund Reserves (S\$107 million). The MAS Board has approved a return of S\$2,402 million to the Government from the General Reserve Fund under Section 6(3) of the MAS Act (Chapter 186, 1999 Revised Edition).

## Report on the Audit of the Financial Statements of the Monetary Authority of Singapore

For the year ended 31 March 2006

The financial statements of the Monetary Authority of Singapore (MAS) and Currency Fund, set out on pages 101 to 126, 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, Currency Act (Chapter 69, 2002 Revised Edition) and 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.

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 Singapore Financial Reporting Standards. The financial statements accordingly disclose less information than would be required under those Standards.

Having regard to the 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 2006 and the financial transactions of the Authority for the year ended on that date.

CHUANG KWONG YONG  
AUDITOR-GENERAL  
SINGAPORE  
21 June 2006

## Income Statement

For the year ended 31 March	Note	General Reserve Fund		Currency Fund		Total	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Income from Foreign Operations (after transfers to/ from provisions)	4	1,634,366	3,602,204	155,527	553,114	1,789,893	4,155,318
Income from Domestic and Other Operations	5	233,318	240,918	–	5,170	233,318	246,088
Non-operating Income	6	5,820	5,029	64	1,226	5,884	6,255
<b>Total Income (after transfers to/ from provisions)</b>		<b>1,873,504</b>	<b>3,848,151</b>	<b>155,591</b>	<b>559,510</b>	<b>2,029,095</b>	<b>4,407,661</b>
Less:							
Investment, Interest and Other Expenses	7	595,246	315,897	48,590	78,361	643,836	394,258
Personnel Expenditure	8	118,241	115,053	–	–	118,241	115,053
General and Administrative Expenditure	9	34,139	33,136	–	–	34,139	33,136
Depreciation/ Amortisation		16,246	15,269	–	–	16,246	15,269
<b>Total Expenditure</b>		<b>763,872</b>	<b>479,355</b>	<b>48,590</b>	<b>78,361</b>	<b>812,462</b>	<b>557,716</b>
<b>Profit for the Year (after transfers to/ from provisions)</b>		<b>1,109,632</b>	<b>3,368,796</b>	<b>107,001</b>	<b>481,149</b>	<b>1,216,633</b>	<b>3,849,945</b>
Less:							
Contribution to Consolidated Fund	18	243,327	769,989	–	–	243,327	769,989
<b>Net Profit for the Year (after transfers to/ from provisions)</b>		<b>866,305</b>	<b>2,598,807</b>	<b>107,001</b>	<b>481,149</b>	<b>973,306</b>	<b>3,079,956</b>

The accompanying notes form an integral part of these financial statements.

## Balance Sheet

As at 31 March	Note	2006 \$'000	2005 \$'000
<b>CAPITAL AND RESERVES</b>			
Issued and Paid-up Capital	10	100,000	100,000
General Reserve Fund	11	14,737,342	15,850,593
Currency Fund Reserves	12	1,634,844	1,950,387
		16,472,186	17,900,980
<b>FINANCIAL SECTOR DEVELOPMENT FUND</b>			
	19	737,220	644,283
		17,209,406	18,545,263
Represented by:			
<b>ASSETS</b>			
Cash and Bank Balances		352,018	238,513
Singapore Government Treasury Bills and Bonds		6,908,210	6,836,411
Gold and Foreign Assets	13	197,523,738	186,556,094
Other Assets	14	920,046	631,989
Fixed Assets	15	218,925	225,333
		205,922,937	194,488,340
Less:			
<b>LIABILITIES</b>			
Currency in Circulation		16,357,365	15,533,213
Deposits of Financial Institutions	16	8,441,343	7,519,462
Provisions and Other Liabilities	17	50,126,469	49,213,677
Amounts Due to Singapore Government	18	114,525,574	104,321,008
		189,450,751	176,587,360
<b>NET ASSETS OF THE AUTHORITY</b>		16,472,186	17,900,980
<b>NET ASSETS OF FINANCIAL SECTOR DEVELOPMENT FUND</b>		737,220	644,283
		17,209,406	18,545,263

The accompanying notes form an integral part of these financial statements.

## Statement of Changes in Equity

	Issued and Paid-up Capital \$'000	General Reserve Fund \$'000	Currency Fund Reserves \$'000	Total \$'000
<b>Balance as at 1 April 2004</b>	100,000	15,498,800	1,494,524	17,093,324
Net Profit for the Year (after transfers to/from provisions)	–	2,598,807	481,149	3,079,956
Transfer of Reserves from Currency Fund	–	25,286	(25,286)	–
Return of Profit to Singapore Government	–	(2,272,300)	–	(2,272,300)
<b>Balance as at 31 March 2005</b>	100,000	15,850,593	1,950,387	17,900,980
Net Profit for the Year (after transfers to/from provisions)	–	866,305	107,001	973,306
Transfer of Reserves from Currency Fund	–	422,544	(422,544)	–
Return of Profit to Singapore Government	–	(2,402,100)	–	(2,402,100)
<b>Balance as at 31 March 2006</b>	100,000	14,737,342	1,634,844	16,472,186

The accompanying notes form an integral part of these financial statements.

## Cash Flow Statement

For the year ended 31 March	2006 \$'000	2005 \$'000
<b>Cash Flows from Operating Activities</b>		
Profit for the Year (after transfers to/from provisions)	1,216,633	3,849,945
Adjustments for:		
Depreciation/Amortisation of Fixed Assets and Other Assets	16,247	15,269
Provision for Non-recoverable GST	1,000	1,700
Profit before Working Capital Changes	1,233,880	3,866,914
(Increase)/Decrease in		
Singapore Government Treasury Bills and Bonds	(71,799)	(344,698)
Gold and Foreign Assets	(10,967,644)	(14,318,462)
Other Assets	(289,077)	(95,812)
Increase/(Decrease) in		
Deposits of Financial Institutions	921,881	759,051
Provisions and Other Liabilities	921,623	(2,694,216)
Deposits of Singapore Government	10,601,428	15,182,932
<b>Net Cash from Operating Activities</b>	2,350,292	2,355,709
<b>Cash Flows from Investing Activities</b>		
Purchase of Fixed Assets	(18,650)	(22,796)
<b>Net Cash used in Investing Activities</b>	(18,650)	(22,796)
<b>Cash Flows from Financing Activities</b>		
Increase in Currency in Circulation	824,152	972,787
Contribution to Consolidated Fund	(769,989)	(1,096,743)
Return of Profit to Singapore Government	(2,272,300)	(2,195,700)
<b>Net Cash used in Financing Activities</b>	(2,218,137)	(2,319,656)
<b>Net Increase in Cash and Bank Balances</b>	113,505	13,257
<b>Cash and Bank Balances as at beginning of the year</b>	238,513	225,256
<b>Cash and Bank Balances as at end of the year</b>	352,018	238,513

The accompanying notes form an integral part of these financial statements.

## 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.

<b>As at 31 March</b>	<b>Note</b>	<b>2006 \$'000</b>	<b>2005 \$'000</b>
The value of external assets and the Currency in Circulation are:			
Currency in Circulation	12.2	16,357,365	15,533,213
External Assets	12.2	18,309,452	17,738,619
Less:			
Provisions and Other Liabilities	12.2	317,243	255,019
Net Assets		17,992,209	17,483,600

The accompanying notes form an integral part of these financial statements.

## Notes to the Financial Statements

For the year ended 31 March 2006

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

### 1 GENERAL

The Authority is a statutory board established in Singapore under the Monetary Authority of Singapore Act (Chapter 186, 1999 Revised Edition) on 1 January 1971 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) including new or revised FRS that are relevant in the current financial year. 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 Singapore Financial Reporting Standards. The financial statements accordingly disclose less information than would be required under those 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 "Revenue". Premiums and discounts are also amortised on a straight-line basis over the remaining life of the securities, except for discounts on zero-coupon non-convertible bonds and negotiable certificates of deposit 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) The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Authority's accounting policies, having regard to the objects and functions of the Authority. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenditure during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates.

### **3.2 Accrual Accounting**

The financial statements have been prepared under the historical cost convention and on an accrual basis.

### **3.3 Recognition and Derecognition**

Purchases and sales of investments are recognised on a settlement date basis. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership.

### **3.4 Foreign Currency Translation**

- a) Items included in the financial statements are measured using the currency of the primary economic environment in which the Authority operates ("the functional currency"). The financial statements are presented in Singapore dollars, which is the Authority's functional and presentation currency.

- b) The assets, liabilities, income and expenditure in foreign currencies are translated into Singapore dollars as follows:
  - i) Assets and liabilities are translated at the closing 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 at the rates of exchange prevailing on the acquisition dates.
  - ii) Income and expenditure are translated at the rates of exchange prevailing on the transaction dates.
  - iii) All resulting exchange differences are taken to the income statement.

### **3.5 Income Recognition**

- a) Dividend income is recognised when the right to receive payment is established.
- b) Interest income is recognised on a straight-line basis. Premiums and discounts are amortised on a straight-line basis over the remaining life of the securities, except for discounts on zero-coupon non-convertible bonds and negotiable certificates of deposit that are amortised on an effective interest rate basis.
- c) Profits/losses on disposal of investments are taken to the income statement.
- d) Licence fee income is recognised on a straight-line basis over the period of the licence.

### **3.6 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.

### **3.7 Gold**

Gold is a long-term investment stated at cost. Provision for diminution in value would be made in the event of a decline other than temporary in its value.

### 3.8 Foreign Assets

Foreign assets represent the Authority's investments in a global diversified portfolio and 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.

### 3.9 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". 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". 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.

### 3.10 Financial Derivatives

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.

### 3.11 Operating Leases

- 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 statement on an accrual basis according to the terms of the agreements.
- 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.

### 3.12 Employees' Benefits

a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Authority pays fixed contributions into entities such as the Central Provident Fund, and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. The Authority's contribution to defined contribution plans are recognised in the financial year to which they relate.

b) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for annual leave as a result of services rendered by employees up to the balance sheet date.

### 3.13 Fixed Assets and Depreciation

a) Fixed assets are stated at cost less accumulated depreciation. The cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated on a straight-line basis to write off the cost less residual value of the fixed assets over their estimated useful lives as follows:

	<b>Useful lives</b>
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	3 to 5 years
Furniture, Fixtures, Motor Vehicles and Other Equipment	3 to 5 years

The residual values and useful lives are reviewed and adjusted as appropriate, at each balance sheet date.

b) Computer software costs of less than \$100,000 and other assets costing \$1,000 and below are expensed off in the year of purchase.

- c) Fixed assets are reviewed for impairment whenever there is any indication that these assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated to determine the amount of impairment loss. The impairment loss is recognised in the income statement for the period.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal, if any, is recognised in the income statement. However, the increased carrying amount of an asset due to a reversal of an impairment is recognised to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment losses been recognised for the asset in prior years.

- d) On disposal of fixed assets, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

#### **4 INCOME FROM FOREIGN OPERATIONS**

Income from foreign operations includes interest, dividends, profit/loss on disposal of investments, foreign exchange gain/loss and write-back of/additional provision for diminution in value of investment.

#### **5 INCOME FROM DOMESTIC AND OTHER OPERATIONS**

Income from domestic and other operations includes mainly interest and write-back 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, liquidated damages and management service fees.

## 7 INVESTMENT, INTEREST AND OTHER EXPENSES

Investment expenses include management fees, futures/options commissions and bank, custody and other charges arising from foreign operations. Interest and other expenses comprise mainly interest paid on borrowings and reverse repurchase agreements, printing of currency notes expenses and the cost of coin operations arising from domestic and other operations.

## 8 PERSONNEL EXPENDITURE

8.1 This includes the following:

	2006 \$'000	2005 \$'000
Salaries	97,179	93,998
Employer's Contribution to the Central Provident Fund	8,436	8,852
Training and Personnel Development	5,054	6,351
Staff Benefits	3,117	2,730
Directors' Fee	56	46

8.2 The key management personnel compensation is as follows:

	2006 \$'000	2005 \$'000
Salaries and other short-term employee benefits	13,421	12,488
Post-employment benefits	414	332
Other long-term benefits	1,045	671

## 9 GENERAL AND ADMINISTRATIVE EXPENDITURE

This includes the following:

	2006 \$'000	2005 \$'000
Information Technology Expenses	9,133	8,416
Information Services	2,895	2,845
Official Trips and Conferences	2,683	1,994
Building and Mechanical and Electrical Maintenance	2,517	2,790
Property Tax	1,378	1,676
Consultant and Other Advisers' Fees	638	461
Audit Fee	630	550
IT Operating Lease Charges	203	329
Courtesy and Entertainment	72	64

## 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).

## 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 are as follows:

	Note	2006 \$'000	2005 \$'000
<b>External Assets</b>			
Gold	13.1	267,446	272,595
Foreign Investments	13.1	18,042,006	17,466,024
		18,309,452	17,738,619
Less:			
<b>Liabilities</b>			
Active Currency in Circulation		16,052,911	15,336,282
Currency Held by the Authority		304,454	196,931
Currency in Circulation		16,357,365	15,533,213
Provisions and Other Liabilities		317,243	255,019
		16,674,608	15,788,232
<b>Currency Fund Reserves</b>		1,634,844	1,950,387

## 13 GOLD AND FOREIGN ASSETS

13.1 These comprise the following:

	General Reserve Fund		Currency Fund		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Gold</b>	75,101	76,547	267,446	272,595	342,547	349,142
<b>Foreign Investments</b>						
Securities (including Treasury bills, bonds and equities)	159,106,592	151,560,874	17,667,185	15,535,572	176,773,777	167,096,446
Bank Balances, Deposits and Negotiable Certificates of Deposit	16,618,327	14,121,369	264,376	1,600,353	16,882,703	15,721,722
Other Foreign Investments	2,350,627	1,489,230	114,774	335,737	2,465,401	1,824,967
Foreign Currency Liabilities	(543,697)	(111,471)	(4,329)	(5,638)	(548,026)	(117,109)
	177,606,950	167,136,549	18,309,452	17,738,619	195,916,402	184,875,168
<b>International Monetary Fund Assets (see note 13.2)</b>						
Reserve Tranche	1,033,415	1,094,406	–	–	1,033,415	1,094,406
Special Drawing Rights (SDRs)	471,219	476,734	–	–	471,219	476,734
Poverty Reduction and Growth Facility -Heavily Indebted Poor Countries (PRGF-HIPC)	102,702	109,786	–	–	102,702	109,786
	1,607,336	1,680,926	–	–	1,607,336	1,680,926
<b>Total Gold and Foreign Assets</b>	179,214,286	168,817,475	18,309,452	17,738,619	197,523,738	186,556,094

### 13.2 International Monetary Fund (IMF) Assets

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 participates in the Poverty Reduction and Growth Facility-Heavily Indebted Poor Countries (PRGF-HIPC). The outstanding balance as at 31 March 2006 is SDR44,045,647 [\$102.7 million] (31 March 2005: \$109.8 million), including a balance of SDR4,045,647 in the Post-Special Contingent Account-2 with IMF which was transferred to the PRGF-HIPC on 24 April 2001 as an interest-free deposit maturing at the end of 2018.

## 14 OTHER ASSETS

14.1 These comprise the following:

	Note	2006 \$'000	2005 \$'000
Loans, Deposits and Other Receivables		822,905	576,318
Shareholding in Bank for International Settlements (BIS)	14.2	96,172	54,670
Shareholding in Society for Worldwide Interbank Financial Telecommunication (SWIFT)		102	2
		919,179	630,990
Corporate Club Memberships, at cost		561	561
Less: Amount amortised		(212)	(192)
		349	369
Staff Loans			
Amount repayable within 12 months	14.3	93	144
Amount repayable after 12 months	14.3	425	486
		518	630
		920,046	631,989

14.2 The Authority's shareholding in the BIS comprises the 25% paid-up value of 4,285 (2005: 3,000) shares with a nominal value of SDR5,000 each.

14.3 Staff loans include housing, conveyance, renovation and personal computer loans. The period ranges from 3 years for personal 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 prevailing housing loan rate (subject to a floor of 5% per annum) for the portion of housing loans exceeding \$750,000.

## 15 FIXED ASSETS

	Leasehold Land \$'000	Buildings \$'000	Building Improvements and Renovation \$'000	Mechanical and Electrical Installations \$'000	Computer Equipment \$'000	Furniture, Fixtures, Motor Vehicles and Other Equipment \$'000	Work-in- Progress \$'000	Total \$'000
<b>COST</b>								
As at 1.4.2004	48,070	170,901	30,854	41,481	24,571	16,256	6,688	338,821
Additions	-	-	100	-	1,827	160	25,869	27,956
Disposals	-	-	-	-	(1,015)	(56)	-	(1,071)
As at 31.3.2005	48,070	170,901	30,954	41,481	25,383	16,360	32,557	365,706
<b>ACCUMULATED DEPRECIATION</b>								
As at 1.4.2004	6,686	44,407	8,978	36,894	17,873	11,338	-	126,176
Disposals	-	-	-	-	(996)	(56)	-	(1,052)
Depreciation charge	1,092	4,348	3,812	645	3,106	2,246	-	15,249
As at 31.3.2005	7,778	48,755	12,790	37,539	19,983	13,528	-	140,373
<b>NET BOOK VALUE</b>								
<b>AS AT 31.3.2005</b>	40,292	122,146	18,164	3,942	5,400	2,832	32,557	225,333
<b>COST</b>								
As at 1.4.2005	48,070	170,901	30,954	41,481	25,383	16,360	32,557	365,706
Additions	-	-	3,718	1	1,696	1,302	5,418	12,135
Disposals	-	-	-	-	(835)	(262)	-	(1,097)
Transfers	-	-	16,418	337	-	467	(17,222)	-
Adjustments	-	-	(2,184)	(2)	-	(128)	-	(2,314)
As at 31.3.2006	48,070	170,901	48,906	41,817	26,244	17,739	20,753	374,430
<b>ACCUMULATED DEPRECIATION</b>								
As at 1.4.2005	7,778	48,755	12,790	37,539	19,983	13,528	-	140,373
Disposals	-	-	-	-	(833)	(262)	-	(1,095)
Depreciation charge	1,091	4,349	5,630	679	3,045	2,166	-	16,960
Adjustments	-	-	(656)	-	-	(77)	-	(733)
As at 31.3.2006	8,869	53,104	17,764	38,218	22,195	15,355	-	155,505
<b>NET BOOK VALUE</b>								
<b>AS AT 31.3.2006</b>	39,201	117,797	31,142	3,599	4,049	2,384	20,753	218,925

## 16 DEPOSITS OF FINANCIAL INSTITUTIONS

	2006 \$'000	2005 \$'000
Banks	7,438,036	6,922,376
Finance Companies	197,226	163,524
Securities Companies	4,500	4,200
	7,639,762	7,090,100
International Financial Institutions	800,951	429,036
Foreign Central Banks	630	326
	8,441,343	7,519,462

Deposits from banks and finance companies in Singapore include 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).

## 17 PROVISIONS AND OTHER LIABILITIES

- 17.1 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.
- 17.2 The Authority's allocation of Special Drawing Rights in IMF amounting to \$38.4 million as at 31 March 2006 (31 March 2005: \$41.0 million) is included in "Provisions and Other Liabilities".

## 18 AMOUNTS DUE TO SINGAPORE GOVERNMENT

The amounts due to the Singapore Government comprise the following:

	2006 \$'000	2005 \$'000
Contribution to Consolidated Fund	243,327	769,989
Return of Profit to Singapore Government	2,402,100	2,272,300
Deposits of Singapore Government	111,880,147	101,278,719
	114,525,574	104,321,008

The contribution to be made to the Consolidated Fund is in accordance with the Statutory Corporations (Contributions to Consolidated Fund) Act (Chapter 319A, 2004 Revised Edition). The contribution is based on 20% (2005: 20%) of the profit for the year.

## 19 FINANCIAL SECTOR DEVELOPMENT FUND

19.1 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 Authority provides administrative and accounting support to the Fund. The Fund shall be used for the objects and purposes set out in Section 30B of the Act.

19.2 The financial statements have been prepared in accordance with the provisions of the Monetary Authority of Singapore Act (Chapter 186, 1999 Revised Edition) and the Singapore Financial Reporting Standards. The assets and liabilities of the Fund as at 31 March are as follows:

	2006 \$'000	2005 \$'000
<b>ACCUMULATED FUND</b>		
Capital Account	471,635	471,635
Accumulated Surplus	265,585	172,648
	737,220	644,283
Represented by:		
<b>ASSETS</b>		
Bank Balances and Deposits	317,152	240,464
Financial Derivatives	176	178
Financial Assets at Fair Value through Profit and Loss	458,501	421,377
Loans and Receivables	33,411	24,350
	809,240	686,369
Less:		
<b>LIABILITIES</b>		
Financial Derivatives	977	1,952
Accruals and Other Liabilities	71,043	40,134
	72,020	42,086
<b>NET ASSETS</b>	737,220	644,283

Financial derivatives and financial assets at fair value through profit and loss as at 31 March 2006 are measured at fair value; and at 31 March 2005 at the lower of cost and market value on an individual investment basis, except for forwards which are valued on a portfolio basis. Comparative financial assets and liabilities figures have been reclassified to conform to the presentation adopted in the year ended 31 March 2006.

## 19.3 The financial results of the Fund are as follows:

	2006 \$'000	2005 \$'000
Income/(Loss) from Investments		
Interest Income	11,169	9,631
Dividend Income	2,246	2,032
Profit on Disposal of Investments	3,373	4,920
Fair Value Gain through Profit and Loss	26,461	–
Additional Provision for Diminution in Value	–	(2,224)
Foreign Currency Translation (Loss)/Gain	(14,965)	2,516
	28,284	16,875
Less:		
Investment Expenses	2,651	2,054
Net Foreign Investment Income	25,633	14,821
Other Income		
Dividend on SGX Shares	60,123	35,186
Interest Income from Bank Deposits	4,947	1,339
Donations Received	–	712
	65,070	37,237
Total Net Income before Grants	90,703	52,058
Less:		
Grants	17,060	19,924
Net Surplus for the year	73,643	32,134

19.4 The notes to the assets and liabilities and financial results of the Fund are available on the Authority's website at <http://www.mas.gov.sg>.

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

The following statutory bank deposits, guarantees and Singapore Government Bonds of insurance companies, remittance licensees and capital market services licensees, are retained by the Authority under the Insurance Act (Chapter 142, 2002 Revised Edition), the Money-Changing and Remittance Businesses Act (Chapter 187, 1996 Revised Edition) and the Securities and Futures Act (Chapter 289, 2002 Revised Edition) respectively, and in the events specified, dealt with accordingly under the respective Acts.

	2006 \$'000	2005 \$'000
<b>Insurance Companies</b>		
Fixed Deposits	151,836	129,276
Banker's Guarantees	25,000	25,000
Singapore Government Bonds	4,800	6,930
	181,636	161,206
<b>Remittance Licensees</b>		
Banker's Guarantees	17,000	17,600
<b>Capital Market Services Licensees</b>		
Banker's Guarantees	63,300	30,400

## 21 COMMITMENTS

### 21.1 International Monetary Fund (IMF)

- a) The Authority has an obligation to pay \$1,053 million as at 31 March 2006 (31 March 2005: \$1,053 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 [\$793 million] as at 31 March 2006 (31 March 2005: \$848 million) in the event of a financial emergency as specified by the NAB. For the financial year ended 31 March 2006, the Authority did not grant any loan under the NAB.

## 21.2 Bank for International Settlements (BIS)

The Authority has a commitment, amounting to SDR16.1 million (\$37.5 million) as at 31 March 2006 (31 March 2005: \$28.0 million), in respect of the uncalled portion of its shareholding in the BIS.

## 21.3 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 2006, there was no request for liquidity assistance from any counterpart.

## 21.4 ASEAN Swap Arrangement (ASA)

The Authority has participated in the multilateral ASEAN Swap Arrangement (ASA) together with other ASEAN central banks and monetary authorities to provide short-term foreign exchange liquidity support for member countries that may experience balance of payments difficulties. For the financial year ended 31 March 2006, there was no request for liquidity support from any member country. The ASA was renewed for an additional two years on 17 November 2005. The Authority was appointed as agent bank for the ASA for a two-year term beginning 17 November 2004.

## 21.5 Bilateral Swap Agreement

The Authority and the Bank of Japan, acting as the agent for the Minister of Finance of Japan, renewed their bilateral swap agreement (BSA) under the Chiang Mai Initiative on 8 November 2005. The revised agreement will enable the two central banks to swap their currencies (i.e., Singapore dollars and Japanese yen) for US dollars. Under the agreement, Singapore can swap up to US\$3,000 million (\$4,854 million) while Japan can swap up to US\$1,000 million (\$1,618 million). For the financial year ended 31 March 2006, there was no request to activate the BSA.

## 21.6 Capital Commitments

Capital expenditure not provided for in the financial statements is as follows:

	2006 \$'000	2005 \$'000
Amount contracted for	6,686	13,060

## 21.7 Leases

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

	2006 \$'000	2005 \$'000
Less than 1 year	530	580
1 to 5 years	900	1,501
	1,430	2,081

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

	2006 \$'000	2005 \$'000
Less than 1 year	2,623	1,601
1 to 5 years	3,588	2,685
	6,211	4,286

## 22 FINANCIAL RISK MANAGEMENT

- 22.1 The Risk Committee, chaired by an independent Board member, assists the Board of Directors in providing oversight and guidance over the management of risks assumed by the Authority. This encompasses the management of financial risks inherent in the Authority's investment portfolios, amongst other organisational risks faced by the Authority.
- 22.2 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.

### 22.3 Market Risk

- a) Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and includes currency risk, interest rate risk and other price risk.
  - i) Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
  - ii) Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
  - iii) Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
- b) Currently, such risks are managed through regular monitoring of the market risk exposure of the Authority's investments, the diversification of the Authority's investments across different markets and currencies, and the establishment of investment risk tolerance and controls at both the aggregate and individual market/portfolio levels.

### 22.4 Credit Risk

- a) Credit risk is the risk of loss arising from a party's failure to discharge an obligation under a financial contract and includes counterparty credit risk and issuer credit risk.
- b) The Authority's exposure to counterparty credit risk arises mainly from its business relationships with counterparties and custodians. These risks are managed by dealing only with well-rated entities and assigning limits to each of them. Credit risks are also mitigated by diversifying credit exposures across entities.
- c) The Authority manages issuer credit risk by imposing minimum credit rating requirements on its investments. In addition, single issuer limits are in place to control the magnitude of credit exposures to any one issuer and mitigate the extent of loss resulting from default.

## **22.5 Liquidity Risk**

Liquidity risk is the risk that the Authority will encounter difficulty in raising funds at short notice to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Authority manages liquidity risk by investing mostly in liquid markets and instruments, and imposing minimum outstanding issue size and single issue limits on its investments.

## **23 COMPARATIVE FIGURES**

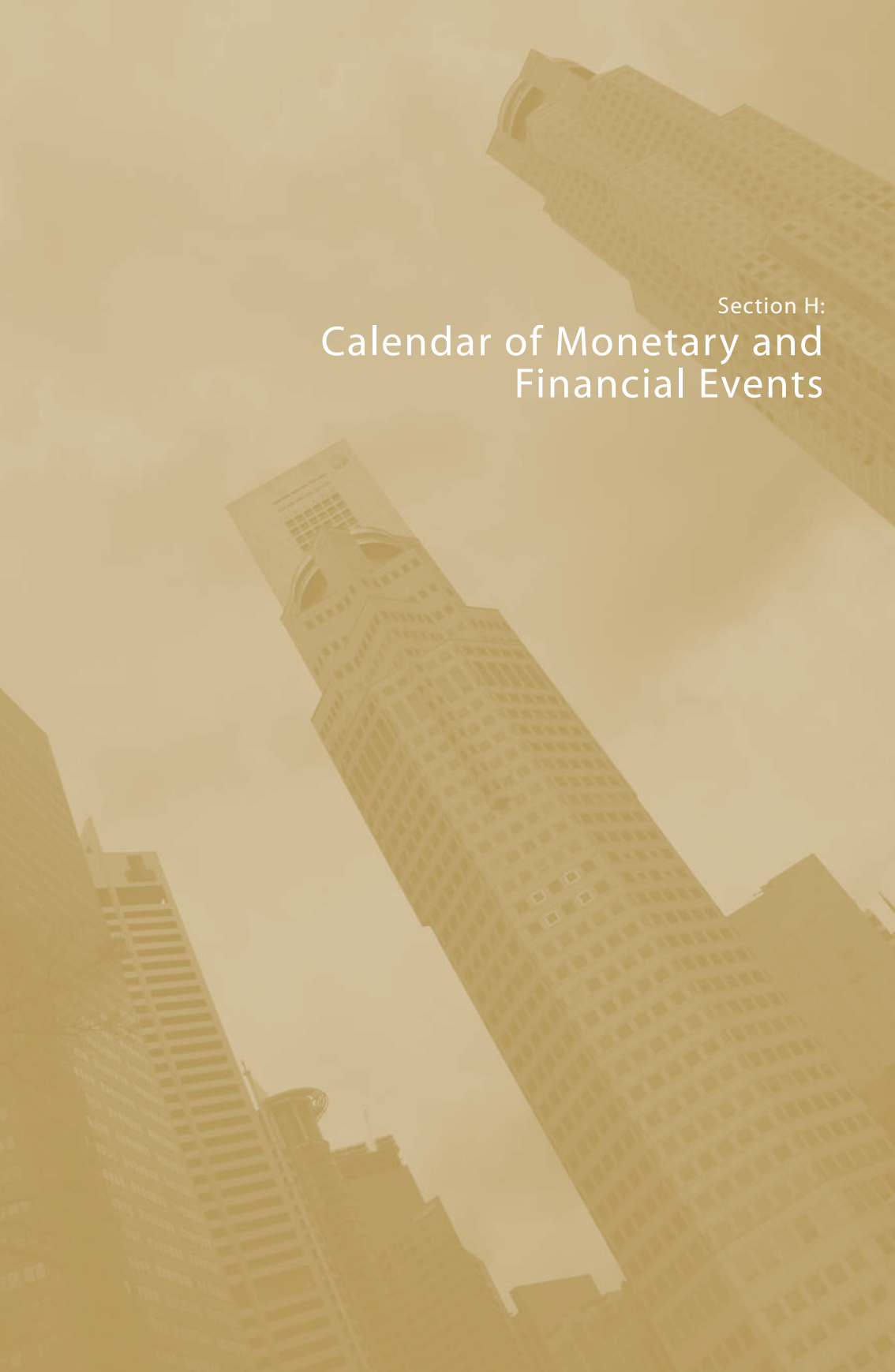
Comparative figures have been reclassified to conform with the presentation in the current year.

## **24 EVENT OCCURRING AFTER THE BALANCE SHEET DATE**

With effect from 1 June 2006, the Authority, until then a statutory board under the Ministry of Finance, has been transferred to the Prime Minister's Office.

## **25 AUTHORISATION OF FINANCIAL STATEMENTS**

The financial statements for the year ended 31 March 2006 were authorised by the Board of Directors for issuance and signed by Chairman and Managing Director on 21 June 2006.



Section H:

# Calendar of Monetary and Financial Events

## Calendar of Monetary and Financial Events

April 2005 - March 2006

### 12.04.2005

MAS issued a Monetary Policy Statement (MPS), maintaining the current policy of a modest and gradual appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S\$NEER) policy band.

### 22.04.2005

MAS released the Macroeconomic Review (MR), April 2005.

### 16.05.2005

Parliament approved further changes to the Companies Act, whereby investors and creditors no longer need to rely on par value in calculating paid-up share capital to get an accurate reading of a company's underlying value.

### 23.05.2005

MAS signed a regulatory Memorandum of Understanding (MOU) with the China Insurance Regulatory Commission (CIRC).

### 30.05.2005

The Singapore Exchange (SGX) proposed enhancements to its listing rules and processes in order to raise corporate governance standards.

### 01.06.2005

MAS released the Financial Stability Review, June 2005.

### 06.06.2005 – 10.06.2005

MAS, together with other Singapore government agencies, organised and hosted a Plenary Meeting of the Financial Action Task Force.

### 13.06.2005

MAS released a consultation paper on the draft Financial Advisers (Traded Endowment Policies and Traded Life Policies – Prescribed Investment Products) Regulations 2005.

### 01.07.2005

The Securities and Futures (Amendment) Act 2005 clarified the regulatory framework for markets and introduced a designation approach for clearing facilities. The Financial Advisers (Amendment) Act 2005 came into force as well.

### 14.07.2005

A revised voluntary code of corporate governance was unveiled by the Ministry of Finance.

### 15.07.2005

MAS released a staff paper documenting the evolution of the macromodelling work undertaken at the Economic Policy Department since 1986.

**19.07.2005**

MAS allowed banks to grant housing loans of up to 90% of the property value, up from the previous loan-to-value limit of 80%.

**19.07.2005**

Parliament approved the Central Provident Fund (Amendment) Bill which will allow private insurers to take over the administration of the MediShield Plus Scheme and the Dependents' Protection Scheme (DPS).

**30.07.2005**

MoneySENSE published findings of the first national financial literacy survey.

**05.08.2005**

Senior central bankers from Thailand, Indonesia, the Philippines and Singapore met to exchange views on monetary policy issues at the Monetary Policy Forum of the 50<sup>th</sup> Anniversary Conference of the Singapore Economic Review, co-organised by MAS and the Economic Society of Singapore.

Professor Edward Prescott, 2004 Nobel Laureate in Economics, who delivered the keynote address at the Forum, also visited MAS.

**15.08.2005**

Parliament passed new rules to counter money laundering and terrorism financing activities at remittance houses and money changers.

**16.08.2005**

MAS signed a Memorandum of Understanding with the Emirates Securities and Commodities Authority.

**23.08.2005**

MAS directed DC William Insurance Brokers Pte Ltd, a registered direct insurance broker, to cease arranging new insurance contracts and renewals of insurance contracts, for failing to maintain its net asset value at the statutory minimum of S\$150,000 and for failing to deposit insurance premiums collected from clients into its insurance broking premium account.

**31.08.2005**

MAS launched the Financial Industry Disputes Resolution Centre.

**31.08.2005**

Singapore's first exchange-traded bond fund, Asian Bond Fund (ABF) Singapore Bond Index Fund, made its debut on the SGX.

**03.09.2005**

MAS and the International Monetary Fund (IMF) jointly hosted a high-level seminar on Asian financial integration in Singapore.

**05.09.2005**

MAS released a staff paper on the macroeconomic reform agenda of developing countries in the 1990s.

**08.09.2005**

MAS issued enhanced Corporate Governance Regulations and Guidelines on Corporate Governance.

**15.09.2005**

MAS and the Securities and Exchange Commission of Thailand signed a letter of intent setting out initiatives for bilateral cooperation in capital markets.

**21.09.2005**

SGX, along with the Jakarta Stock Exchange, Bursa Malaysia, the Philippine Stock Exchange, the Stock Exchange of Thailand and global index provider FTSE Group launched a series of equity indices known as the FTSE/ASEAN series.

**29.09.2005**

MAS announced that banks in Singapore will be able to offer Murabaha financing.

**03.10.2005**

Singapore was admitted as a signatory to the International Organisation of Securities Commissions Multilateral Memorandum of Understanding, which seeks to enhance information sharing and cross-border enforcement among securities regulators.

**07.10.2005**

MAS signed an MOU with the Financial Services Authority, the United Kingdom's financial services and markets regulator.

**11.10.2005**

MAS issued a MPS, maintaining its current policy of a modest and gradual appreciation of the S\$NEER policy band, with no change in the level, slope or width of the policy band.

**15.10.2005**

The Securities and Futures (Amendment) Act 2005 introduced prospectus exemption for small offerings and enhanced prospectus disclosure requirements to raise the quality of information to investors.

**20.10.2005**

MAS revised the real estate investment trust (REIT) guidelines to strengthen the regulatory regime covering REITs.

**21.10.2005**

The MAS (Anti-Terrorism Measures) (Amendment) Regulations 2005 took effect.

**21.10.2005**

MAS released the MR, October 2005.

**08.11.2005**

MAS and the Bank of Japan, acting as an agent for the Minister of Finance of Japan, renewed their bilateral swap arrangement under the Chiang Mai Initiative. The revised agreement features a significant increase in size from US\$1 billion to US\$3 billion from Japan to Singapore and a new commitment of US\$1 billion from Singapore to Japan.

**22.11.2005**

To deal with the increasing trend in e-banking threats and internet attacks, MAS issued a circular to all banks asking them to implement two-factor authentication for all their internet banking systems.

**29.11.2005**

MAS issued Corporate Governance Regulations for Approved Exchanges, Designated Clearing Houses and Approved Holding Companies.

**30.11.2005**

MAS hosted the 2005 IMF Article IV Consultation on Singapore's economic developments and policies.

**01.12.2005**

MAS released the Financial Stability Review, December 2005.

**02.12.2005**

MAS issued a Notice on Dual Currency Investments under the Financial Advisers Act.

**06.12.2005**

Singapore and Vietnam signed a Framework Agreement on Vietnam-Singapore Connectivity, which provides for enhanced financial services co-operation between MAS and Vietnamese financial agencies.

**07.12.2005**

MAS released a consultation paper on the proposed Nomination of Beneficiaries framework.

**09.12.2005**

MAS released a staff paper analysing the welfare impact of trade reforms in ASEAN countries.

**19.12.2005**

SGX and Chicago Board of Trade established a joint venture to develop a derivatives exchange for Asian commodities called Joint Asian Derivatives Exchange (JADE).

**22.12.2005**

MAS released a staff paper on the implications for Asia of China's emergence as a manufacturing powerhouse.

**06.01.2006**

MAS issued a circular to financial institutions to provide further guidance on Business Continuity Management (BCM), focusing on flu pandemic and security threats.

**16.01.2006**

Parliament passed the Payment Systems (Oversight) Act to provide oversight of payment systems and stored value facilities in Singapore.

**01.02.2006**

The Trust Companies Act framework was operationalised.

**01.02.2006**

MAS published a list of 32 formal regulatory and enforcement actions on market conduct matters taken against companies and individuals in 2005.

**01.02.2006**

MAS commenced regulation of trust companies under the new Trust Companies Act.

**08.02.2006**

MAS announced that the Singapore Deposit Insurance Corporation Limited has been set up to administer the deposit insurance scheme and manage the deposit insurance fund.

**17.02.2006**

Prime Minister and Minister for Finance Lee Hsien Loong announced several tax measures in his budget speech to promote further growth and development of Singapore's financial sector, including measures to build up the depth and breadth of the capital markets and to further promote risk management and treasury activities in Singapore.

**21.02.2006**

SGX, FTSE and Yasaar Consultants launched the first Asian shariah-compliant index, the FTSE-SGX Asia Shariah 100 Index.

**27.02.2006**

MAS issued guidelines to provide financial institutions with guidance on sound risk management practices.

**22.03.2006**

MAS tightened the admission criteria for boutique corporate finance advisory firms.

**30.03.2006**

SGX offered an over-the-counter clearing service for oil derivatives and dry bulk forward freight agreements.

**31.03.2006**

MoneySENSE held the inaugural MoneySENSE Roadshow. The event conveyed simple financial education messages to the public through fun games and activities.



## Key Economic and Financial Statistics

	2001	2002	2003	2004	2005
<b>National Income Aggregates</b>					
Gross Domestic Product					
At Current Market Prices (S\$m)	153,392.7	158,410.3	161,546.6	181,703.6	194,359.8
Growth Rate (% change)	-4.0	3.3	2.0	12.5	7.0
At 2000 Market Prices (S\$m)	156,190.1	162,505.2	167,270.6	181,850.7	193,453.0
Growth Rate (% change)	-2.3	4.0	2.9	8.7	6.4
Gross National Income					
At Current Market Prices (S\$m)	153,418.0	154,995.2	156,940.7	177,946.8	193,441.3
Growth Rate (% change)	-3.2	1.0	1.3	13.4	8.7
<b>Labour Force</b>					
Unemployment Rate (%)	2.7	3.6	4.0	3.4	3.1
Productivity Growth (% change)	-5.6	5.5	4.2	6.9	1.9
Changes in Employment ('000)	-0.1	-22.9	-12.9	71.4	113.3
Average Monthly Earnings (% change)	2.3	0.8	1.7	3.6	3.5
Unit Labour Cost (% change)	6.4	-3.5	-1.8	-3.9	-1.5
<b>Savings and Investment</b>					
Gross National Savings (S\$m)	61,682.7	58,878.2	64,080.9	79,746.4	91,480.8
As % of GNI	40.2	38.0	40.8	44.8	47.3
Gross Domestic Capital Formation (S\$m)	40,573.7	37,594.2	25,196.3	35,293.1	36,108.2
As % of GNI	26.4	24.3	16.1	19.8	18.7
<b>Balance of Payments (S\$m)</b>					
Goods Balance	30,930.0	33,604.3	51,496.3	55,608.6	63,175.9
Exports of Goods	244,638.3	251,797.5	281,699.8	339,646.8	386,919.5
Growth Rate (% change)	-7.4	2.9	11.9	20.6	13.9
Imports of Goods	213,708.3	218,193.2	230,203.5	284,038.2	323,743.6
Growth Rate (% change)	-11.0	2.1	5.5	23.4	14.0
Services and Other Balances	-9,821.0	-12,320.3	-12,611.7	-11,155.3	-7,803.3
Current Account Balance	21,109.0	21,284.0	38,884.6	44,453.3	55,372.6
As % of GNI	13.8	13.7	24.8	25.0	28.6
Capital and Financial Account Balance	-21,339.2	-18,478.0	-29,322.1	-24,644.5	-33,718.0
Balancing Item	-1,371.7	-519.5	2,212.0	624.2	-1,257.9
Overall Balance	-1,601.9	2,286.5	11,774.5	20,433.0	20,396.7
Official Foreign Reserves	139,942.1	142,721.3	163,189.5	183,844.0	193,601.2
<b>Inflation (% change)</b>					
Consumer Price Index	1.0	-0.4	0.5	1.7	0.5
GDP Deflator	-1.8	-0.7	-0.9	3.5	0.6

	2001	2002	2003	2004	2005
<b>Monetary Aggregates (% change)</b>					
M1	8.5	-0.7	8.1	14.0	4.4
M2	5.9	-0.3	8.1	6.2	6.2
M3	4.0	-0.8	5.9	6.1	6.4
<b>Interest Rates (period average, % per annum)</b>					
Prime Lending Rate	5.67	5.34	5.31	5.30	5.30
Banks' 3-month Fixed Deposit Rate	1.52	0.87	0.50	0.40	0.44
Banks' 3-month Domestic Interbank Rate	2.00	0.95	0.73	1.02	2.22
3-month US\$ SIBOR	3.78	1.80	1.22	1.62	3.56
<b>Exchange Rates (period average, S\$ per)</b>					
US Dollar	1.7917	1.7906	1.7422	1.6903	1.6646
Pound Sterling	2.5809	2.6885	2.8467	3.0963	3.0290
Euro	1.6050	1.6909	1.9703	2.1008	2.0719
100 Japanese Yen	1.4751	1.4309	1.5044	1.5634	1.5138
Malaysian Ringgit	0.4715	0.4712	0.4585	0.4448	0.4395
<b>Banking and Finance</b>					
Commercial Banks' Assets/ Liabilities (S\$m)	373,747.9	353,115.0	362,528.4	398,236.7	425,220.4
Growth Rate (% change)	11.3	-5.5	2.7	9.8	6.8
Finance Companies' Assets/ Liabilities (S\$m)	14,961.1	13,722.3	7,902.7	8,308.5	9,444.9
Growth Rate (% change)	-24.4	-8.3	-42.4	5.1	13.7
Merchant Banks' Assets/ Liabilities (S\$m)	56,398.4	52,564.3	58,203.4	59,244.8	64,845.1
Growth Rate (% change)	-5.8	-6.8	10.7	1.8	9.5
Asian Currency Units' Assets/ Liabilities (US\$m)	465,472.8	482,612.3	509,145.9	581,562.5	611,376.0
Growth Rate (% change)	-3.4	3.7	5.5	14.2	5.1
<b>Insurance</b>					
Life Insurers' Assets/Liabilities (S\$m)	48,714.2	54,658.7	63,865.6	72,479.9	89,330.2
Growth Rate (% change)	37.6	12.2	16.8	13.5	23.2
General Insurers' Assets/Liabilities (S\$m)	10,982.5	12,130.3	13,540.9	14,073.0	13,098.2
Growth Rate (% change)	9.7	10.5	11.6	3.9	-6.9
<b>CPF</b>					
Excess of Contributions Over Withdrawals (S\$m)	-566.5	1,304.1	4,001.7	4,959.0	4,236.3
<b>Domestic Capital Market</b>					
Net Funds Raised in Domestic Capital Market (S\$m)	36,408.5	29,014.3	35,036.9	42,652.1	44,246.4



## A.1 Monetary Statistics : Money Supply

END OF PERIOD	S\$ MILLION									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Money Supply (M1)</b>	27,510.9	27,239.1	31,109.1	33,261.9	36,082.9	35,828.2	38,722.6	44,162.3	46,085.9	48,303.2
Currency in active circulation <sup>1</sup>	10,703.8	10,146.2	11,315.4	11,289.2	11,867.8	12,360.3	12,838.4	13,694.0	14,584.5	14,732.0
Demand deposits	16,807.1	17,092.9	19,793.7	21,972.7	24,215.1	23,467.9	25,884.2	30,468.3	31,501.4	33,571.2
Quasi-money	95,932.5	133,544.8	143,365.3	137,635.9	144,825.6	144,479.9	156,105.9	162,815.6	173,712.4	179,191.3
Fixed deposits	72,704.6	81,294.6	85,988.3	83,043.8	83,308.2	81,597.5	89,706.3	93,360.2	107,714.3	113,223.6
Savings and other deposits	22,594.4	51,673.7	56,828.0	54,276.8	61,313.5	62,656.8	66,111.3	68,940.4	65,588.9	65,623.1
S\$NCDs	633.5	576.5	549.0	315.3	203.9	225.6	288.3	515.0	409.2	344.6
<b>Money Supply (M2)</b>	123,443.4	160,783.9	174,474.4	170,897.8	180,908.5	180,308.1	194,828.5	206,977.9	219,798.3	227,494.5
Net deposits with non-bank financial institutions	37,322.6	12,797.1 <sup>2</sup>	11,709.3	12,014.9	9,408.4	8,507.3	5,215.8	5,204.8	5,901.3	6,095.8
Finance companies	13,969.3	12,797.1	11,709.3	12,014.9	9,408.4	8,507.3	5,215.8	5,204.8	5,901.3	6,095.8
POSBank	23,353.3	-	-	-	-	-	-	-	-	-
<b>Money Supply (M3)</b>	160,766.0	173,581.0	186,183.7	182,912.7	190,316.9	188,815.4	200,044.3	212,182.7	225,699.6	233,590.3

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 Reserves<sup>1</sup>

END OF PERIOD	S\$ MILLION										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	MARCH 2006	
<b>Total Foreign Reserves</b>	119,616.8	124,584.4	128,457.0	139,260.0	139,942.1	142,721.3	163,189.5	183,844.0	193,601.2	197,428.4	
Gold & Foreign Exchange	118,764.7	123,570.3	127,161.0	137,974.9	138,548.7	141,292.9	161,533.3	182,166.1	191,939.3	195,782.0	
Reserve Position in the IMF	564.3	614.5	908.5	868.0	919.8	925.2	1,092.1	1,092.4	1,079.4	1,072.5	
Special Drawing Rights (SDRs)	287.8	399.6	387.5	417.1	473.6	503.2	564.1	585.5	582.5	573.9	
<b>Total Foreign Reserves</b> (US\$ Million)	71,391.7	75,028.2	77,176.0	80,361.9	75,800.1	82,276.4	96,324.0	112,807.5	116,646.2	122,287.7	

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	S\$ PER FOREIGN CURRENCY										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	1 <sup>st</sup> QUARTER	
											2006
US Dollar	1.4848	1.6736	1.6949	1.7239	1.7917	1.7906	1.7422	1.6903	1.6646		1.6280
100 Japanese Yen	1.2277	1.2823	1.4944	1.6001	1.4751	1.4309	1.5044	1.5634	1.5138		1.3940
Euro	-	-	1.8093	1.5930	1.6050	1.6909	1.9703	2.1008	2.0719		1.9595
Pound Sterling	2.4334	2.7722	2.7427	2.6134	2.5809	2.6885	2.8467	3.0963	3.0290		2.8546
Swiss Franc	1.0245	1.1563	1.1306	1.0223	1.0630	1.1528	1.2957	1.3609	1.3383		1.2570
Australian Dollar	1.1024	1.0518	1.0933	1.0031	0.9274	0.9737	1.1355	1.2443	1.2686		1.2043
100 Korean Won	0.1587	0.1204	0.1426	0.1526	0.1389	0.1435	0.1463	0.1477	0.1625		0.1667
100 New Taiwan Dollar	5.1752	5.0004	5.2544	5.5231	5.3031	5.1801	5.0639	5.0584	5.1768		5.0409
Hong Kong Dollar	0.1918	0.2160	0.2184	0.2212	0.2297	0.2296	0.2237	0.2170	0.2140		0.2099
Malaysian Ringgit	0.5353	0.4271	0.4460	0.4537	0.4715	0.4712	0.4585	0.4448	0.4395		0.4367
Thai Baht	0.0488	0.0409	0.0448	0.0430	0.0403	0.0416	0.0420	0.0420	0.0414		0.0414
100 Indonesian Rupiah	0.0536	0.0173	0.0218	0.0207	0.0176	0.0193	0.0203	0.0189	0.0172		0.0175

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

## A.4 Monetary Statistics : Domestic Interest Rates

PERIOD AVERAGE	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	PER CENT PER ANNUM 1 <sup>ST</sup> QUARTER									
<b>Banks<sup>1</sup></b>										
Prime Lending Rate	6.30	7.49	5.80	5.83	5.67	5.34	5.31	5.30	5.30	5.30
Fixed Deposit Rate										
3-month	3.47	4.60	1.68	1.71	1.52	0.87	0.50	0.40	0.44	0.57
6-month	3.72	4.66	2.04	2.06	1.85	1.14	0.67	0.51	0.55	0.66
12-month	4.02	4.82	2.46	2.45	2.14	1.39	0.88	0.71	0.76	0.87
Savings Deposit Rate	2.75	3.11	1.36	1.30	1.13	0.56	0.28	0.23	0.24	0.30
<b>Finance Companies<sup>2</sup></b>										
Fixed Deposit Rate										
3-month	3.32	4.61	1.77	1.85	1.54	0.98	0.52	0.48	0.65	0.79
6-month	3.62	4.73	2.23	2.31	1.78	1.19	0.75	0.69	0.82	1.02
12-month	4.03	4.94	2.73	2.82	2.14	1.42	0.99	0.99	1.23	1.48
Savings Deposit Rate	2.55	3.04	1.30	1.31	1.14	0.69	0.36	0.31	0.31	0.34
<b>Interbank Rate<sup>3</sup></b>										
1-month	4.10	5.02	1.80	2.45	1.93	0.87	0.68	0.94	2.17	3.33
3-month	4.09	5.20	2.12	2.57	2.00	0.95	0.73	1.02	2.22	3.38
<b>US\$ SIBOR</b>										
1-month	5.64	5.57	5.26	6.41	3.88	1.77	1.21	1.50	3.38	4.61
3-month	5.74	5.56	5.41	6.53	3.78	1.80	1.22	1.62	3.56	4.76
6-month	5.83	5.54	5.52	6.65	3.74	1.89	1.23	1.79	3.77	4.90

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	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Banks</b>	154	142	140	133	120	117	115	111	108
Local <sup>1</sup>	12	9	8	8	6	5	5	5	5
Foreign	142	133	132	125	114	112	110	106	103
Full banks	22	22	23	23	22	22	23	24	24
Wholesale banks <sup>2</sup>	13	13	16	20	33	31	37	35	34
Offshore banks	107	98	93	82	59	59	50	47	45
(Banking offices including head offices and main offices)	(474)	(561)	(538)	(485)	(444)	(404)	(398)	(396)	(396)
<b>Asian Currency Units</b>	226	205	195	184	169	164	160	153	151
Banks	146	135	133	127	115	112	110	106	104
Merchant banks	80	70	62	57	54	52	50	47	47
<b>Finance Companies</b>	19	15	14	11	7	5	3	3	3
(Finance companies' offices including head offices)	(119)	(109)	(101)	(79)	(65)	(59)	(39)	(39)	(39)
<b>Merchant Banks</b>	80	70	63	58	55	53	51	48	48
<b>Insurance Companies</b>	164	159	153	151	144	143 <sup>3</sup>	139	140	144
Direct insurers	61	59	55	54	57	57	57	55	56
Professional reinsurers	51	49	47	46	36	36	52	28	28
Captive insurers	52	51	51	51	51	50	30	57	60
<b>Insurance Brokers</b>	-	-	-	88	90	57 <sup>4</sup>	60	61	63

## B.1 Financial Structure: Number of Financial Institutions in Singapore (continue)

END-MARCH	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Representative Offices</b>	70	69	66	62	55	51	49	45	41
Banks	68	69	66	62	55	51	49	45	41
Merchant banks	2	-	-	-	-	-	-	-	-
<b>International Money Brokers</b>	9	9	9	8	8	8	8	10	9
<b>Licensed Financial Advisers</b> <sup>5</sup>	-	-	-	-	-	49	52	56	61
<b>Capital Markets Services Licensees</b> <sup>6</sup>									
<b>Dealing in Securities, of which:</b>	89	78	77	81	79	59	60	65	72
Clearing Member Companies of SGX-ST	32	30	31	35	27	26	22	22	24
Non-Clearing Member Companies of SGX-ST	0	0	0	0	0	1	1	1	1
Non-Member Companies of SGX-ST	57	48	46	46	52	32	37	42	47
<b>Trading in Futures Contracts, of which:</b>	46	49	45	50	39	36	31	34	38
Clearing Member Companies of SGX-DT	35	32	30	31	27	25	21	22	21
Non-Clearing Member Companies of SGX-DT	11	13	11	10	6	6	6	6	6
Non-Member Companies of SGX-DT	-	-	-	-	-	-	-	2	7
Commercial Associate Member Companies of SGX-DT	-	4	4	9	6	5	4	4	4
<b>Advising on Corporate Finance</b>	156	148	154	167	167	22	26	30	33
<b>Fund Management</b>						90	94	91	92
<b>Leveraged Foreign Exchange Trading</b>						11	10	11	13
<b>Securities Financing</b>						13	13	15	16
<b>Providing Custodial Services for Securities</b>						26	26	27	31

1 All local banks are full banks.

2 Previously known as restricted banks.

3 Figure includes 20 direct life insurers.

4 Figure excludes 26 direct life insurers.

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

6 In view of the single licensing framework under Securities and Futures Act (SFA) which was implemented from 1 October 2002, the data before and after 2 October 2002 are not directly comparable. 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 licence, investment adviser's licence, futures broker's licence, futures trading adviser's licence, and futures pool operator's licence.

7 This shows the number of the 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 &amp; Liabilities

END OF PERIOD	S\$ MILLION									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Assets</b>										
Cash in hand	802.2	998.2	2,556.7	1,488.9	1,234.3	1,176.1	1,210.2	1,400.7	1,349.4	1,108.2
Balances with MAS	7,702.2	5,430.8	7,524.3	5,690.9	6,970.8	6,462.8	6,592.0	6,775.0	7,466.1	7,327.9
SSNCDs held	212.5	175.0	162.5	149.7	167.3	34.1	163.7	300.5	267.6	300.8
Amounts due from banks	99,935.3	105,151.1	109,650.2	116,475.7	114,250.7	96,807.5	97,549.3	113,856.1	133,503.0	151,700.0
In Singapore	30,220.6	38,215.6	29,458.6	42,535.9	27,069.9	17,434.6	21,357.0	32,615.8	39,004.2	43,597.3
ACUs	34,517.1	27,994.4	34,760.9	26,614.2	39,024.1	41,871.2	39,856.0	42,998.9	51,020.9	59,870.4
Outside Singapore	35,197.5	38,941.1	45,430.7	47,325.6	48,156.7	37,501.7	36,336.3	38,241.4	43,477.9	48,232.2
Investments	26,405.9	35,238.1	40,260.7	45,463.5	70,847.4	61,537.8	64,133.2	68,217.7	70,228.9	70,680.8
In Singapore	25,078.3	33,857.5	37,595.1	42,072.6	66,988.8	55,918.2	58,248.5	60,176.9	60,626.7	61,539.7
Government securities	18,883.4	26,477.3	30,948.5	33,718.9	40,511.7	42,621.2	45,555.8	45,057.5	43,750.4	44,174.7
Others	6,194.9	7,380.3	6,646.6	8,353.8	26,477.1	13,297.0	12,692.7	15,119.3	16,876.3	17,365.0
Outside Singapore	1,327.5	1,380.5	2,665.6	3,390.8	3,858.5	5,619.7	5,884.7	8,040.8	9,602.2	9,141.2
Loans and advances to non-bank customers of which bills financing	143,243.8	151,640.9	147,185.5	154,042.1	162,920.8	161,283.4	171,443.5	179,088.6	183,109.4	182,623.1
	9,363.5	4,924.5	5,118.1	3,584.3	3,636.6	3,047.7	3,889.2	5,544.8	5,308.1	5,633.4
Fixed and other assets	11,270.6	10,146.6	13,705.5	12,505.3	17,356.6	25,813.3	21,436.6	28,598.1	29,296.0	31,089.1

## C.1 Commercial Banks : Assets &amp; Liabilities (continue)

END OF PERIOD	S\$ MILLION									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	MARCH 2006
<b>Liabilities</b>										
Paid-up capital and reserves	23,709.6	23,323.8	25,318.6	24,492.1	36,855.7	30,560.9	32,724.5	35,933.0	38,159.6	40,480.9
Deposits of non-bank customers	124,143.0	162,310.3	174,454.1	171,316.4	182,551.4	180,138.4	194,231.5	206,176.3	223,718.0	231,428.4
S\$NCDs issued	846.0	751.5	711.5	465.0	371.3	259.8	452.0	815.5	676.7	645.4
Amounts due to banks	125,856.1	104,107.8	98,182.8	118,034.2	118,349.8	106,060.1	103,559.0	114,953.7	120,849.1	128,489.1
In Singapore	31,134.2	29,769.5	23,124.0	34,334.2	28,544.0	18,218.6	15,201.7	18,815.1	23,010.9	23,597.8
ACUs	50,049.6	43,034.2	44,623.1	53,662.4	61,177.4	61,777.0	63,191.4	71,774.1	67,842.2	71,108.0
Outside Singapore	44,672.3	31,304.0	30,435.7	30,037.5	28,628.3	26,064.5	25,165.9	24,364.5	29,996.0	33,783.3
Bills payable	552.5	478.8	754.1	598.4	516.7	606.1	578.2	521.1	620.8	877.0
Other liabilities	14,465.2	17,808.4	21,624.3	20,909.9	35,103.1	35,489.8	30,983.3	39,837.2	41,196.2	42,909.2
<b>Total Assets/Liabilities</b>	<b>289,572.3</b>	<b>308,780.6</b>	<b>321,045.4</b>	<b>335,816.0</b>	<b>373,747.9</b>	<b>353,115.0</b>	<b>362,528.4</b>	<b>398,236.7</b>	<b>425,220.4</b>	<b>444,829.9</b>

## C.2 Commercial Banks : Loans and Advances by Industrial Classification

END OF PERIOD	S\$ MILLION									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	MARCH 2006
Agriculture, mining and quarrying	187.6	223.6	191.4	178.7	113.0	162.1	305.5	212.5	293.0	248.9
Manufacturing	12,472.0	12,249.2	11,574.7	11,620.7	11,964.7	10,819.2	10,595.5	9,796.9	10,108.0	10,309.0
Building and construction	26,234.8	25,580.0	23,444.0	25,644.7	26,578.4	23,863.0	24,029.5	23,548.8	23,031.1	22,810.9
Housing loans	22,934.8	31,788.5	35,154.1	38,562.5	41,733.2	44,623.6	52,155.4	58,857.7	61,888.6	61,988.1
General commerce	26,349.5	21,549.1	19,949.3	18,967.5	17,693.0	16,887.2	16,857.3	18,893.8	19,885.2	19,383.4
Transport, storage and communication	3,575.7	4,459.7	3,743.3	4,124.2	6,148.9	4,554.7	4,133.8	3,956.8	4,327.0	4,598.0
Non-bank financial institutions	20,997.4	22,724.1	21,062.8	20,864.7	21,569.2	22,926.8	21,633.8	22,136.9	21,993.1	22,669.4
Professional and private individuals	22,775.4	21,766.1	21,594.2	24,722.1	27,740.9	27,729.5	32,783.9	32,601.3	32,548.2	32,015.8
Others	7,716.5	11,300.6	10,471.7	9,356.9	9,379.4	9,717.3	8,948.8	9,083.9	9,035.2	8,599.7
<b>Total</b>	<b>143,243.8</b>	<b>151,640.9</b>	<b>147,185.5</b>	<b>154,042.1</b>	<b>162,920.8</b>	<b>161,283.4</b>	<b>171,443.5</b>	<b>179,088.6</b>	<b>183,109.4</b>	<b>182,623.1</b>

## C.3 Commercial Banks : Types of Loans and Advances to Non-Bank Customers

END OF PERIOD	S\$ MILLION									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	MARCH 2006
Overdrafts	36,063.2	32,680.6	28,302.8	27,020.7	23,880.4	20,001.1	16,829.1	13,562.9	11,790.0	11,606.2
Bills discounting	9,363.5	4,924.5	5,118.1	3,584.3	3,636.6	3,047.7	3,889.2	5,544.8	5,308.1	5,633.4
Trust receipts	7,011.8	5,026.7	4,589.3	4,857.2	4,435.4	4,179.1	3,995.2	4,649.5	5,095.7	5,004.7
Term loans and others	90,805.3	109,009.0	109,175.1	118,580.0	130,968.3	134,055.6	146,730.0	155,331.4	160,915.6	160,378.8
<b>Total</b>	143,243.8	151,640.9	147,185.5	154,042.1	162,920.8	161,283.4	171,443.5	179,088.6	183,109.4	182,623.1

## C.4 Commercial Banks : Types of Deposits Including S\$NCDs

END OF PERIOD	S\$ MILLION										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	MARCH 2006	
Demand	18,297.4	18,427.1	21,676.0	23,650.0	25,966.6	25,178.1	27,902.2	32,775.4	35,140.1	36,618.6	
Fixed	80,089.1	88,658.1	92,118.7	89,774.6	90,845.1	87,879.2	95,729.2	99,829.5	118,496.4	124,753.9	
Savings	25,439.4	54,862.4	60,271.8	57,477.4	65,331.1	66,690.8	69,861.3	72,938.3	69,306.2	69,080.7	
S\$NCDs (net)	633.5	576.5	549.0	315.3	203.9	225.6	288.3	515.0	409.2	344.6	
Others	317.2	362.7	387.6	414.4	408.7	390.4	738.8	633.0	775.4	975.2	
<b>Total</b>	124,776.5	162,886.8	175,003.1	171,631.7	182,755.3	180,364.0	194,519.8	206,691.2	224,127.3	231,773.0	

## C.5 Commercial Banks : Liquidity Position

PERIOD AVERAGE	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	1 <sup>ST</sup> QUARTER									
\$\$ MILLION										
Liabilities Base	122,777.4	134,282.4	162,193.4	168,185.3	177,264.5	185,568.9	193,473.1	202,741.5	216,346.6	226,060.0
Liquid Assets										
(a) Minimum Requirement	29,466.6	30,125.4	34,060.6	35,318.9	37,225.5	38,969.5	40,629.4	36,091.2	38,238.1	39,965.3
(b) Total Actual Liquid Assets	30,556.7	31,968.6	37,419.2	39,518.6	44,342.4	46,845.5	50,375.9	52,340.0	52,889.6	49,608.7
(c) Free Liquid Assets (b) - (a)	1,090.2	1,843.2	3,358.6	4,199.7	7,116.9	7,876.0	9,746.5	16,248.8	14,651.5	9,643.4
Liquidity Ratios	24.9	23.9	23.1	23.5	25.0	25.2	26.0	25.8	24.4	21.9

## D.1 Finance Companies : Assets &amp; Liabilities

END OF PERIOD	S\$ MILLION									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	MARCH 2006
<b>Assets</b>										
Reserves with MAS	871.8	401.7	357.5	368.5	286.1	252.8	155.3	160.5	187.6	197.2
Deposits with banks and other financial institutions	1,904.2	2,721.8	2,729.7	1,664.5	1,241.9	1,345.7	312.3	460.7	455.1	457.4
Banks	1,628.1	2,408.1	2,654.4	1,635.2	1,218.0	1,345.7	312.3	453.3	455.1	449.5
Other institutions	276.1	313.7	75.4	29.4	23.9	0.0	0.0	7.4	0.0	7.9
Loans and advances	17,900.2	16,779.4	15,636.4	15,790.9	11,983.0	10,815.9	6,657.2	6,878.9	7,869.7	7,959.5
Housing loans	3,721.7	3,821.2	3,500.1	2,768.0	1,884.7	1,547.9	756.3	952.4	1,583.3	1,681.1
Hire purchase	4,958.8	4,331.6	4,413.3	5,700.1	4,394.8	4,034.4	2,459.0	2,364.8	2,467.6	2,401.9
Lease finance	6.1	2.4	1.4	1.1	0.8	0.3	0.0	0.0	0.0	0.0
Others	9,213.7	8,624.2	7,721.6	7,321.8	5,702.7	5,233.3	3,441.9	3,561.7	3,818.7	3,876.5
Securities and equities	1,201.6	1,705.2	1,691.5	1,680.4	1,257.0	1,115.8	687.4	709.4	827.3	873.5
Other assets	332.8	333.8	327.3	296.7	193.1	192.0	90.6	98.9	105.2	102.7
<b>Liabilities</b>										
Capital and reserves	3,268.5	3,371.2	3,408.1	3,164.9	2,425.5	2,111.2	1,406.3	1,442.8	1,658.4	1,685.7
Deposits	15,611.8	15,344.6	14,321.9	13,645.9	10,641.4	9,855.7	5,530.2	5,667.6	6,365.5	6,559.6
Fixed	15,124.9	14,882.9	13,875.5	13,425.4	10,431.4	9,612.0	5,373.4	5,514.1	6,240.4	6,442.8
Savings	392.7	341.7	344.3	194.6	202.4	222.6	149.7	145.8	121.6	114.3
Others	94.2	120.0	102.1	26.0	7.6	21.1	7.1	7.7	3.5	2.4
Borrowings	1,398.0	1,180.4	899.2	998.5	254.3	254.9	119.9	321.3	685.4	624.1
Other liabilities	1,932.2	2,045.6	2,113.2	1,991.8	1,639.9	1,500.5	846.4	876.8	735.7	721.1
<b>Total Assets/Liabilities</b>	<b>22,210.6</b>	<b>21,941.9</b>	<b>20,742.4</b>	<b>19,801.1</b>	<b>14,961.1</b>	<b>13,722.3</b>	<b>7,902.7</b>	<b>8,308.5</b>	<b>9,444.9</b>	<b>9,590.4</b>

E.1 Merchant Banks : Consolidated Assets and Liabilities<sup>1</sup>

END OF PERIOD	S\$ MILLION									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	MARCH 2006
<b>Assets</b>										
Amounts due from banks	28,222.0	27,632.0	27,337.8	30,386.1	25,703.8	22,156.6	22,291.5	25,718.7	24,548.3	24,437.2
In Singapore	1,221.3	1,771.2	1,704.7	1,554.7	1,427.1	891.2	1,481.6	1,394.9	665.3	765.1
Outside Singapore <sup>2</sup>	27,000.7	25,860.8	25,633.1	28,831.4	24,276.7	21,265.4	20,809.9	24,323.8	23,883.0	23,672.1
Loans and advances to non-bank customers	21,777.5	19,321.2	20,846.5	21,833.8	20,309.8	19,674.8	24,229.0	18,693.0	26,675.0	29,642.3
Securities and equities	14,339.0	9,662.9	6,934.8	6,263.4	9,354.9	9,511.3	10,109.9	11,991.1	11,209.1	13,565.7
Other assets	2,322.8	3,929.2	1,880.5	1,387.9	1,029.9	1,221.6	1,573.0	2,842.0	2,412.7	3,070.6
<b>Liabilities</b>										
Capital and reserves	8,193.7	7,597.8	8,008.6	8,296.2	8,094.0	7,742.7	8,232.6	7,636.0	8,374.1	8,578.5
Amounts due to banks	41,111.3	30,363.7	26,501.8	26,943.4	27,617.9	24,858.7	29,304.7	27,320.4	29,471.5	33,627.8
In Singapore	974.2	1,083.2	649.0	671.8	895.1	501.3	724.3	1,225.9	904.5	1,352.1
Outside Singapore <sup>2</sup>	40,137.1	29,280.5	25,852.8	26,271.6	26,722.8	24,357.4	28,580.4	26,094.5	28,567.1	32,275.7
Borrowings from non-bank customers	13,814.9	17,751.6	18,914.6	21,587.0	17,861.3	17,729.8	18,207.0	20,406.1	23,036.8	23,918.5
Other liabilities	3,541.2	4,832.3	3,574.6	3,044.7	2,825.2	2,233.1	2,459.1	3,882.4	3,962.7	4,591.1
<b>Total Assets/Liabilities</b>	<b>66,661.2</b>	<b>60,545.4</b>	<b>56,999.6</b>	<b>59,871.2</b>	<b>56,398.4</b>	<b>52,564.3</b>	<b>58,203.4</b>	<b>59,244.8</b>	<b>64,845.1</b>	<b>70,715.8</b>

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 Operations<sup>1</sup>

	S\$ MILLION									
END OF PERIOD	1997	1998	1999	2000	2001	2002	2003	2004	2005	MARCH 2006
<b>Assets</b>										
Amounts due from banks	6,553.5	6,753.9	6,454.7	5,958.0	5,743.8	5,264.3	5,985.7	4,970.6	4,034.7	4,427.3
In Singapore	1,215.8	1,769.2	1,702.7	1,545.1	1,425.5	881.9	1,479.4	1,393.0	664.2	764.0
Outside Singapore <sup>2</sup>	5,337.7	4,984.7	4,752.0	4,412.9	4,318.3	4,382.4	4,506.3	3,577.6	3,370.5	3,663.3
Loans and advances to non-bank customers	1,089.8	834.2	675.8	791.8	801.1	809.0	768.2	688.4	685.2	631.3
Securities and equities	513.2	430.0	449.8	485.1	609.2	477.3	350.7	745.1	1,137.6	1,372.6
Other assets	555.8	574.5	319.8	303.8	249.5	219.0	273.0	326.9	299.8	330.7
<b>Liabilities</b>										
Capital and reserves	4,889.6	5,254.6	4,874.0	4,802.7	4,734.5	4,517.2	4,700.9	3,529.3	2,613.4	2,874.9
Amounts due to banks	2,046.5	1,855.6	2,053.7	1,677.3	1,659.3	1,529.8	1,771.5	2,301.8	2,842.4	3,109.4
In Singapore	284.6	183.3	411.3	395.5	658.3	501.1	724.0	831.0	904.5	1,352.1
Outside Singapore <sup>2</sup>	1,761.9	1,672.3	1,642.4	1,281.8	1,001.0	1,028.7	1,047.5	1,470.8	1,937.9	1,757.4
Borrowings from non-bank customers	1,082.0	786.0	516.3	565.5	562.7	336.5	446.0	435.8	237.8	275.7
Other liabilities	694.2	696.5	456.1	493.1	447.1	386.3	459.0	464.0	463.7	501.9
<b>Total Assets/Liabilities</b>	<b>8,712.3</b>	<b>8,592.6</b>	<b>7,900.1</b>	<b>7,538.6</b>	<b>7,403.6</b>	<b>6,769.7</b>	<b>7,377.5</b>	<b>6,731.0</b>	<b>6,157.3</b>	<b>6,761.9</b>

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

<sup>2</sup> Including Asian Currency Units.

## F.1 Insurance Industry : Assets and Premiums

	\$\$ MILLION									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	APRIL 2006*
<b>Total Assets of Insurance Industry (End Period)</b>	28,165.9	31,378.1	38,858.7	45,409.8	59,696.7	66,789.0	77,406.4	86,552.9	102,428.4	102,857.6
Direct Insurers	24,628.1	27,823.4	34,918.8	41,058.8	54,710.3	61,537.0	71,323.8	79,822.9	94,324.6	96,648.0
Professional Reinsurers	2,581.0	2,710.7	3,081.2	3,504.3	4,208.7	4,361.4	4,697.4	5,202.7	6,070.0	6,209.6
Captive Insurers	956.8	844.0	858.7	846.7	777.7	890.5	1,385.2	1,527.3	2,033.8	na
<b>General Business: Gross Premiums</b>										
Total General Business	2,914.9	2,670.9	2,752.6	3,269.6	3,821.2	4,756.4	4,996.2	4,902.6	5,103.3	1,230.2
Domestic Business	1,645.4	1,527.9	1,479.2	1,622.2	1,800.5	2,230.9	2,344.2	2,151.3	2,289.9	630.4
Offshore Business	1,269.5	1,143.0	1,273.4	1,647.4	2,020.7	2,525.5	2,652.0	2,751.3	2,813.4	599.8
<b>Life Business: Premiums</b>										
Premiums in Force (End Period)	4,202.5	4,468.6	4,680.5	5,071.6	5,221.9	5,417.9	5,547.9	5,869.6	6,839.8	6,932.5
New Business Premiums										
Annual Premium Policies	837.1	540.5	552.6	705.6	455.1	686.7	499.8	549.8	982.9	164.7
Single Premium Policies										
Life Insurance	1,288.1	529.3	1,785.1	3,337.7	8,961.6	5,948.3	4,613.4	6,077.0	5,354.3	1,734.6
Annuity	120.8	103.7	174.3	266.2	450.2	602.6	231.6	237.7	263.1	49.8

\* Gross Premium for April 2006 for total general business does not include general captives.

## G.1 Non-Bank Financial Institutions : Central Provident Fund Board

END OF PERIOD	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006**
	S\$ MILLION 1 <sup>ST</sup> QUARTER									
<b>Excess of Contributions Over Withdrawals (During Period)</b>	4,398.3	2,370.5	14.7	-478.4	-566.5	1,304.1	4,001.7	4,959.0	4,236.3	1,017.1
Members' Contributions	15,873.8	15,999.8	12,826.6	14,092.8	18,322.3	16,165.7	15,870.0	15,320.1	16,105.1	4,598.9
Withdrawals *	11,475.5	13,629.3	12,811.9	14,571.2	18,888.8	14,861.6	11,868.3	10,361.1	11,868.8	3,581.8
Approved Housing Schemes <sup>1</sup>	5,786.7	7,834.7	9,528.4	8,655.1	8,262.5	8,208.1	6,909.8	6,517.0	7,364.3	2,210.7
Under Section 15 <sup>2</sup>	1,548.2	1,847.0	1,671.1	1,679.9	2,226.1	2,026.8	2,384.8	2,272.6	2,440.3	635.7
Medical Schemes <sup>3</sup>	420.8	441.0	445.0	518.1	531.6	763.2	722.0	779.7	903.5	167.7
Others	3,719.8	3,506.6	1,167.4	3,718.1	7,868.6	3,863.5	1,851.7	791.8	1,160.7	567.7
<b>Interest Credited to Members' Balances (During Period)</b>	2,692.6	3,248.9	3,105.3	2,379.8	2,489.5	2,897.3	3,115.3	3,375.3	3,675.4	971.9
<b>Advanced Deposits with MAS (During Period) <sup>4</sup></b>	6,337.8	5,967.5	3,576.7	577.7	1,648.9	3,820.2	7,130.1	11,624.5	10,091.7	1,182.0
<b>Interest Earnings from Investments (During Period)</b>	2,853.0	3,479.6	3,309.8	2,537.8	2,662.4	3,054.9	3,260.5	3,523.5	3,844.1	1,003.0
<b>Holdings of Government Securities (End Period) <sup>5</sup></b>	57,120.0	59,620.0	62,620.0	60,620.0	89,410.3	94,444.1	100,750.4	108,462.4	115,362.2	118,687.8
<b>Members' Balances (End Period)</b>	79,657.4	85,276.8	88,396.9	90,298.3	92,221.2	96,422.6	103,539.6	111,873.8	119,787.5	121,776.5

Source: Central Provident Fund Board

\* Includes refunds and transfers to Reserve Account.

<sup>1</sup> Housing schemes include Public Housing and Residential Properties Schemes.<sup>2</sup> 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).<sup>3</sup> Medical Schemes include Medisave, Medisave Private Medical Insurance and ElderShield Schemes.<sup>4</sup> Deposits placed with MAS during the year excluding: a) interest on bonds and interest on Advance Deposits retained as deposits by MAS; and b) conversion and redemption of Government Bonds.<sup>5</sup> Excludes advance deposits with MAS.

\*\* Provisional

## H.1 Domestic Capital Market: Net Funds Raised in the Domestic Capital Market

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	S\$ MILLION									
	1 <sup>st</sup> QTR									
<b>A Net funds raised by Government</b>	6,626.4	11,491.6	8,973.9	8,873.2	12,883.1	7,014.9	11,741.2	14,965.8	12,556.1	2,473.4
1) Gross issue of Government securities <sup>1</sup>	10,460.0	12,800.0	12,430.0	12,100.0	44,990.3	22,433.8	24,906.3	31,102.2	28,299.8	8,325.6
Less:										
Redemption of Government securities	5,008.2	5,438.3	6,549.2	7,636.9	7,080.0	15,136.8	14,524.4	17,240.0	16,700.0	4,200.0
Government holdings of Government securities	-15.2	-0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Conversion from accumulated advance deposits	7,000.0	5,000.0	5,000.0	0.0	30,790.3	14,033.8	6,306.3	7,712.2	6,899.8	3,325.6
2) New advance deposits	8,159.4	8,829.8	6,093.0	2,910.2	4,238.1	13,216.7	7,165.6	8,315.8	7,656.1	1,198.4
3) Net issues of statutory boards' securities	-	300.0	2,000.0	1,500.0	1,525.0	535.0	500.0	500.0	200.0	475.0
<b>B New capital raised by the private sector</b>	3,928.0	1,606.1	6,144.7	5,514.8	3,118.2	3,838.0	4,014.6	5,987.2	11,680.0	2,117.7
1) Public issues of shares	1,379.3	411.2	2,019.6	3,393.9	485.7	1,685.4	2,046.4	3,942.7	6,916.8	1,015.1
2) Rights issues	1,769.6	822.2	1,325.7	341.2	192.5	1,427.8	345.3	1,110.6	2,783.5	784.7
3) Private placements of listed shares	779.1	372.7	2,799.4	1,779.7	2,440.0	724.8	1,622.9	933.9	1,979.7	317.9
<b>C Issues of debt securities</b>	6,680.0	3,897.0	9,265.0	14,531.7	20,407.2	18,161.4	19,281.1	21,699.1	20,010.3	5,389.7
1) Listed bonds, debentures and loan stocks <sup>2</sup>	1,168.1	721.4	6,067.1	8,727.4	11,814.2	7,737.9	8,139.9	6,399.5	5,074.5	100.0
2) Unlisted bonds *	5,511.9	3,013.6	2,955.4	5,754.3	8,443.0	10,296.7	10,809.9	14,837.6	14,935.8	5,289.7
3) Revolving underwriting facilities / Note issuance facilities	-	-	92.5	-	-	-	-	-	-	-
4) Negotiable certificates of deposits <sup>3</sup>	-	162.0	150.0	50.0	150.0	126.8	331.3	462.0	-	-
<b>Total net funds raised (A+B+C)</b>	17,234.4	16,994.7	24,383.6	28,919.7	36,408.5	29,014.3	35,036.9	42,652.1	44,246.4	9,980.8

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	US\$ MILLION									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Assets</b>										
Loans to non-bank customers	173,286.3	131,712.7	110,593.9	89,446.0	79,324.2	77,906.3	83,602.8	93,494.2	120,865.5	119,841.6
Interbank funds	330,685.5	329,464.5	315,618.9	333,728.5	323,902.2	335,973.7	341,917.7	385,302.2	389,483.8	384,247.2
In Singapore	29,846.3	25,930.5	26,781.7	31,221.6	33,054.5	35,599.0	37,151.2	43,932.1	40,766.4	44,022.4
Inter-ACU	48,882.9	40,696.6	34,698.2	31,512.8	30,916.8	31,415.4	29,360.2	31,428.3	29,102.0	31,767.1
Outside Singapore	251,956.3	262,837.4	254,139.0	270,994.1	259,930.9	268,959.3	275,406.3	309,941.8	319,615.4	308,457.6
NCDs held	5,837.0	3,378.7	3,777.6	3,226.6	3,012.2	3,059.6	2,167.2	3,187.4	3,367.2	4,960.4
Other assets	47,384.7	38,325.2	47,251.3	55,291.9	59,234.1	65,672.8	81,458.1	99,578.7	97,659.5	104,715.1
<b>Liabilities</b>										
Deposits of non-bank customers	113,683.4	113,077.0	121,319.5	124,651.5	122,472.3	126,151.6	137,116.0	150,354.2	162,834.2	170,429.4
Interbank funds	414,526.2	364,750.5	323,384.9	316,890.4	310,151.7	320,896.7	330,911.0	379,900.0	394,079.2	384,855.1
In Singapore	32,271.9	20,006.3	25,040.5	23,213.6	25,746.8	28,369.1	34,243.1	34,771.1	37,336.0	43,671.3
Inter-ACU	48,905.3	40,694.4	34,701.6	31,517.0	30,926.4	31,394.8	29,401.4	31,457.9	29,067.8	31,793.3
Outside Singapore	333,349.0	304,049.8	263,642.8	262,159.8	253,478.5	261,132.8	267,266.5	313,671.1	327,675.4	309,390.4
NCDs issued	2,198.1	1,571.6	1,148.1	594.1	636.6	1,500.9	1,690.3	2,679.4	2,952.4	3,910.4
Other liabilities	26,785.9	23,481.7	31,389.3	39,556.9	32,212.3	34,063.1	39,428.6	48,628.9	51,510.2	54,569.4
<b>Total Assets/Liabilities</b>	<b>557,193.5</b>	<b>502,881.1</b>	<b>477,241.7</b>	<b>481,693.0</b>	<b>465,472.8</b>	<b>482,612.3</b>	<b>509,145.9</b>	<b>581,562.5</b>	<b>611,376.0</b>	<b>613,764.4</b>

## I.2 Asian Dollar Market: Maturity Transformation by Asian Currency Units

END OF PERIOD	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	US\$ BILLION MARCH									
<b>Net Position<sup>1</sup></b>										
Up to 6 months	-93.5	-78.5	-74.7	-67.3	-81.4	-84.6	-80.3	-74.1	-89.5	-97.8
Over 6 months to 1 year	20.0	16.7	19.5	15.6	15.8	16.1	18.4	20.1	27.3	31.2
Over 1 to 3 years	35.0	27.1	23.8	20.3	25.3	26.7	24.9	27.2	25.7	23.3
Over 3 years	38.5	34.7	31.4	31.4	40.3	41.8	37.0	28.8	37.8	43.2
<b>Claims<sup>1</sup></b>										
Up to 6 months	428.0	393.8	370.0	374.1	345.8	355.4	375.1	415.5	427.5	421.6
Over 6 months to 1 year	38.0	29.3	31.1	32.3	33.6	35.0	39.2	43.5	48.5	47.2
Over 1 to 3 years	40.4	33.3	30.9	29.7	32.7	32.6	35.0	40.6	41.4	40.8
Over 3 years	50.8	46.5	45.3	45.6	53.4	59.6	59.9	48.7	59.9	65.4
<b>Liabilities<sup>1</sup></b>										
Up to 6 months	521.5	472.3	444.7	441.4	427.2	440.0	455.4	489.6	517.0	519.4
Over 6 months to 1 year	18.0	12.6	11.6	16.7	17.8	18.9	20.8	23.4	21.2	16.0
Over 1 to 3 years	5.4	6.2	7.1	9.4	7.4	5.9	10.1	13.4	15.7	17.5
Over 3 years	12.3	11.8	13.9	14.2	13.1	17.8	22.9	19.9	22.1	22.2

<sup>1</sup> From 2004 onwards, 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.



## Glossary

ABF	Asian Bond Fund
AC	Audit Committee
ACRA	Accounting and Corporate Regulatory Authority
ADB	Asian Development Bank
AIRM	ASEAN Insurance Regulator's Meeting
AITRI	ASEAN Insurance Research and Training Institute
AML	Anti-Money Laundering
APG	Asia-Pacific Group on Money Laundering
APRC	Asia Pacific Regional Committee
ASIC	Australian Securities and Investment Commission
BCBS	Basel Committee on Banking Supervision
BCM	Business Continuity Management
BIS	Bank for International Settlement
BOJ	Bank of Japan
CBOT	Chicago Board of Trade
CCDG	Council on Corporate Disclosure and Governance
CDC	Community Development Councils
CDT	Commodity Derivatives Trading
CPF	Central Provident Fund
CFT	Countering Financing of Terrorism
CIRC	China Insurance Regulatory Commission
CIS	Collective Investment Schemes
CLPA	Conveyancing and Law of Property Act
CMS	Capital Markets Services
CPFTA	Consumer Protection (Fair Trading) Act
CPI	Consumer Price Index
CRAFT	Common Risk Assessment Framework and Techniques
CTSG	Commodities Trading Strategy Group
DCI	Dual Currency Investments
DPS	Dependents' Protection Scheme
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks
ETF	Exchange-Traded Funds
FAA	Financial Advisers Act
FA	Financial Advisers
FATF	Financial Action Task Force
Fed	Federal Reserve

FESC	Financial Education Steering Committee
FFA	Forward Freight Agreements
FICS	Financial Industry Competency Standards
FIDReC	Financial Industry Disputes Resolution Centre
FMBS	Front, Middle and Back-office System
FMC	Fund Management Companies
FRS	Financial Reporting Standard
FSAP	Financial Sector Assessment Programme
FSDF	Financial Sector Development Fund
FSF	Financial Stability Forum
FSG	Financial Supervisory Group
FSI	Financial Stability Institute
FSR	Financial Stability Review
FTSE	Financial Times Stock Exchange
FX	Foreign Exchange
GDP	Gross Domestic Product
IA	Insurance Act
IAIS	International Association of Insurance Supervisors
IAP	International Advisory Panel
IBF	Institute of Banking and Finance
IBPA	Insurance Broking Premium Account
IFSB	Islamic Financial Services Board
IIA	Institute of Internal Auditors
IMD	International Institute of Management Development
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
ITDM	IT Directors Meeting
JADE	Joint Asian Derivatives Exchange
JGB	Japanese Government Bonds
JSEPA	Japan - Singapore for a New-Age Economic Partnership Agreement
LOI	Letter of Intent
MEPS+	MAS Electronic Payment System
MMS	Monetary Model of Singapore
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MPA	Maritime and Port Authority of Singapore

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MPS	Monetary Policy Statement
MR	Macroeconomic Review
MTI	Ministry of Trade and Industry
NDP	National Day Parade
NoB	Nomination of Beneficiaries
OTC	Over-the-counter
PPF	Policy Owners Protection Fund
QA	Quality assurance
QUEST	Quotation and Execution System
REIT	Real Estate Investment Trust
RMI	Risk Management Institute
S\$NEER	Singapore Dollar Nominal Effective Exchange Rate
SAAR	Seasonally Adjusted Annualised Rate
SBV	State Bank of Vietnam
SDIC	Singapore Deposit Insurance Corporation
SFA	Securities and Futures Act
SGS	Singapore Government Securities
SGX	Singapore Exchange
SIAS	Securities Investors Association of Singapore
SIBA	Singapore Investment Banking Association
SVAR	Structural Vector Auto Regression
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TCA	Trust Companies Act
VND	Vietnamese Dong
WDA	Workforce Development Agency
WGBS	Working Group on Banking Supervision
WMI	Wealth Management Institute