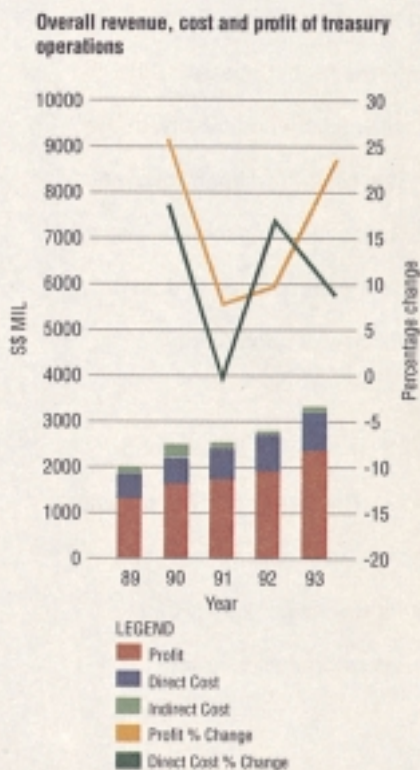


*Higher  
Treasury  
profitability as  
revenues rise  
amidst slower  
growth of cost  
components*



## SURVEY OF TREASURY ACTIVITIES IN SINGAPORE (1993)

Profits in the Treasury industry increased by almost 24% in 1993 to S\$2.35 billion, from S\$1.90 billion in 1992. Individually, pre-tax profit of S\$15.9 million was returned, exceeding S\$12.8 million reported in the previous year's Survey of Treasury Activities.

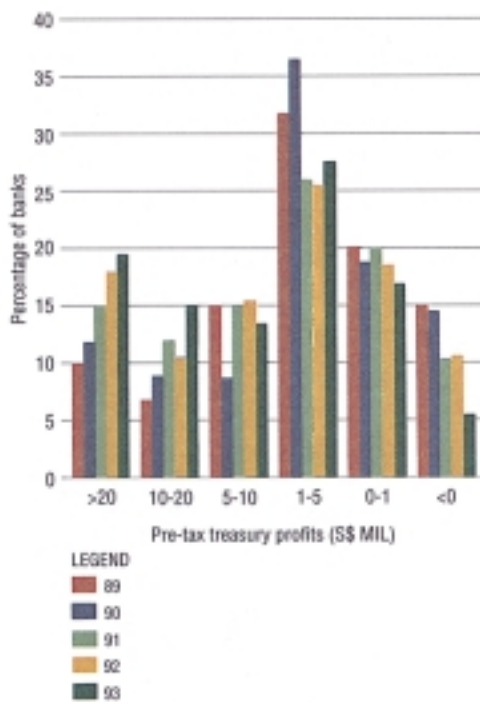


A substantial rise in revenue took the average Treasury's income to S\$22.6 million from S\$18.7 million the year before. While Treasury revenues grew almost 21%, direct cost increases slowed to 9% on average, compared to the brisk 21% pace in 1992. The biggest cost component is still staff remuneration, the growth of which has slowed to about 15% from the rapid 29% rate in 1992.

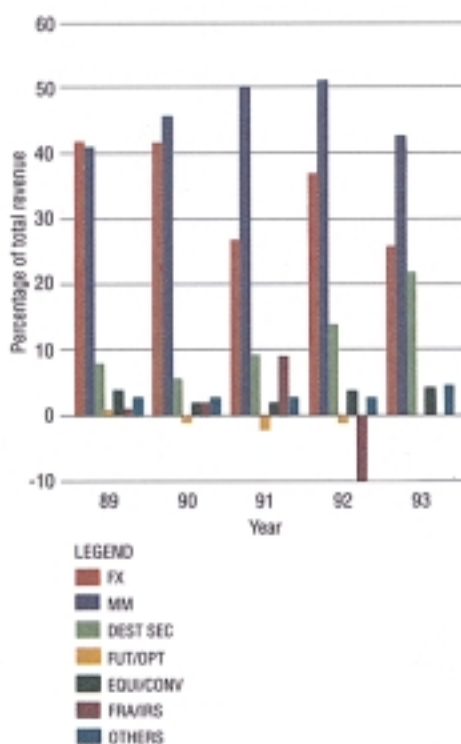
Large-sized dealing rooms with more than 14 dealers continued to expand their profit steadily by 6%, as they had in 1992. These 36 institutions with average profit of S\$48 million each, accounted for about 70% of industry profit. Medium-sized Treasuries (4-14 dealers) showed spectacular profit growth of 74%, after a decline of 38% in 1992, to S\$7.9 million each. Losses in derivative products had weighed down the 1992 performance. Small banks, on the other hand, experienced a slight decline in individual profit to S\$1.9 million. On the whole, new entrants to this category made less profit; furthermore, merchant banks, whose accounts were previously consolidated with their related banks in this category, are now accounted for separately. In total, there were 148 respondents to the survey, the same number as in 1992, with a steady 52% in the medium-sized category (55% average for the last 5 years) and a growing number in the large-sized category which now accounts for 24% compared with 22% in 1992.



Distribution by individual treasury profits

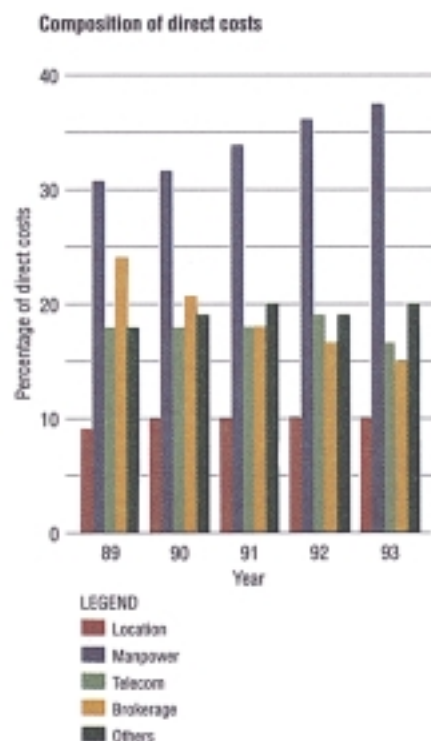
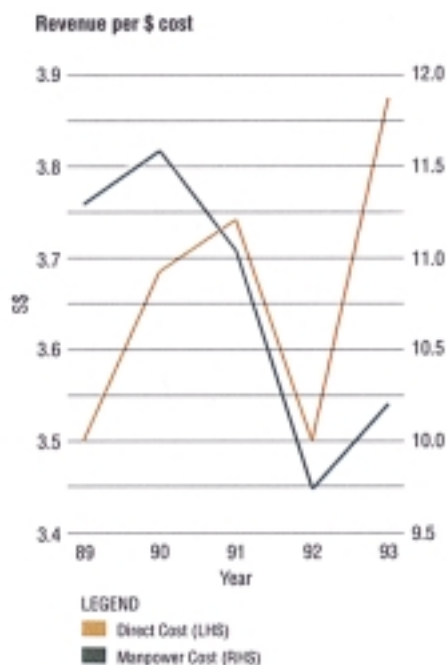


Sources of treasury revenue



As in the past 3 years, money market activity was the most profitable business sector, maintaining its estimated profit margin of S\$9.5 million, as in 1992. The substantial and trend decline in interest rates of the major economies through the year clearly provided Treasuries here with good trading and investment opportunities. As such, the revenue pie in 1993 was still dominated by interest rate activities. Money market activities contributed 43% of total revenue, compared to 51% in 1992. Debt securities' contribution was similar in dollar terms for both years. But foreign exchange revenues declined significantly, as did profitability, in the somewhat difficult trading environment that prevailed for most of the year. Options profit rose substantially and FRA/IRS managed to generate a small revenue after the loss on IRS in 1992. Equities, commodities and other smaller activities also generated increased income at good margins.

Debt securities dealers edged money market counterparts into second place in terms of profitability, for the first time. This is not likely to continue in 1994 as the crest of the bull market in bonds was reached last year. Options and equities/convertible bond dealers were significantly more profitable in 1993. Only foreign exchange traders producing lower profitability.



A more moderate increase in direct cost of 9% reflected slower growth in most cost components. Manpower, still accounting for 38% of costs (36% in 1992), increased 15% for both professional and support staff. But, while growth in professional incomes slackened in pace, that of support staff actually accelerated. This reflects a shortage of experienced personnel as dealing rooms expanded operations into new areas and competition increased from other expanding financial and business services sectors. Office rentals kept at the 1992 level. Staff housing costs rose by 30% as in 1992, which is not unexpected, given the strong rise in private property prices during the year. Telecommunication and information systems costs remained almost unchanged. Brokerage cost declined, in the face of competition from electronic dealing systems and general cost consciousness on the part of Treasury managers.

The number of banks involved in the staple business areas like foreign exchange and money market remained almost unchanged, but the trend towards a diversification of activities strengthened considerably. Participation in debt securities almost doubled to 95 Treasuries in 1993, from 51 in the previous year. Likewise, those involved in futures rose by 25 to 109, and options participants were also up, from 47 to 70. Other activities were fairly stable.

Professional employment in Treasury activities rose to 1,814 people from 1,704 in 1992. Foreign exchange professionals increased slightly in number, with their share rising from 51% to about 57% of the total professional population - reversing the decline of 1992. By function, about 22% were marketing dealers, while 47% were spot traders. Position takers formed 11%, while swaps and forward traders were about 12% of the foreign exchange staff. Money market dealing staff formed about 15%, maintaining their share of the total. Traders in debt instruments, offshore as well as Singapore Government Securities, increased from 102 in 1992 to 110. FRA/IRS numbers also rose, by about 25%, to 104 people. Supporting Treasury staff totalled 1,557, up slightly from 1,540 in 1992.

#### Estimated profit margin of treasury instruments

Instruments	1992		1993	
	S\$'000	No. of Treasuries	S\$'000	No. of Treasuries
Foreign Exchange	6,304	143	5,009	144
Money Market	9,530	143	9,548	138
Debt Securities	8,225	51	7,072	95
Futures	-1,011	84	37	109
Options	1,068	47	1,789	70
FRAs/IRS	-3,963	72	-17	67
Equity/Convertibles	5,249	17	6,891	20
Fund Management	1,190	3	412	4

1993 was a good year for traders when measured on an average individual basis. Revenues generated per professional rose to S\$1.84 million from S\$1.62 million the previous year. This represented a rise of over 13%, and in line with the previous year's robust performance. When measured against manpower costs, revenues were up 5% per dollar, reversing a 2-year decline which was as bad as negative 12% the previous year. This development reversed the decline experienced in revenue performance against costs over

the last two years, and hopefully is indicative of rising consciousness among banks to keep cost increases in tandem with the improvement in performance.

Forecasting the likely performance in 1994, about half the Treasuries surveyed expected to see higher revenues from foreign exchange and money market activities. This percentage was lower than 1993's survey, when 60% expected to see better earnings for that year. A minority 8% expect a drop in foreign exchange revenue and 26% see a fall in money market revenue. This mildly less bullish sentiment compared to the previous assessment is understandable, as Treasuries probably judge it difficult to repeat the solid performance of 1993.