

7. Financial Inspection

Pursuant to the objectives and duties stipulated in *The Central Bank of the Republic of China (Taiwan) Act*, the Bank conducts targeted examinations to ensure that monetary, credit, and foreign exchange policies are implemented effectively. The Bank has also established a report auditing system and a financial stability assessment framework to systematically monitor and assess possible sources of potential risks. The Bank adopts appropriate policies accordingly, in a timely manner to achieve the operational goal of financial stability. The following are the main tasks conducted in 2021.

On-Site Examination

Targeted examinations in 2021 were conducted on real estate mortgage loans and related fund flows, loan pricing policies, foreign exchange inward and outward remittances, customers' foreign exchange settlement of loans from abroad, derivatives transactions involving NTD exchange rates, deficiency corrections for forward exchange transactions, and counterfeit money processing of NTD and foreign currencies, etc.

Follow-up on Examination Findings

To ensure the effectiveness of the Bank's policies, the Bank continued to track whether the financial institutions under inspection had improved their operations based on the findings from the Bank's targeted examinations as well as the results of the Financial Supervisory Commission's financial examinations related to the Bank's operations or regulations. A particular focus in 2021 was on violations of the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*, followed up by administrative actions by the Bank.

Strengthening Off-Site Monitoring

In view of changes in financial conditions and amendments to financial regulations, the Bank constantly reviews and revises all relevant reporting forms and contents of statistical data submitted by financial institutions. Developments related to off-site monitoring in 2021 included the following:

- (1) To strengthen its effectiveness of off-site monitoring of domestic banks, the analytical items and principles of the report auditing system CARSEL were reviewed and modified.
- (2) Relevant reports and their analytical categories of financial institutions were modified in accordance with the amendments to "the Methods for Calculating Bank's Regulatory Capital and Risk-Weighted Assets" and the *Regulations Governing Foreign Bank Branches and Representative Offices*, as well

as the announcements and modifications of related regulations and administrative orders including the *Regulations Governing Domestic Juridical Persons Opening Accounts for the Purpose of Handling Loan-Related Receipts and Disbursements in Offshore Banking Units*.

- (3) In accordance with the revisions to the *Country Exposure Report* and its related analytical programs, banks were required to submit the completed Reports through the Bank's Financial Information Online Reporting System.

Improving Information Transparency of Financial Institution Operations

The Bank regularly compiles and publishes financial institution statistics, such as *Condition and Performance of Domestic Banks (Quarterly)* and *Business Overview of Financial Institutions (Yearly)*. All related information is disclosed on the Bank's website and available for inquiry and download, with the aim of strengthening information transparency of financial institutions' operations and to reinforce market discipline.

Financial Stability Assessment

The Bank regularly conducts analysis on commercial banks' business operations and their risk exposure so as to identify potential risks to the stability of the overall financial system. It also compiles financial soundness indicators and publishes the *Financial Stability Report* to keep the public updated on the state of the domestic financial system and sources of potential risks and to aid cross-border communication and information sharing.

To enhance analytical effectiveness regarding financial stability, the Bank continued to improve the graphical user interface (GUI) of credit and market risk models and estimated domestic banks' value at risk (VaR) and unexpected losses from related risks, so as to capture the vulnerability of the banking system and to take preemptive measures.

In addition, climate change-related issues, which have increasingly drawn supervisory authorities' attention, have created new challenges and risks to central banks' conduct of monetary policy and the statutory mandate to maintain financial stability. In this view, the Bank devised strategies for addressing climate change issues, aiming to mitigate the impacts of related risks on domestic economic and financial systems so as to maintain financial stability and foster sustainable development of Taiwan's economy.

International Cooperation in Financial Supervision

In 2021, the Bank continued to actively engage in international cooperation related to financial supervision, such as attending the 12th SEACEN Meeting of Deputy Governors in Charge of Financial

Stability and Banking Supervision, the 23rd SEACEN-FSI Conference of the Directors of Supervision of Asia-Pacific Economies, and the 34th Meeting of Directors of Supervision of SEACEN Members (all held in virtual format). The Bank's delegates also attended international teleconferences, online courses, and webinars on financial supervision and financial stability.