

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 the effective implementation of monetary, credit, and foreign exchange policies. 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 2023.

Targeted Examination

Targeted examinations in 2023 were conducted on real estate mortgage loans and related fund flows and loan concentration, foreign exchange derivatives business involving the NTD exchange rate, inward and outward foreign exchange remittances, operations of foreign currency exchange counters, procedures for handling counterfeit notes denominated in NTD and foreign currencies, etc.

Follow-up on Examination Findings

To ensure the effectiveness of the Bank's policy implementation, 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 FSC's financial examinations related to the Bank's operations or regulations. The financial institutions violating the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* were subjected to administrative actions by the Bank.

Strengthening Off-Site Monitoring

The report auditing system was utilized to evaluate financial performance, business status and legal compliance of individual financial institutions as a reference for the supervision and inspection by the Bank and relevant authorities. Moreover, to reflect changes in the evolving financial environment and recent regulatory amendments, the Bank reviewed and modified relevant content requirements for the report auditing. The Bank also leveraged visualization tools to improve the efficacy of data processing and analysis.

Improving Information Transparency of Financial Institution Operations

The Bank regularly compiles and publishes statistics on financial institutions, 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.

In line with the government's open data policy, the financial and operational performance datasets of financial institutions are also regularly uploaded to the designated open government data platform.

Financial Stability Assessment

The Bank regularly conducts an analysis of financial institutions' business operations and their risk exposures 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, in 2023 the Bank continued to improve the graphical user interface of credit and market risk models and estimated domestic banks' value at risk (VaR) and unexpected losses from related risks. The Bank also compiled the Taiwan Financial Vulnerability Index to identify vulnerabilities in the financial system. Moreover, the Bank collected and studied the methodologies of major central banks in assessing climate change-related risks of the financial industry, using them as a basis for developing an in-house model for climate risk assessment in the future.

International Cooperation in Financial Supervision

In 2023, the Bank continued to actively engage in international cooperation related to financial supervision, such as participating in the 14th SEACEN Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision, the 25th SEACEN-FSI Conference of the Directors of Supervision of Asia-Pacific Economies, and the 36th Meeting of Directors of Supervision of SEACEN Members.