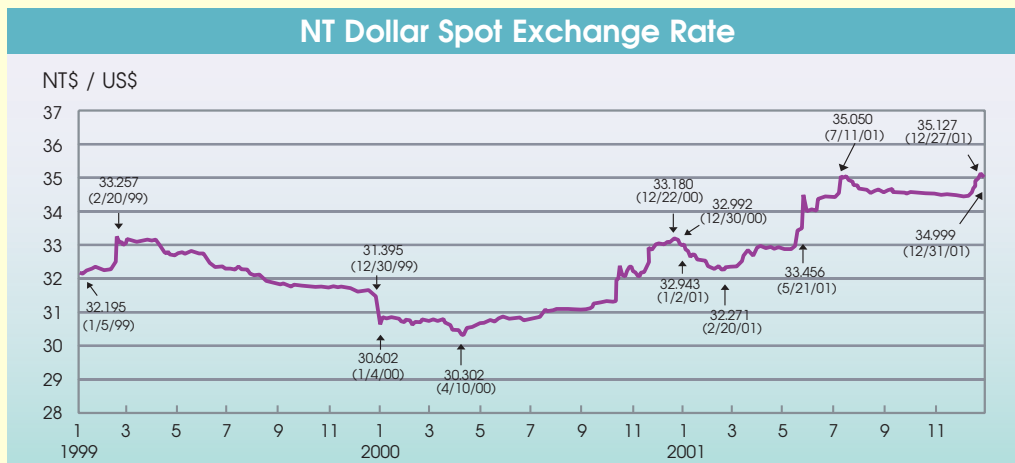


9. Foreign Exchange Market

Mild Depreciation of NT Dollar against US Dollar

At the beginning of 2001, the NT\$/US\$ exchange rate was 32.943. Due to the surge of foreign capital inflows and the shift of funds from foreign currency deposits to NT dollar deposits in local banks, the NT dollar appreciated moderately, and the exchange rate reached 32.271 on February 20, hitting the highest level for the year. In March, the NT dollar turned weak against the US dollar in line with the trend of the softening Japanese yen. For April and most of May, the NT\$/US\$ exchange rate was mostly stable and remained below the 33.0 mark. Afterwards, market rumors, the release of unfavorable economic indicators as well as the continuous downward trend of the Japanese yen depressed the NT dollar exchange rate, and as a consequence, the NT dollar exchange rate depreciated to 35.050 on July 11.



After the middle of July, due to the weakening of the US dollar in the international market and the subsequent September 11 terrorist attacks in the U.S., the NT\$/US\$ exchange rate began to appreciate. Meanwhile, to reduce banks' cost of foreign currency funds, the Bank on October 4 lowered the required reserve ratio on foreign currency deposits from 10 percent to 5 percent and further cut the ratio to 2.5 percent on November 8. The continued inflows of foreign funds into equities and the shift of funds from foreign currency deposits to NT dollar deposits, which were both buoyed by a rebound in the local stock market in November, also helped the NT dollar to rise against the US dollar. In the latter part of December, following the sharp decline in the Japanese yen stemming from growing concern over Japan's economic prospects and reports that the Japanese government would tolerate a further weakening of the yen, the NT dollar depreciated again and fell to 35.127 per US dollar on December 27, a

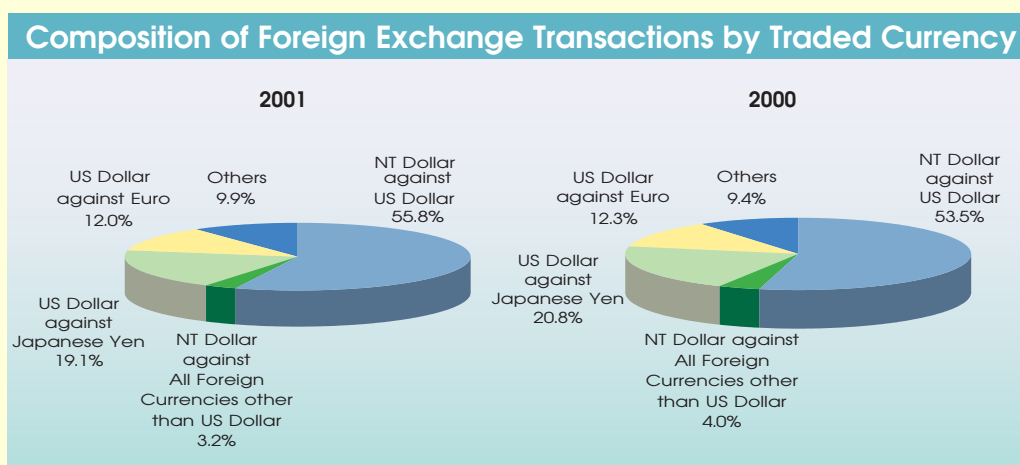
near 15-year low. At the end of 2001, the NT dollar appreciated slightly against the US dollar to finish the year at 34.999. Compared with the NT\$/US\$ exchange rate of 32.992 as of the end of 2000, the NT dollar depreciated by 5.73 percent in 2001. On a daily average basis, the NT\$/US\$ exchange rate for 2001 was 33.8, representing a depreciation of 7.62 percent against the US dollar when compared with 31.225 in 2000.

In respect of other major currencies, the NT dollar appreciated by 8.02 percent against the Japanese yen and depreciated by 0.3 percent against the euro between the end of 2000 and the end of 2001. When based on the trade-weighted average exchange rate including 15 major trading partners (weighted by the sum of imports and exports of commodities), the NT dollar depreciated by 1.14 percent between the end of 2000 and the end of 2001.

Slight Contraction in Trading in the Foreign Exchange Market

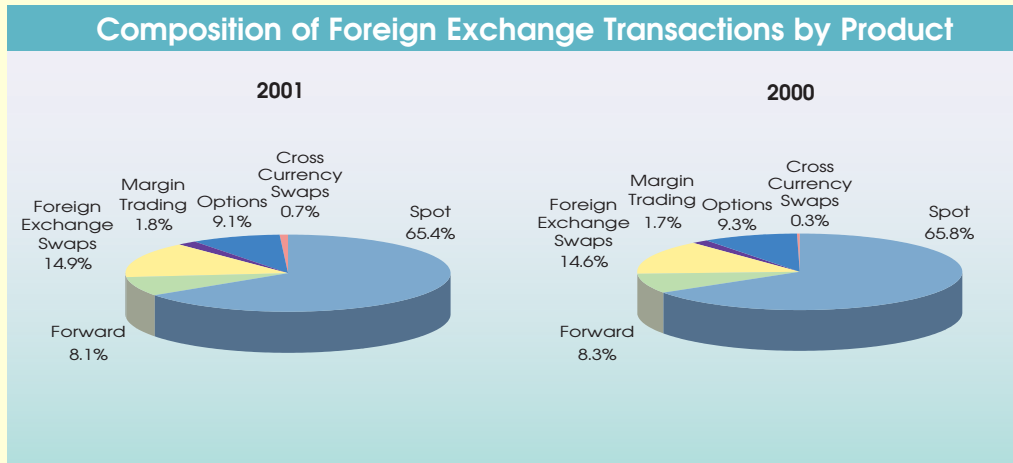
Trading in the Taipei foreign exchange market decreased slightly in 2001. After deducting double counting on the part of interbank transactions, total net trading volume in the market for the year shrank by 3.7 percent from the previous year and amounted to US\$1,160 billion. The average daily turnover stood at US\$4.71 billion, representing a decrease of 3.7 percent over the previous year. The decrease in total net turnover mainly resulted from the marked decline in transactions between US dollars and the Japanese yen.

In terms of trading partners, transactions between banks and non-bank customers accounted for 43.8 percent of total net turnover. Interbank transactions made up a 56.2 percent share, including 22.9 percent for deals among local banks and 33.3 percent for transactions between local banks and overseas banks.



As far as traded currencies are concerned, transactions in third currencies accounted for 41.0 percent of total trading volume, with trading in currency pairs of US dollar-Japanese yen

and US dollar-euro accounting for shares of 19.1 percent and 12.0 percent, respectively. NT dollar trading against foreign currencies accounted for 59.0 percent of total trading volume, of which the share of NT dollars against US dollars was 55.8 percent.



With respect to types of transactions, spot transactions accounted for the highest share with 65.4 percent of total turnover, followed by foreign exchange swap transactions with 14.9 percent, options transactions with 9.1 percent, forward transactions with 8.1 percent, margin trading transactions with 1.8 percent, and cross currency swap transactions with 0.7 percent.

Compared with 2000, cross currency swaps grew by 138.3 percent and margin trading grew by 6.3 percent in 2001. The rapid growth in cross currency swap transactions was attributable to the increased issues of NT dollar-denominated bonds in Taiwan by international financial institutions and the relaxation of the limit on overseas investment by domestic life insurance companies in the middle of 2001. However, options transactions, forward transactions, spot transactions and swap transactions decreased by 6.1 percent, 6.0 percent, 4.3 percent and 2.1 percent from the previous year, respectively.

Turnover of Major Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

	Spot	Forward	Forex Swaps	Margin Trading	Options	Cross Currency Swaps	Total
1997	750,089	106,876	152,496	150,497	26,621	2,198	1,188,777
1998	746,334	99,108	166,224	109,886	47,818	2,472	1,171,842
1999	700,233	80,945	156,967	33,484	68,768	2,711	1,043,109
2000	793,024	99,702	176,299	20,056	112,485	3,536	1,205,104
2001	758,827	93,687	172,551	21,320	105,609	8,427	1,160,421
2000-2001 Growth Rate (%)	-4.3	-6.0	-2.1	6.3	-6.1	138.3	-3.7

Source: Foreign Exchange Department, Central Bank of China.

Turnover of Other Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

	Interest Rate Swaps	Forward Rate Agreements	Interest Rate Options	Foreign Currency Interest Rate Futures	Trust Funds for Foreign Securities Investment	Commodity Price Swaps	Commodity Options	Stock Index Options	Total
1997	4,577	700	1,891	1,176	9,061	0	1,233	0	18,638
1998	3,828	586	840	1,230	15,642	17	0	0	22,143
1999	1,859	2,195	814	185	22,843	89	295	0	28,280
2000	4,097	5,417	1,471	152	39,546	201	1,541	37	52,462
2001	12,114	12,170	1,018	74	58,822	259	644	34	85,135
2000-2001 Growth Rate (%)	195.7	124.7	-30.8	-51.3	48.7	28.8	-58.2	-8.1	62.3

Source: Foreign Exchange Department, Central Bank of China.

By the end of 2001, the other forex products having been allowed to be traded in the local market included foreign currency interest rate-related products, commodity options, stock index options, commodity price swaps and trust funds for foreign securities investment. The turnover with respect to these new products posted an increase of US\$32.67 billion or 62.3 percent over the previous year to reach US\$85.14 billion in 2001. Of this amount, trust funds for foreign securities investment accounted for the largest share with US\$58.82 billion, followed by foreign currency forward rate agreements with US\$12.17 billion.

Increased Trading in the Foreign Currency Call-Loan Market

The transactions in the foreign currency call-loan market increased slightly in 2001. It largely reflected the fact that some banks increased their demand for foreign currency funds for short-term operating purposes. Total transactions in the foreign currency call-loan market for the year amounted to the equivalent of US\$859.2 billion, an increase of US\$6.2 billion or 7.8 percent over the previous year. Of this total, US dollar transactions amounted to US\$857.0 billion, reflecting an increase of 8.0 percent over 2000, and Japanese yen transactions totaled ¥195.0 billion, a decrease of 31.4 percent. The amount of euro transactions was rather small, totaling only 676 million euros.

Continued Expansion in Offshore Banking Units

At the end of 2001, there were 68 offshore banking units (OBUs) in operation. Domestic banks (including medium business banks) operated 38 of the OBUs, while the other 30 were run by foreign banks. The combined assets of all OBUs totaled US\$50.91 billion at the end of the year, having increased by US\$3.57 billion or 7.5 percent over one year earlier. Domestic bank OBUs accounted for US\$37.0 billion or 73 percent of these combined assets, and foreign bank OBUs accounted for US\$13.91 billion or 27 percent of the total.

Consolidated Balance Sheet of Offshore Banking Units in Banking System

Unit: US\$ Million

	Loans to Non-financial Institutions	Portfolio Investment	Claims on Financial Institutions	Other Assets	Total Assets= Total Liabilities	Deposits of Non-financial Institutions	Due to Financial Institutions	Other Liabilities
1999/12	15,813	4,273	18,911	2,271	41,268	8,004	30,670	2,594
2000/12	17,050	3,831	24,528	1,928	47,337	10,654	34,119	2,564
2001/12	15,721	4,206	29,773	1,206	50,906	12,429	36,522	1,955
2001/ 1	16,993	3,893	25,323	2,003	48,212	10,825	34,981	2,406
2	16,714	4,039	26,439	1,844	49,036	10,660	36,014	2,362
3	16,443	4,027	26,569	1,675	48,714	10,952	35,485	2,277
4	16,320	4,087	27,911	1,554	49,872	11,251	36,422	2,199
5	16,397	4,158	28,831	1,422	50,808	11,334	37,303	2,171
6	16,401	4,192	31,192	1,438	53,223	11,444	39,503	2,276
7	16,343	4,325	32,931	1,289	54,888	11,645	41,300	1,943
8	16,031	4,259	33,204	1,686	55,180	12,091	40,943	2,146
9	16,134	4,162	33,932	1,494	55,722	12,004	41,512	2,206
10	15,773	4,156	34,221	1,371	55,521	12,214	41,246	2,061
11	15,716	4,250	32,673	1,432	54,071	12,532	39,344	2,195
12	15,721	4,206	29,773	1,206	50,906	12,429	36,522	1,955

Source: Financial Statistics Monthly, Taiwan District, the Republic of China, Central Bank of China.

From the balance sheet analysis, the OBUs' main sources of funds were due to related offices and deposits by financial institutions that accounted for 72 percent of total liabilities. Of these, due to related offices accounted for 58 percent, deposits by financial institutions located overseas accounted for 2 percent of total liabilities, those by other financial institutions situated locally for 8 percent and inter-OBU deposits for 4 percent. In terms of the continental regions of origin, 77 percent of funds came from Asia, 16 percent from the Americas, 5 percent from Europe, and 2 percent from other regions.

The main uses of funds were due from related offices and deposits with financial institutions that accounted for the lion's share or 59 percent of total assets, of which 26 percent was due from related offices, 27 percent was deposited overseas, 2 percent with other domestic financial institutions, and 4 percent with domestic OBUs. In terms of the continental regions of destination, 61 percent of funds went to Asia, 26 percent to the Americas, 11 percent to Europe, and 2 percent to other regions.

The forex-trading turnover of all OBUs in 2001 was US\$32.71 billion, of which US\$24.08 billion was for spot transactions, US\$7.49 billion for currency swap transactions, and US\$1.14 billion for forward transactions. The total trading turnover of other new derivative products, including margin trading, options, foreign currency interest rate swaps, financial futures, foreign currency forward rate agreements, cross currency swaps and commodity price swaps, amounted to US\$16.7 billion.