

## 4. Financial Inspection

Pursuant to the objectives and duties stipulated in *the Central Bank of the Republic of China (Taiwan) Act*, the CBC conducts targeted examinations to ensure that monetary, credit, and foreign exchange policies are implemented effectively. The CBC has also established an off-site monitoring system and a financial stability assessment framework to systematically monitor and assess potential risks and their possible sources. Once sources of problems are identified, appropriate policies can be adopted in a timely manner to achieve the operational goal of financial stability.

### On-Site Examination

Targeted examinations in 2016 included 921 earthquake reconstruction loans, commercial banks' offered interest rates, required reserves, checking deposits account file creation, counterfeit money detection, foreign exchange derivatives transactions, foreign exchange remittances, and correctness of reporting to the CBC, etc.

### Follow-up on Examination Findings

Based on the findings from the CBC's targeted examinations as well as the results of the Financial Supervisory Commission's financial examinations that are related to the CBC's operations or regulations, the CBC continued to track whether the financial institutions under inspection had improved their operations to ensure the effectiveness of the CBC's policies.

### Off-Site Monitoring

To reflect changing financial conditions and regulatory amendments and to fully understand the dynamics of financial institutions' business operations, the CBC reviews and revises as necessary all relevant reporting forms and contents of statistical data submitted by financial institutions. Developments related to off-site monitoring in 2016 included the following:

- (1) To fully understand associated default risks of commercial banks' business operation in financial derivatives, the CBC reviewed the related reporting format and content for domestic banks and local branches of foreign banks and Mainland Chinese banks in Taiwan.
- (2) The reporting format and content of "interest rate sensitivity analysis" and "domestic bank lending to Mainland Area" were modified to meet the needs for comprehensive financial supervision.
- (3) Additional indicators for domestic banks' asset quality, namely "non-performing ratio of house-purchasing loans" and "non-performing ratio for construction loans," were included. The statutory minimum for Capital adequacy indicators, including "eligible capital to risk-weighted assets

ratio," "tier 1 capital ratio," and "common equity ratio," were also adjusted.

- (4) A new indicator, "ratio of amount due from the head office and overseas branches to total assets," was added to better inform the assessment of management soundness in local branches of foreign banks and Mainland Chinese banks. In addition, the weights and classification standards of relevant assessment criteria were also adjusted.
- (5) In response to pertinent regulatory changes, grading criteria of the asset quality indicator "non-performing loan ratio" of credit departments of farmers' associations were adjusted.

### **Improving Information Transparency of Financial Institution Operations**

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 the 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 2016, the tenth Financial Stability Report was issued. These publications help promote cross-border communication and information sharing with regard to Taiwan's financial stability and surveillance.

### **International Cooperation in Financial Supervision**

In 2016, the CBC continued to actively engage in international cooperation related to financial supervision, such as the seventh SEACEN Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision.