

FINANCIAL SECTOR DEVELOPMENT FUND

INCOME STATEMENT

| For the year ended 31 March | 2007 | 2006 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Interest Income | 19,659 | 16,116 |
| Dividend Income | 45,283 | 62,369 |
| Gains from Financial Instruments Designated at Fair Value | 13,907 | 29,834 |
| Foreign Currency Loss | (5,933) | (14,965) |
| Total Income | 72,916 | 93,354 |
| <u>Less:</u> | | |
| Investment Expenses | 2,617 | 2,651 |
| Grants | 27,807 | 17,060 |
| Total Expenditure | 30,424 | 19,711 |
| Net Surplus for the Year | 42,492 | 73,643 |

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

**FINANCIAL SECTOR DEVELOPMENT FUND
BALANCE SHEET**

| <u>As at 31 March</u> | <u>Note</u> | <u>2007</u> | <u>2006</u> |
|--|-------------|---------------------------|---------------------------|
| | | <u>\$'000</u> | <u>\$'000</u> |
| ACCUMULATED FUND | | | |
| Capital Account | 3 | 471,635 | 471,635 |
| Accumulated Surplus | | <u>308,077</u> | <u>265,585</u> |
| | | <u>779,712</u> | <u>737,220</u> |
| <u>Represented by:</u> | | | |
| ASSETS | | | |
| Bank Balances and Deposits | 5 | 433,513 | 317,152 |
| Financial Assets at Fair Value through Profit and Loss | 5 | 400,526 | 460,125 |
| Loans and Receivables | 5 | 12,363 | 31,963 |
| | | 846,402 | 809,240 |
| <u>Less:</u> | | | |
| LIABILITIES | | | |
| Financial Liabilities at Fair Value through Profit and Loss | 5 | 372 | 977 |
| Accruals and Other Liabilities | 5 | 66,318 | 71,043 |
| | | 66,690 | 72,020 |
| NET ASSETS OF THE FUND | | <u>779,712</u> | <u>737,220</u> |

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

**GOH CHOK TONG
CHAIRMAN
MONETARY AUTHORITY OF SINGAPORE
28 JUNE 2007**

**HENG SWEE KEAT
MANAGING DIRECTOR
MONETARY AUTHORITY OF SINGAPORE
28 JUNE 2007**

FINANCIAL SECTOR DEVELOPMENT FUND
STATEMENT OF CHANGES IN EQUITY

| | Capital Account \$'000 | Accumulated Surplus \$'000 | Total \$'000 |
|------------------------------------|---------------------------------------|---|-------------------------|
| Balance as at 1 April 2005 | 471,635 | 191,942 | 663,577 |
| Net Surplus for the Year | - | 73,643 | 73,643 |
| Balance as at 31 March 2006 | <u>471,635</u> | <u>265,585</u> | <u>737,220</u> |
| Net Surplus for the Year | - | 42,492 | 42,492 |
| Balance as at 31 March 2007 | <u><u>471,635</u></u> | <u><u>308,077</u></u> | <u><u>779,712</u></u> |

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

FINANCIAL SECTOR DEVELOPMENT FUND
CASH FLOW STATEMENT

| For the year ended 31 March | 2007 | 2006 |
|---|-----------------|-----------------|
| | \$'000 | \$'000 |
| Cash Flows from Operating Activities | | |
| Surplus for the Year | 42,492 | 73,643 |
| Adjustments for: | | |
| Gains from Financial Instruments Designated at Fair Value | (13,907) | (29,834) |
| Interest Income | (19,659) | (16,116) |
| Dividend Income | (45,283) | (62,369) |
| Loss Before Working Capital Changes | (36,357) | (34,676) |
| Increase in | | |
| Accruals and Other Liabilities: Accounts Payable - Grants | 642 | 4,578 |
| Net Cash used in Operating Activities | (35,715) | (30,098) |
| Cash Flows from Investing Activities | | |
| Net Proceeds from Disposal of Investments | 83,880 | 22,182 |
| Dividend Received from Investments | 2,421 | 2,274 |
| Interest Received | 20,152 | 16,332 |
| Net Cash from Investing Activities | 106,453 | 40,788 |
| Cash Flows from Financing Activities | | |
| Dividend Received on SGX Shares | 45,623 | 65,998 |
| Net Cash from Financing Activities | 45,623 | 65,998 |
| Net Increase in Bank Balances and Deposits | 116,361 | 76,688 |
| Bank Balances and Deposits as at beginning of the year | 317,152 | 240,464 |
| Bank Balances and Deposits as at end of the year | 433,513 | 317,152 |

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

FINANCIAL SECTOR DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

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

1 GENERAL

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, namely,

- a) the promotion of Singapore as a financial centre;
- b) the development and upgrading of skills and expertise required by the financial services sector;
- c) the development and support of educational and research institutions, research and development programmes and projects relating to the financial services sector; and
- d) the development of infrastructure to support the financial services sector in Singapore.

The Fund shall be deemed not to be a fund of the Authority for the purposes of any written law.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

- a) 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 (FRS) and on an accrual basis.
- b) The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Fund's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and 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.

- c) The financial statements are presented in Singapore dollars, the Fund's functional currency, and rounded to the nearest thousand, unless otherwise stated.
- d) The Fund adopted the following revised FRS that are applicable in the current financial year.

FRS 32 (revised) Financial Instruments: Disclosure and Presentation

FRS 39 (revised) Financial Instruments: Recognition and Measurement

The revised FRS did not result in any change to the Fund's accounting policies, which are consistent with those applied in the previous financial year.

2.2 Income recognition

a) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount.

b) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.3 Financial assets

a) Classification

The Fund's investments in financial assets are classified as financial assets at fair value through profit and loss and loans and receivables.

i) Financial assets at fair value through profit and loss are financial derivatives or financial assets other than loans and receivables, designated by management as such on initial recognition as it results in more relevant information, because they are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to management and the Investment Working Committee. They include fixed income securities and equities. Financial derivatives are used to manage exposures to foreign exchange and interest rate risks arising from investment activities and can be used for trading.

ii) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

b) Recognition and Derecognition

Purchases and sales of investments are recognised on the date when the Fund commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been

transferred and the Fund has transferred substantially all risks and rewards of ownership.

c) Initial and Subsequent Measurements

Financial assets at fair value through profit and loss and financial derivatives are initially recognised and subsequently measured at fair value with changes in fair value and profit/loss on disposal included in the income statement in the period in which they arise. Loans and receivables are carried at amortised cost and approximate their fair values.

d) Fair Value Determination

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices or dealer quotes at the balance sheet date. The quoted market price used for a financial asset is the current bid price where available; else the latest closing price is used; and the appropriate quoted market price for a financial liability is the current ask price. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at balance sheet date.

e) Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that an impairment loss on loans and receivables has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses, if any, are 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 loans and receivables no longer exist or have decreased. The reversal, if any, is recognised in the income statement. However, the increased carrying amount of loans and receivables 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 loans and receivables in prior years.

2.4 Financial Liabilities

The Fund classifies its financial liabilities in the following categories: (a) financial derivatives; and (b) accruals and other liabilities. Financial derivatives - liabilities, classified as fair value through profit and loss, are carried at fair value, with changes in fair value recognised in fair value gain/loss through profit and loss in the income statement. Accruals and other liabilities, are carried at amortised cost using the effective interest method.

A financial liability is derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

2.5 Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, there is a legally enforceable right to set off the amounts and an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards.

2.6 Foreign Currency Translation

Transactions in a foreign currency are measured using the exchange rate prevailing at the date of the transaction. Foreign currency gain/loss resulting from the settlement of such transactions and the translation of assets and liabilities denominated in foreign currencies, into Singapore dollars, at the exchange rate prevailing at the balance sheet date, are recognised in the income statement.

3 **CAPITAL ACCOUNT**

- a) The Capital Account is funded from the net sale proceeds of the Singapore Exchange Limited's (SGX) shares.
- b) As at 31 March 2007, SEL Holdings Pte Ltd (SEL) holds 249,991,184 SGX shares for the benefit of the Fund as stipulated under Section 11(2) of the Exchanges (Demutualisation and Merger) Act (Chapter 99B, 2000 Revised Edition). These SGX shares held have a market valuation of \$1.6 billion as at 31 March 2007 (31 March 2006: \$1 billion). In the event of a sale, net sale proceeds of these shares (after deducting expenses allowed under Section 10(1) and the par value of those shares) shall be paid by SEL into the Fund under Section 10(2) of the Exchanges (Demutualisation and Merger) Act (Chapter 99B, 2000 Revised Edition).

4 **FINANCIAL DERIVATIVES: ASSETS/LIABILITIES**

Derivative financial instruments are financial instruments whose values fluctuate in response to changes in the values of the underlying assets, interest or exchange rates or indices and include forwards, futures and options. These instruments allow the Fund to transfer, modify or reduce their foreign exchange and interest rate risks.

Forward foreign exchange contracts are agreements to purchase or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

Interest rate futures are typically exchange-traded agreements to purchase or sell a standard amount of a specified fixed income security or time deposit at an agreed interest rate on a standard future date.

Interest rate options give the buyer on payment of a premium the right, but not the obligation, to fix the rate of interest on a future deposit or loan, for a specified period commencing on a specified future date.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cashflows involved or the current fair value of the instrument and, therefore, do not indicate the Fund's exposure to credit or price risks. The fair values of derivative instruments are normally zero or negligible at inception and the subsequent change in value is favourable (derivative assets) or unfavourable (derivative liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments, the extent to which the instruments are favourable and unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

- 4.1 The contractual or underlying principal amounts of the derivative financial instruments and their corresponding gross positive (derivative receivable) and negative (derivative payable) fair values at balance sheet date, are analysed below. The notional or contractual amounts indicate the volume of transactions outstanding at the balance sheet date:

| | 2007 | | | 2006 | | |
|-----------------------------------|--|----------------------|-------------------|---|----------------------|-------------------|
| | Contract or underlying principal amount \$'000 | Fair Value | | Contract or underlying principal amount \$'000 | Fair Value | |
| | | Receivable \$'000 | Payable \$'000 | | Receivable \$'000 | Payable \$'000 |
| Foreign exchange contracts | | | | | | |
| Forwards | 153,789 | 91 | - | 185,250 | 30 | 809 |
| Interest rate contracts | | | | | | |
| Futures purchased | 411,369 | 30 | 372 | 203,843 | 2 | 168 |
| Futures sold | 9,414 | 28 | - | 18,985 | 144 | - |
| Options purchased | 827 | 62 | - | - | - | - |
| | 575,399 | 211 | 372 | 408,078 | 176 | 977 |

5 FINANCIAL RISK MANAGEMENT

- 5.1 Two committees, the Advisory Committee and Investment Working Committee which include members from the financial industry, advise on the usage and administration of the Fund, and manage its investments and risk management strategies respectively.
- 5.2 The Fund's investments are mainly in financial instruments, which are exposed to various specific risks outlined below. These risks are managed by establishing specific controls at the aggregate and individual portfolio levels, through diversification and regular monitoring.
- 5.3 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, interest rate and other price risks.
 - b) Market risks are managed through regular monitoring of the market risk exposure of the Fund's investments, the diversification of the Fund's investments across different markets and currencies and the establishment of risk controls at both the aggregate and individual portfolio levels.

5.3 c) **Currency Risk**

Currency risk is the risk of loss from foreign assets and liabilities due to changes in foreign exchange rates.

The carrying amounts of assets and liabilities are denominated in the following currencies:

| \$ '000 | Note | SGD | USD | EUR | JPY | Asia Pacific Currencies | Others | Total |
|--|-------------|----------------|----------------|-----------------|-----------------|------------------------------------|---------------|----------------|
| 2007 | | | | | | | | |
| ASSETS | | | | | | | | |
| Bank Balances and Deposits | | 420,272 | 7,417 | 1,204 | 2,463 | 325 | 1,832 | 433,513 |
| Financial Assets at Fair Value through Profit and Loss | | | | | | | | |
| Financial Derivatives Receivable | 4.1 | 37 | 2,751 | (11,093) | 21,770 | (1,167) | (12,087) | 211 |
| Fixed Income Securities | | 130,258 | 76,361 | 58,142 | 5,047 | 3,645 | 19,899 | 293,352 |
| Equities | | 5,844 | 36,135 | - | - | 64,984 | - | 106,963 |
| | | 136,139 | 115,247 | 47,049 | 26,817 | 67,462 | 7,812 | 400,526 |
| Loans and Receivables | | | | | | | | |
| Prepayments and Other Receivables | | 3,200 | 4,401 | 1,179 | 21 | 728 | 334 | 9,863 |
| Receivables from SEL Holdings Pte Ltd | | 2,500 | - | - | - | - | - | 2,500 |
| Dividend Receivable on SGX Shares | | - | - | - | - | - | - | - |
| | | 5,700 | 4,401 | 1,179 | 21 | 728 | 334 | 12,363 |
| Total | | 562,111 | 127,065 | 49,432 | 29,301 | 68,515 | 9,978 | 846,402 |
| LIABILITIES | | | | | | | | |
| Financial Liabilities at Fair Value through Profit and Loss | | | | | | | | |
| Financial Derivatives Payable | 4.1 | - | 355 | 17 | - | - | - | 372 |
| Accruals and Other Liabilities | | | | | | | | |
| Accounts Payable - Grants | | 19,489 | - | - | - | - | - | 19,489 |
| Other Payables | | 6,434 | 39,696 | 80 | - | 619 | - | 46,829 |
| | | 25,923 | 39,696 | 80 | - | 619 | - | 66,318 |
| Total | | 25,923 | 40,051 | 97 | - | 619 | - | 66,690 |
| 2006 | | | | | | | | |
| ASSETS | | | | | | | | |
| Bank Balances and Deposits | | 276,234 | 27,807 | 889 | - | 10,585 | 1,637 | 317,152 |
| Financial Assets at Fair Value through Profit and Loss | | | | | | | | |
| Financial Derivatives Receivable | 4.1 | 764 | (7,281) | 135 | - | 6,558 | - | 176 |
| Fixed Income Securities | | 165,561 | 84,756 | 21,607 | 2,039 | 955 | 38,133 | 313,051 |
| Equities | | 5,169 | 47,245 | 13,876 | 17,517 | 47,603 | 15,488 | 146,898 |
| | | 171,494 | 124,720 | 35,618 | 19,556 | 55,116 | 53,621 | 460,125 |
| Loans and Receivables | | | | | | | | |
| Prepayments and Other Receivables | | 2,567 | 21,690 | 472 | 310 | 1,025 | 774 | 26,838 |
| Receivables from SEL Holdings Pte Ltd | | 2,500 | - | - | - | - | - | 2,500 |
| Dividend Receivable on SGX Shares | | 2,625 | - | - | - | - | - | 2,625 |
| | | 7,692 | 21,690 | 472 | 310 | 1,025 | 774 | 31,963 |
| Total | | 455,420 | 174,217 | 36,979 | 19,866 | 66,726 | 56,032 | 809,240 |
| LIABILITIES | | | | | | | | |
| Financial Liabilities at Fair Value through Profit and Loss | | | | | | | | |
| Financial Derivatives Payable | 4.1 | 206 | 19,299 | (20,896) | (25,830) | 343 | 27,855 | 977 |
| Accruals and Other Liabilities | | | | | | | | |
| Accounts Payable - Grants | | 18,847 | - | - | - | - | - | 18,847 |
| Other Payables | | 216 | 49,615 | 239 | 406 | 937 | 783 | 52,196 |
| | | 19,063 | 49,615 | 239 | 406 | 937 | 783 | 71,043 |
| Total | | 19,269 | 68,914 | (20,657) | (25,424) | 1,280 | 28,638 | 72,020 |

The carrying amounts of loans and receivables and accruals and other liabilities approximate their fair value.

5.3 d) Interest Rate Risk

Interest rate risk is the risk of loss from a financial instrument due to changes in market interest rates. The Fund manages interest rate risks by setting duration limits on its investments. The table below summarises the Fund's exposure to interest rate re-pricing risks, categorised by the earlier of contractual re-pricing or maturity dates.

| | Non-Interest Bearing | Earlier of Repricing/Contractual Maturity Date | | | | Total |
|--|----------------------|--|--------------------------------|-------------------------------|--------------|---------|
| | | Up to 3 months | Over 3 months and up to 1 year | Over 1 year and up to 5 years | Over 5 years | |
| \$'000 | | | | | | |
| 2007 | | | | | | |
| ASSETS | | | | | | |
| Bank Balances and Deposits | 107,746 | 325,767 | - | - | - | 433,513 |
| Financial Assets at Fair Value through Profit and Loss | | | | | | |
| Financial Derivatives Receivable | 211 | - | - | - | - | 211 |
| Fixed Income Securities | - | 5,220 | 28,383 | 107,746 | 152,003 | 293,352 |
| Equities | 106,963 | - | - | - | - | 106,963 |
| | 107,174 | 5,220 | 28,383 | 107,746 | 152,003 | 400,526 |
| Loans and Receivables | | | | | | |
| Prepayments and Other Receivables | 9,863 | - | - | - | - | 9,863 |
| Receivables from SEL Holdings Pte Ltd | 2,500 | - | - | - | - | 2,500 |
| Dividend Receivable on SGX Shares | - | - | - | - | - | - |
| | 12,363 | - | - | - | - | 12,363 |
| | 227,283 | 330,987 | 28,383 | 107,746 | 152,003 | 846,402 |
| LIABILITIES | | | | | | |
| Financial Liabilities at Fair Value through Profit and Loss | | | | | | |
| Financial Derivatives Payable | 372 | - | - | - | - | 372 |
| Accruals and Other Liabilities | | | | | | |
| Accounts Payable - Grants | 19,489 | - | - | - | - | 19,489 |
| Other Payables | 46,829 | - | - | - | - | 46,829 |
| | 66,318 | - | - | - | - | 66,318 |
| | 66,690 | - | - | - | - | 66,690 |
| 2006 | | | | | | |
| ASSETS | | | | | | |
| Bank Balances and Deposits | 15,494 | 301,658 | - | - | - | 317,152 |
| Financial Assets at Fair Value through Profit and Loss | | | | | | |
| Financial Derivatives Receivable | 176 | - | - | - | - | 176 |
| Fixed Income Securities | - | 7,820 | 3,145 | 135,563 | 166,523 | 313,051 |
| Equities | 146,898 | - | - | - | - | 146,898 |
| | 147,074 | 7,820 | 3,145 | 135,563 | 166,523 | 460,125 |
| Loans and Receivables | | | | | | |
| Prepayments and Other Receivables | 26,838 | - | - | - | - | 26,838 |
| Receivables from SEL Holdings Pte Ltd | 2,500 | - | - | - | - | 2,500 |
| Dividend Receivable on SGX Shares | 2,625 | - | - | - | - | 2,625 |
| | 31,963 | - | - | - | - | 31,963 |
| | 194,531 | 309,478 | 3,145 | 135,563 | 166,523 | 809,240 |
| LIABILITIES | | | | | | |
| Financial Liabilities at Fair Value through Profit and Loss | | | | | | |
| Financial Derivatives Payable | 977 | - | - | - | - | 977 |
| Accruals and Other Liabilities | | | | | | |
| Accounts Payable - Grants | 18,847 | - | - | - | - | 18,847 |
| Other Payables | 52,196 | - | - | - | - | 52,196 |
| | 71,043 | - | - | - | - | 71,043 |
| | 72,020 | - | - | - | - | 72,020 |

5.3 e) **Effective Interest Rate**

The table below summarises the effective average interest rate by major currencies for financial assets and liabilities.

| % | SGD | USD | EUR | JPY |
|---|------------|------------|------------|------------|
| 2007 | | | | |
| <u>Financial Assets</u> | | | | |
| Bank Balances and Deposits | 2.74 | 5.35 | - | - |
| Financial Assets at Fair Value through Profit and Loss | | | | |
| Fixed Income Securities | 3.38 | 4.86 | 3.96 | 1.56 |
| 2006 | | | | |
| <u>Financial Assets</u> | | | | |
| Bank Balances and Deposits | 3.21 | 4.79 | - | - |
| Financial Assets at Fair Value through Profit and Loss | | | | |
| Fixed Income Securities | - | - | - | - |

Comparatives for fixed income securities are not provided due to unavailability of data.

5.4 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, custodian and issuer credit risks.
- b) The Fund's credit risks are managed by transacting with well-rated entities within assigned limits. Credit risks are also mitigated by diversifying credit exposures across counterparties and issuers.
- c) The Fund manages issuer credit risk by imposing minimum credit rating requirements on the investment of its fixed income securities, the selection of counterparties and custodians. Single issuer limits are placed to control the credit exposure to any one issuer and to mitigate the extent of loss resulting from a default.
- d) The carrying amounts of bank balances, deposits, financial derivatives, fixed income securities and loans and receivables represent their maximum credit exposure.
- e) The credit exposure of the Fund's fixed income securities is analysed below:

| % | Credit Ratings | | | Total |
|---|----------------|-------------|--------|-------|
| | AAA | AA+ to BBB- | Others | |
| 2007 | | | | |
| Financial Assets at Fair Value through Profit and Loss | | | | |
| Fixed Income Securities | 70 | 22 | 8 | 100 |
| 2006 | | | | |
| Financial Assets at Fair Value through Profit and Loss | | | | |
| Fixed Income Securities | 71 | 23 | 6 | 100 |

5.5 **Liquidity Risk**

Liquidity risk is the risk that there will be difficulty in selling a financial asset at close to its fair value at short notice to meet liabilities falling due. The Fund manages liquidity risk through cashflow projections, by investing mostly in liquid financial instruments and markets, and imposing limits on investments to ensure adequate diversification of cashflow sources. The table below analyses assets and liabilities of the Fund into maturity time bands based on the remaining time to contractual maturity as at balance sheet date.

| | No Specific Maturity | Contractual Maturity Date | | | | Total |
|--|-------------------------|---------------------------|-----------------------------------|----------------------------------|--------------|---------|
| | | Up to 3 months | Over 3 months and up to 1 year | Over 1 year and up to 5 years | Over 5 years | |
| \$'000 | | | | | | |
| 2007 | | | | | | |
| ASSETS | | | | | | |
| Bank Balances and Deposits | 118,012 | 315,501 | - | - | - | 433,513 |
| Financial Assets at Fair Value through Profit and Loss | | | | | | |
| Financial Derivatives Receivable | - | 88 | 123 | - | - | 211 |
| Fixed Income Securities | - | 1,716 | 27,017 | 101,831 | 162,788 | 293,352 |
| Equities | 106,963 | - | - | - | - | 106,963 |
| | 106,963 | 1,804 | 27,140 | 101,831 | 162,788 | 400,526 |
| Loans and Receivables | | | | | | |
| Prepayments and Other Receivables | 53 | 9,810 | - | - | - | 9,863 |
| Receivables from SEL Holdings Pte Ltd | 2,500 | - | - | - | - | 2,500 |
| Dividend Receivable on SGX Shares | - | - | - | - | - | - |
| | 2,553 | 9,810 | - | - | - | 12,363 |
| | 227,528 | 327,115 | 27,140 | 101,831 | 162,788 | 846,402 |
| LIABILITIES | | | | | | |
| Financial Liabilities at Fair Value through Profit and Loss | | | | | | |
| Financial Derivatives Payable | - | 101 | 271 | - | - | 372 |
| Accruals and Other Liabilities | | | | | | |
| Accounts Payable - Grants | 19,489 | - | - | - | - | 19,489 |
| Other Payables | - | 46,829 | - | - | - | 46,829 |
| | 19,489 | 46,829 | - | - | - | 66,318 |
| | 19,489 | 46,930 | 271 | - | - | 66,690 |
| 2006 | | | | | | |
| ASSETS | | | | | | |
| Bank Balances and Deposits | 24,521 | 292,631 | - | - | - | 317,152 |
| Financial Assets at Fair Value through Profit and Loss | | | | | | |
| Financial Derivatives Receivable | - | 177 | (1) | - | - | 176 |
| Fixed Income Securities | - | 3,734 | 3,145 | 135,563 | 170,609 | 313,051 |
| Equities | 146,898 | - | - | - | - | 146,898 |
| | 146,898 | 3,911 | 3,144 | 135,563 | 170,609 | 460,125 |
| Loans and Receivables | | | | | | |
| Prepayments and Other Receivables | 69 | 26,769 | - | - | - | 26,838 |
| Receivables from SEL Holdings Pte Ltd | 2,500 | - | - | - | - | 2,500 |
| Dividend Receivable on SGX Shares | - | - | 2,625 | - | - | 2,625 |
| | 2,569 | 26,769 | 2,625 | - | - | 31,963 |
| | 173,988 | 323,311 | 5,769 | 135,563 | 170,609 | 809,240 |
| LIABILITIES | | | | | | |
| Financial Liabilities at Fair Value through Profit and Loss | | | | | | |
| Financial Derivatives Payable | - | 977 | - | - | - | 977 |
| Accruals and Other Liabilities | | | | | | |
| Accounts Payable - Grants | 18,847 | - | - | - | - | 18,847 |
| Other Payables | - | 52,196 | - | - | - | 52,196 |
| | 18,847 | 52,196 | - | - | - | 71,043 |
| | 18,847 | 53,173 | - | - | - | 72,020 |

6 RELATED PARTY TRANSACTIONS

During the financial year, the Fund had the following transactions with related parties, namely, members of the Fund's Advisory Committee and Investment Working Committee or the financial institutions that they are related to. The following transactions were made in the ordinary course of business and carried out at arm's length:

| | <u>2007</u> \$'000 | <u>2006</u> \$'000 |
|-----------------------------------|-----------------------|-----------------------|
| Grants to: | | |
| Singapore Exchange Limited | 2,536 | 4,919 |
| Association of Banks in Singapore | 934 | 124 |
| United Overseas Bank Group | 168 | 134 |

7 COMMITMENTS

The Fund has outstanding commitments, amounting to \$59.6 million in respect of grants approved but not accrued as at 31 March 2007 (31 March 2006: \$37.4 million).

8 NEW ACCOUNTING STANDARDS

- a) The following accounting standards have been issued as of the balance sheet date but are effective for accounting periods beginning on or after the dates mentioned below:

| | |
|-----------------|---|
| FRS 1 (revised) | Presentation of Financial Statements (1 January 2008) |
| FRS 107 | Financial Instruments: Disclosures (1 January 2007) |

- b) The amendment to FRS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The impact of the amendment to FRS 1 is additional disclosure of the Fund's policies and processes for managing capital and is not expected to have material financial impact on the Fund.
- c) FRS 107 requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including credit risk, liquidity risk and market risk and sensitivity analysis to market risk. It replaces the disclosure requirements in FRS 32 Financial Instruments: Disclosure and Presentation.

Compliance with this new FRS is not expected to have material financial impact but will increase disclosures on the nature and extent of risks arising from the Fund's financial assets and liabilities and how the Fund manages these risks.

9 COMPARATIVE FIGURES

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

10 AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 March 2007 were authorised by the Minister-in-Charge for issuance and signed by Chairman and Managing Director of Monetary Authority of Singapore on 28 June 2007.