

4. Financial Inspection

Pursuant to the *Central Bank of the Republic of China (Taiwan) Act*, the CBC conducts target examinations to ensure effective enforcement of policies related to monetary, credit, and foreign exchange management. To fulfill its mandate of financial stability, the CBC has established an off-site monitoring system and a financial stability assessment framework to systematically monitor and assess potential risks and risk sources in order to deploy appropriate policies and measures in a timely manner.

On-Site Target Examinations

Target examinations in 2015 inspected the handling of 921 earthquake reconstruction loans, collateralized loans for industrial area land, housing loans, mortgage information disclosure, required reserves, banks' offered rates, counterfeit money detection, foreign exchange transactions, foreign exchange derivatives, foreign exchange remittances, and the correctness of reporting to the CBC, etc.

Follow-up on Banks' Compliance with Examination Findings

In 2015, in light of the CBC's target examination findings and the Financial Supervisory Commission's examination findings related to the CBC's operations or regulations, the CBC continued monitoring how the examined financial institutions had improved and urged them to rectify related deficiencies, thus ensuring successful implementation of the CBC's policies.

Off-Site Monitoring

Taking into consideration financial conditions, the amendments to relevant laws and regulations as well as the monitoring of financial institutions' operations, the CBC reviews and amends as necessary the format and content of periodical statistical data submitted by financial institutions. In 2015, developments related to off-site monitoring for the above purposes included the following:

- (1) In line with the new regime of IFRS, the reporting system and format for domestic banks, bills finance companies and credit cooperative associations were amended accordingly.
- (2) A compliance and liquidity indicator, "Liquidity Coverage Ratio (LCR) for domestic banks," was added. Assessment criteria for the coverage ratio of unsound credit assets were adjusted as well.
- (3) "Accumulated loss," "profit growth rate," and "net profit ratio" were incorporated in internal management commentaries for local branches of foreign and Mainland Chinese banks. Meanwhile, the weights and classifications of relevant assessment criteria were adjusted.

- (4) The assessment criteria for the compliance indicators “credit granting ratios for members and non-members of credit departments of farmers' and fishermen's associations” were adapted to the amendment to the relevant laws and regulations.

Financial Institution Information Transparency

The CBC regularly compiles and publishes financial institution statistics, such as *Condition and Performance of Domestic Banks (Quarterly)* and *Major Business Statistics of Financial Institutions*, as well as the latest financial regulations. It also discloses related information on its website. As a result, operational transparency of financial institutions has strengthened, and market self-discipline has been reinforced.

Financial Stability Assessment

The CBC compiles financial soundness indicators and develops a macro model based on Basel III framework for evaluating banks' market risks, so that the relevant authorities, market participants, and the public are kept informed of the status and sources of financial system risks in Taiwan. In 2015, the ninth *Financial Stability Report* was published. The publication also promotes cross-border communication and information sharing with regard to Taiwan's financial stability and surveillance.

International Cooperation in Financial Supervision

In 2015, the CBC continued to actively engage in international cooperation related to financial supervision, as follows:

(1) Participating in international meetings/conferences

A. The sixth SEACEN Financial Stability Forum and sixth Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision.

B. APEC FRTI Regional Seminar on Capital Planning and Stress Testing.

(2) Hosting the SEACEN Seminar on Liquidity Risk Management and Supervision.

- (3) Completing questionnaires from the SEACEN Centre and the Asian Development Bank, respectively. The former was to be used for SEACEN learning and research needs analyses. The latter was regarding the APEC Financial Regulators Training Initiative.