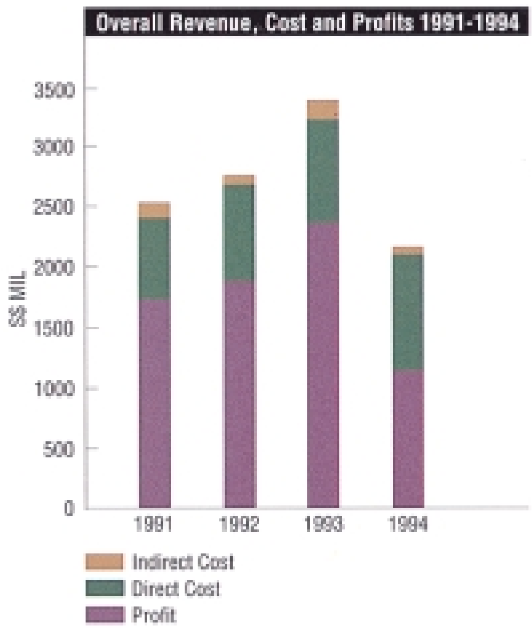
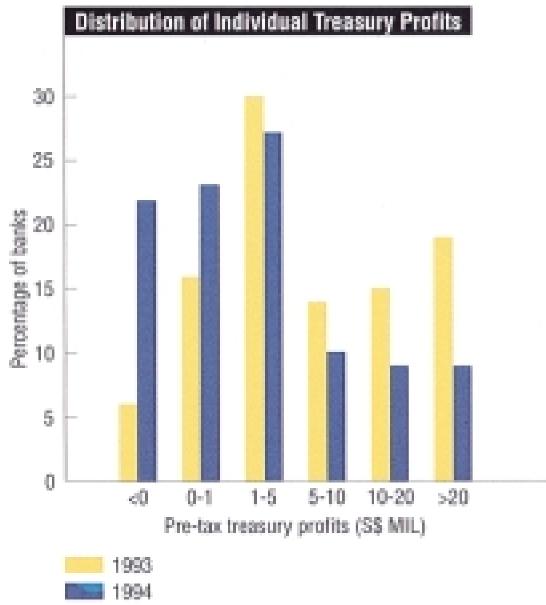
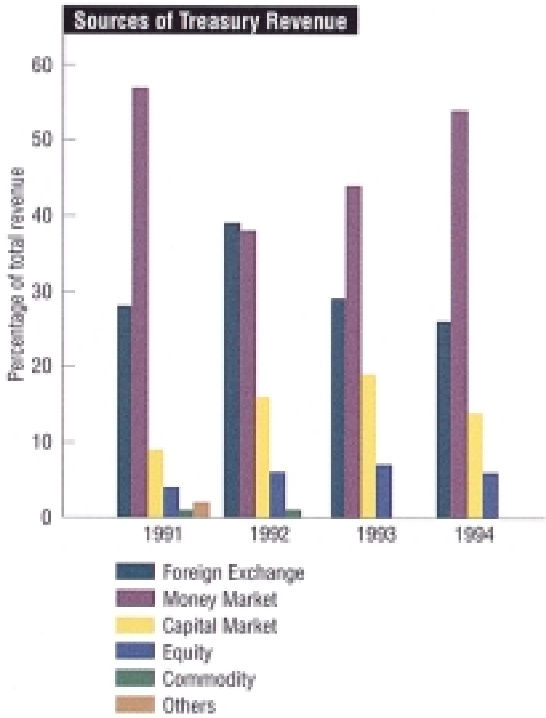
1994 was a difficult year for bank treasuries worldwide. Inspite of this, dealing rooms in Singapore managed to turn in a positive net income of $1.15 billion and feedback from this year's survey indicated continued optimism about the future. The industry is still expanding its horizons.



Profits for the industry fell by $1.2 billion from the record level of $2.35 billion set in 1993. Most of this fall can be attributed to trading losses which reduced revenue generated by $1.2 billion to $2.13 billion. As a whole, changes in costs were minimal. The small increase in direct operating costs was completely offset by a fall in the allocated costs from overseas.

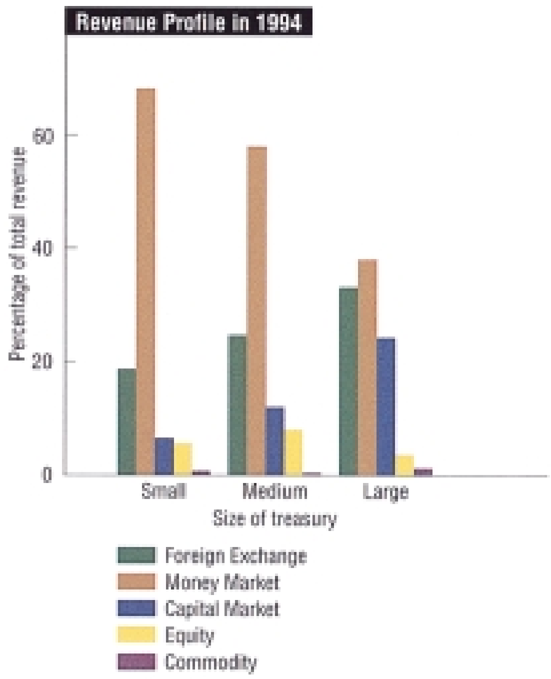


The percentage decrease in average profits was even more pronounced because of the addition of 15 new treasuries to the survey. Average profits fell by 55.6% to $7.04 million in 1994. The fall is fairly evenly distributed throughout the industry, as can be seen from an almost uniform shift in the distribution of individual Treasury profits downwards. At one end, the number of banks making losses quadrupled from 9 in 1993 to 36 in 1994. Conversely, the number of banks making more than $20 million was halved from 28 to 14.



Average revenue for the industry slipped 42% in 1994 to $13.1 million. The year was especially harsh on the interest rate markets as fixed income assets went through a period of unexpected weakness and heightened volatility. Not surprisingly, average revenue from capital market activities fell sharply by 56% to $1.9 million. Foreign exchange activities also fared poorly, with average revenue sliding by almost 50% to $3.4 million. However, the poor performance of these two sectors was cushioned by money market activities, which accounted for about half of total revenue. Money market revenue which is characterised more by customer business rather than price-making or speculation, averaged $7.0 million.

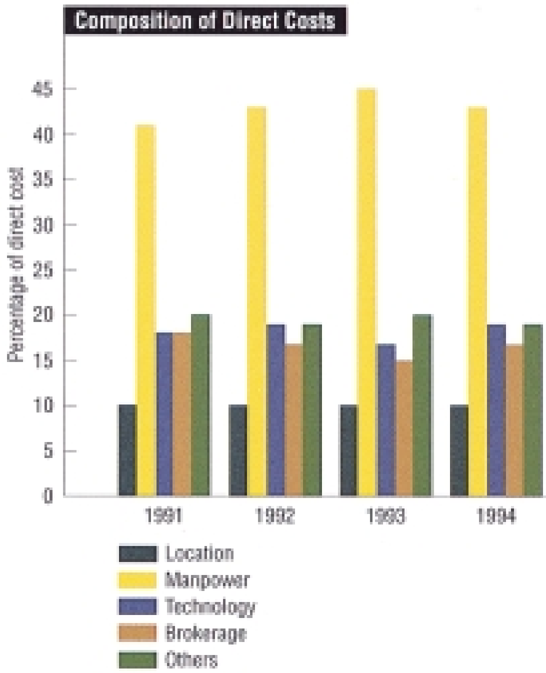
Because of this, money market dealers generated more revenue than their counterparts in other markets in 1994. The average money market dealer generated $2.5 million, compared to $0.5 million and $1.6 million for foreign exchange and capital market dealers, respectively.



The revenue profile varies slightly between Treasuries of different sizes. Large Treasuries (with daily foreign exchange turnover of more than $2 billion), having set record revenues and profits in 1993, suffered the worst setback in

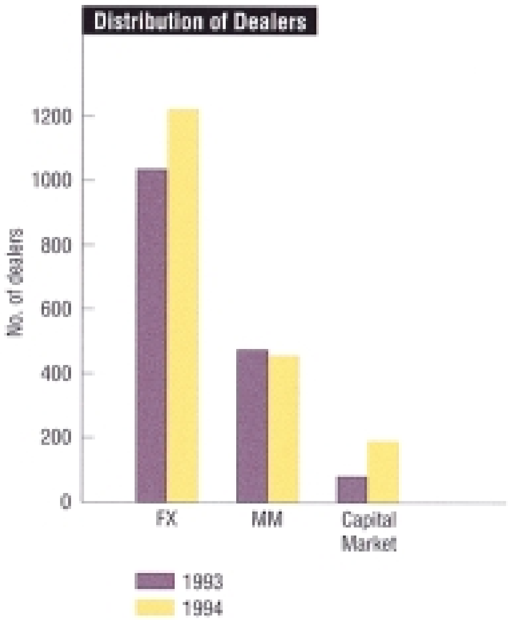
1994. Their average revenue fell by 55% to $29.4 million. Revenue per dealer slipped by almost 60% to $777,000. Most of this decrease came in foreign exchange activities, where presumably, they have a larger exposure than their smaller counterparts. As they tend to be more involved in interbank market making, they also suffered from the periodic bouts of illiquidity. Interestingly, a few of the large Treasuries recorded strong performances in the capital market sector. Fixed income instruments, interest rate structures and long-term swaps were some of the new lines of activity. Some large banks also ventured into commodity and equity-linked transactions.

Medium-sized Treasuries (foreign exchange turnover of $1-2 billion per day) were the best performers in 1994. On average, their revenue fell by only 2% to $37.0 million, higher than that of the big Treasuries. Individual dealers also fared better, turning in 20% lower revenue of $1.3 million each. For medium banks, gross income from staple activities like foreign exchange and money market remained relatively unchanged from that of 1993. The drop in revenue came in capital markets, which probably incorporated a fall in the value of their bond holdings in line with the price fall of interest rate assets. Small Treasuries derived most of their income from money market activities. It is also in this area where they experienced the largest reduction in revenue. Excluding the 15 new entrants, the average revenue of small treasuries fell by 26% to $6.2 million. Revenue per dealer fell by 40% to $1.14 million.



In 1992 and 1993, treasuries in Singapore went through a period of sharp rises in operating costs, fuelled by the escalating costs of hiring dealers. In 1994, dealers' remuneration actually fell by 1.5%. As a result, direct operating costs rose by a moderate 2%, less than the CPI inflation. But measured against the sharp fall in profits of treasuries, the dealer remuneration cost looks unhealthily inflexible. Another matter of concern is the rise in cost of support staff by 14%. A tight labour market in Singapore and new emphasis on reporting and controls continue to put upward pressure on the wages of support staff. Conditions are accentuated by Treasuries moving their regional settlement operations here. About 1 in 4 Treasuries now have their regional settlement in Singapore. To help ease this pressure, Treasuries could innovate to use support staff more efficiently. Currently, there is one support staff for every 1.3 dealers. Understandably, big Treasuries have a better ratio of 1.6. In addition, interest rate activities tend to have more support staff. Capital market activities have 2 support staff for every dealer. The dealer-support staff ratio would be improved via computerisation, automation and reorganisation. Average technology cost rose 9.3% in 1994, within which information system and dealing system costs increased by 5% and 15% respectively.

Despite the difficult conditions, the Treasury industry in Singapore continued to grow in size and sophistication in 1994. Total foreign exchange turnover rose by 11% to a daily average of $153.7 billion. This rise in turnover was not confined to the big Treasuries. In fact, the medium and small Treasuries had a proportionately larger rise in turnover than the big ones. According to this survey's categorisation, 19 banks graduated from the medium to the large group in 1994, while another 15 shifted from the small to the medium category.



The average staff strength for the industry remained unchanged at 12. This unchanged number, however, masks three significant structural shifts in the industry. Firstly, there is a disproportionately large increase in the number of foreign exchange dealers. Small and medium-sized banks doubled their foreign exchange staff while keeping their number of money market dealers unchanged. Big Treasuries on average actually increased their average number of foreign exchange dealers while reducing the number of money market ones. This shift towards foreign exchange is consistent with the intentions expressed in the 1993 manpower survey. In line with this, survey participants expect foreign exchange revenue in 1995 to rise by a far larger amount than that of money market. Secondly, there is a shift of resources away from proprietary position-taking to customer-driven business. The average number of FX proprietary traders fell from 0.75 to 0.5, whilst that of marketing persons rose from 1.5 to 1.8. Thirdly, in line with this, there is also a diversification into relatively newer areas like capital market instruments. The total number of capital market dealers rose dramatically from 80 to 195. Currently, 56 Treasuries have a fixed income trading desk. Of these, 41 also engage in fixed income sales. 24 Treasuries are setting up a fixed income desk this year, while another 40 have plans to do so in the near future.

The trading losses incurred in 1994 further highlight the importance of customer business, half of which came from outside Singapore, mainly from the Asia-Pacific region. To meet customer demand, banks have been upgrading their services. More banks operate beyond normal office hours. In 1993, 15 banks provided 24-hour service. Now there are 21. The number of banks with early morning or late night service surged to 75 from 35. In addition, more treasuries have in-house technical experts. Those with an economist or strategist located here numbered 20 in 1993 and 52 in early 1995. Banks with technical analysts increased to 38 from 26, while those with financial engineers tripled to 30.

Increasingly, banks are locating their treasury centres in Singapore. Of the 160 Treasuries surveyed, 60 have their regional headquarters here. Another 6 are risk control centres.

The outlook for treasury activity remains bright - this is the consensus opinion of participants in this survey. Revenue is expected to recover. Most banks see the strongest rebound in core businesses like foreign exchange and money market activities, while some see good potential in options and new instruments.