



跨越60 共創新世代

**2018**

**CHINA DEVELOPMENT  
FINANCIAL**

CORPORATE SOCIAL  
RESPONSIBILITY  
REPORT



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# Chairman's Message

## Cross 60, Creating New Era

As CDF celebrates its 60th birthday this year, we continue to implement our core corporate values of “excellence, innovation, care, and giving back,” aiming for sustainable operations. In 2018, CDF continued to strive towards promoting economic development and providing comprehensive financial services. Thanks to the hard work of everyone in the company, our four major businesses – life insurance, commercial banking, securities, and venture capital/private equity – have delivered stellar annual financial results, with consolidated profit of NT\$12.815bn after taxes (including non-controlling interest of NT\$4.962bn), for EPS of NT\$0.54 and consolidated ROE of 5.35%.

While serving shareholders' best interests and striving for stronger financial performance, we also care about global sustainable development. As such, we have continued to pursue our goal of sustainable management, following the international integrated report structure to invest in the five capitals: financial, intellectual, human, natural, and social relationships; in this way, we have actively executed our five core CSR strategies: facilitate sustainable governance, drive sustainable finance, cultivate sustainable talent, foster sustainable environment, and share sustainable values. We hope to expand the scope of our core competencies to environmental, social, and corporate governance aspects, maximizing the positive sustainable value that the financial industry can create. Looking at 2018 sustainability performance, the company was included in the FTSE4Good Emerging Index and FTSE4Good TIP Taiwan ESG Index for the second year, won the 2018 Commonwealth Magazine Corporate Citizen Award and ranked as top 33rd among large corporations. We also won the Top 50 Platinum Award for Corporate Sustainability Reports, Top 50 Overall Enterprise Performance Award, and the Social Inclusion Award in 2018 from the TCSA, attesting to the strong recognition earned for the company's long-term commitment to corporate social responsibility by domestic and foreign institutions that conduct sustainability assessments.

Regarding corporate governance, we have continued to optimize the board of directors' supervision and management functions, adhere to good faith management, and increase information transparency. In 2018, the company was selected into the TWSE Corporate Governance 100 Index and TWSE RAFI® Taiwan High Compensation 100 Index (for the fifth consecutive

year). Moreover, ESG issues have been integrated into our investment analysis and decision-making process. CDF's subsidiaries, including China Life Insurance, KGI Bank, KGI Securities, CDIB Capital Group, and KGI SITE have signed the “Stewardship Principles for Institutional Investors”, enacted by the TWSE, meeting responsible-investing standards. To strengthen information security controls, the information security team, within the Information Technology Department, was upgraded to an independent department, combating terrorism financing with the highest administrative level.

With regard to the environment and in response to the Paris Agreement signed by the UN Climate Change Conference at the end of 2015, we have not only reduced emissions through specific actions within the company, but have also utilized our core competencies to actively promote green finance through investment, lending and underwriting businesses. In 2018, KGI Bank was the Mandated Lead Arranger of the first solar power station syndicated loan in Taiwan and also participated in the Asia's first syndicated loan for a commercial-scale wind farm, in order to back Taiwan's first offshore wind farm demonstration project, in the hope of invigorating capital flows and to provide strong support for the green-energy industry. To duly manage risks and opportunities arising from climate change, CDF signed to support the Task Force on Climate-Related Financial Disclosures (TCFD) in December 2018, formally incorporating TCFD into corporate governance.

In terms of social inclusion, CDF expanded the scale of financial inclusion projects in 2018, including the Taxi Driver's Small Revolving Loan Project and the Giving You a Hand Revolving Loan Promotion Project, benefitting economically disadvantaged citizens. CDF also pioneered Taiwan's first FinTech Regulatory Sandbox Experiment project enabling mobile identity authentication, in cooperation with Chunghwa Telecom, helping young people or micro-business owners who have yet to build a relationship with banks to gain access to reasonable financial services. CDF believes that employees are the most important asset of the company. Therefore, CDF continues to optimize employee caring and health care projects. In 2018, the Taiwan Institute of Psychotherapy counseling hotline was offered to provide employees with a channel for counseling. Moreover, we strive to combine social engagement with our core businesses to create a win-win environment. With our long-term competencies in venture capital and private equity businesses, CDIB Capital Innovation Accelerator is actively building an international scale resources platform, providing start-up entrepreneurs with free event space and allowing them

to share resources anytime, anywhere, through various entrepreneurship events. Increased interaction among companies, investors, and startups will lead to a win-win situation for startups, strategic investors, and Innovation Accelerator Fund performance.

We strongly believe that corporations are an integral part of society, and only when corporations provide extensive care and feedback to their societies can they continue to develop sustainably. Going forward, we will continue to focus on our sustainability strategies, integrate our core competencies in the financial industry, and duly fulfill our corporate social responsibility mandate to achieve UN Sustainable Development Goals. Whether engaging in corporate management, business development, or interacting with stakeholders, we will continue to conduct responsible investing and financial inclusion, while carrying through with our core corporate values of “excellence, innovation, care, and giving back.”



Chairman

A handwritten signature in black ink, appearing to read "Ch. Jh. Chay".



## Corporate Governance

- Selected as a component stock of **FTSE4Good Emerging Index** and **FTSE4Good TIP Taiwan ESG Index** for 2 consecutive years
- Selected as a component stock of TWSE Corporate Governance 100 Index by TWSE, both TWSE RAFI® Taiwan High Compensation 100 Index and TWSE RA Taiwan Employment Creation 99 Index for 5 consecutive years
- Won 2018 Taiwan Corporate Sustainability Awards – **Top 50** Overall Enterprise Performance Award and **Top 50** Platinum Award for Corporate Sustainability Reports
- Selected for 2018 Commonwealth Magazine Corporate Citizen Award for the first time – Ranking **Top 33** among large corporations
- Established Head of Corporate Governance

## Social

- **SROI** (Social Return On Investment) for Heritage 100 & Tutelage 100: **4.45**
- **Taiwan's 1st** FinTech Regulatory Sandbox Experiment project in cooperation with Chunghwa Telecom, introducing a financial inclusion project enabling mobile identity authentication
- “CDIB Capital Innovation Accelerator”— **Taiwan's largest** integrated platform of entrepreneurial resources; with **5,948** people participating in **128** events
- “Taxi Driver's Small Revolving Loan Project” and “Giving You A Hand” Revolving Loan Promotion Project won Social Inclusion Award in 2018 from TCSA; “Giving You A Hand” approval rate of **75%**
- Employee total training hours: **227,830**; average training hours per employee: **37.3**
- Received “Exercise Enterprise Certification” and “Healthy Workplace Certification”, attesting to the Company's commitment to employee health
- Total public welfare expenditure: **NT\$68.95mn**

## Environmental

- Mandated Lead Arranger of **Asia's 1st** syndicated loan for a commercial-scale **wind farm**, backing the construction of Taiwan's first offshore wind farm demonstration project
- Mandated Lead Arranger of **Taiwan's 1st** syndicated loan for a solar power station
- The three cases of special project financing (offshore wind farm, solar power station and floating solar power station) are estimated to reduce **3.59mn** metric tons of CO<sub>2</sub>e per year
- Spending on environmental protection measures: **NT\$56.56mn**
- Signed onto **TCFD** in December 2018
- Paperless operations, with paper used down **69.8%**
- Scope 3: Coverage of GHG emissions for CDF and subsidiaries business travel reached **95%** of all employees

## About the Report

To strengthen communication with our stakeholders and the general public, China Development Financial (CDF) has been publishing CSR reports (hereafter referred to as the Report) annually through which to disclose the Company's sustainability performance on the economic, environmental, social and governance aspects. The 2017 Report, published in June, 2019, discloses the Company's sustainability performance from January 1 to December 31 2018.

### Scope of the Report

The scope of this Report encompasses CDF and its affiliates, including KGI Bank, KGI Securities, CDIB Capital Group and China Development Asset Management Corp., and details the operating activities held in Taiwan. Financial data is based on the information of 2018 AGM Annual Report and includes a 35% owned subsidiary, China Life Insurance as well as overseas affiliates. (The consolidated financial statements of CDF are available in the 2018 AGM Annual Report.) Human resources data include overseas subsidiaries. Information regarding social philanthropy covers activities organized by China Development Financial Holding Foundation (CDF Foundation) and KGI Charity Foundation.

This report cites information and data provided by CDF, its affiliates and the foundations. If the data scope or calculation method is different from the previous year, explanation will be given. All Financial indicators have been audited by certified public accountants and make public. Note that all figures cited are denominated in NT Dollars.

### Reporting Guidelines

Organization	Guidelines
Global Reporting Initiative (GRI)	The GRI Sustainability Reporting Standards (GRI Standards):Core Option
International Integrated Reporting Council (IIRC)	Integrated Reporting Framework
United Nations	<ul style="list-style-type: none"> <li>Sustainable Development Goals (SDGs)</li> <li>Global Compact</li> </ul>
Taiwan Stock Exchange Corporation	<ul style="list-style-type: none"> <li>CSR Best Practice Principles for TWSE/GTSM Listed Companies</li> <li>Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports</li> </ul>

### Third Party Assurance

The information and data disclosed in this Report are certified by the certification authority and follow the standards as follows

Standard	Agent
ISAE 3000 Limited Assurance	Deloitte & Touche
International Financial Reporting Standards (IFRS)	Deloitte & Touche
<ul style="list-style-type: none"> <li>ISO14001 Environmental Management System</li> <li>ISO14064-1 GHG Inventory Verification</li> <li>ISO50001 Energy Management System</li> <li>ISO27001 Information Security Management System</li> </ul>	British Standards Institution (BSI) SGS Taiwan Ltd.

Note: Full assurance statement is provided in the appendix.

### Report Publication

CDF issues corporate social responsibility reports every year. The previous report was issued in June 2018. The Company's annual CSR reports, available in Mandarin and English, are provided under CSR section on CDF's website. A digital version is available for browsing or downloads at:

	<a href="https://www.cdibh.com/CSRdocument/2/2018CSRReport.pdf">https://www.cdibh.com/CSRdocument/2/2018CSRReport.pdf</a>
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Company Website	www.cdibh.com
CSR Website	www.cdibh.com/csr/en/



CDF website



CSR website

# Business Development

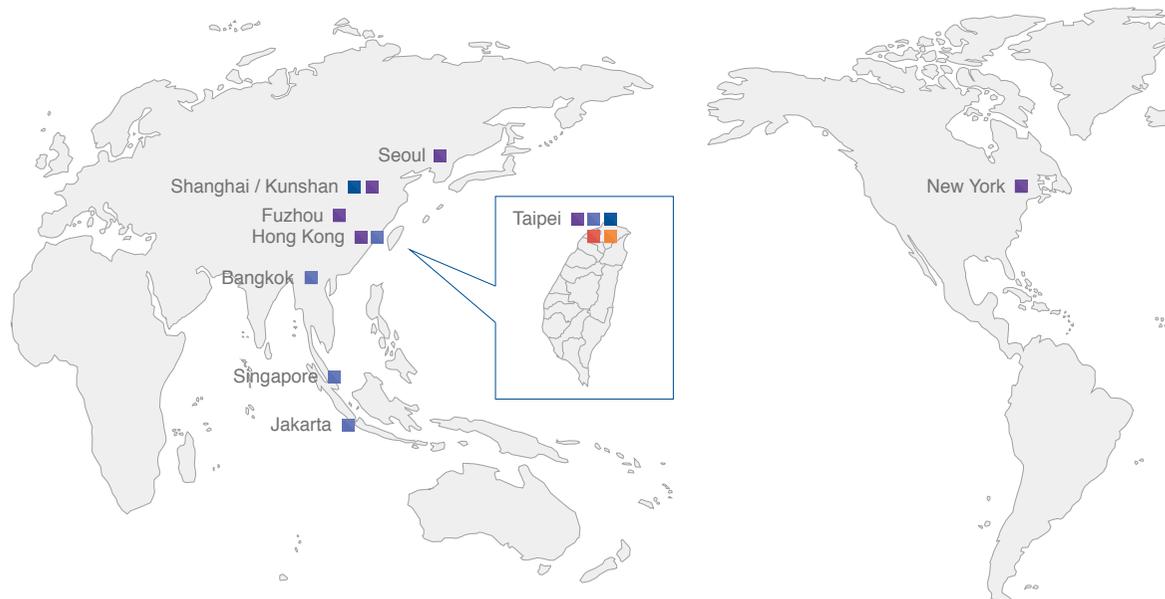
## About CDF

China Development Financial (CDF) was established in 2001. Its key subsidiaries are China Life Insurance, KGI Bank, KGI Securities and CDIB Capital Group. In our endeavors to elevate shareholder ROE, we are also committed to fulfilling corporate sustainability responsibilities. While pursuing solid long-term returns, CDF also hopes to make a meaningful impact on society and investee companies and maximize the positive sustainability values it can create.

With over 500,000 shareholders, CDF has one of the largest numbers of shareholders among Taiex-listed companies. As of December 31, 2018, total consolidated assets were NT\$2.7tn and consolidated equity was NT\$223.6bn.

With 60 years of experience in the domestic principal investment market, CDF has been an important driving force in the process of Taiwan's industrial development.

Going forward, CDF will continue to boost its life insurance, commercial banking, securities, and venture capital/private equity business to offer a full range of quality services as our customers' most reliable partner. CDF aspires to become a leading financial institution in the Asia Pacific region



KGI Bank

Deposits/loans, credit cards, wealth management, consumer banking, corporate banking, global markets, and foreign exchange transactions

Taipei, Shanghai/Kunshan



KGI Securities

Brokerage, wealth management, proprietary trading, underwriting, fixed-income, and a variety of derivative products

Taipei, Hong Kong, Singapore, Bangkok, Jakarta



CDIB Capital Group

Venture capital, private equity, and asset management

Taipei, Shanghai/Kunshan, Fuzhou, Hong Kong, Seoul, New York



China Development Asset Management Corp.

Debt valuation, acquisition and management, accounts receivable acquisition and overdue accounts receivable management for financial institutions

Taipei



China Life Insurance

Various insurances for individuals and investment activities in compliance with laws and regulations

Taipei

Company Name	China Development Financial
Stock Code	2883
Date of Establishment	December 28, 2001
Chairman	Chia-Juch Chang
President	Alan Wang
Total Number of Employees	6,762
Total Assets	NT\$2.7tn
Paid-in Capital	NT\$149.6bn
Total Number of Service Locations	338
Company Address	No. 125, Sec. 5, Nanjing E. Rd., Songshan Dist., Taipei 10504, Taiwan, R.O.C.



Chapter

1

Excellence  
Sustainability Strategy

# 1.1 Material Issues

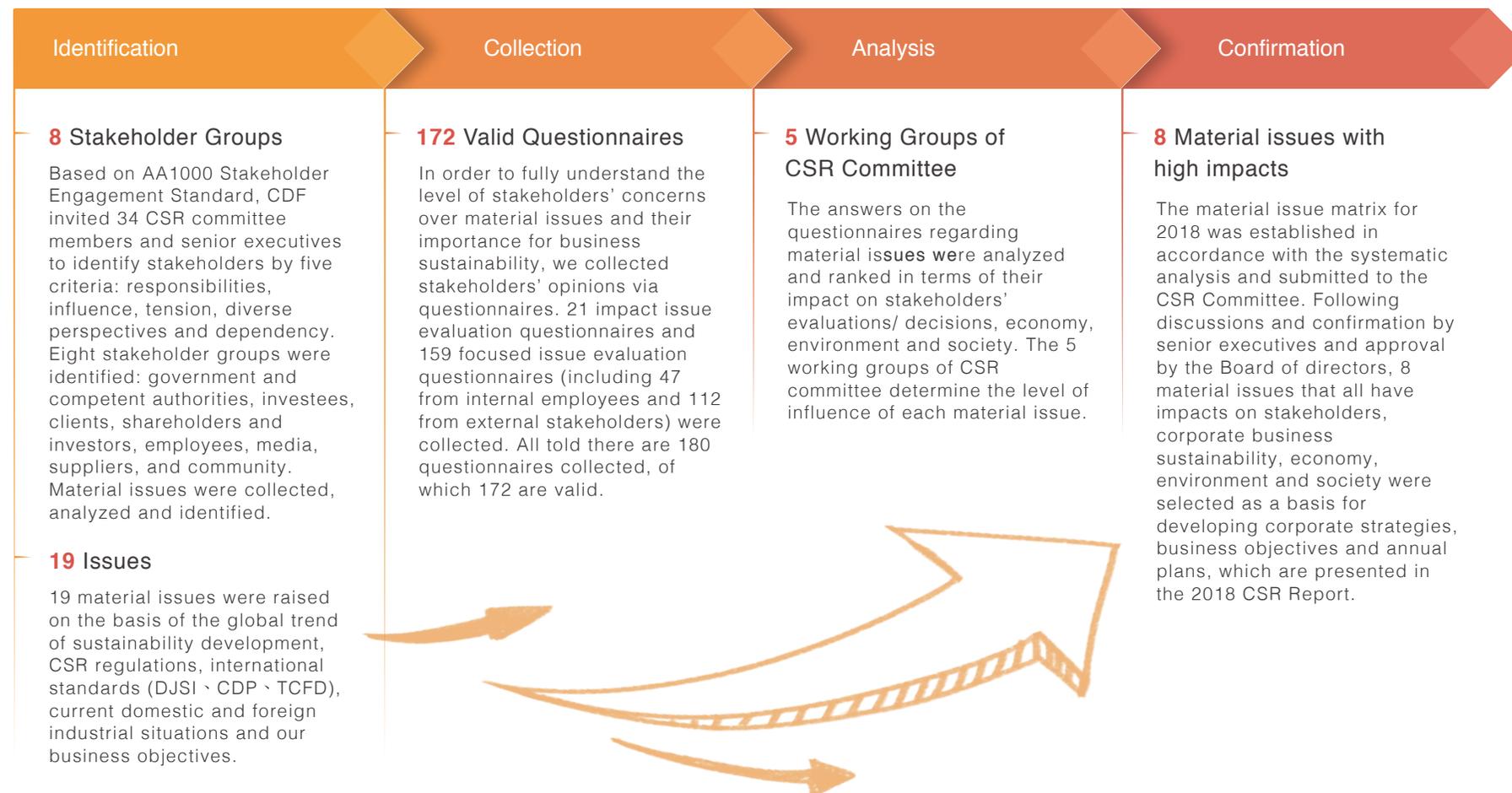
## 1.1.1 Stakeholder Engagement

### Material Issues Identification

CDF emphasizes stakeholders, expecting to incorporate issues they consider important into CDF's goal of business sustainability. We have actively maintained good interactions with stakeholders via various channels of communication. We have collected related issues of economic, environmental, social, and governance of which our stakeholders

may concern about and their impacts on the company's sustainable management. We have constructed corporate strategies, business objectives and annual plans based on the material issues and presented in the 2018 CSR Report.

### Stakeholder identification and material issue analysis



## Stakeholder Engagement

Stakeholder	Importance to CDF	Issues	Method of communication	Frequency and performance in 2018
Government and competent authorities	Government and the competent authorities policies have direct impact on the direction of CDF's business operation	<ol style="list-style-type: none"> <li>1. Compliance</li> <li>2. Corporate governance</li> <li>3. Risk management</li> <li>4. Information security</li> <li>5. Operating performance</li> </ol>	<ul style="list-style-type: none"> <li>• Proactively participate in policy discussions and seminars organized by the competent authorities</li> <li>• Comply with supervision and inspections by competent authorities</li> <li>• Visit competent authorities and create opportunities for direct communication</li> </ul>	<ul style="list-style-type: none"> <li>• KGI Bank and KGI Securities became signatories of TWSE's Stewardship Principles for Institutional Investors and reported as scheduled</li> <li>• Participated in discussions and panels held by competent authorities; in 2018, CDF cooperated with the TWSE and the Banking Bureau to promote the stewardship principle via public forum</li> <li>• Selected as component stock of <b>TWSE RA Taiwan Employment Creation 99</b> Index and <b>Taiwan High Compensation 100</b> Index for <b>5</b> consecutive years</li> <li>• Periodically responded to irregular inspections and offered information on real-time basis</li> </ul>
Investees	Performance of the investees affects the profitability of CDF	<ol style="list-style-type: none"> <li>1. Operating performance</li> <li>2. Sustainable development strategies</li> <li>3. Remuneration and talent development</li> <li>4. Workplace health and safety</li> <li>5. Waste management</li> </ol>	<ul style="list-style-type: none"> <li>• Participate in investees' shareholders meetings and Board meetings and exercise voting rights</li> <li>• Hold roadshows to share economy and industry updates with investees</li> <li>• Visit and engage in various activities organized by investees</li> </ul>	<ul style="list-style-type: none"> <li>• Attended 79 shareholder meetings and 34 board meetings of investees</li> <li>• Hosted roadshows to visit <b>396</b> companies</li> </ul>
Clients	Premium quality of customer service experience can bring stable revenue growth to CDF	<ol style="list-style-type: none"> <li>1. Service quality and customer experience</li> <li>2. Information security</li> <li>3. Risk management</li> <li>4. Operating performance</li> <li>5. Corporate governance</li> </ol>	<ul style="list-style-type: none"> <li>• Advertisement and social media</li> <li>• 24-hour service hotline, complaint hotline and website visitor message board</li> <li>• Customer Care Committee meeting to establish customer-care mechanism</li> <li>• Customer satisfaction survey</li> <li>• Wealth management lectures and Wealth Management Seminar</li> </ul>	<ul style="list-style-type: none"> <li>• Advertisements and social media: published periodically</li> <li>• 117,448 Facebook fans/ 65,737 LINE friends</li> <li>• Monthly Customer Care Committee meeting</li> <li>• Customer satisfaction ratio: KGI Bank <b>99.22%</b> / KGI Securities <b>97.75%</b></li> <li>• KGI Bank held 222 wealth management VIP events with <b>7,145</b> participants; KGI Securities organized 511 wealth management seminars attended by <b>11,352</b> customers</li> </ul>
Shareholders and investors	Trust and support from shareholders and investors are the pillars of CDF's sustainable operation	<ol style="list-style-type: none"> <li>1. Operating performance</li> <li>2. Corporate governance</li> <li>3. Risk management</li> <li>4. Information security</li> <li>5. Compliance</li> </ol>	<ul style="list-style-type: none"> <li>• News release/ material information: timely disclosure and announcement via media/ Market Observation Post System, such as corporate governance, key business developments, business results, etc.</li> <li>• Shareholders meeting</li> <li>• Investor conference (Taiwan/abroad)</li> <li>• Establish shareholder services and investor relations contact window</li> <li>• Meet analysts from domestic and foreign institutions</li> <li>• Investor forums in Taiwan and abroad</li> </ul>	<ul style="list-style-type: none"> <li>• News release/ material information: 196 Chinese/ English material information and announcements</li> <li>• Hold 1 shareholders meeting and published annual reports</li> <li>• Two domestic investors conferences and two online investors conferences annually</li> <li>• Periodically hold overseas investor conference: <b>3</b> overseas conference in 2018</li> <li>• Visited <b>29</b> important investors in Hong Kong, Singapore and Europe</li> <li>• Regular two-way communication with investors</li> <li>• Hosted 84 analysts (over 64 visits) from domestic and foreign institutions</li> <li>• Invited to participate in four international investor forums (1 in Taiwan, 3 overseas); visited total of 31 companies all told</li> </ul>

Stakeholder	Importance to CDF	Issues	Method of communication	Frequency and performance in 2018
Employees	Employees are the foundation of sustainable development	<ol style="list-style-type: none"> <li>1. Remuneration and talent development</li> <li>2. Operating performance</li> <li>3. Information security</li> <li>4. Compliance</li> <li>5. Workplace health and safety</li> </ol>	<ul style="list-style-type: none"> <li>• Internal websites or emails to provide information</li> <li>• Labor-management meetings</li> <li>• Labor union</li> <li>• Employee opinions mailbox</li> </ul>	<ul style="list-style-type: none"> <li>• Periodically announced employee welfare programs (physical check-ups, group insurance, etc.), Employee Welfare Committee information, companies' major business information, training courses, and annual performance management information, among others. In 2018, posted over <b>100</b> announcements of employee welfare and training courses information</li> <li>• Labor-management meetings:CDF, KGI Securities, and CDIB Capital Group - every 3 months; KGI Bank – every 2 months. Convened total <b>22</b> labor-management meetings in 2018</li> <li>• Proactively interact with labor union to maintain good relations</li> <li>• Collected employee opinions via opinion mailbox to understand their needs</li> <li>• Implemented “Employee Caring and Health Care Projects” and launched the Hua-Xin counselling hot line</li> </ul>
Media	Media is the main communication channels for delivering important information to stakeholders	<ol style="list-style-type: none"> <li>1. Operating performance</li> <li>2. Sustainable development strategies</li> <li>3. Corporate governance</li> <li>4. Risk management</li> <li>5. Information security</li> </ol>	<ul style="list-style-type: none"> <li>• News release</li> <li>• Press conference</li> </ul>	<ul style="list-style-type: none"> <li>• Published news releases on a regular basis. In 2018, <b>2,639</b> news release were published to provide an update on the company developments, products and services</li> <li>• Periodically hold press conferences to announce important news to the media</li> </ul>
Suppliers	Suppliers are CDF's partners for sustainable operations	<ol style="list-style-type: none"> <li>1. Operating performance</li> <li>2. Risk management</li> <li>3. Information security</li> <li>4. Service quality and customer experience</li> <li>5. Sustainable development strategies</li> </ol>	<ul style="list-style-type: none"> <li>• Invite suppliers to sign the Supplier CSR Commitment Letter</li> <li>• Pre-bidding briefing</li> <li>• Establish CDF procurement mailbox (procurement@cdbh.com)</li> </ul>	<ul style="list-style-type: none"> <li>• Proactively invite a total of <b>529</b> suppliers signed the Supplier CSR Commitment Letter; major supplier signed up ratio: <b>100%</b></li> <li>• Hold explanatory meetings with suppliers before opening bids</li> <li>• Conducted real-time two-way communication with suppliers via the procurement mail box</li> </ul>
Community	A better society is the biggest reason for sustainable development	<ol style="list-style-type: none"> <li>1. Remuneration and talent development</li> <li>2. Sustainable development strategies</li> <li>3. Compliance</li> <li>4. Operating performance</li> <li>5. Service quality and customer experience</li> </ol>	<ul style="list-style-type: none"> <li>• Actively participate in various forums or seminars organized by private associations and academic institutions</li> <li>• Through China Development Financial Holding Foundation and KGI Charity Foundation to communicate with related community groups</li> </ul>	<ul style="list-style-type: none"> <li>• <b>4,967</b> employees engaged in public-welfare activities in 2018</li> <li>• 289 employee volunteers with 1,188 volunteering hours</li> <li>• 10 start-up lectures and 128 entrepreneurial activities were held with 5,948 participants</li> <li>• One-on-one resource matching events were held to serve <b>15</b> social enterprises</li> </ul>

## 1.1.2 Material Issues Identification

The 2018 CDF list of sustainability issues is based on the various topics disclosed by the GRI Standards and the important development issues of CDF that year. There are 19 issues all hold, covering such aspects as economy, environment, and society. In order to understand the opinions of all kinds of major stakeholders, CDF took into account the proportional makeup of the stakeholders and issued a questionnaire on major issues that often interacts with such stakeholders, and analyzed and ranked the levels of attention stakeholders attach to these issues. At the same time, the senior executives of CDF evaluated the impact of each sustainability issues on the economy, environment, and the society and ranked the impact intensity. Of the 180 questionnaires collected in 2018, 172 were valid and were used to complete the analysis of major issues. 8 major issues were selected this year and they are operating performance, risk management, corporate governance, compliance, sustainable development strategies, information security, remuneration and talent development, and service quality and customer experience.



Category	Materiality issues	Impact on operations	Internal impact	External impact		GRI	Chapter
				Direct	Indirect		
ESG	Sustainable development strategies	Corporate development strategies and visions are the foundation for corporate sustainable development	ABC	D	EFG H	102	Sustainability Visions and Values
G	Operating performance	Boost corporate operations and financial performance to create value for shareholders and investors	ABC	D	EFH	201	Operation Overview
G	Risk management	Construct stringent risk control and management; use resources effectively to create new opportunities	ABC	D	EFG	102	Risk Management
G	Corporate governance	Implement open and transparent corporate governance; construct a sound managerial mechanism to achieve sustainable operations	ABC	DE FG		205	Governance
G	Compliance	Use legal compliance to create a corporate culture that's based on honesty and credibility	ABC	DEF		307, 419	Ethical Corporate Management
G	Information security	Ensure information security and the secrecy of customer information, so as to win over the trust of clients	ABC	EFG		418	Information Security and Personal Information Protection
S	Remuneration and talent development	Offer sound compensation/benefit packages to assist employees in career development, which will improve employee loyalty and create market competitiveness	ABC			202, 401, 402, 404, 405	Career Development Employee Benefits
S	Service quality and customer experience	Elevate service quality and create excellent customer experience to increase customer loyalty	ABC	EF		417	Service Experience

Internal impact: A: CDF B: Employees C: Subsidiaries  
 External impact: D: Shareholders and investors E: Clients F: Investees G: Suppliers H: Community

## Material Issues Management and Assessment Mechanism

	Goals	Policy and regulation	Action	Evaluation
<b>Operating performance</b>	Pursue long-term and stable profit and exert influence on the market and investee companies	Dedicated to the development of four main businesses: life insurance, commercial banking, securities and venture capital/private equity; implement corporate sustainability at all subsidiaries	<ul style="list-style-type: none"> <li>• Create a customer-centric interactive digital platform to enhance the company's overall FinTech service capabilities</li> <li>• Closely observe government financial policies and market development trends, go along with launch of new businesses and new financial products to expand business scope and strengthen product breadth, and actively grasp opportunities to gain profit</li> <li>• Provide customers with innovative service experience through B2C smart banking advice and smart customer service</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly subsidiary evaluation</li> <li>• Weekly credit risk review meeting</li> <li>• Regular investment review committee meeting</li> </ul>
<b>Risk management</b>	Shape business strategies and organizational culture that emphasize risk management; qualify and quantify risk management and use the results as basis on which to set up business strategies	Relevant regulations such as "Risk Management Policy", "Market Risk Management Guidelines", "Credit Risk Management Guidelines", "Operational Risk Management Guidelines" and "Liquidity Risk Management Guidelines" have been drafted	<ul style="list-style-type: none"> <li>• Establish three lines of defense against risks; require all units to implement risk identification, risk measurement and control mechanisms</li> <li>• Collect and monitor major risk information from each subsidiary and report it to senior management regularly</li> <li>• KGI Bank, KGI Securities, and China Life, are all equipped with customer hotline, webpage and mail box via which customers can conveniently express opinions</li> </ul>	Quarterly Risk Management Committee meeting to review issues related to market, credit, operational and liquidity risk control reporting and risk management in accordance with internal and hierarchical division of labor, and to supervise the implementation of overall risk management
<b>Corporate governance / Compliance</b>	Contract a corporate culture that is based on integrity and maintain healthy corporate development	<ul style="list-style-type: none"> <li>• Formulated the "Ethical Corporate Management Best Practice Principles", "Code of Ethical Conduct" and "Regulations Governing the Handling of Whistleblowing Cases on Illegal, Unethical, or Dishonest Conduct" to prevent corruption</li> <li>• Signed the "Stewardship Principles"</li> </ul>	<ul style="list-style-type: none"> <li>• New employees will complete internal training courses on legal compliance and prevention of money-laundering</li> <li>• Set up multiple integrity-breach report channels, including those through phone calls, fax, written messages, and emails (whistle@chibh.com)</li> </ul>	<ul style="list-style-type: none"> <li>• Annual Board performance evaluation; external performance evaluation of the Board is held every three years</li> <li>• The Human Resources Department acts as a part-time unit in charge of corporate integrity management and regularly reports to the Board of directors</li> <li>• The auditors regularly checks the status of legal compliance, and reports the main flaws to the Board of directors and tracks the improvement status</li> </ul>
<b>Sustainable development strategies</b>	Actively participates in public affairs; promote the balance sustainable development of economy, society and the environment; fulfills corporate social responsibility	Formulated "Corporate Social Responsibility Guidelines", "CDF Human Rights Commitment", and "Enforcement Rules of Corporate Social Responsibility for Suppliers"	<ul style="list-style-type: none"> <li>• Set up Corporate Social Responsibility Committee under the Board of Directors</li> <li>• Launched human rights courses for employees</li> <li>• Promote inclusive finance by providing small-scale revolving credit loans to the economic disadvantaged groups</li> <li>• Promote responsible investment, incorporate ESG issues into investment analysis and decision-making processes, and develop relevant norms and practices</li> </ul>	<ul style="list-style-type: none"> <li>• Annually disclosed the CSR report which assured by third parties</li> <li>• Participate in ESG rating at home and abroad, and use the results of the evaluation as a basis for improvement</li> <li>• Conduct ESG assessment and monitor over lifetime of investment / lending for material ESG issues</li> </ul>

	Goals	Policy and regulation	Action	Evaluation
Information security	Continuously improve the protection of personal data; reduce operational risks, and create a reliable environment for personal data protection and privacy	<ul style="list-style-type: none"> <li>Announce "Customer Data Secrecy Measures" and "Privacy Declaration" to explain how to protect the data of clients and how to properly collect, process, and utilize personal data</li> <li>Formulate the "Information Security Management Measures" to ensure the security of IT system, equipment, internet and data</li> </ul>	<ul style="list-style-type: none"> <li>Set up an "Information Management Committee" to strengthen information strategy and development plans and to oversee execution</li> <li>Upgrade the Information Security Unit under the Information Department to become the Information Security Department to supervise information security at the highest level of authority</li> <li>According to the company's "Abnormal Events Notification and Processing Procedures," one should report major accidents and initiate emergency responses when abnormalities occurs, so as to minimize loss and impact</li> </ul>	Conducting information security assessment, such as monthly project self-inspection and irregular inspection by the competent authority, etc.
Remuneration and talent development	Continue to recruit premium talents; actively create a more competitive and attractive workplace and remuneration	Formulated "Guidelines for Staff Employment and Remuneration Management", "Guidelines of Staff Promotion", "Directions for Employee Health Examination" and other relevant regulations	<ul style="list-style-type: none"> <li>The CDF Financial Academy and KGI e-Learning continue to serve as a knowledge exchange center and experience sharing platform</li> <li>Build a 360-degree appraisal system to assist employees in self-development</li> <li>The starting salaries of new employees are at least 20% higher than the statutory minimum</li> <li>Periodically hold labor-management meetings. The information about complaints responsible handling personnel, scope of complaints, procedures and responsible units are available in internal website. Employee-related complaints and feedback are processed by dedicated personnel</li> </ul>	<ul style="list-style-type: none"> <li>Regularly track Human Capital ROI</li> <li>Regularly track average employee welfare cost</li> </ul>
Service quality and customer experience	Effectively get hold of customer opinions, provide service of high quality, and create premium customer experiences	Established "Customer Complaint and Dispute Resolution Guidelines" and Customer Opinion Processing Platform	<ul style="list-style-type: none"> <li>Revised the formats of application form, shortened the sign-off process, and planned for various affairs to be digitally applied and signed off.</li> <li>Major customer complaint cases are regularly reported to the Board of Directors</li> <li>Customers can express opinions to the company over the counter, telephone, internet, mail, or email</li> </ul>	<ul style="list-style-type: none"> <li>External customer satisfaction survey indicators</li> <li>Number of customer complaints and processing efficiency indicators</li> <li>Whether the complaints are replied or signed off within the designated period of time.</li> </ul>

## 1.2. Sustainability Visions and Values

CDF's five strategies of sustainability: Facilitate Sustainable Governance, Drive Sustainable Finances, Cultivate Sustainable Talents, Foster Sustainable Environment, Share Sustainable Value have solidly responded well to the issues that stakeholders are concerned about and have actively responded to the UN's sustainable development

goals. By looking at the risks and opportunities facing the global economy, we hope to conduct business in ways that fulfills our corporate social responsibility and provides maximum values to all stakeholders.

### 1.2.1 Strategies and Performance of Sustainability

Strategy	Material issues	2019 Goals	Mid-long term goals	2018 Performance	SDGs
<b>Facilitate Sustainable Governance</b>	<ul style="list-style-type: none"> <li>Corporate governance</li> <li>Operating performance</li> <li>Compliance</li> <li>Risk management</li> <li>Information security</li> </ul>	<ul style="list-style-type: none"> <li>Re-election of the Board of Directors to optimize its structure</li> <li>Create the position of Corporate Governance Supervisor</li> <li>Integrity management education and training completion rate of 95% or higher</li> <li>Quarterly information security drills (four times a year) and education training</li> <li>Strengthen digital security protection: establish a security monitoring and reporting team</li> <li>Personal information protection online course completion rate 100%</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the functions and performance of Board of Directors; conduct external performance assessment for Board of Directors in 2020</li> <li>Remain in top 20% in TWSE corporate governance evaluation</li> <li>Construct a risk assessment module for financial influence</li> <li>Maintain a record of no violations of information security and zero information breaches</li> <li>Promote for information security insurance</li> </ul>	<ul style="list-style-type: none"> <li>Selected as component stock of FTSE4Good Emerging Index and FTSE4Good TIP Taiwan ESG Index for 2 consecutive years</li> <li>Ranked as top 20% among all listed companies participating in the Fourth "Corporate Governance Evaluation" undertaken by the Taiwan Stock Exchange</li> <li>Implement "Stewardship Principles for Institutional Investors": after the subsidiaries CDIB Capital Group and KGI SITE had signed up, KGI Bank and KGI Securities also signed to show support in 2018</li> <li>A total of six information security drills in 2018; KGI obtained the ISO27001 information security management system verification and completed the review of operations</li> <li>100% completion rate of The "Personal Data Protection Act Advocacy Education Training Course" for new recruits</li> <li>Strengthen information security control: upgrade the Information Security Unit under the Information Department to become the Information Security Department to supervise information security at the highest level of authority</li> </ul>	
<b>Drive Sustainable Finances</b>	<ul style="list-style-type: none"> <li>Service quality and customer experience</li> </ul>	<ul style="list-style-type: none"> <li>Green energy-related investment maintained 15% or higher of total investment balance</li> <li>Engage in 3 ESG-related IPO and SPO investment projects</li> <li>Green loan balance to grow at least 7%</li> <li>Ensure effective implementation of two main syndicated loans from 2018</li> <li>Initiate the second stage of "Taxi Driver's Small Revolving loan Project" by refining the scoring model to help more taxi drivers establish good credit record</li> </ul>	<ul style="list-style-type: none"> <li>Green loan balance to grow by CAGR of 8-10% in the next three years</li> <li>Become the go-to bank for green project financing in Taiwan</li> <li>Expand the coverage of the "Giving You a Hand Revolving Loan Project" to include more financial disadvantaged groups</li> <li>Via cooperation with more tax fleets to expand the scale of taxi driver's small revolving loan project</li> <li>Use more innovative Fintech to develop inclusive finance to benefit more of the underprivileged who are in need of financing</li> </ul>	<ul style="list-style-type: none"> <li>Green energy related investment accounted for 16% of total investment outstanding balance</li> <li>Green loans balance was up 18% to NT\$17.6bn</li> <li>8 ESG-related IPO and SPO projects were worth NT\$3.15bn in underwriting value; 2 green bonds and raised NT\$5.3bn</li> <li>Mandated Lead Arranger of syndicated loan for the first off-shore wind power project in Asia-Pacific region</li> <li>Mandated Lead Arranger of syndicated loan for the first solar power station project in Taiwan</li> <li>"Giving You A Hand" project: 450 approved applicants (approval rate 75%) "Taxi Driver's Loan Project": 450 approved applicants (approval rate 50%)</li> <li>Incorporated with Chunghwa Telecom to complete the first FinTech regulatory sandbox project in Taiwan</li> <li>KGI Inside financial componentized service was named Top 100 Innovative Product Award and Innovative Gold Award</li> </ul>	

Strategy	Material issues	2019 Goals	Mid-long term goals	2018 Performance	SDGs
Cultivate Sustainable Talents	Remuneration and talent development	<ul style="list-style-type: none"> <li>Optimize employee care and health care programs</li> <li>Create a high-quality equal-rights workplace: completion ratio for Sexual Harassment Prevention Act course: 100%</li> <li>Conduct human rights compliance assessments at least once a year and review the results to seek improvement</li> </ul>	<ul style="list-style-type: none"> <li>Annual training hour per person: 42 hours</li> <li>Employee satisfaction rate (educational and training programs): 85% and above</li> <li>Participation rate for Human rights promotional classes: 90% and above</li> <li>Management Associate (MA) training hours: 4,000 hours and above</li> <li>Safety drills at branches: twice a year</li> </ul>	<ul style="list-style-type: none"> <li>Conduct human rights compliance assessment</li> <li>Launched "Hua Xin Consultation Hotline" to provide staff counseling</li> <li>Female supervisor ratio 44.4%</li> <li>Completion rate for Sexual Harassment Prevention Act course: 100%</li> </ul>	
Foster Sustainable Environment	Sustainable development strategies	<ul style="list-style-type: none"> <li>GHG emission down 2% vs. 2016</li> <li>Power use down 2% s. 2016</li> <li>Water use down 1.75% vs. 2016</li> <li>Introduce the TCFD risk assessment system</li> <li>Invite more suppliers to sign the CSR Commitment Letter</li> </ul>	<ul style="list-style-type: none"> <li>Continue to support environmental protection initiatives domestically and abroad</li> <li>GHG emission: a reduction by 2.5% vs. 2016</li> <li>Energy management: a reduction of 2.5% vs. 2016</li> <li>Water resource management: a reduction of 2% vs 2016</li> <li>Maintain 80% of local supplier ratio</li> </ul>	<ul style="list-style-type: none"> <li>GHG emission down 1.7%, power use down 5%, water use down 1.5%YoY</li> <li>Green purchase rose to NT\$54.07mn, up 5.6% YoY</li> <li>Signed TCFD to show support in December 2018.</li> <li>In 2018, CDF and KGI Securities ushered in and installed ISO50001 Energy Management System and passed third-party certification.</li> <li>Percentage of major suppliers signed the Supplier CSR Commitment Letter: 100%</li> </ul>	
Share Sustainable Value	Sustainable development strategies	<ul style="list-style-type: none"> <li>Expand the combined effect of social participation and public welfare activities</li> <li>Improve the social return on investment of the "Heritage 100 x Tutelage 100" project</li> <li>Arrange at least 50 entrepreneurial events each year</li> <li>Continue to support social enterprises (in the forms of investment, credit, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Expand the scope of public welfare activities</li> <li>Commit to industry-academic cooperation in financial education heritage</li> <li>Heritage 100 &amp; Tutelage 100:2,000 beneficiaries by 2020</li> </ul>	<ul style="list-style-type: none"> <li>SROI (Social Return On Investment) for Heritage 100 &amp; Tutelage 100:4.45</li> <li>Total welfare expenses: NT\$68.95 mn</li> <li>Beneficiary students:15,750; beneficiary schools:760</li> <li>Innovation Accelerator held 128 entrepreneurial events, in which over 5,948 people participated</li> <li>Held one-on-one matching event, inviting representatives of 12 well-known enterprises to conduct resource matching with 15 social enterprises</li> </ul>	

# Creating Sustainable Values

2018 Input (Investment)	Core competence	2018 Output (Performance)
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## Financial Capital

- Total consolidated assets NT\$**2.7tn**
- Operating cost NT\$**25.2 bn**

## Intellectual Capital

- IT service and FinTech investment totals NT\$**91,747,458**
- Payment API platform of NT\$**10.34 mn**

## Human Capital

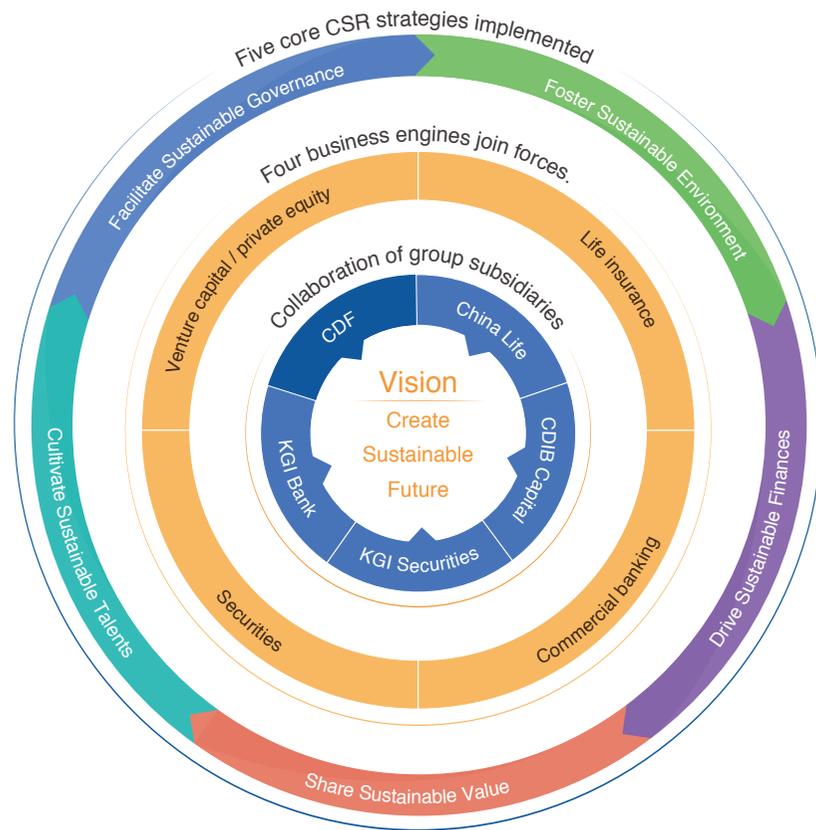
- Training expenses of NT\$**23.1 mn**
- QFP(Qualified Financial Planner) program of NT\$**1.86mn**; 51 employees were trained

## Natural Capital

- Green procurement NT\$**54.07 mn**
- Total environmental protection expenses of NT\$**56.56 mn**
- GHG and energy management spending NT\$**144 mn**

## Social Relationship Capital

- Total public welfare expenditure: NT\$**68.95 mn**
- Employee Volunteers: 298
- **4,967** employees participated in charity fund-raising activities
- Trustee for 10 charitable trusts



## Financial value

- Consolidated net profit NT\$**12.815bn**, including NT\$4.962bn from non-controlling equity
- Consolidated **ROE 5.35%**

- Built a new telephone cross-selling platform, effectively boosting cross-selling results with profit of NT\$**22.81 mn**
- In 2018, digital credit granted hit NT\$4.96bn
- **32,262** professional licenses owned by employees

- **HC ROI**(Human Capital Return on Investment): **15.85**
- Non-executive employee welfare cost: NT\$1,359,000

- Green investment ratio: **16%**;
- green loans: **135** recipients;
- green underwriting: NT\$**3.15bn**
- Environmental Profit & Loss (EP\$L): NT\$6.56mn

- Taxi Driver's Small Revolving Loan Project and "Giving You A Hand" Revolving Loan Promotion Project: some 1,500 applied and about 900 approved (average **approval rate: 60%**) Total Loans granted: ca. NT\$35mn
- **SROI** of the Heritage 100 X Tutelage 100 program was **4.45**, meaning for every NT\$1 we invested in, we created positive social impacts worth NT\$4.45
- Staff charity fundraising: NT\$2.4mn
- Charitable trusts: entrusted amount NT\$32mn

## Non-financial value

- CDIB Capital Group, KGI Bank, KGI Securities and KGI SITE have become the signatories of the Stewardship Principles of TWSE
- Top 20% in corporate governance evaluation

- Total transactions in 2018 of the open-type Application Programming Interface (API): 75,643
- 9 FinTech partners joined KGI Inside: including PChome Pi Wallet, LINE Pay, and Hami Pay of Chunghwa Telecom, etc.

- Selected as component stock of TWSE RAFI® Taiwan High Compensation 100 Index by TWSE for 5 consecutive years
- Employee training hours: **227,830** hours
- Employee satisfaction rate: **87%**
- 23 employees received QFP certifications; course satisfaction is 4.72 out of 5 points

- Annual power saved: 232,000 kWh
- GHG emissions reduced: 1.7% YOY
- Water consumption reduced: 1.5% YOY
- KGI Securities was selected as a demonstration user of the Energy Management System by the Energy Bureau of the Ministry of Economic Affairs

- Beneficiary Students: **15,750**;
- Beneficiary Schools: **760**
- Volunteering hours: 1,188 hours

## 1.2.2 Opportunities and Challenges of Sustainability

CDF closely monitors its daily operation risks which include market, credit, operational and liquidity risks. In addition, based on international situations and global industrial trends, CDF has also identified major emerging external risks include climate change risk, changes of technology, industry, regulation and society changes (such as an aging population, changes in demand, etc.). Due to its long-term accumulated experience

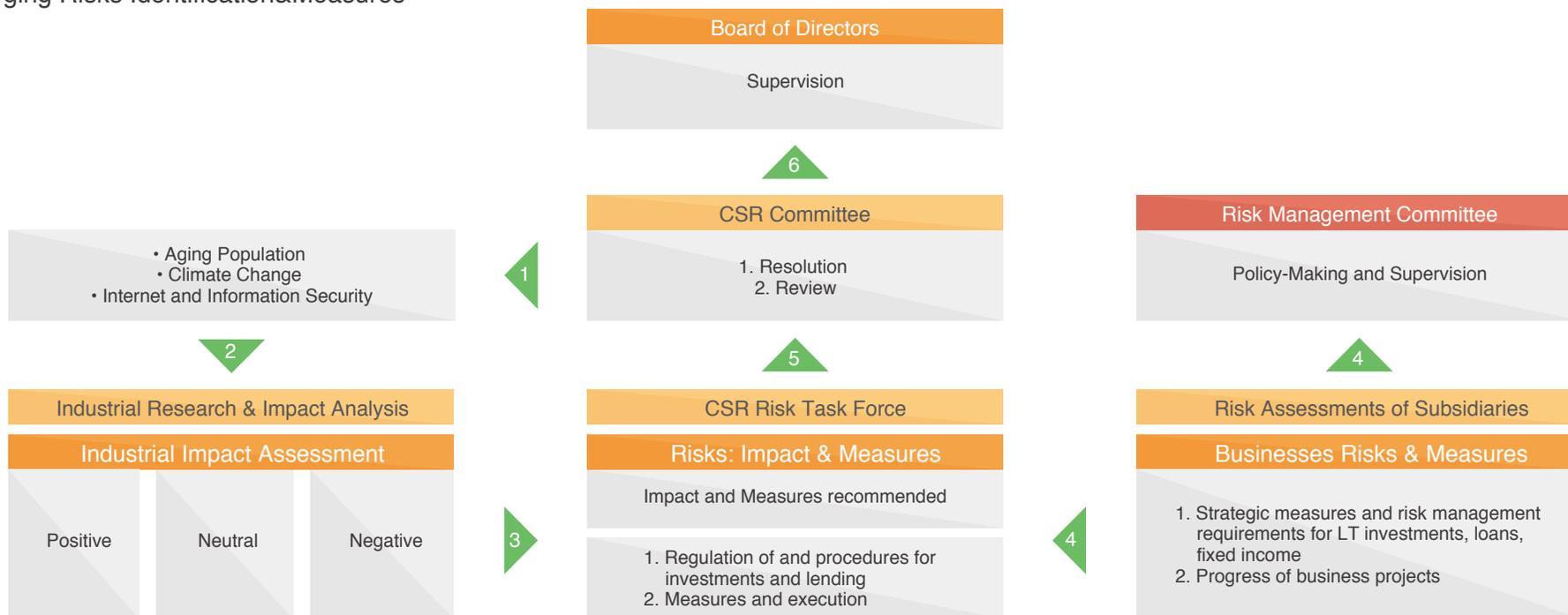
on investment and lending, CDF is able to control the risk related to climate and social changes and engages in the investment opportunities raised, such as green environmental protection, health care and innovation. In future, CDF will continue to work to ride trends and develop business opportunities. Risk management mechanisms and related regulation please refer to Section 3.4 Risk Management of this report.

### Emerging Risks and Opportunities

Global emerging risks are on the rise, with risks caused by climate change, an aging population and internet-led information security issues affecting the financial environment

more significantly. How to effectively assess related risks and establish measures in response has become a top priority for sustainable development.

### Emerging Risks Identification & Measures



We have identified three major emerging risks: aging population, climate change, and internet and information security. Major emerging risks and opportunities, potential financial impacts, strategies and measures:

### Aging Population

**Industries affected by risks**  
 The shortage of labor force and rising salary costs caused by the global population aging will directly impact labor-intensive industries, but at the same time it will help industries and technologies to develop artificial intelligence and automation, which will boost the growth of semiconductors, high-end industrial equipment and industrial computer sectors. In addition, the global population aging will affect global consumption patterns and demand content, and it is expected to promote the development of food, new drug development, pharmaceutical and medical device industry

**Risks and financial impacts**

- Low growth and high inflation caused by aging population will reduce the savings rate, investment activities and real interest rates
  - Changes in bank's product mix will affect profitability
  - Lower profit from young population-related industries
  - Lower willingness to invest

**Opportunities and financial impacts**

- Low birth rate and aging population will change consumption structures, impacting related markets and leading to changes in profit structure for the financial sector
  - Higher profit from sectors related to senior citizens, such as financing for barrier-free home renovation, mobile smart payment services
  - Higher profit from investing in sectors related to senior citizens, such as lending to new business ventures of related industries
  - Financial needs of young people

**Strategies**

- Investment in sectors related to senior citizens and biomedical fields, including pharmaceuticals, medical devices, services, distribution channels and health-related
- Develop financial products in response to the aging society
- Continue to respond to market needs by adjusting asset allocation and developing products
- Design accessible financial products and service to target young customers

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### 2018 Performance

- CDIB Capital Healthcare Ventures (CDIB Capital Group)
- KGI Silver Age Fund and Hospital and Long-term Care Industry Fund (KGI Securities Investment Trust)
- Protection-type insurance and micro insurance products
- Created the first "Telecom Mobile ID Authentication" service to provide instant and flexible financial service to help young people and corporate owners build up credit record

Corresponding chapters  
2.2 Sustainable finance

### Climate Change

**Industries affected by risks**  
 The climate change will directly threaten the agriculture, food and catering industries, and will affect the tourism, retail, department stores, e-commerce and garment and textile industries through changes in consumption patterns and demand. In addition, carbon dioxide emissions will impact high energy consumption and high-pollution industries such as cement, tire rubber, steel and metal products, but at the same time will contribute to the development of renewable energy such as solar energy and wind power generation. Finally, the demand for medical and public health derived from climate change can be expected to create business opportunities for medical related industries

**Risks and financial impacts**

- Impact on business operations from regulatory requirements and supervision of climate change issue
  - Higher operating costs on internal environment management
  - Higher operating costs due to policy changes or penalties
- Financial expenditures and losses on extreme weather events caused by typhoons and flooding

**Opportunities and financial impacts**

- Products and services in response to climate change
  - Boosting demand for funding green energy upgrades, such as green investment, green credit, green underwriting, and green bonds, etc.
  - Funding demand for international large-scale green syndicated loans

**Strategies**

- Promote green financing and create service revenue: Minimizing the potential negative impacts from extreme weathers on company investments and finances via investment diversification; launch green energy related financial products and preferential loans to promote energy savings and green buildings
- Introduce and conduct ISO 14064-1 greenhouse gas inventory and enhance supplier management

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### 2018 Performance

- Green investment ratio: 16%
- Green loan balance NT\$17.6bn, up 18%
- Mandated Lead Arranger of syndicated loan for the first off-shore wind power project in Asia-Pacific region
- Mandated Lead Arranger of syndicated loan for the first solar power station project in Taiwan.
- GHG emission down 1.7%, power use down 5%, water use down 1.5% YoY

Corresponding chapters  
6.2 Financial disclosure related to climate change

### Internet and Information Security

**Industries affected by risks**  
 Risk management has been changing significantly on increasingly tightened supervision worldwide and fast developing new technologies. It is easy for hackers to use AI tools and APT technologies to forge transactions; information environment is susceptible to hacking, thus leaking personal data and confidential data and paralyzing systems

**Risks and financial impacts**

- Information security maintenance costs rise in order to enhance the protection of internet information security
  - Expenditures on replacing outdated equipment, increasing manpower, developing technologies and purchasing software
  - Information security loopholes will lead to transaction losses, penalties by regulators, compensation claims from victims and customer loss due to reputation damage

**Opportunities and financial impacts**

- Boost customer confidence and satisfaction via strengthening internet security measures and system stability
  - Obtain internationally recognized internet security certification
  - Invest in internet information security related industries

**Strategies**

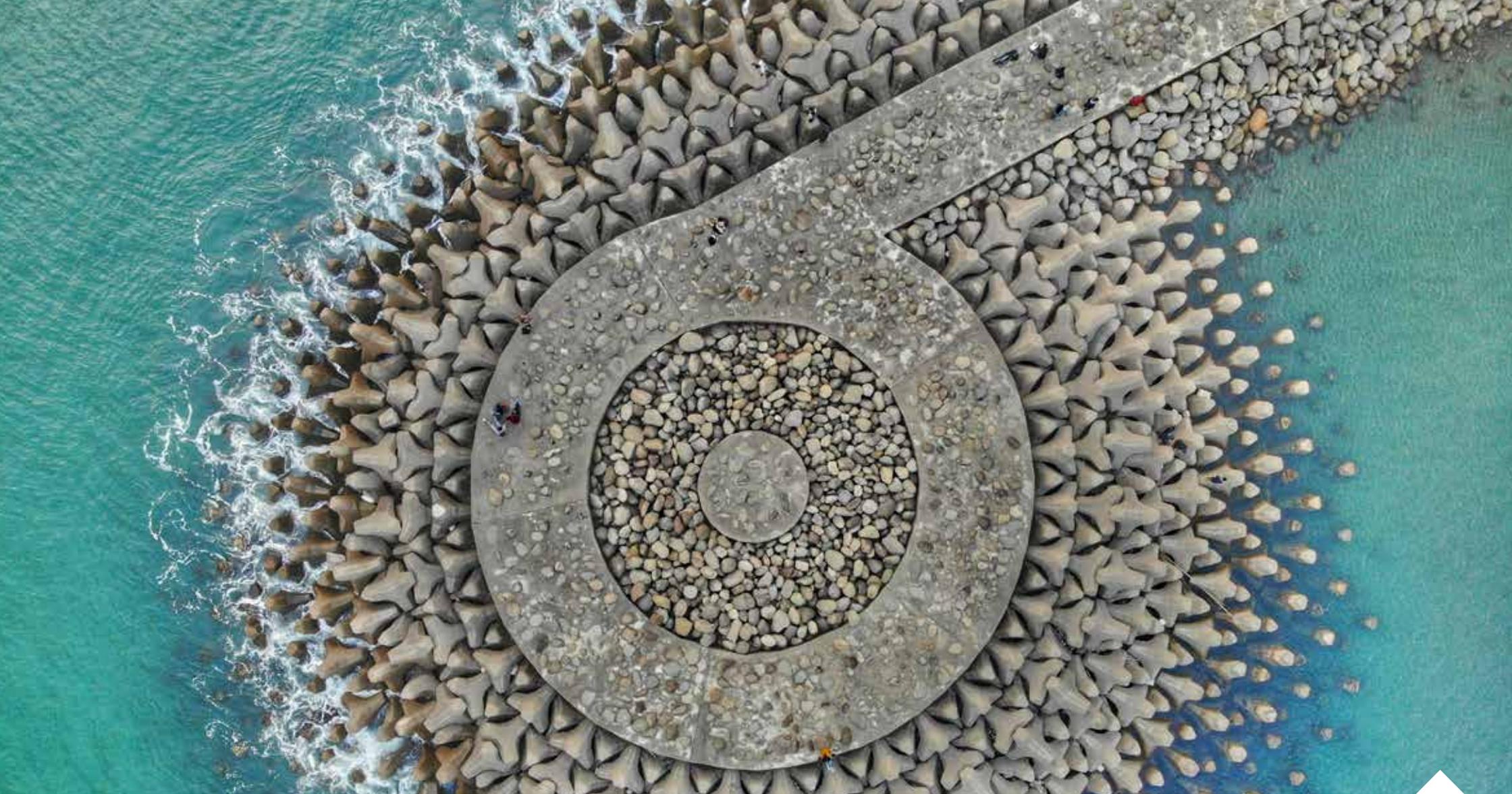
- Examine information environment's security framework
- Build automatic detection and protection systems
- Establish reporting systems for information security events and conduct regular drills
- Establish a comprehensive information security and personal information protection system; combine verification mechanisms of all platforms to prevent theft
- Plan to purchase insurance for information security events to reduce potential financial expenditures

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### 2018 Performance

- Build a remote backup center for the operating information room and regularly conduct information system disaster recovery drills twice a year
- Conduct regular test drills for the backup infrastructure of the information center's electromechanical facilities and core network equipment without downtime
- For each major system, create its own system storage policy and backup cycle, and regularly conduct data recovery exercises twice a year
- Establish disaster recovery measures, including local backup, remote backup, synchronous backup, etc.
- Completed the overall planning consultancy assessment service for the security technology architecture in 2018, and built next-generation information security and event management systems to integrate information security alerts, incidents and intelligence, and provide real-time information on security threats

Corresponding chapters  
2.4.2 Protection of the rights of clients



Chapter  
**2**

Innovation  
Sustainable Finances

The most direct and engaging way for CDF to advance corporate social responsibility is through its core business, namely responsible investment. We not only focus on the financial performance aspect of our investment portfolio, but rather, while in the pursuit of solid long-term returns, we also hope to create a meaningful impact on the society and investee companies from a broader perspective, by evaluating the ESG performance of the investment targets. In addition, in order to promote financial inclusion, we continue to pay close attention on climate change issues, promote actively for green finance, and care for social enterprises and underprivileged communities. Under the latest technology trends and user requirements prompted by the swift pace of global digitization, digital finance is used to rapidly satisfy customer needs. Through the power of technology and outstanding services, CDF could enhance customer experience and create value for our customers. At the same time, we encourage innovation and support new startups to inspire young entrepreneurs. This will hopefully solve the “unemployment or underemployment” problem faced by the younger generation.

Policy /SDGs	Subsidiary	Project	2018 Performance	2019 Goal
Promoting Responsible Investment  	CDIB Capital Group	Increase green energy investment portfolio	• CDF's investment in green energy-related industries amounted to NT\$1.4bn. The proportion of green energy-related investments was <b>16%</b>	• Mid-term objective (2019-2020): sustain the weighting of green energy investment portfolio at <b>15%</b> or above
		Aging population product	• AUM for CDIB Capital Healthcare Ventures: NT\$1.75bn	• Continue identifying investment targets with growth potential in the medical healthcare field
	CCIC	ESG portfolio	• 100% ESG due diligence completed for the 13 portfolio companies of Asia Partners Fund and Global Opportunities Fund	• Remaining <b>100% of ESG due diligence</b>
Advancing Green Finance 	KGI Bank	Green project finance	• One of the mandated lead arranger of syndicated loan for a solar power plant in Taiwan • One of the mandated lead arranger of the first syndicated loans for an offshore wind power project in the Asian Pacific region	• Overseeing the credit execution for these two syndicated loan; stay engaged in post-loan management • Actively engaging in green project financing
		Increase green energy loan portfolio	• Recipients of green energy credits: <b>135</b> accounts • Green energy loan balance: NT\$17.6 bn	• Steady green energy loan growth with a target balance of NT\$ <b>19.0bn</b> by year-end
	KGI Securities	Lead green IPOs and SPOs	• Led a total of eight ESG-related IPO and SPO projects for a total underwriting value of NT\$3.15bn; led 2 green bonds issuance, raising a total NT\$ <b>5.3bn</b>	• Engaging in three ESG-related IPO or SPO underwriting or investment projects; issue green bonds
Stimulating Financial Inclusion    	KGI Bank	Financial service for young people and micro-business owners	• Cooperated with Chunghwa Telecom to complete the first FinTech regulatory sandbox project in Taiwan, an inclusive finance initiative using telecom ID authentication to process applications	• Improving the application performance and the penetration of this project
		Financial services for socially disadvantaged groups	• Taxi Driver's Small Revolving Loan Project 900 applications with 450 have been approved; approval rate: <b>50%</b>	• Approving 500 out of 1,000 applicants
			• "Giving You A Hand" Revolving Loan Promotion Project 600 applications with 450 have been approved approval rate: 75%	• Approving 500 out of 700 applicants

Policy /SDGs	Subsidiary	Project	2018 Performance	2019 Goal
Stimulating Financial Inclusion 	KGI Bank	Barrier-free financial services	<ul style="list-style-type: none"> <li>• Accessible Online Finance: offer accessible and convenient financial services to disadvantaged groups such as the visually impaired, physically/mentally disabled, foreign spouses/ children and seniors</li> <li>• Fee exemption for customers with disabilities for cross-bank cash withdrawal: <b>206</b> fee exemptions in 2018</li> </ul>	<ul style="list-style-type: none"> <li>• Obtaining the Accessible Net Banking 2.0 certification in September</li> <li>• Launching an English version of the online banking and RWD mobile barrier-free web pages</li> </ul>
		Loans for startups, cultural & creative industry & micro-businesses	<ul style="list-style-type: none"> <li>• Total loans for key-industry startups: NT\$90.2bn; for cultural &amp; creative industry: NT\$5bn and for micro-businesses: NT\$400mn</li> </ul>	<ul style="list-style-type: none"> <li>• Continue supporting startups and the cultural and creative industry through optimizing the application review process</li> </ul>
Optimizing Social Finance Products 	KGI Securities (KGI SITE)	Products in response to materiality issues	<ul style="list-style-type: none"> <li>• Silver Age Fund</li> <li>• The Hospital and Long-term Care Industry Fund's return of 8.23% was ranked no.1 among all global equity mutual funds</li> </ul>	<ul style="list-style-type: none"> <li>• Optimizing existing products; Improving profitability for investors</li> </ul>
	KGI Bank	Promote charitable trusts	<ul style="list-style-type: none"> <li>• Provide "Protection-type Insurance" and "Micro Insurance"</li> <li>• Sponsored the Chen Po-liang Charitable Football Trust Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Providing financial products to meet clients' needs</li> <li>• Helping more charity organizations to ease their burden of financial management</li> </ul>
Creating Jobs For Young People 	CDIB Capital Group	Support the cultural & creative industry	<ul style="list-style-type: none"> <li>• AUM for CDIB Capital Creative Industries' CDIB CME Fund: NT\$1.5bn</li> </ul>	<ul style="list-style-type: none"> <li>• Continue supporting for creative startups</li> </ul>
		Cultivate startups	<ul style="list-style-type: none"> <li>• CDIB Capital Innovation Accelerator organized 10 mentor speeches and 128 one-day startup board meetings plus other networking events in 2018, with over <b>7,500</b> participants</li> <li>• The Accelerator fund invested in 7 new startups in 2018</li> </ul>	<ul style="list-style-type: none"> <li>• Organizing 50 start-up events</li> <li>• Organizing an overseas kickoff event</li> </ul>

## 2.1 Responsible Investment

The most important corporate social responsibility of a financial institution is to properly manage the funds that institutional investors entrust it with, and create a meaningful impact on the society and investee companies. This is why CDF emphasizes responsible investment. Our responsible investment strategy is all about minimizing negative impact to the environment and society, while providing quality products and services that are in line with the global trend of sustainability, and maximizing positive value that we can create with our investments. To comply with the UN's Principles for Responsible Investment (PRI), Sustainable Development Goals (SDGs) and Equator Principles (EPs), we design a series of investment and credit evaluation processes and guidelines, and follow through on ESG protocols as well as Stewardship Principles to influence and encourage enterprises to fulfill their fair share of CSR. Put simply, an investment portfolio built on PRI is not only potentially highly lucrative but also creates a triple-win situation for the good of the environment, the society, and corporate governance.

### 2.1.1 Reviewing Process

#### Exclusion List for Industries

• CDIB Capital Group's investments steer clear of cases involving disputed or sensitive issues such as genetic modification, munitions, and animal experimentation. Additionally, to uphold responsible investment, CDIB Capital has drafted 11 assessment criteria based on 3 ESG dimensions, to thoroughly evaluate the investment target's sustainable industry development (steer clear of arms, sex, gambling and narcotics industries), human rights record (forced labor, child labor and labor dispute are flagged as key issues), environmental record (water pollution and carbon intensiveness) and corporate governance, among other key areas.

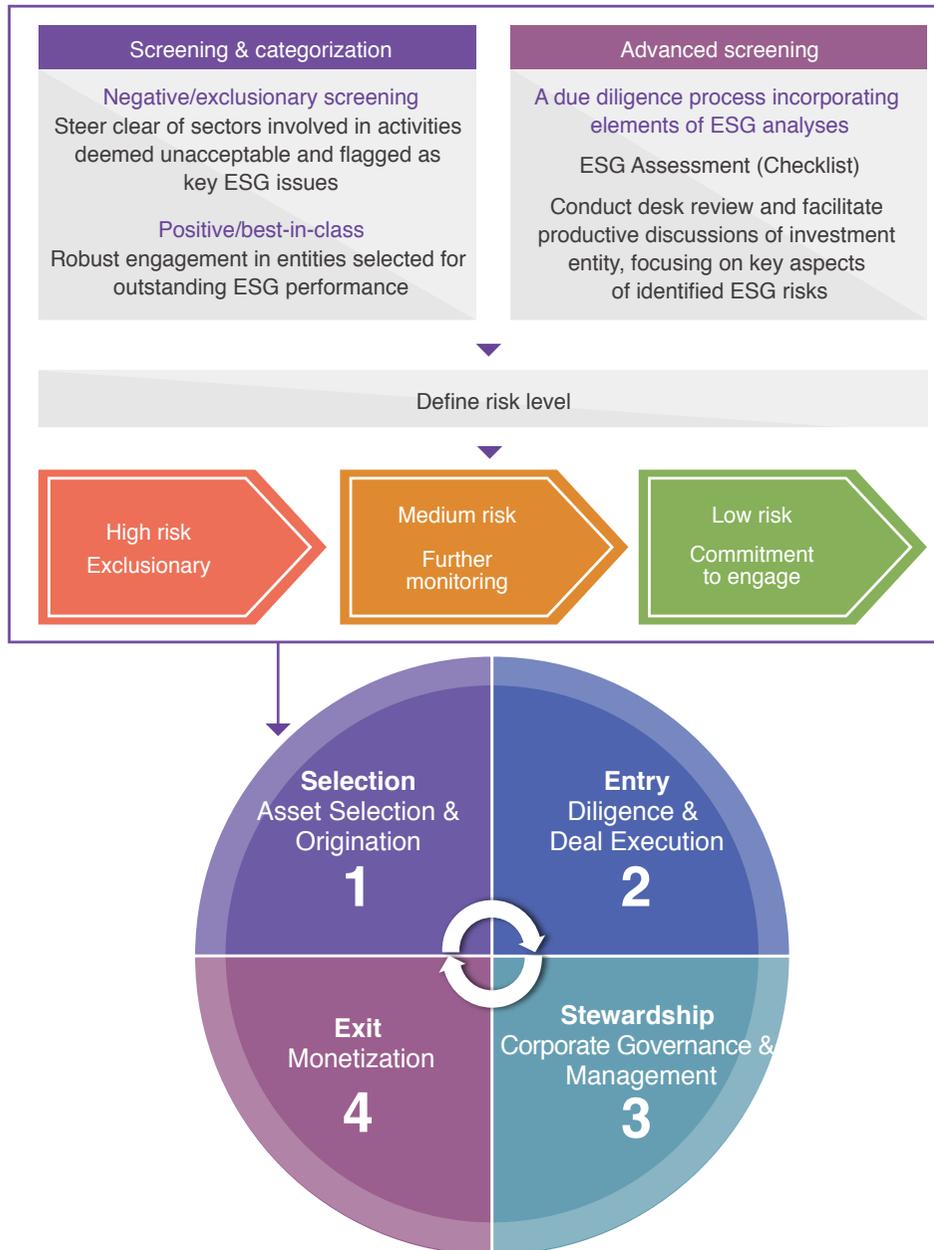
• KGI Securities' selection of exclusion list for industries

Screening criteria	Exclusionary screening standard
Sustainable Industry Development	<ul style="list-style-type: none"> <li>Engagement in climate change or ozone depletion; gambling, genetic modification, nuclear power, sex, tobacco and arms industries</li> </ul>
Human Rights	<ul style="list-style-type: none"> <li>Undergoing major labor disputes or strikes and ongoing negotiations</li> <li>Records of unfair dismissals without notice</li> <li>Adding screening guidelines for human rights through adopting the content and spirit of the International Bill of Human Rights and Articles 6, 7 and 8 of the International Covenant on Economic, Social and Cultural Rights</li> </ul>
Environment	<ul style="list-style-type: none"> <li>Penalized for EPA compliance violations and currently unable to demonstrate mandatory compliance</li> <li>Kept on watch-list in case of indictment on pollution charges</li> </ul>
Governance	<ul style="list-style-type: none"> <li>Involvement in past 6 months in tunneling, food safety scandal, insider and collusive trading, and other major misconduct</li> </ul>

In the underwriting business, KGI Securities now fully operates in compliance with PRI, steering clear of projects flagged with sustainable industry development, human rights, environmental violation or governance dispute issues. There were no ESG violations found among investees in 2018. Therefore, no underwriting projects were rejected by KGI Securities due to citation of ESG violations.

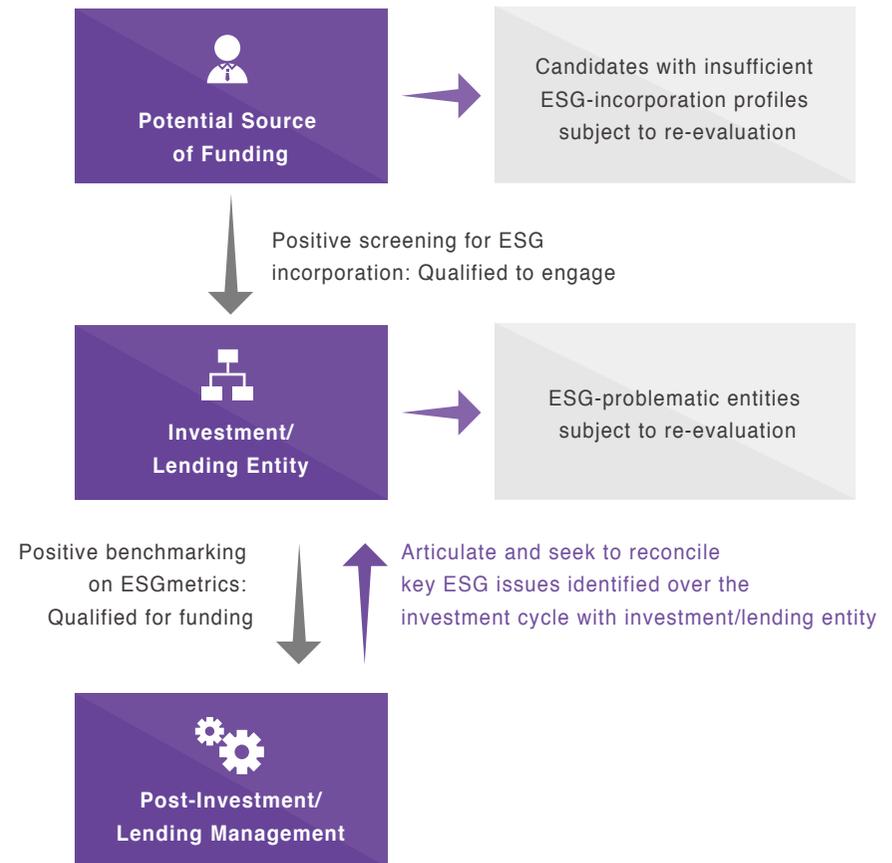


## ESG Integration



## ESG Assessment

In principle, KGI Bank will not grant loans to companies that do not comply with environmental protection guidelines, are undergoing employer-labor disputes, or are plagued with governance issues and have no concrete plans for making improvements. For existing clients, CDF will require corrective actions be undertaken. Non-compliant companies deemed to have a serious impact on company operations and KGI Bank's obligations will have their credit capped or progressively reduced. This will encourage and assist companies to strengthen their environmental protection measures and fulfill CSR responsibilities.



## 2.1.2 Responsible Investment Performance

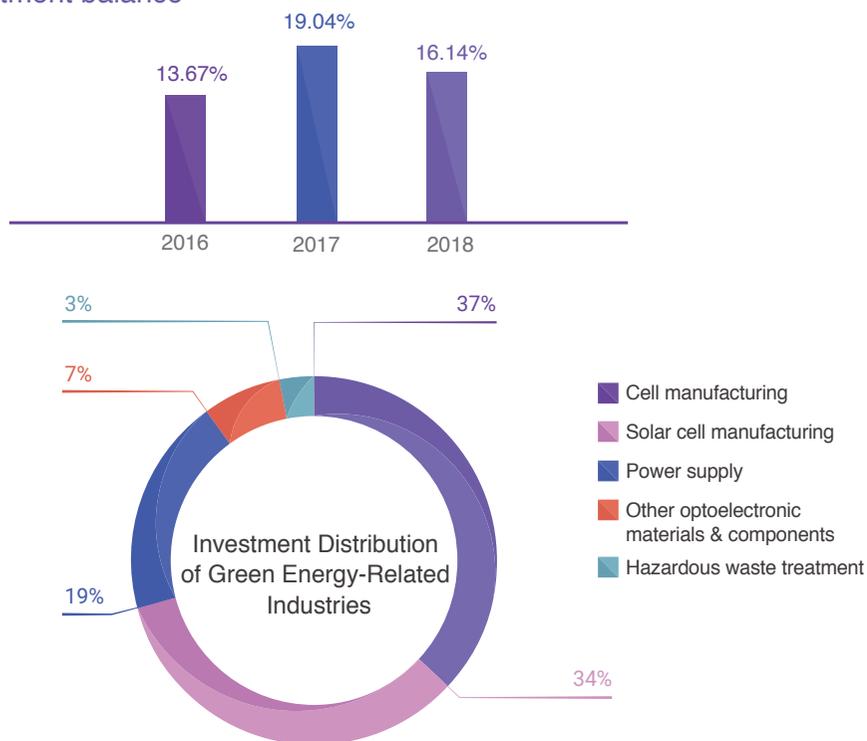
### CDIB Capital Group

CDIB Capital Group's performance on Responsible Investment in 2018 in reference to three ESG dimensions:

#### · Environment

The general public is increasingly concerned with economic activities and the associated risks on the environment and natural resources as global climate change intensifies, giving rise to the concept of a low-carbon economy, which is considered to play a key role in maximizing long-term economic growth. Meanwhile, green investment has also emerged as a popular theme. Therefore, CDIB Capital Group has been focused on green-energy related investment opportunities. The green energy related investment outstanding balance of CDIB Capital Group's Venture Capital Department was NT\$1.4bn, which accounted 16% of total investment outstanding balance NT\$8.6bn as Dec. 31, 2018. The lower weighting versus the previous year was due to the disposal of portfolio companies.

#### Green energy-related investment as a proportion of the total investment balance



#### · Society

##### Responding to aging society - CDIB Capital Healthcare Fund

In light of the world's aging population, prevalence of chronic diseases, and a greater pursuit of a better quality of life as income levels rise, CDIB Capital Group has launched the CDIB Capital Healthcare Ventures fund, focusing on the broader healthcare service industry and assisting pharmaceutical companies, medical device manufacturers and medical service organizations to offer quality and reasonably-priced products and services. The Healthcare Fund's win-win proposition is to seek advanced benefits for society while creating returns.

##### Supporting the cultural & creative industry - CDIB CME Fund

To foster Taiwan's influence in the cultural and creative industry, CDIB launched the CDIB CME Fund with a strategy focusing on five cultural and creative sub-sectors: digital content, fashion brands, movies/ media, culinary culture and creative tourism. It offers investors diverse added values with solid international and domestic industrial connections. Through a capitalized, commercialized and scaled model, we are seeking to create a better living and better environment with premium quality service and products, for the value of Taiwan's creative essence to empower the society.

#### · Governance

##### Establish PRI working groups

All PE funds managed by CDIB Capital Group will establish respective PRI working groups in 2018 to conduct regular portfolio assessments on PRI compliance. The working groups will evaluate investment profiles based on the ESG checklist, and provide portfolio policy revisions on PRI-related topics.

##### Stewardship Principles

With a view to the rising importance of corporate governance for institutional investors, we are committed to full compliance with the "Stewardship Principles for Institutional Investors" issued by the TWSE, including its six main principles. After CDIB Capital Group and KGI SITE signed a compliance statement in 2017, KGI Bank and KGI Securities joined the cause in 2018 to periodically disclose compliance status on the TWSE and Company website. To facilitate stakeholder engagement, KGI Bank works with TWSE and the Banking Bureau to organize seminar events to help the Stewardship Principles reach more banks, brokerages and other financial institutions. KGI Bank is also involved in assisting the competent authority to develop guidelines that represent nuances of the industry.

##### Long-term ventures

CDIB Capital Group strengthens its client relationships through an extensive network and long engagement in venture capital. As of end-2018, there were 194 portfolio companies with average outstanding investment periods of 6 years and 10 months.

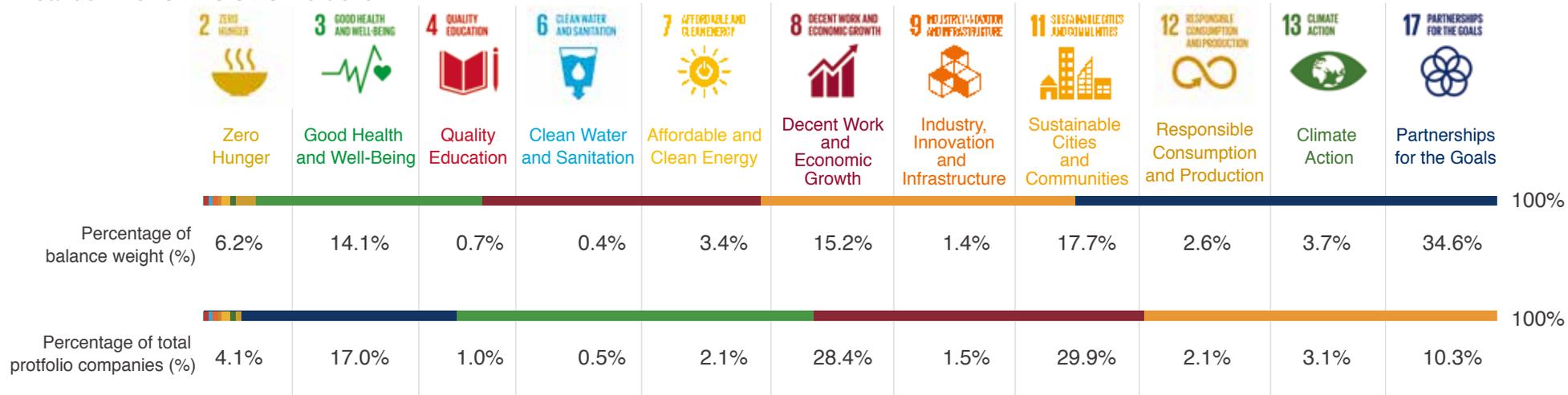
##### Regularly monitor investee companies

In addition to regularly contacting investee companies and attending board and shareholder meetings, we adhere to the "Two-Year Follow-Up Plan" of Guidelines for Investee Management to follow up on new investees every six months. A follow-up form should also be filled out and submitted to the head of the investment unit. There were no ESG violations found among investees in 2018.

## UN SDG-based Portfolio Performance

Sustainable development is a global mission of utmost urgency. The former Secretary-General of the United Nations Mr. Pan Ki-Mun once said: “Investors are key partners in the realization of sustainable development.” To fulfill our Group’s social responsibility as part of the capital supply chain, we not only look at the creation of shareholder equity in our portfolio assessment, but also strive to follow the UN Global Compact and support the cause of the 17 SDGs as the basis of our long-term development and goals.

### Breakdown of CDF’s SDG Portfolio



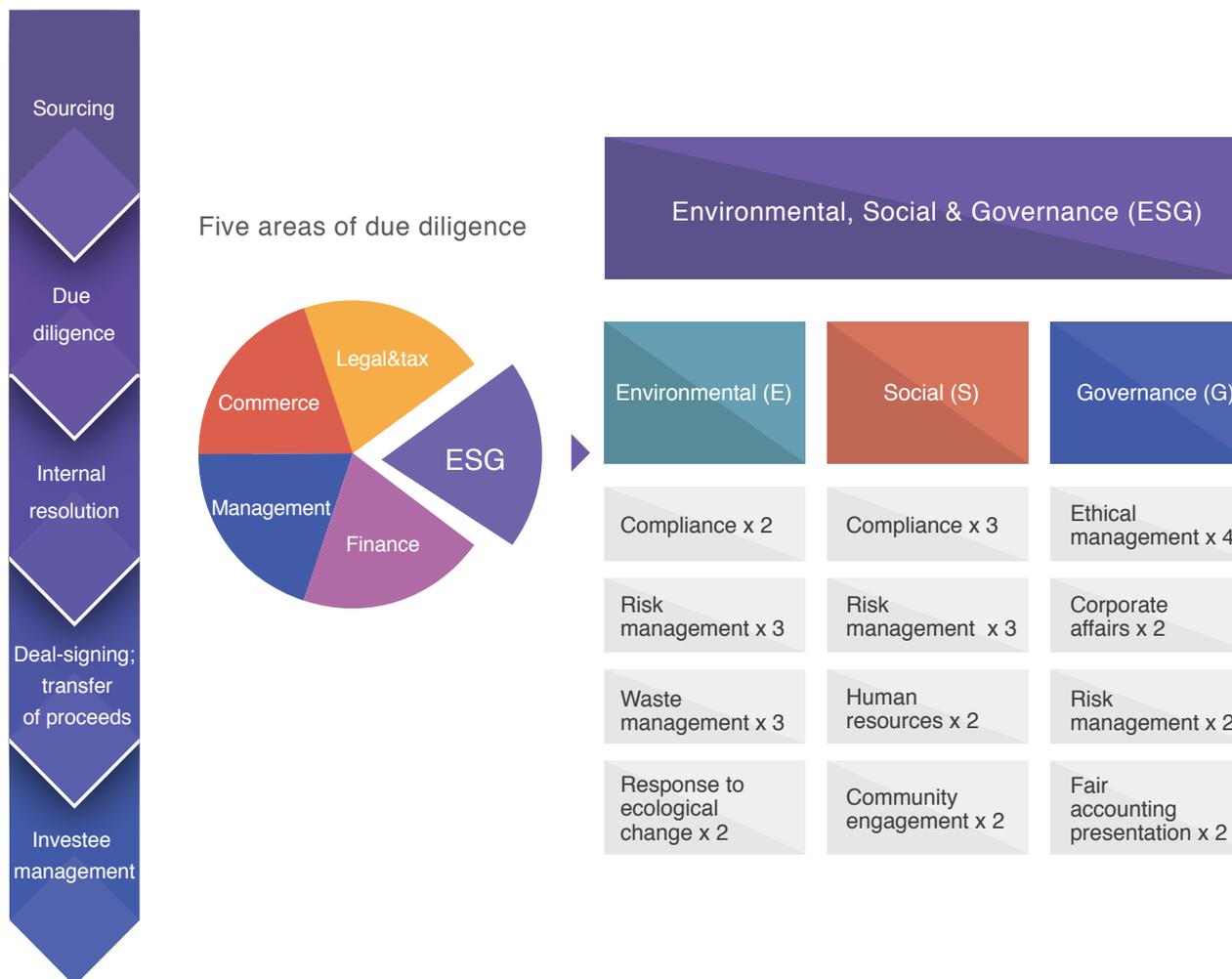
as of 2018.12.31

Note: Including CDIB Capital Group venture capital department’s principal investments and managed PE/VC funds



## CDIB Capital International Corporation (CCIC)

Established in 2009, CCIC has presence in Hong Kong, Shanghai, Seoul, Taiwan and New York. The team's overseas portfolio not only considers ROE when evaluating potential investment targets, but also stresses a commitment to fulfilling the Group's corporate responsibility as part of the capital supply chain. CCIC also seeks quality, CSR-oriented targets with positive ESG accomplishment. Impressively, this profile represents nearly 70% of CCIC's investment portfolio, according to operations in the last five years .



In June 2014, CCIC began incorporating ESG into the due diligence of investment targets to construct an evaluation of the Asia Partners Fund and Global Opportunities Fund under its management. ESG due diligence offers a checklist of 30 items to evaluate non-financial aspects of target companies, such as environmental licensing, emission compliance, minimum wages compliance, the employee health code, internal labor safety training, convening and operations of the board of directors, and corporate governance guidelines. Of the 13 companies in the portfolios of CCIC's Asia Partners Fund and Global Opportunities Fund, 100% were ESG-evaluated in 2018.

## 2.2 ESG Financial Products

### 2.2.1 Inclusive Finance

We aspire to become a provider of inclusive financial services, and we look forward to solving the many problems consumers have faced in traditional financial services. With diverse, innovative financial products, we provide a full range of financial services, including the Giving You A Hand—Revolving Personal Loan Promotion Project for socially disadvantaged groups, and Taxi Driver's Small Revolving Loan, so that those that have been rejected or found it difficult to access financial services by conventional banks may be able to receive financial resources and be given opportunities to develop. In addition, in 2018, KGI Bank and Chunghwa Telecom cooperated to create the first financial innovation experiment approved by the Financial Supervisory Commission, the first of its kind in Taiwan, to use mobile ID authentication during the application and processing of financial services, providing new and convenient user experience, and making banking more accessible to the younger generation and micro-business owners, who may have never done business with banks before. This will help them build a credit record, and thereby access financial services at more reasonable costs going forward. This is exactly what "inclusive finance" is about.

#### · Taxi Driver's Small Revolving Loan Project

Most taxi drivers can't provide a proof of stable income, and are thus rejected by banks when they seek to obtain traditional financial services. They can only turn to the shadow banking system when they are in need of financing. Given its belief in inclusive finance, KGI Bank has worked with Taiwan Taxi, a leading taxi company in Taiwan, to provide microloans to taxi drivers since July 2017. Small loans are granted to taxi drivers who are denied access to credit as they cannot provide a proof of stable income, and therefore unable to accumulate credit records.

In 2018, we continued to strengthen cooperation and sought to help taxi drivers establish credit records in many ways, so that they can access financial services, such as loans and credit cards, at a reasonable cost. The project received about 900 applications in 2018, of which 450 were approved, indicating a high approval rate of 50%.

KGI Bank will enter the second stage of cooperation with Taiwan Taxi in 2019 by leveraging the database created, and long maintained by Taiwan Taxi to build a customized taxi driver credit rating model. This means taxi drivers who are given positive ratings for their services, who are constant service award winners, or have a stable customer base, will be more favored in credit assessment. A non-cash payment record is also a valid reference for credit assessment. The diversified approach to credit assessment takes into consideration the real income of taxi drivers to help them receive more credit and gradually build up a credit record.

#### · "Giving You A Hand" Revolving Personal Loan Promotion Project

A revolving personal loan is a suitable option for young people or people who do not have a stable income. In 2018, KGI Bank launched the "Giving You A Hand" micro personal loan project to support young or skilled people to start their own businesses. The offer rate of "Giving You A Hand" is lower than the going rates of mortgages as KGI

Bank believes a low funding cost is essential to helping young people start a business, and for the socially disadvantaged to receive credit through proper financial channels. This is how we fulfill our responsibility as a corporate citizen, and it is our belief that the project should be made available to more people. In 2018, about 600 people applied for micro-loans and about 450 were approved, for a 75% approval rate.

#### · FinTech Regulatory Sandbox Project

KGI Bank responded to the policy objective of the FSC to promote inclusive finance with real actions. In 2018, the bank worked with Chunghwa Telecom in launching the first FinTech Sandbox Experiment project in Taiwan, and pioneered the use of mobile ID authentication in the application and processing of financial services, with the aim of providing consumers with a more convenient user experience, and to help young people and micro-business owners, who rarely engage banks and have no any credit record, to get access to credit and other financial services at a more reasonable cost.

#### · Micro Loans for Startups Entrepreneurs & Cultural and Creative Industry

To ensure stable economic development in Taiwan and to comply with government policies, KGI Bank is committed to fostering the development of start-ups and cultural enterprises. In conjunction with government resources, the bank has continued to target start-ups of the green energy, tech, biomedicine, defense, smart machinery, new agriculture and circular economy sectors to provide a full range of financial services, and assisted SMEs to innovate by undergoing industrial upgrades through the SME Credit Fund. In 2018, the balance of loans granted to start-ups in the key emerging industries was NT\$90.2bn. While the balance of loans for the cultural and creative industry amounted to NT\$5bn and NT\$400mn for micro-businesses.

Balance of Loans (NT\$m)	2016	2017	2018
Key industry start-ups	82,815	90,500	90,228
Cultural and creative industry	4,554	3,464	4,993
Total	87,369	93,964	95,221



**Barrier-free Financial Services**

**Accessible Online Finance**

KGI Bank launched “public information and simple functionality website” (accessible service website) and “basic functionality online ATM” on its official website, which received an A+ rating for web accessibility from the “National Communications Commission” in August, 2016. In September 2019, KGI Bank will pass the Accessible Net Banking 2.0 certification, and will adopt responsive webpage design (RWD) for its accessible website so that visually and other mentally or physically challenged customers can enjoy a better user experience when they connect to our accessible website via our Mobile Banking application. The online finance services offered account overview/transaction details, designated account transfers, user name/password renewals, interest/exchange rates, and credit card activation/report of lost or stolen/credit line adjustment and special discounts on service fees for mentally or physically challenged customers. Our simplified webpage design and proactive voice instructions are in place to ensure a hassle-free user experience.

An English version of the accessible website will be launched in 2019 to look after the needs of foreign customers.

KGI Bank accessible website: <https://www.kgibank.com/AccessibilityWeb/>

**Barrier-free Financial Services**

All branches of KGI Bank established barrier-free operation environment in accordance with the Regulation for Designing Barrier-free Facilities in Buildings developed by the Ministry of the Interior’s Construction and Planning Agency. A total of 92 wheelchair-friendly ATMs were installed, including one ATM dedicated to serving users of visual disability at the Taichung Tzu Chi Hospital, in hope to provide disable people with easier access to financial services. In addition, in response to the aging society, all 54 branches in Taiwan have set up service counters with seats to provide customer-seated services and create a friendly environment for clients.

KGI Bank has offered conditional fee exemptions to disadvantaged customers accessing services via an ATM machine since January 2017. Each customer can enjoy up to three cross-bank cash withdrawals free of charge per month. Starting July 2018, customers can apply for an exemption via our accessible website. In 2018, KGI Bank granted 206 fee exemptions in total.

**Barrier-free Facilities (KGI Bank / KGI Securities)**

		 Visually-impaired (blind or with vision impairment)	 Hearing / Speech-impaired	 Physical handicap
Account opening	Over-the-counter services	<ul style="list-style-type: none"> <li>Visually challenged customers may open an account in the company of a witness, who must be a legally and visually capable person. In the case that a customer does not bring a friend or relative as witness, a different bank clerk may assist as the witness. One witness to read the key points of the account opening contract to the client</li> </ul>	<ul style="list-style-type: none"> <li>KGI Bank: Hearing or speech-impaired customers may make an appointment online to open an account. An application form containing the terms and conditions must be read and signed by the customers.</li> <li>KGI Securities: Providing written communication service</li> </ul>	<ul style="list-style-type: none"> <li>KGI Bank: Visually or physically challenged, or illiterate customers that are unable to sign the account opening application form may use a personal seal to substitute for signature with the endorsement of a witness. In the case that customers choose to use a fingerprint, cross or other signs as the substitute for signature, the endorsement of two witnesses are required. Witnesses can be friends or relatives of the customer, social welfare staffers or a different bank clerk.</li> <li>KGI Securities: If the client is unable to provide a signature due to physical handicap, personal chop can be used instead of a written signature</li> </ul>
	Services provided remotely	Account opening services can be provided off-site		
Trading	Telephone commissioned trading service	v		v
	On-site order-placing	v	v	v
	Services provided remotely	Telephone or voice trading services	Net and mobile banking	Phone, internet and mobile banking
Other	Over-the-counter services	Manager on duty provides the services required accordingly		
	Services provided remotely	Telephone	<ul style="list-style-type: none"> <li>KGI Bank: Email</li> <li>KGI Securities: Fax, letter or email</li> </ul>	Telephone or email

## 2.2.2 Social Finance

We have long cared for the needs of disadvantaged groups and social enterprises. Through the core business of subsidiaries, we devote to provide sustainable financial assistance. In recent years, in combination with the opportunities raised from emerging risk, we have continued to develop various products and service related to social welfare in order to create maximum social benefits and give back to society.

### KGI Bank

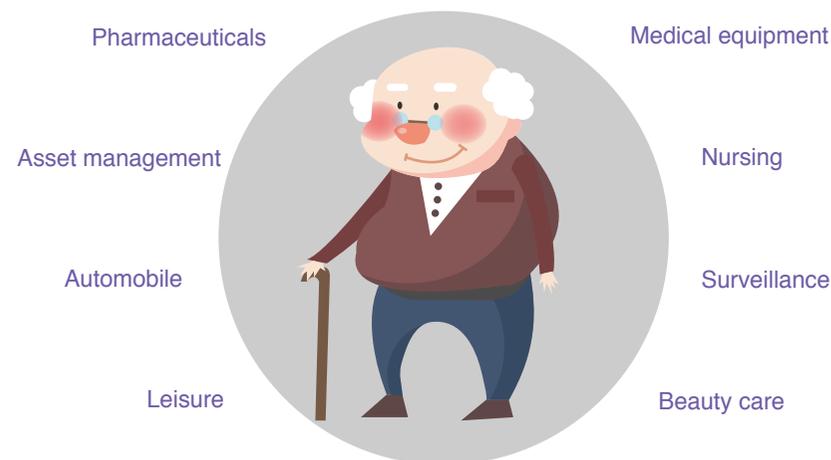
Products	Description	2018 Outcome
Insurance	Offers protection-type insurance products, including Disability Support Insurance and Long-term Care Insurance which provide long-term nursing care and Lifetime Medical Insurance which provides medical care, are offered through its insurance platform to ensure economic security and optimal health care for the senior or people who are unable to take care of their daily needs independently	375 insurance plans signed
Fund	Sells KGI Silver Age Fund and KGI Hospital and Long-term Care Industry Fund to ensure economic security for the senior	Sales amount: NT\$ 521 mn
Charitable Trusts	Provides professional financial services to ease the financial management burden for charities. KGI Bank undertook the management of the first trust fund initiated by a football player in Taiwan, the Chen Po-liang Charitable Football Trust Fund, which aims to cultivate football talent in Taiwan at the grassroots level. As of 2018, KGI Bank was entrusted to manage <b>10 public trust funds</b>	Total value: <b>NT\$32 mn</b>

### KGI Securities

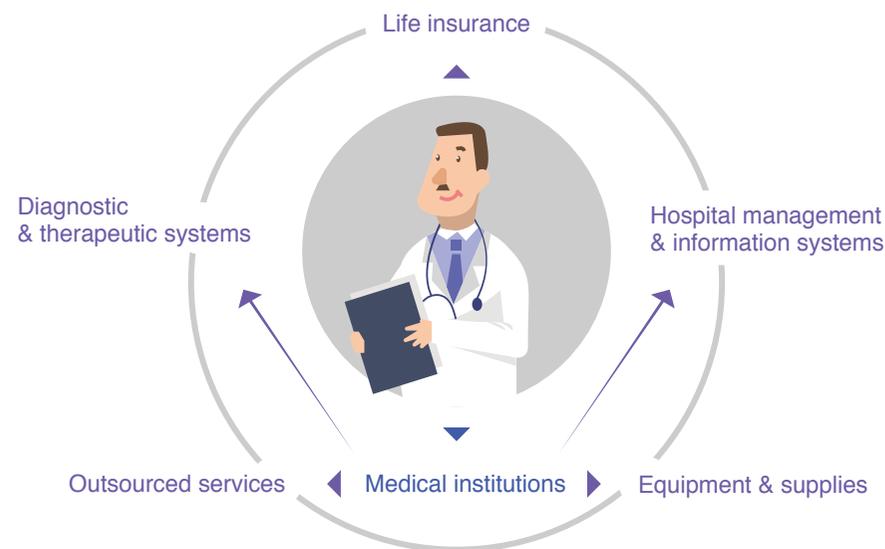
Given an aging society in Taiwan, KGI SITE has launched products that invest in the senior service sector, including asset management (for pension planning), surveillance (for monitoring personal health), leisure and consumer staples targeting the senior population, as well as fitness and health/beauty care.

In addition, KGI SITE rolled out products that mainly invest in hospitals, and the medical equipment, consumables and long-term nursing sectors, to help related industries develop, consequently improving the living and health care quality for senior people in light of population ageing and increasing numbers of chronic disease patients worldwide.

### KGI Silver Age Fund



### KGI Hospital and Long-term Care Industry Fund



## 2.2.3 Green Finance

While pursuing the development of the enterprise, CDF also hopes to fulfill its social responsibilities, adhere to the concept of sustainable development and continue to pay attention to climate change and environmental protection issues. Therefore, in addition to the green energy investment of China Development Capital, the other subsidiaries also actively promote green project financing, green finance via green credit and green underwriting products, in the hope that we can do our bit to accelerate the transformation and sustainable development of Taiwan's green energy industry.

### KGI Bank

#### Green Project Financing

Taiwan is not an energy producer. In fact, 98% of the energy consumed in Taiwan is imported, and the island is highly dependent on fossil fuels. To comply voluntarily with the Paris Agreement of the United Nations on the reduction of greenhouse gas emissions, the Taiwan government promulgated the Renewable Energy Development Act and Regulations Governing Incentives for Demonstrative Offshore Wind Power System Developers in 2009 and 2012, respectively, followed by the amendment of the Electricity Act in 2017 to encourage private sector investment in renewable energy. The government also set a target to have renewable energy representing 20% of total installed power capacity in Taiwan by 2025.

Given the government's policies of energy conservation and emission reduction, KGI Bank has sought to fulfill its corporate social responsibility by focusing on urgent issues like climate change and environmental protection, based on the belief in sustainable development, while pursuing business development. In order to mitigate global warming, reduce the impact of economic activities on the environment, and assist the development of green technology, the bank issued a 10-year green bond worth NT\$1bn in 2017, and the proceeds are to be used entirely for green financing projects and the development of renewable energy, such as solar and offshore wind power. The green financing projects in which the bank participated in 2018 are as follows:

#### Mandated lead arranger of syndicated loan for Neo Cathay Power Corp. 100MW solar power project

KGI Bank, along with three other local banks (First Bank, Taishin Bank and Far Eastern International Bank), committed a syndicate to Neo Cathay Power Corp. to build its 100MW solar project. The syndicated loan totaled NT\$3.5bn, to which KGI Bank contributed NT\$600mn as the mandated lead arranger. This is the first syndicated loan for a solar power plant in Taiwan.

#### Mandated lead arranger of syndicated loans for a 128MW offshore wind power project

A total of eleven banks participated in the syndicated loan for a 128MW offshore wind power project in Jhunan, Miaoli, including ANZ, BNP Paribas, Credit Agricole, DBS, ING, MUFG, Societe Generale, Cathay United Bank, Taipei Fubon Bank, Entie Bank and KGI Bank. This is the first syndicated loan for an offshore wind power project in Taiwan, as well as the entire Asia-Pacific region, with Eksport Kredit Fonden (EKF) providing 60% of the guarantee. The syndicated loan totaled NT\$18.3bn, to which KGI Bank contributed

NT\$1.45bn. The project meets the requirements of the Equator Principles and the scheduled commercial operation date is around 2Q20.

#### Bilateral loan for Chenya Energy's 10MW floating solar power project

KGI Bank provided a loan of NT\$324mn to Chenya Energy to build a 10MW floating solar power system at the Agongdian Reservoir in Kaohsiung. This is the first bank loan for a large floating solar power plant in Taiwan. The plant achieved commercial operational in March 2019.

Overview of the three renewable energy projects and the estimated reduction of CO<sub>2</sub> emissions:

	CFY 100MW solar power plant	128MW offshore wind power project	Chenya Energy 10MW floating solar power system at Agongdian Reservoir, Kaohsiung	Total
Estimated power output (kWh)	117mn	456mn	12mn	585mn
Estimated reduction of carbon emission (mt)	720k	2.8mn	74k	3.594mn



## · Green Credit

KGI Bank granted green credit of NT\$14.9bn in 2017, and the amount rose to NT\$17.6bn in 2018, up 18% YoY, with client number increasing 55% YoY to 135, representing 5% of total KGI Bank lending of NT\$359.6bn, and the weighting is expected to grow at an 8-10% CAGR in the next three years.

### KGI Bank Green Financing Approval Guidelines

When reviewing corporate loan applications, KGI Bank complies with the Corporate Credit and Assessment Guidelines (Green Financing Review Principles are included) and incorporates the Equator Principle, and indeed examines whether the borrowers did fulfill their corporate responsibility on environmental protection, social responsibility and corporate ethical management. ESG-related issues are also considered in credit decision-making, credit evaluation, and the post-lending management mechanism:

- 1** When reviewing large credit applications of over US\$10 mn in water-intensive and highly polluting industries, the credit report needs to carry out various feasibility analyses that touch upon technology, market, finance and environmental protection dimensions. And depending on the individual case, additional conditions will be added to attach more responsibilities to the applicants.
- 2** Incorporating the Equator Principle into "Credit Rating Checklist". If there is any dispute regarding environmental and labor-management issues, etc., the applicants will be deducted points under the operations/management categories, such as risk management, corporate governance, etc., in the Credit Rating Checklist, so as to reflect the operating risks involved.
- 3** Loans will not be granted to applicants who do not comply with environmental protection guidelines and have no concrete plans for making improvements. For existing clients, corrective actions are required to undertake. Non-compliant companies deemed to have a serious impact on company operations and KGI Bank's obligations will have their credit capped or progressively reduced.

## · Green Bonds

To support the government's policy to develop green industries, KGI Bank has helped domestic companies issue green bonds, and served as a fundraising platform to meet the different needs of clients based on their green financing plans. In May 2017, KGI Bank issued the first green bond in Taiwan to grant loans to green companies through indirect financing. This is to ensure that clients that have passed our assessments can access sufficient low-cost funds to carry out green projects.

## KGI Securities

2018 was a year of great achievement for KGI Securities in the green financing market. In addition to underwriting two domestic green corporate bonds, raising NT\$5.3bn in total, it also participated in 27 equity financing cases, raising over NT\$11.88bn, of which eight were for environmental protection and green energy companies, including six IPO and two SPO cases, which represented 29.6% of the combined case number of IPOs and SPOs that year. The amount of equity fundraising for environmental protection and green energy companies surpassed NT\$3.15bn, or 26.5% of IPO and SPO value combined. KGI Securities hopes to help environmentally friendly enterprises thrive by providing assistance in capital market financing. This is one way KGI Securities has contributed to the transformation to a greener Taiwan.



## 2.3 Digital Finance

### KGI Bank

#### KGI Inside: Realizing Open Banking & Financial Inclusion

With growing popularity of smartphones and fragmentation of digital lives, scenario-based financial services have become in need to suit consumers' new lifestyles. KGI Bank has revolutionized the traditional banking business model via the KGI Inside strategy, realizing open banking and financial inclusion in the spirit of selfless sharing. KGI Bank participated in the digital financial services ecosystem via Open Application Programming Interface (API), building an innovative collaborative model for FinTech operators and banks and enabling financial services anywhere, anytime.

Under the "KGI Inside" innovation, KGI Bank is using its technical capabilities to fragment and modularize financial services into an API-type existence, so as to turn the innovative financial services required by new entrepreneurs into components, including collections and payments, digital identity authentication, risk management, big-data, online applications, and so on. This new collaborative model will provide partners with seamless plug-and-play integration with financial services. This in turn serves to incorporate "KGI Inside" plug-ins into clients' own innovative services in the simplest and fastest manner possible, generating more business opportunities, lowering development costs, and greatly enhancing customer experience and adhesion.

KGI Bank led peers in opening up digital loan and online credit card application APIs, enabling new entrepreneurs to connect to API services. Take digital loan for example, the number of required fields for filling in an application form has been reduced from 21 to 14, the fewest in the industry. The smart identification function was introduced, allowing applicants to upload photographs of IDs or name cards to complete the application process. Total digital loans reached NT\$4.96bn, as APIs bringing more business opportunities and significantly lowered development costs, and enhancing customer experience and adhesion.

In 2018, KGI Bank cooperated with Chunghwa Telecom in pioneering Taiwan's first FinTech regulatory sandbox with the adoption of mobile identity authentication technology, integrating personal information with telecom payment record. Under the assurance of information security technology, KGI gathers customers' (with their approval) personal identity provided to CHT, and mobile number is leveraged as their digital pass when applying for personal loans or credit cards. Thin-filed customers like young people and start-up entrepreneurs can access reasonably priced financial services in a convenient way, realizing financial inclusion.

#### Inclusion Financial Partnership

Product/Service	Partner	Content
Regulatory sandbox mobile identity authentication	Chunghwa Telecom	Pioneered in the adoption of mobile identity authentication technology through cross-industry collaboration with Chunghwa Telecom, which provides customers' risk profiles and personal information. Customers will have the option to verify himself/herself with mobile number and apply for personal loans or credit cards online after undergoing a cross-verification process by KGI Bank and Chunghwa Telecom, eliminating the constraint of time and space. Young people or micro-business owners who have yet built a relationship with banks are provided with the opportunity of being considered by banks with telecom payment record, and eventually receive a fairer price for financial services
KGI Inside everyday payment	LINE	Launched "Everyday Payment" in cooperation with LINE, the most commonly used messaging app in Taiwan. Without needing to download the KGI banking app, customers can sign in "Everyday Payment" via LINE to access to everyday payment services. Customers can set up items that they regularly pay for and payment reminders, allowing them to easily manage all types of living expenses while chatting
	Pi mobile wallet	Pi mobile wallet is the most used mobile payment app for parking fees in Taiwan. By linking to KGI Inside, customers can now make payments for credit cards with just one click
	CWMoney	Customers can pay credit card, water, and electricity bills with bookkeeping app CWMoney. Once a payment is completed, the amount will be recorded in the app. It will regularly remind customers of due dates for payments to avoid late payments, conducting both digital bookkeeping and day-to-day payments at the same time
	Yowoo Technology	With this community app, around 1,000 residents are able to make monthly maintenance fees payment online with credit cards of 27 banks
KGI Inside digital loans & credit cards	Alphaloan	Members of FinTechs can instantly apply for loans or credit cards online via their service platforms. With approval, members' data can be transported to required fields in application forms, getting through the application in less than one minute
	CWMoney	
KGI Inside big data analytics	iCHEF	Assisted iCHEF in building a model to predict restaurant survival with professional knowhow like modular big data analytics and risk management, strengthening iCHEF's control over variables of restaurant operations. Restaurant owners can apply for online loans via iCHEF, helping them acquire funding in a more efficient and convenient

## KGI Securities

Product/Service	Content		
Mobile e-commerce	Optimize the user experience of mobile device	“Mobile Official Website”	Exclusively offer personalized home page features Monthly users amounted to 12k
		“Mobile Trading Center”	Clients can place orders via social networking software (such as Line) which offers them more versatile investment experience Monthly trading volume reached NT\$100mn in 2018
	Construct a wealth-management mobile investing platform	Wealth-management smartphone APP	Since going online on October 28, 2017, users of this service had continued to rise. As of the end of 2018, the number of logins per month was around 2,000
Securities-lending service	“Securities-lending from trust” and “Securities-lending from custodian”	Offer clients with a comprehensive stock lending services	The balance of securities lending by mutual funds stood at NT\$11.4bn as of the end of December 2018, topping peers with a No. 1 market share of 34%

## 2.4 Service Experience

### 2.4.1 Customer Needs

#### More Convenient Products and Services

In response to the rise of financial technology, the traditional financial industry is gradually changing its operating model. That is, the full use of financial technology to eliminate distance and time constraints. CDF is no exception, and our hope is that the use of technology will make financial services more convenient and will significantly increase the availability of services to serve wider demographics. KGI Bank and KGI Securities are committed to offering “in-your-shoes and better services”. The design and optimization of products and services are based on “customer needs” and aim to fulfill goals as “knowing customer needs, achieving their financial goals, and lifecycle services.” KGI Bank and KGI Securities provide a diversity of online and offline services through its professional financial planning team and advanced digital finance technologies.

## KGI Bank

Product/Service	Contents	2018 Performance
Credit cards	1.Credit card payments can choose installment programs online via PC or mobile device 2.Adding convenience store FamiMart for payment collection	Transaction volume grew 40%(YoY)
Online loan applications	Provides clients with 24-hour online loan application service	Annual loan application amounted to NT\$4.96bn, up 16 times YoY
Trading services	1.Mutual fund: launched several mutual fund trading functions to online/ mobile banking clients, including: Regular Saving Plan (RSP) Daily Deduction, Subscription, Non Regular Saving Plan, Mutual Fund Switching with different fund houses, Intelligent Fund Portfolio Plan, Fund NAV Trigger Notice 2.Forex: Regular FX plan, Regularly FX Rate Trigger Notice	Regular Saving Plan (RSP) Daily Deduction up 4.3% YoY Online forex trading up 52% YoY
e-statement services	Provide timely notification of account and payment information through mobile devices	Paper statement: down 11,654 accounts, or down 4% YoY E-statements: up 12,511 accounts, or up 25% YoY
Automatic message notification	Provides corporate clients with digitalized receipts of foreign currency transactions (deposits, remittances, imports, exports, loans) and TWD loan transactions	160 clients applied for "Automated Message Notification Service" in 2018

## KGI Securities

Product/Service	Contents	2018 Performance
"e-Open" multiple authentication methods	Added authentication options of IC ATM card and Natural Person Certificate	In addition to the original video and settlement bank ID authentication, the options of Natural Person Certificate and IC ATM card were added to offer the most diverse account-opening authentication services
"e-Loan" speed review and disbursement mechanism	TWSE-/TPEX-listed stock owners can apply for loans on line within the assigned limit	Clients applying for loans of less than NT\$2mn are exempt from being present at the counter. The application reviewing system could efficiently shorten the manual procedures of recording, filling, submitting, signing, storing and settling account, and save operating time by more than 5 times
Optimization for sub-brokerage business platform	Only one single sub-brokerage account for multiple transaction options (such as telephone, Internet, mobile APP, etc.) is available to clients who want to directly invest in international stock markets including common stock, ETFs, preferred stocks, and overseas bonds	1.Added Shanghai Stock Connect and Shenzhen Stock Connect online trading platform to provide clients with more convenient trading methods 2.Sub-brokerage trading volume continued to set a new high in 2018 at NT\$240.6bn
Real-time binding of the settlement account	Complete the binding of the KGI bank settlement account online	Significantly improved service efficiency by providing online real-time binding settlement accounts to replace the complicated procedures of printing, signing and sending back the "Securities Payment Remittance Authorization Form"

## More Aggressive Social Media Marketing Management

KGI Bank and KGI Securities have launched Facebook Fan Pages and Line's Official Account. Through social media exposure to young generations of the internet, we hope to expand communication channels with clients at all levels of society, to endow young people the correct concept and diversified information of wealth management.

Social media	2018 Status of operations	2019 Goal
 KGI Bank "We Care" Facebook	No. of fans: 89,905 (+13.1%) Annual articles posted: 288 No. of interactions on posts: 58,464 Private messages to clients: 96	Balance business- and life-related communication by using a variety of post types. Introduce audio/ video content to catch fans' eyes. Regularly organize events to deepen interactions. Create valuable content to strike a sympathetic chord in echo chambers and attract more new fans to join the page. With positive energy like love and sharing, we will strive to get closer to fans
 KGI Bank Line@Life Circle	No. of friends: 19,336 (+14.3%) Annual articles posted: 63 Average hits per article: 3% No. of fans making inquiries: around 140	Design more content or events exclusive to fans to satisfy the different needs of diverse groups of customers and strive to provide instant services to customers making inquiries. <b>Target 10% growth in the number of new fans</b>
 KGI Securities "LOHAS Financial Planner" Facebook	No. of fans: 27,628 Annual articles posted: 535 No. of interactions on posts: around 50,000 Reach of posts: around 4.25mn Average interactions per article: 243 people Views of videos: more than 120,000	Introduce Facebook Chatbot to increase post interactions. Attract potential customer clusters with more diverse images, texts, and audiovisual content. Reach new-generation Taix investors (35-45 of age) through content marketing and guide them to join us in LINE, resulting in brokerage account openings, securities investment consulting contract signings, and order placing <b>Increase interaction rate to 200%</b>
 KGI Securities Line@LOHAS Investor Line Official Account	No. of friends: 46,401 Times of sharing: some 70,000 times No. of accounts linked: 11,926	Launch K-LOHAS digital magazine and communicate everyday life information and investment management information to target groups. Communicate with over 20,000 readers per month to strengthen user confidence and provide more diverse channels of securities investment consulting contract signings and online account openings Link accounts to provide personalized services using chatroom, real-time Taix stock inquiry, and order placement via Line in hopes to increase trading in the Line community <b>Increase Line friends to 100,000</b>

## More Popularized Financial Education Seminars

To improve the general public's understanding of financial markets and products and implement our community service operations, we have organized various financial and investment seminars across Taiwan to provide the latest market updates and investment trends. Through interaction with clients, we hope to satisfy investors' needs for investment services.

KGI Bank periodically invites clients to participate in investment presentations covering mutual funds, insurance, and diversified wealth management, sharing the latest domestic and global investment trends and counter strategies. In 2018, 91 investment and financing presentations were organized to help our clients find the most suitable methods of wealth management at different stages of life.

To implement open banking, all subsidiaries have been actively engaged in local community activities. In 2018, 222 events were hosted nationwide as KGI Bank was focused on community services so as to closely meet the needs of local clients.

KGI Securities also arranged 109 small-scale investment and financing seminars in 2018, inviting instructors with investment consultant certifications to give lectures nationwide. Through interactions of our securities brokers with attendants, their understanding of the financial markets and our financial products were increased, so as to satisfy their needs for future wealth management services.

Forums and seminars held by KGI Bank and KGI Securities in 2017 and 2018:

	Title	2017		2018	
		Sessions	Attendance	Sessions	Attendance
KGI Bank	Nationwide VIP events	135	2,700	131	2,407
	Wealth management presentations for VIPs	6	650	6	600
	Presentations on insurance offering	37	600	28	1,038
	Presentations on mutual fund investment	21	1,890	57	3,100
	Total	199	5,840	222	7,145
KGI Securities	KGI Securities nationwide investment and financing Seminar	100	3,200	109	3,488
	Wealth Management Seminar	297	6,854	511	11,352
	KGI Securities small-scale nationwide futures & options seminar	583	5,930	613	6,250
	"Wealth Train" middle-scale seminar	61	1,342	84	1,520
	Warrants investment seminar	3	656	3	680
	Other seminars/ presentations	48	383	13	1,950
	Total	1,092	18,365	1,333	25,240

## 2.4.2 Customer Rights and Protection

### Fair Treatment and Consumer Protection

CDF is fully aware that clients are the source of business development. To take care of our clients and protect their rights, we take a customer-centric approach to designing products based on different levels of risk tolerance; operational procedures are also fine-tuned continuously to improve service efficiency.

We use a multitude of channels to achieve full information disclosure and provide clients consultation services and respond to their needs to ensure their rights and interests are protected. The planning and promotion of fair treatment of clients at KGI Bank and KGI Securities have adopted the principles and 5 levels of execution defined by the Principles for Fair Treatment of Customers in the Financial Services Industry issued by the Financial Supervisory Commission. KGI Bank and KGI Securities enclose the establishment and

implementation of all “Principles for Fair Treatment Customers” into internal control and audit schemes; conduct reviews on management meetings and periodically report to Board of Directors. These measures served to enhance employees’ understanding of consumer protection and compliance with related laws and regulations.

We take clients’ best interests very seriously. Therefore, all financial products are handled in accordance with the Financial Consumer Protection Act and related management practices.

Regarding the company’s Principles for Fair Treatment of Customers, there was no punishment by the competent authorities nor did they require improvements for any violation of the Principles in 2018.



### Information Security and Personal Information Protection

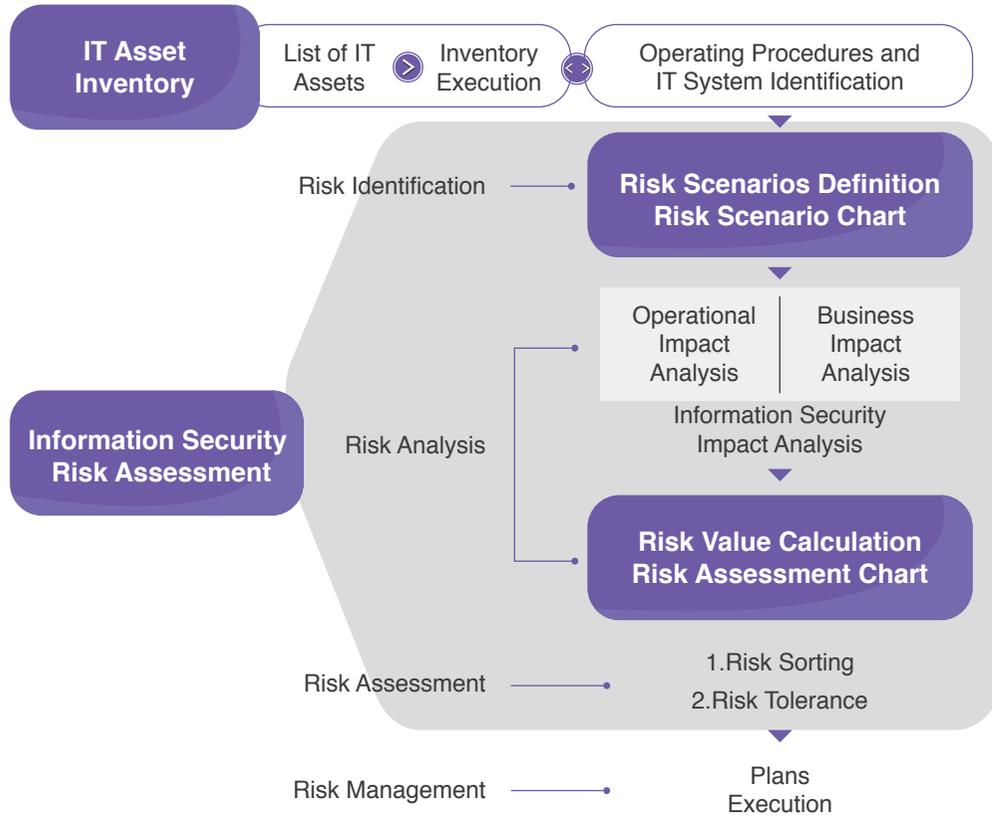
Information security’s importance is also rising as digital financial services continue to evolve. The security threats have developed diversified attack methods, such as cyber DDoS attacks, e-mail extortions, mobile security threats, and APT penetration, etc., which have created severe challenges for the financial industry to ensure the security of customer transactions.

After checking all letters from competent authorities on record, CDF was found without any incidences of violating the information security/information leakage in 2018.

Confirmed cases of complaints relating to infringement of customer privacy	External complaints that are confirmed by the Company	0
	Complaints raised from competent authorities	0
Confirmed cases of customer information leakage, theft, or losses		0

**Information Risk Inventory and Evaluation Methodology**

- Perform risk assessment annually and keep records. In the incident of changes in company's business strategy, emerging technology trends, information process or system architecture changes, risk assessment may be reassessed as needed, so as to reflect the latest risk status.
- The risk assessment method considers the potential risk events of the company, the impact of these events on the confidentiality, integrity and availability of the company's operating environment and the probability of these events happening. As much as possible, the quantitative method will be used to establish objective criteria. After completion of the risk assessment, an "Information Risk Assessment Report" will be produced.
- According to the results of the "Information Risk Assessment Report", an "Information Security Risk Management Plan" shall be produced to addresses the risks need to be dealt with. The plan will specify the measures for individual risks that need to be handled, the responsible unit, and the schedule for improvement.



**· Information Security Management: Third-party Authentication**

With the establishment of an information security governance structure modeled on ISO27001 Information Security Management Systems, KGI Securities obtained the ISO27001 certification in 2016 and completed the second review in 2018. As for KGI Bank, it has appointed security consultants to examine the information security environment to create stronger defense against breach attempts and better ability to respond to information security incidents. KGI Bank is scheduled to introduce ISO27001 in 2019. In addition to implementing ISO27001, KGI Securities has actively complied with the information security regulations enacted by the government and competent authorities, and joined the Financial-Information Sharing and Analysis Center (F-ISAC) by February 2018.

**· Internet and Information Security Management Measures**

Information security management	<p>All CDF subsidiaries have clearly defined information security management guidelines to ensure strict internal control mechanisms. Data security education and social engineering training are conducted regularly to enhance Information security awareness among employees, as well as to ensure the normal operation and data security of all information systems.</p> <p>Information security courses and training conducted in 2018: Related information security courses and training were conducted in accordance with regulations. Dedicated information security units or personnel shall attend at least 15 hours of professional courses on information security, or on-the-job training, every year. The personnel of the head office, domestic and foreign business units, information unit, assets safekeeping unit, and other management units shall attend at least 3 hours of information security courses every year</p>
Personal information protection measures	<ul style="list-style-type: none"> <li>• In response to the implementation of the Personal Information Protection Act, a Personal Information Protection Task Force was established in 2013 to oversee the evaluation, planning, and execution of personal information protection systems</li> <li>• Inventories of personal data and risk assessments are evaluated regularly for the IT systems of each business units. Control mechanisms for data loss prevention and are used to prevent the leak of personal information while also enhancing the level of protection for customer and business data</li> <li>• To ensure that employees understand the importance of clients' personal data and related operating procedures, as well as to demonstrate the level of attention given to ensure the safety of customer information. Since December 2012, CDF has introduced a mandate online course on Personal Data Protection Act for new employees and the completion rate is 100%; in addition, CDF and all subsidiaries conduct a Company-wide "Personal Data Protection Act Legal Education Course" at least once per year to strengthen all employees' awareness and execution of personal data protection</li> <li>• Countermeasures against information leakage (reporting and handling procedures):             <ol style="list-style-type: none"> <li>(1) Upon receiving notification of personal information leakage, the system owner will determine the causes of the irregularities and methods of handling</li> <li>(2) The system owner will report to his or her supervisor, the head of the unit, and the head of Operational Risk depending on the level and type of the incident</li> </ol> </li> </ul>
Digital security	<p>Data security investments are on the rise to keep pace with the development of FinTech. An IT security monitoring, reporting and response unit has been set up to protect against new types of online security threats including Advanced Persistent Threat (APT) and Distributed Denial of Service (DDoS) attacks. In addition, we conduct security check periodically on mobile APP and websites to ensure the security and stability of electronic transactions as well as the safety of customer data</p>

## Inputs and performance on information security issues in 2018

Objective	Input			Performance
Enhance information security awareness	Inputted 17,070 hours on information security training to enhance information security awareness among employees 1. Conducted 6 information security drills 2. Information security training: 5,690 participants with a 100% passing rate			Number of material information security events: 0
	Company	No. of participants	Training hours	
	CDF	137	411	
	KGI Bank	2,239	6,717	
	KGI Securities	3,201	9,603	
	CDIB Capital Group	113	339	
	3. Information security personnel are required to participate in a 15-hour technical training 4. Information security notices are issued on a monthly basis			
Increase awareness about phishing	Conducted social engineering drills by sending 16,820 emails to enhance phishing awareness among employees			Number of customer information leakages due to phishing: 0
	Company	No. of emails sent		
	CDF	274		
	KGI Bank	6,717		
	KGI Securities	9,603		
	CDIB Capital Group	226		
Enhance information security protection	Scan rate of information security vulnerabilities reached 100% so as to ensure system resilience			Number of hacking incidents due to failure to patch information security vulnerabilities: 0
Prevent apps from being hacked	All mobile device apps we launched have passed security evaluation by third-party professional organizations and are 100% compliant with the information security regulations enacted by the Industrial Development Bureau			Number of leaks or hacks of personal information due to app vulnerabilities
Enhance information security evaluation	Computer systems information security evaluation was completed			Following inspections by third-party consulting firms, no major risks or flaws were found

## 2.4.3 Customer Recognition

CDF values the voices of our clients. To enforce a “We Care” customer-centric corporate culture, we take advantage of opportunities to conduct customer satisfaction surveys at various channels where KGI Bank interacts with clients, such as over-the-counter services, customer service calls, online banking, and mobile banking to encourage clients to give us their suggestions. Their valuable input is crucial to service optimization and future development strategies.

In addition to the customer ratings, KGI Bank have also conducted regular visits to the branch in recent years through a mystery-shopper team composed of internal staff to keep track of and enhance the service quality of our personnel.

### Customer Satisfaction Survey

For a better understanding of our clients’ satisfaction with our products and services, which we can use as reference for improvement of services and procedures, KGI Bank had in 2018 conducted a customer satisfaction survey targeting over-the-counter foreign currency transactions, account opening, financial planning services, loan applications/ credit card operations at its branch locations as well as clients who called the Customer Service Center. Clients were asked to rate our performance on aspects such as greeting, service attitude, proficiency, and professionalism. A total of 63,000 responses were collected with an average overall satisfaction rating of 99.22%.

#### · KGI Bank Customer Satisfaction Survey

	2016		2017		2018	
	No. of survey	Satisfaction ratio%	No. of survey	Satisfaction ratio%	No. of survey	Satisfaction ratio%
Survey by phone	24,000	99.69	54,000	99.77	57,000	99.79
Survey by email	1,600	72.58	2,300	93.14	5,800	93.67
Survey (combined)	26,000	97.95	56,000	99.5	63,000	99.22

\*Note: The increase in the number of people surveyed (by phone) since 2017 was mainly due to the fact that as soon as clients finish their inquiries with the call center, the calls are immediately guided into the voice system for satisfaction survey.

#### · KGI Securities Customer Satisfaction Survey

In 2018, 25,768 clients were randomly requested by the call center to give satisfaction ratings after receiving service, and 19,871 of them (about 77%) completed the questionnaire, among which 97.7% were very satisfied/ satisfied.

	2014	2015	2016	2017	2018
No. of survey	32,078	28,689	23,620	26,127	19,871
Satisfaction ratio%	97.40	97.60	97.90	97.70	97.75

(\*Score: 1-very unsatisfied, 2-unsatisfied, 3-average, 4-satisfied, 5-very satisfied)

### Financial Digitization Satisfaction Survey

KGI Bank optimized or added 68 online banking and mobile banking functions in 2018, including most used functions like deposits / remittances and account information/ e-statement inquiry and upgrades to automated banking channel functions. Meanwhile, to enhance our service efficiency and reduce the waiting time for our clients, internal operating systems were optimized on a large scale, including functions like inquiries, customer material information record, and document digitization, improving the integrity of the functions and the ease of operation/ inquiries.

### KGI Bank Online & Mobile Customer Satisfaction Survey

Online & mobile customer satisfaction survey result			
	2016	2017	2018
No. of survey	1,656	756	1,053
Satisfaction ratio%	72.58	84.13	90.60

\* Satisfaction ratio was lower in 2016 due to incomplete online banking functions, as customers were unable to access the system during night-time maintenance. Satisfaction ratio began rising sequentially from 2017 following continuous optimization of various online banking functions.

### Service Quality Improvement

KGI Bank implemented mystery visit twice (in 1H and 2H each) in 2018, visiting 54 branches each time. Evaluation items included customer guidance and greetings, waiting time, procedure instructions, banking service representatives’ etiquette and professionalism, the environmental tidiness/ cleanness inside and outside of the building, and the smoothness of the ATM/ ADM operation. We keep track of how the improvements are being made afterwards, hoping to take service quality and comfort of the environment of each branch to a higher level.

In 2018, 87% of in-coming calls were connected within 20 seconds. Customers’ requests were handled quickly and accurately.

In addition to timely training, we also regularly updated and optimized the rules of various operating procedures, including 14 for credit card, 11 for loan, 5 for the Flexible Card, 3 for deposit/ wealth management, and 10 for general procedures, for a total of 43 rules have been amended. Regarding exceptional situations, KGI Bank also has an open reporting mechanism in place to instantly respond to various situations at the service scene. In 2019, KGI Bank plans to invest in a large-scale update of core operating systems. In the future, it will continue to optimize internal procedures and the digital platform designed for clients, so as to more closely meet their needs, enhance our customer service efficiency, and make more clients satisfied and want to use and recommend KGI Bank.

## Customer Service Platform

### · Multiple notification channels

In addition to 54 branch locations nationwide and the customer complaint hotline, KGI Bank also provides various channels which enable clients to give feedback regarding their service experience through official website, the mobile app, the multimedia call-number machine in branches, and the account statement. With penetration of digital services and popularization of social media, clients can also interact with KGI Bank through various social media such as LINE and Facebook fan pages while instantly reporting issues. This is evidence that we are cordially willing to listen to our clients and address their complaints.

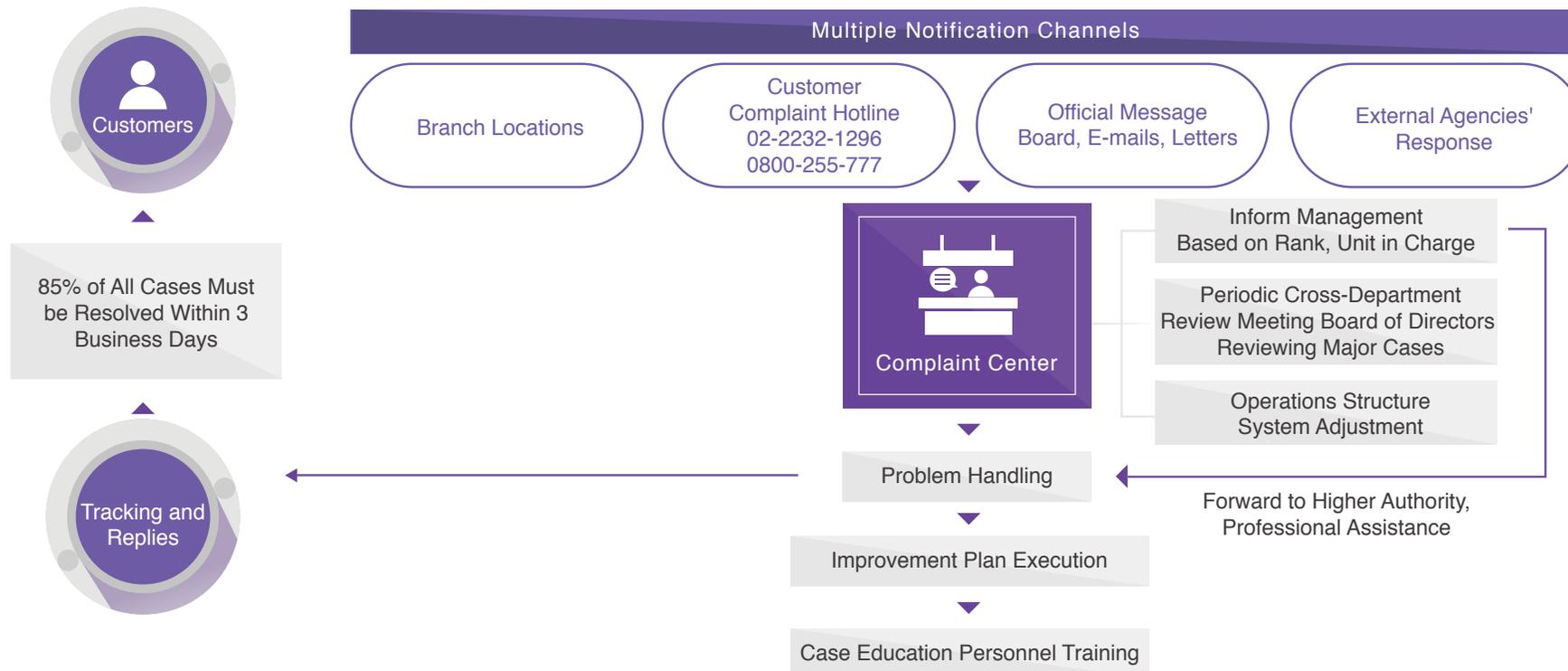
## Customer Service Operations

KGI Bank has established the comprehensive "Guidelines for Handling Consumer Complaints and Disputes" and the Customer Complaint Resolution Process (CCRP) platform to record and analyze the category, content, cause, handling procedure, processing time, and corrective actions of all customer suggestions.

## Customer Complaints Handling

In 2018, KGI Bank received 218 complaints from clients, a 10% decrease compared to 2017, and 90% of these complaints were handled within three business days, exceeding the set target of 85%. The 57 complaints that KGI Bank was actually responsible for were mainly related to issues of the personnel service attitude and proficiency and operational processes and systems. A total of 64 improvements have been proposed and executed to ensure the effective resolution of the complaints and controversies and the continued improvement of customer service.

### · Multiple notification channels and high standards of handling efficiency



· Customer complaint statistics and analysis

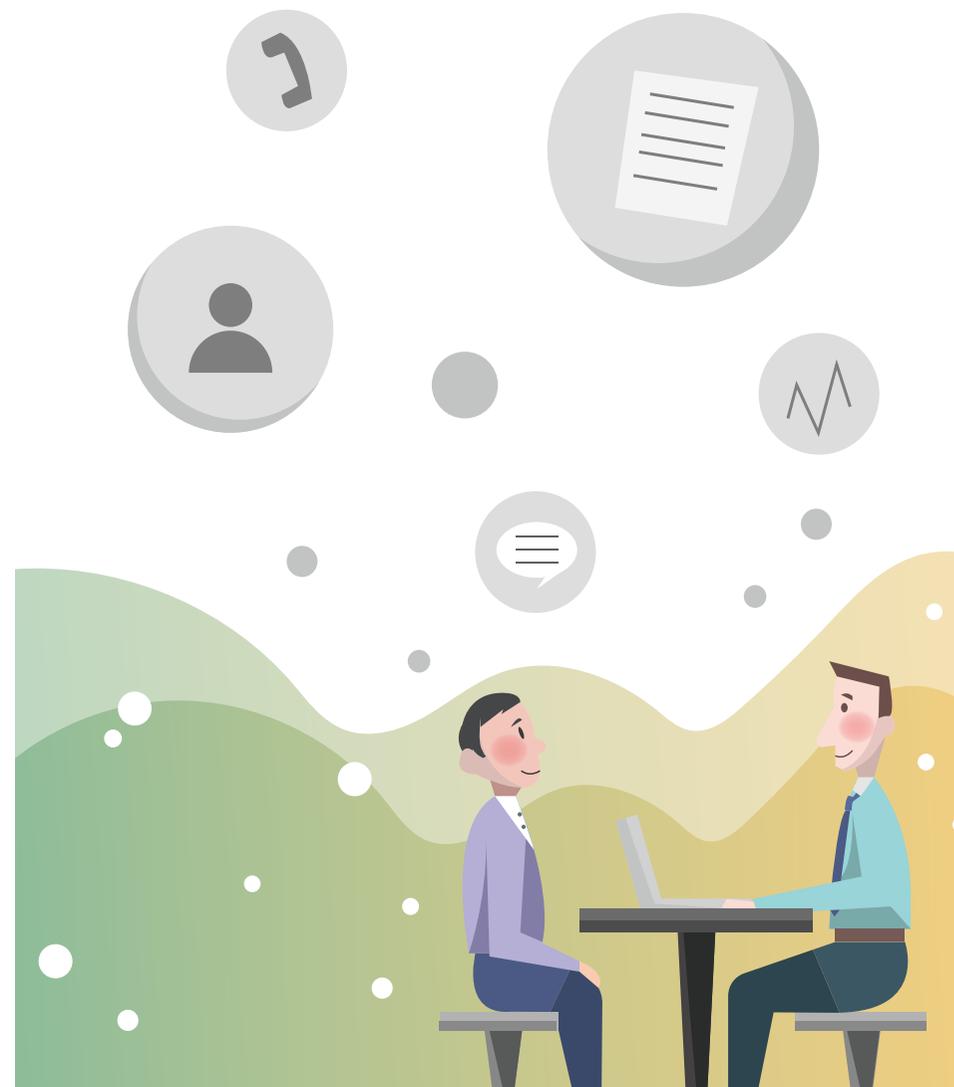
Customer complaint statistics and analysis	2016	2017	2018
No. of complaints (KGI Bank)	284	242	218
Percentage of cases resolved within 3 days	89%	89%	90%

· Statistics and analysis of improvements of KGI Bank's customer complaints

Type of improvements mad	2016	2017	2018
Education and training / sampling /case advocacy	53	63	42
Current workflow adjustment	9	10	9
Improvement of enhancement of system functionality	9	5	3
Adjustment of official website/ voice mail/text message	1	7	5
Adjustment of the operative manual/education training materials	-	5	1
Adjustment of the form style or notification content	4	1	2
Testing or replacement of machine/ATM	-	1	2
Adjustment of manpower	-	1	-
Total improvements made	76	93	64

· KGI Securities customer complaint statistics

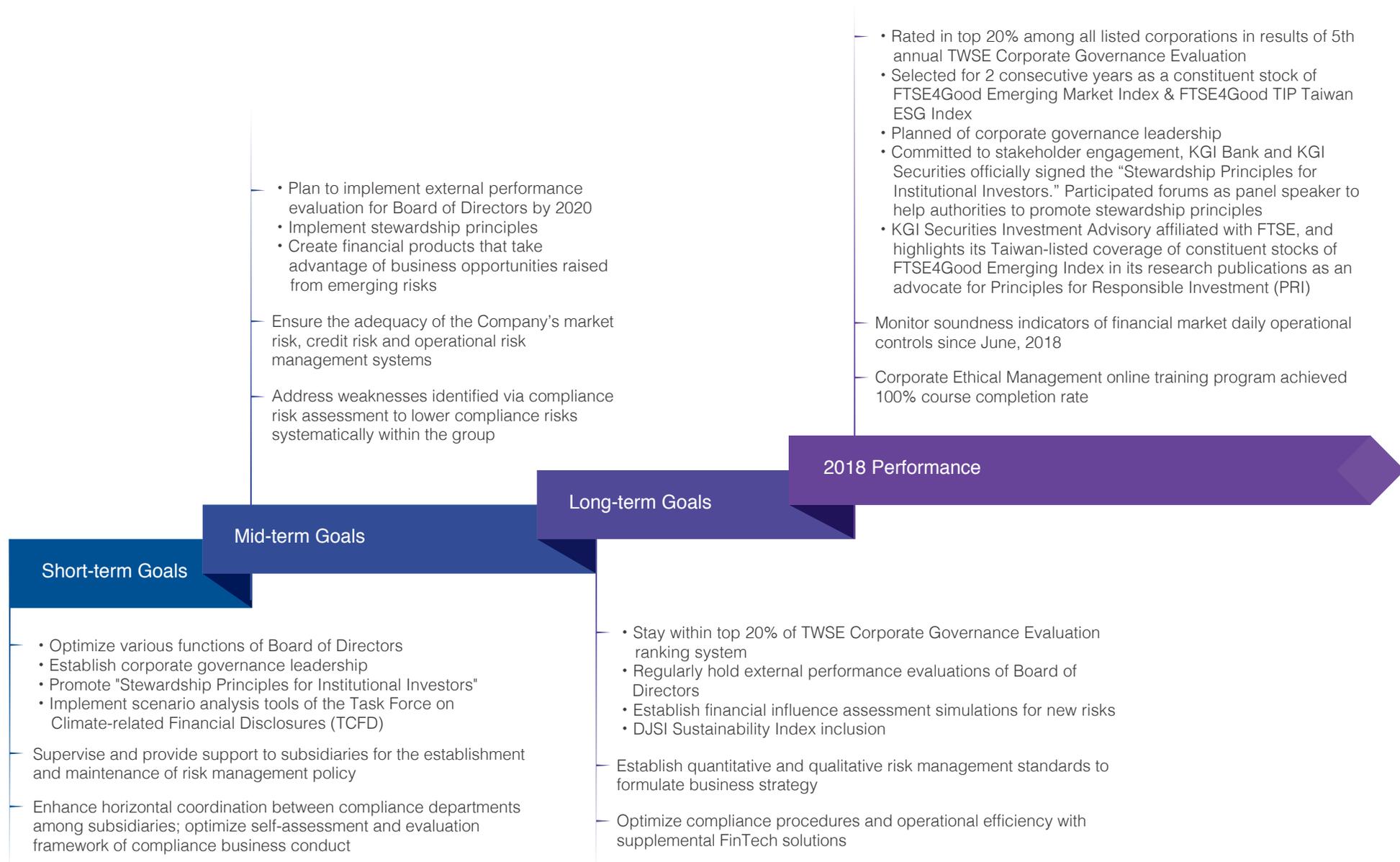
In 2018, the Brokerage business received 40 complaints from clients, all being reported to the supervisors of the responsible units on the same day of receiving the complaints. The supervisors of the responsible units then designated suitable staff to make explanations to complaint filers and resolve the issue. The results must be reported within 3 to 5 days.





Chapter  
**3**

Integrity  
Corporate Governance



## 3.1 Operation Overview

### Global & Taiwan Economic Dynamics

Following a year of robust growth, the world economy in 2018 experienced volatility and market anxiety at levels unseen since the 2008 financial crisis. A bearish macroeconomic sentiment and a slowdown in manufacturing and trade contributed to the uncertainty. The rise of protectionism, fueled by the US pushing tariff policies and trade retaliation measures against other economies, brings further uncertainty to the economy and undermines market sentiment. On the other hand, tax cut and infrastructure spending bills boosted America's domestic demand and led to the Fed's rate hikes cycle, driving a strong dollar that left emerging markets on edge throughout 2018.

Taiwan's economic growth dealt with a plethora of uncertainties in 2018, including global monetary policy trends, directions of international hot money movement, forex fluctuations, China's economy and the cross-strait relationship, and the progress of domestic infrastructure plans. Outlook indicators remained muted in the second half of the year as Sino-US trade tension escalated, casting declines across tech sectors (with the exceptions of PC, electronic and optoelectronic goods, which saw moderate growth on solid computer equipment component demand) and manufacturing in general.

### Commitment to expanding group businesses & deeper domestic market engagement

Faced with the present global economic situation, CDF is striving to develop its four core businesses of life insurance, commercial banking, securities and venture capital/private equity while setting forth CSR guidelines in practices across all subsidiaries, and improving capital reallocation to elevate ROE. In the face of volatile market dynamics, KGI Bank and KGI Securities are aggressively developing wealth management products with hardware and service platform upgrades to improve operating flexibility that better suits all types of investors. The decreasing birth rate and aging population in Taiwan provide opportunities for KGI Bank and KGI Securities to continue building pension wealth management systems jointly with medical institutions. KGI Bank has also rolled out various innovative FinTech credit programs designed to lift up underprivileged communities. KGI SITE collaborated with China Life in successfully raising two target-maturity bond funds to meet domestic clients' demand for fixed income products. On environmental change issues, KGI Bank and CDIB Capital Group (CCG) are adopting responsible investment strategies and ESG assessment to assist fundraising for the green energy sector. KGI Bank is also involved in government efforts in setting up financing programs and establishing risk assessment and control measures for the solar, wind and biomass power generation sectors.

While in the pursuit of solid long-term returns, CDF also aspires to create a meaningful impact on the society and investee companies by building an investment portfolio that not only is potentially highly lucrative but also offers a triple-win proposition for the good of the environment, the society, and corporate governance. In 2019, CDF will continue its commitment to optimizing asset and liability management and implement risk management and cost control to boost performance of its four core earnings drivers.

### 2018 Business Performance

Subsidiaries	2018 Business performance	Main services
KGI Bank	<ol style="list-style-type: none"> <li>Corporate banking &amp; mortgage businesses continued to grow; total loans up 14% YoY at NT\$375.5bn; total deposits up 12% YoY at NT\$421.7bn</li> <li>Solid asset quality with a non-performing loan ratio of 0.17% and above-peer-average NPL coverage ratio of 756%</li> <li>New core system launched to enhance service and breadth of products</li> </ol>	Deposits/loans, credit cards, wealth management, consumer banking, corporate banking, global market, and foreign exchange transactions
KGI Securities	<ol style="list-style-type: none"> <li>Brokerage business was driven by growing turnover and higher exposure to FINI. Market share increased to 8.2%</li> <li>Maintained market leader on underwriting business with 27 lead underwriting deals (same as 2017)</li> <li>Overseas operations' profitability momentum recovery continued, contributing 22% to earnings</li> </ol>	Brokerage, wealth management, proprietary trading, underwriting, fixed-income, and a variety of derivatives products
CDIB Capital Group	<ol style="list-style-type: none"> <li>Successfully raised capital for 10 PE funds in transition to asset management business model, reaching NT\$41.8bn in AUM</li> <li>Cash proceeds from TWSE and TPEX-listed asset monetization reached NT\$15.4bn in 2018</li> </ol>	Venture capital, private equity and asset management, etc
China Development Asset Management Corp.	<ol style="list-style-type: none"> <li>Proceeded of NT\$70mn from disposal of 34 investment property deals in 2018, up over 150% from cumulative proceeds of 2017</li> <li>Committed to disposal of collateral and expediting collection from and negotiating with debtors; cumulative recovery of NPL reached NT\$190mn as of 2018</li> </ol>	Debt valuation, acquisition and management, accounts receivable acquisition and overdue accounts receivable management, among others, for financial institutions
China Life Insurance	<ol style="list-style-type: none"> <li>First year premium income was up 87.4% YoY; total assets reached NT\$1.7tn at year end 2018</li> <li>Completed the acquisition of Allianz Taiwan Life's traditional policies and system integration, further expanding market share and customer base</li> </ol>	Various insurances for individuals and investment activities in compliance with laws and regulations

## Financial Performance

CDF registered consolidated net profit of NT\$12.82bn in 2018 (including NT\$4.962bn from non-controlling equity), yielding EPS of NT\$0.54 and adjusted ROE of 5.35%. With an acquisition of a 25.33% stake on September 13, 2017 and along with KGI Securities' 9.63% holding on China Life, CDF became the largest shareholder of China Life. CDF now comprises of four growth engine of life insurance, commercial banking, securities, and venture capital/ private equity. With a broader range of financial products and services to offer, CDF plans to promote cross-selling activities to advance revenue and enhance ROE. In the review of subsidiaries' 2018 performance highlights, CDF was rewarded for its decision to move forward with the China Life acquisition by recognizing NT\$2.6bn in net profits from the insurance arm, based on equity investment ratio, making it the biggest contributor to Group earnings in 2018. KGI Bank registered robust core income growth (net interest and fee revenues) and maintained solid asset quality. Total loans (secured loans included) as of end-2018 were up 14% YoY to NT\$375.5bn, commanding a comfortably outperforming 2015-2018 CAGR of 12%. As financial trading and hedge fund performances were adversely affected by rising bond yields and widening credit spreads, however, KGI Bank's 2018 net profit contribution contracted 30% YoY to NT\$1.9bn. KGI Securities contributed 2018 net profit of NT\$2.4bn, on the back of recovering Taiex and Hang Seng average daily turnovers, favoring brokerage and portfolio performance. The brokerage business posted 21% earnings growth YoY and solidified its second-largest market share position in Taiwan. While actively expanding AUM for its existing portfolio, CCG continues to expedite asset monetization of principle investments, trimming its on-balance sheet positions from NT\$66.6bn as of end-2012 to NT\$31.1bn end-2018. CCG's total AUM hit NT\$41.8bn at end-2018 with improving return performance.

## Financial Snapshot

Unit : NT\$'000; %

Item	Year	Financial summary for the last five years				
		2014	2015	2016	2017	2018
Profitability ratio	Ratio of return on total assets (%)	1.38	0.96	0.68	0.75	0.50
	Ratio of return on stockholders' Equity (%)	6.28	5.00	3.57	5.94	5.35
	Profit margin ratio (%)	37.86	29.00	22.07	14.48	5.08
	Basic Earnings per share (in dollar)	0.73	0.58	0.40	0.80	0.54
	Ratio of income growing	27.73	(19.83)	(24.70)	104.19	(7.42)

\*Note : Please refer to 2018 AGM Report for detail

## Economic Value Distributed

Unit : NT\$'000

Item	2014	2015	2016	2017	2018
Net revenues	28,621,987	29,708,611	27,127,728	85,413,651	252,349,877
Net profit before income tax	11,778,633	9,442,987	7,110,829	14,519,798	13,441,879
Operating expenses	16,829,647	20,595,413	19,265,421	22,002,711	25,166,272
Cash dividend per share (NT\$/share)	0.6	0.5	0.5	0.6	0.3
Income tax expense	941,302	827,812	1,123,925	2,154,331	627,239
Employee salary & benefit expenses	10,083,169	12,522,077	11,414,576	13,758,724	15,293,934
Retained earnings	19,477,595	18,507,160	16,798,782	20,870,156	22,095,706

\*Note : Please refer to 2018 AGM Report for detail

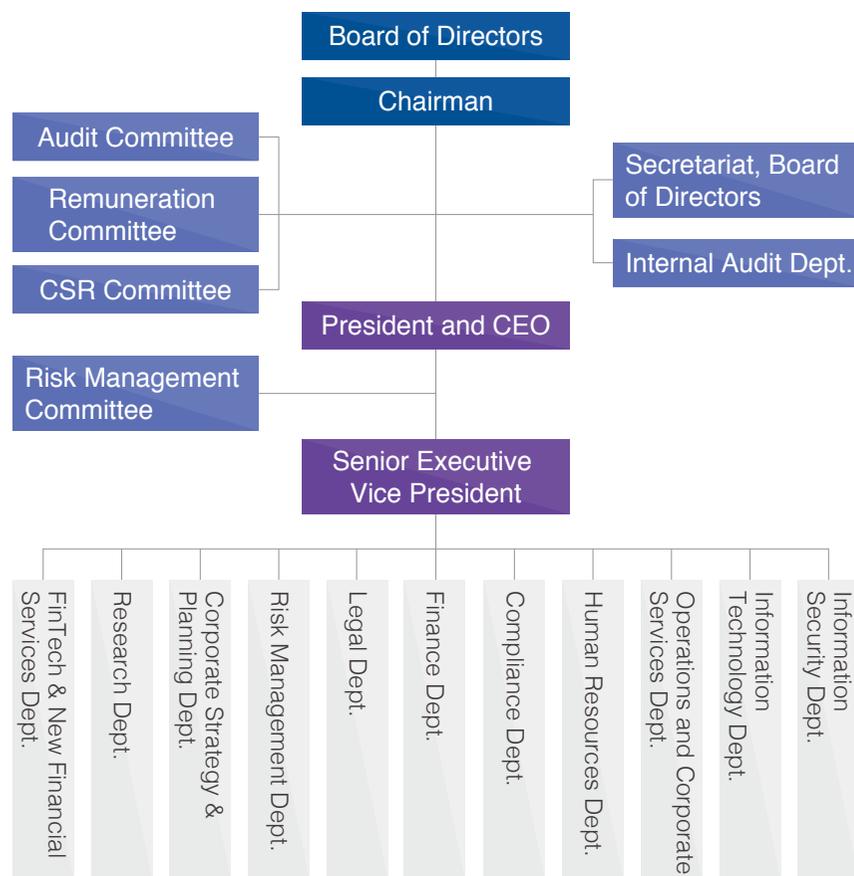
## Business Outlook

CDF has been shifting capital from the low-leveraged principle investment business to the higher-leveraged insurance and banking businesses in order to improve capital efficiency further to boost ROE. The Group strives to reshape an organizational culture committed to engaging both its retail and institutional channels, following a business strategy that first and foremost values the capacity to generate solid recurring income over capital gains performance, in an effort to boost the Group's exposure to businesses with steadier revenues. To achieve the objective of sustainable developments, CDF endeavors to foster an enterprise culture that advocates for the advancement of corporate governance, for transparency, swiftness and equality in facilitating access to information, and for ethical management.

## 3.2 Governance Framework

### 3.2.1 Board of Directors Structure

#### CDF Corporate Governance Structure



Note : In light of advancements in information and communication technologies and the mainstreaming of FinTech, the finance industry is facing growing risks surrounding data security. To enhance the Group's cyber security and maintain a future-proof data safety net, CDF approved amendments to its "Rules of Procedure for Board Meeting" at the 40th meeting of the 6th Board of Directors on December 24, 2018, whereby a dedicated Information Security Department is established to oversee the planning, management and implementation of IT security tasks.

#### Board of Directors - Members, Independence, and Diversity

CDF's Board election, pursuant to Article 16 of the Articles of Incorporation, is adopting a nomination system. Moreover, in order to enhance the diversity of the Board, the company's Corporate Governance Best-Practice Principles has established clear guidelines in the selection of Board members: Besides adhering to the limitation of the proportion of executive directors appointed based on operational, business model and developmental considerations, the Board's structure should also satisfy diversity criteria in the following two aspects:

Basic profile and value	Professional knowledge and skills
Gender, age and nationality	Professional background, skill sets or industry experience

The Company's directors serve a term of 3 years and the 6th-term Board, with a total of 9 members, began on May 16, 2016 and will end May 15, 2019. There are three independent directors, making up 33% of the Board, and only one executive director, making up 11.1%; one of the nine Board members is a foreign national. The average age of the Board is 64, and the average tenure is eight years. Board members come from diverse backgrounds, including financial, industrial, and academic sectors, and have abundant experience in operations and management, as well as ample professional knowledge, skill, and accomplishments. All three independent directors are independent individuals with outstanding professional backgrounds. We value gender equality in our Board structure. To propel women's participation in the decision-making process, the CDF Board currently has one female director, while the Boards of its banking, brokerage and PE/CV subsidiaries all have female directors as well.

Entity	CDF	KGI Bank	KGI Securities	CDIB Capital Group
Board M:F ratio	8:1	6:2	8:1	11:2

The Company is eligible for the re-election of its 7th term Board of Directors at the 2019 general meeting. The composition and diversity criteria of the Board of Directors, determination of independence and nominees' engagements on economic, environmental and social issues, along with shareholders' opinions of candidates will all be taken into careful consideration. The Board's resolution will submit approved nominations to the AGM for election. The Company shall establish a fair, just and open procedure for the election of directors pursuant to the Company Act and Procedures for Election of Directors.

## Summary of Director Qualifications and Skill Matrix

Date : March 31, 2019

Title		Chairman	Managing Director	Managing Director Independent Director	Director	Director	Director	Director	Independent Director	Independent Director	
Name		Chia-Juch Chang	Long-I Liao	Ching-Yen Tsay	Alan Wang	Paul Yang	How Yong Lee	Shu-Chen Wang	Gilbert Bao	Hsiou-Wei Lin	
Executive Director					√						
Tenure (years)	0-6				√			√		√	
	7-13	√	√	√		√	√				
	14-15								√		
Diversity Standards ROCDROiversity Standards	Metrics	Nationality	ROC	ROC	ROC	ROC	ROC	SG	ROC	ROC	ROC
		Gender	M	M	M	M	M	M	F	M	M
	Age	40-60					√			√	√
		61 and above	√	√	√	√		√	√		
	Skillset	Experience/ Key areas of knowledge	A C D E F G I J K L	A B D F G H I J L	A D E F G H I J K L	A B C D F G H I J K L	A B C D F G H I J L	A D F H I J L	B H I	A D F G H I L	A B C D F G H I
Committee	Audit			√					√	√	
	Remuneration			√					√	√	
	CSR	√		√	√						

Experience — A: Holding Company, B: Commercial Banking, C: Securities/Insurance, D: PE/VC Investment, E: Government & Public Sector

Key areas of knowledge — F: Execution & Strategic Planning, G: Risk Management, H: Financial Services, I: Corporate Governance, J: Marketing Leadership, K: Information Technology, L: International Experience

Matrix	Experience					Key areas of knowledge						
	Financial Holding Company	Commercial Banking	Securities/ Insurance	PE/VC Investment	Government & Public Sector	Execution & Strategic Planning	Risk Management	Financial Services	Corporate Governance	Marketing Leadership	Information Technology	International Experience
%	89	56	44	89	22	89	78	100	100	67	33	78

## Board Operations

The Board of Directors convenes regular monthly meetings and ad-hoc meetings in emergencies. A total of 12 meetings were convened in 2018, with an average attendance rate of 87% for personal attendance by directors (100% if attendance by proxy is included). Prior to the meeting, the Secretariat, Board of Directors will set the agenda and notify all directors within a specified period and provide sufficient meeting materials for review.

To ensure smooth operations of corporate governance, CDF has established Rules of Procedure of the Board of Directors, stipulating items to be discussed at Board meetings. In the event of an agenda item representing a conflict of interest for a director of for the entity he or she represents, he or she shall disclose the conflict at the current meeting and refrain from discussion or vote on the matter. He or she shall be recused during discussion or vote on the matter and shall not exercise the right to vote on behalf of any other directors of the Board. Please refer to 2018 AGM Report for detail.

### Board's supervision over company's operation:

Department	Frequency	Report content	No. of briefings
Finance Department	Monthly	Operating performance of the management team	12
	Annually	Tax management implementation	1
Risk Management Department	Quarterly	Risk management implementation and major risks reporting	4
Compliance Department	Semi-Annually (also report to the Audit Committee)	Compliance implementation	Two for each
	Annually to the Audit Committee and Board of Directors	(1) Evaluations of the compliance system of each department (2) Evaluations of the compliance system of each subsidiary	One for each
Internal Audit Department	Semi-Annually (also report to the Audit Committee)	Auditing report	Two for each
	Annually to the Audit Committee and Board of Directors	(1) Meeting minutes of internal control system deficiencies forums	One for each
		(2) Auditing performance scoring of departments	
(3) Internal auditing scoring of subsidiaries			
Legal Department	Annually	Handling of major lawsuits	1
	Monthly to the Board of Directors	Meeting minutes of subsidiaries' board meetings	12



## 2018 Major Resolutions

- Resolution for lifting the non-competition restrictions on directors;
- Resolution for 2017 annual financial statements, earnings distribution, employee and director remuneration, as well as the 2019 budget report;
- Resolutions for proposed 2018 Statement on Internal Control System and 2019 Annual Auditing Plan
- Resolutions for subsidiaries' capital reduction and rights issue plans
- Resolution for appointments of directors for subsidiaries
- Resolution for the retirement and replacement of Chief Auditor, sitting also as the head of the Company's Internal Audit Department
- Resolution for proposed merging solution for the Company's four asset management subsidiaries
- Resolution for directors' liability insurance for 2018;
- Resolution for issuing unsecured corporate bonds
- Resolution for subsidiary CCG's disposal of controlled assets

Note: For Board meeting details, please refer to the "2018 CDF AGM Report"

## Improve Board Functionality

To strengthen the professional functions of the Board, CDF hosted two three-hour in-house seminars, namely "Trends and analysis of the latest amendments to the Company Act" and "How the board supervises the establishment of a company's whistleblower system/ Introduction to the draft of Taiwan's Whistleblower Protection Act" at the headquarters last year for its Board members and regularly keeps Board members posted on the latest continuing education courses and seminars offered by accredited institutions, and assists them with course registration. Topics may cover corporate governance, finance, risk management, sales, legal & compliance, anti-money laundering, counter-cyberterrorism and CSR. We provide directors access to a variety of continuing education opportunities so they can further empower themselves with knowledge. In 2018, CDF's directors have attended courses offered by the Taiwan Corporate Governance Association, the Governance Professionals Institute of Taiwan, Taiwan Academy of Banking and Finance, Taiwan Stock Exchange Corporation, the Securities and Futures Institute, and Raphael AML Consulting. In 2018, CDF's directors have logged a total of 60 hours in continuing education and met the 6 hours per year requirement by the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies." Six directors (67% of the Board) attended two corruption-related seminars, "Ways of preventing and responding to insider trading" and "How the board supervises the establishment of a company's whistleblower system/ Introduction to the draft of Taiwan's Whistleblower Protection Act."

## Establishment of Corporate Governance Leadership

To maximize the effects of the Board of Directors' functionality, the Secretariat, a dedicated unit for the Board of Directors, is staffed with sufficiently qualified corporate governance professionals to oversee related matters. Pursuant to the Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE-Listed Companies and the Board's Exercise of Powers, amended on December 27, 2018, the Company passed a resolution to appoint Executive VP Mr. Chih-Yu Chou as head of Corporate Governance, at the 42nd meeting of the 6th Board of Directors on February 25, 2019. A new SOP is also established for responding to requests from directors, stipulating procedures to help facilitate access to information required for directors to faithfully carry out duties and effectively optimize Board functions, covering issues such as personnel resources and required period for handling matters, and adequately and timely responding to requests from directors. Please refer to the AGM Report for details on the scope of responsibilities of CDF's Corporate Governance director and staff and business implementations in 2018.

### 3.2.2 Board Performance Evaluation

For effective corporate governance and Board functionality, CDF, at the 10th meeting of the 6th Board of Directors, approved to establish the "Board of Directors Performance Evaluation Guidelines", which requires the internal performance evaluation of the Board for the current year shall be completed by the end of the year. The evaluation methods include the Internal Evaluation of the Board and the individual Board Director self-assessment.

The results of the 2018 annual Board of Directors internal evaluation were reported at the 41th meeting of the 6th Board of Directors on January 28, 2019, and disclosed on the company website as well as at the "2018 AGM Report".



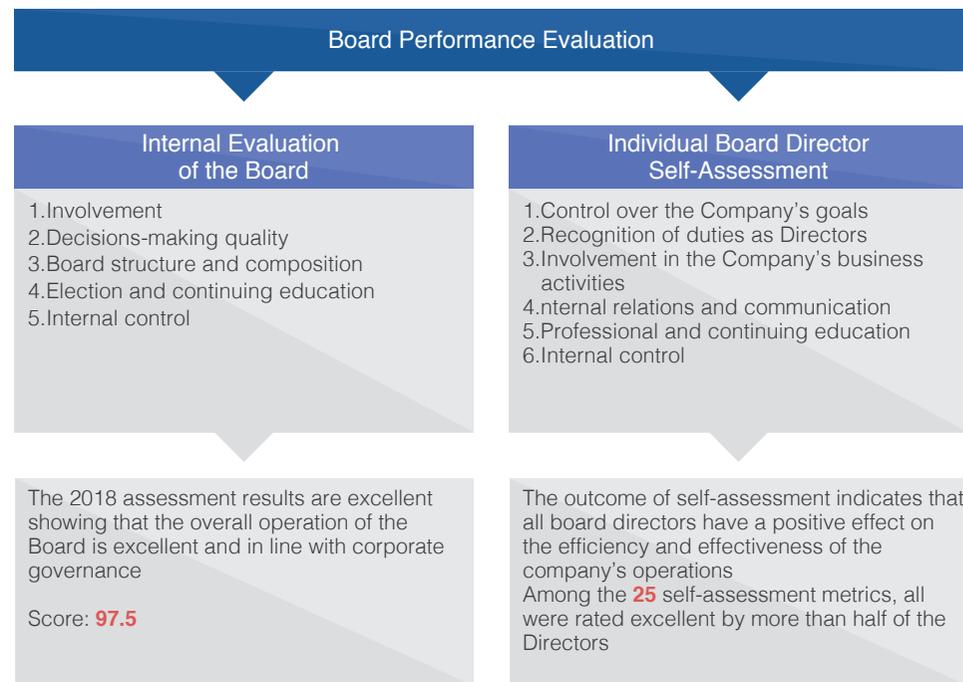
Board of Directors Performance Evaluation Guidelines



2018 AGM Report

Moreover, in order to continue strengthening the company's corporate governance, the 29th meeting of the sixth Board of Directors passed an amendment of the Board Performance Evaluation Guidelines on 30 January, 2018, in which it added external evaluations to the company's Board of Directors, setting guidelines that the company must enlist external professional independent agencies or external experts and scholars to conduct evaluation at least once every three years. The company plans to conduct the external performance evaluation of the Board of Directors in 2020.

To keep abreast with international corporate governance trends and to strengthen the effectiveness of board performance assessment, the Company plans to revise its "Board of Directors Performance Evaluation Guidelines" based on the TWSE's sample template of "Self-Evaluation or Peer Evaluation of the Board of Directors of XX Co., Ltd." amended on December 20, 2018. We are also considering adding governance evaluation and topics covered by international ESG evaluations such as governance, environmental sustainability and CSR to the criteria of internal board performance evaluation.



## 3.2.3 Board Operation

### Functional Committees

To enhance Board functions, improve corporate governance and fulfill CSR, CDF has established functional committees under the Board of Directors including the Audit Committee, Remuneration Committee, and the CSR Committee. Members of the Audit and Remuneration Committees consist of all three independent directors. The CSR Committee is made up of the Company's chairman, president, and independent directors, as well as the chairmen and outside directors of direct subsidiaries, to effectively implement independent supervision to facilitate sound management and Board operation. For an overview of the responsibility and operations of these committees, please refer to the 2018 AGM Report.

	Audit Committee	Remuneration Committee	CSR Committee
Committee Members <sup>(Note)</sup>	3	3	9
Percentage of independent directors of the company or subsidiaries (%)	100	100	33
Meetings held in 2018	8	8	4
Attendance rate (in person) (%)	83	88	100
Attendance rate (including attendance by proxy) (%)	100	100	100

\*Note: As of March 31, 2019

### Remuneration Policy

To safeguard shareholders' rights and interests, the Remuneration Committee was composed of three independent directors and convenes meetings at least twice a year. In addition to assist the Board of Directors in reviewing and supervising the company's remuneration policy, the Remuneration Committee also evaluates and approves the remuneration package of the Board Directors and executives.

#### 1. Remuneration Policy for Directors and Executives

- Reference to domestic and foreign peers
- Consideration of the individual performance and the Company's operating performance (including financial indicators such as ROE; and non-financial indicators such as risk management, ESG performance, etc.) and classify them into fixed salary and variable bonus
- Evaluate the achievement of goals, including the Company's short and long-term goals

#### 2. Procedure of Remuneration

- Complying with the "Remuneration Committee Charter of China Development Financial Holding Corporation"
- Establishing and periodically reviewing the policy, system, standards and structure of the performance evaluation and remuneration of Board Directors (including the chairman and vice chairman) and the managers
- Periodically assessing and setting the remuneration contents and structure of Board Directors (including the chairman and vice chairman) and the managers
- Approving on matters authorized by the Board

Remuneration of executives at CDF includes a regular salary and a variable bonus, the bonus is decided in accordance with the performance of the Company as well as the performance of the individual. Managerial performance is related to both financials indicators as well as to the performance evaluation on the Company's environmental, social and governance (ESG). The variable bonus package shall not produce an incentive for the directors or the executives to engage in activity to pursue remuneration exceeding the risks that the company may tolerate. Be it a three-year rolling cash bonus plan, stock ownership deferral trust plan, or a longer-term deferred cash bonus trust or restricted employee stock options (with the maximum 7-year vesting period), these incentives were designed to see remuneration for the Board of Directors and executives correlate with the movement of the Company's share price in the long run, encouraging leadership to keep the Company's long-term interest at heart and deliver a win-win situation between the company, its employees, and shareholders. However, a violation against the law, a breach against the employment contract or service agreement, or a citation of a serious offense in accordance with the Company's Employee Reward and Discipline Policy automatically forfeits the grantee's vesting rights and any remaining participation in the program. This measure is to ensure all directors and executives to comply solidly with corporate governance.



Remuneration Committee

## Organizational Chart of the CDF CSR Committee

As of March 31, 2019



The Company adopts business policies that focus on achieving “active participation of public affairs, balance between economic, social, environmental development, and business sustainability through corporate social responsibilities”. The CSR Committee under the Board was therefore established with five working groups (WGs): Corporate Governance WG, Social Philanthropy WG, Environmental WG, Client Relations WG, and Employee Well-Being WG, each headed by a top executive appointed from within the Group. These 5 working groups are responsible for planning and executing the Company’s ESG plan. When formulating ESG-related projects, the working groups will gather opinions from internal and external stakeholders through the “Stakeholder Survey Form” to identify major ESG issues and serve as the basis for the annual implementation plan. Institutional stakeholders may also provide input and engage in ESG topics at board meetings or CSR Committee meetings through their board representatives. The CSR Committee periodically reports to the Board of Directors on the implementation status of each WG. To provide guidelines as to how the CSR Committee should operate, the CDF Board of Directors has approved of the “CSR Committee Charter,” which stipulates the Committee’s composition, scope of function, tasks of WGs, method to elect WG heads and members, rules of meetings, and more.

In 2018, the CSR Committee convened four meetings to confer on recurring major items on the agenda, e.g. to report the results of the execution of the 2017 CSR activity plans, to approve the 2017 CSR report, and to outline the CSR initiatives for 2019. Beyond that, a resolution for the “CDF Human Rights Commitment” declaration was passed by the Committee to make a statement on the Company’s alignment and compliance with international human rights standards and a commitment to upholding and observing all the international human rights treaties in the business conduct of the Company as well as its group subsidiaries. In response to the international community’s rising awareness of corporate disclosure on financial impact of climate change, the Committee passed a resolution to adopt the Task Force on Climate-Related Financial Disclosures (TCFD), further integrating ESG into business processes for sustainable development.

## 3.3 Ethical Corporate Management

### 3.3.1 Management Mechanism

In order to establish a trustworthy corporate culture and robust development, CDF established the “Ethical Corporate Management Best Practice Principles”, “Codes of Ethical Conduct”, “Code of Conduct for Employees” and “Code of Conduct for Subsidiaries’ Insiders” to specifically prohibit unethical conduct and interests. CDF urged all employees of the Company and subsidiaries to conduct business in a fair and transparent manner and prohibit them from directly or indirectly offering, accepting, promising, or requesting any improper benefit, or engaging in unethical acts including breach of ethics, illegal acts or breach of fiduciary duties. CDF complies with the principles for ethical management to promote corporate social responsibilities.

Also, according to the “Ethical Corporate Management Best Practice Principles”, all donations, gifts, or sponsorship provided by the Company must follow relevant laws and internal operational procedures; such items may not be exchanged for commercial benefits or trading advantages. The group did not make any financial contributions to political parties, think tanks, political advocacy groups, or advocacy movements in 2018.

The Human Resources Department is in charge of ethical corporate management and together with the five CSR Committee working groups, periodically reports the implementation results to the Board of Directors. Moreover, the auditors regularly check the status of compliance and make report to the Board on the main missing and suggestions for improvement.

To emphasize how the group values ethical management, CDF lists internal auditing and compliance as one of its performance review criteria. On this topic, it provides training to Board members, orientation courses to new employees, and compliance education to the sales force, and more. CDF has fulfilled its duties of communicating with all members of the Board and employees the mandate and regulations of anticorruption policies, with materials on ethical management training now available on the online platform. Through educational training, CDF instill integrity and strict discipline to all employees, not only regularly educates new employees about the company’s disciplinary regulations but also requires all employees to complete ethical management courses.

#### Whistleblower Program

According to CDF’s “Ethical Corporate Management Best Practice Principles”, staff shall report unethical conduct to the Audit Committee, managers, internal audit managers, or other appropriate internal officers. CDF also established the “Whistleblowing Policy and Procedures for Illegal and Unethical Matters”, and authorized the Compliance Department to handle all compliant cases through written, email, telephone and other access. All reporters’ identity and content of the report shall keep confidential while progressively investigating the case. In 2018, the Company and its subsidiaries received one claim through the whistleblowing channel. That report, however, has been dismissed as it was determined that the alleged target and conduct described did not meet the criteria stipulated in the “Whistleblowing Policy and Procedures for Illegal and Unethical Matters” to open an inquiry. In 2018, the Company and its subsidiaries did not engage in unethical conduct (business ethics, corruption, bribery).

Courses related to ethical management in 2018

Anti-corruption courses	Course hours	Participants	
		Managerial	Non-Managerial
How the board supervises the establishment of a company's whistleblower system/ Introduction to the draft of Taiwan's Whistleblower Protection Act	3	22	
Rules and Practice of Corporate Insider Equity Change	3	9	36
Compliance Training for Finance Professionals	3	58	212
Online course	Course hours	Participants	
Corporate Integrity Management Online Course	0.25	5,947	
Completion rate		100%	

#### Administrative Penalties Handling

Administrative penalties	•Competent Authorities
Cause analysis Suggestions for improvement	•Responsible Unit •Risk Management Department •Compliance Department
Progress tracking	•Internal Audit Department
Compliance implementation reports (Semiannually)	•Compliance Department •Report to the Board after signing off by the CEO

## Tax Governance Policies and Practices

### 1. Tax Governance Policies

To keep abreast with international tax governance trends and strengthen compliance with tax regulations, CDF and its subsidiaries maintain the goal of fulfilling their corporate responsibilities, achieving sustainable development by practicing tax governance herein set forth:

- Comply with tax regulations, properly handle taxation and tax reports, and fulfill social responsibilities as taxpayers.
- Perform taxation assessment before conducting business in order to manage operations in the most tax-efficient manner and bear the most suitable tax burden.
- Conduct tax risk and impact assessments before executing major transactions and decisions in order to effectively manage and control tax risks.
- Maintain an appropriate relationship with the tax authorities with honesty and openness to communicate and dispel doubt on important tax issues in a timely manner.
- Follow regulations such as financial statement guidelines and annual reporting disclosures to increase the transparency of tax information.
- Strengthen knowledge in taxation and keep up to date with new regulations and educational training.
- Comply with transfer pricing requirements and arm's length principles in tax law for related party transactions.

The Board of Directors acts as the final decision-maker for the Company's tax governance management mechanisms. In order to fulfill the Board of Directors' responsibility in supervising tax management, the Finance Department is required to submit annual tax management reports to the Board of Directors. The 2017 tax report has been submitted to the Board of Director for reviewing in 2018.

### 2. Tax Information

#### • Effective tax rate

The Group's book effective tax rate (BETR), cash effective tax rate (CETR) and average industry effective tax rates for 2017 and 2018 are as following :

	2017	2018	Mean	Peer average
BETR	14.84%	4.67%	9.95%	25.82%
CETR	8.08%	8.05%	8.07%	21.28%

BETR: Income tax expense divided by net profit before income tax

CETR: Income tax paid divided by net profit before income tax

The average industry BETR and CETR are cited from the 24 standard global industry sectors data published in the 2019 Sustainability Assessment Companion, a publication of RobecoSAM, a Swiss-based company focused on sustainability investments.

Relevant information concerning the Group's income taxes for 2018 and 2017 is as follows:

Unit : NT\$, in thousands

	2017	2018
Net profit before income tax	14,519,798	13,441,879
Income tax expense	2,154,331	627,239
Income tax paid	1,173,523	1,082,289

Source: 2018 CDF Consolidated Financial Statement; the 'income tax paid' category includes 2018 income tax to be paid in 2019.

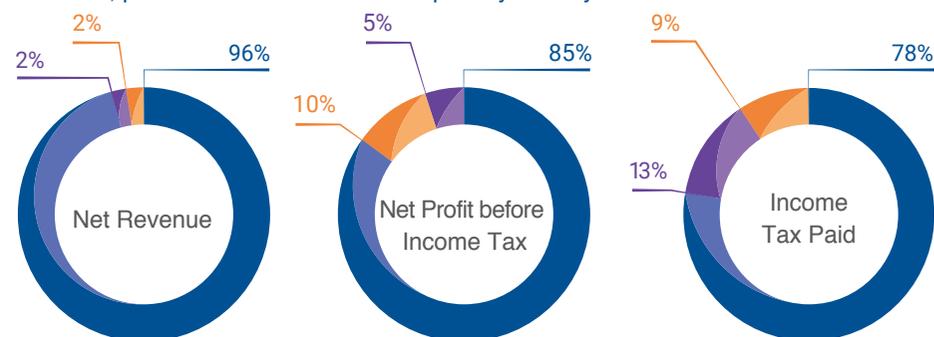
he company is subject to lower effective tax rates compared to the banking industry average under the Global Industry Classification System for these reasons:

1. The primary region of the Group's operations is Taiwan where corporate income tax rate is lower than the majority of countries.
2. CDF and its 90%-plus owned first tier subsidiaries filed a consolidated income tax return of which allows loss of any consolidated entity can be offset against the other entities' income.
3. A considerable portion of the Group's profits is derived from nontaxable income or tax-exempt income (such as domestic dividend income and equity-method investment gains).
4. Timing differences (e.g. unrealized valuation gain /loss, limitation on allowance for bad debt); and
5. Use of loss carried forward from previous 10 years.

The decrease in the Group's BETR in 2018 was mainly due to the following:

1. Reassessment of the utilization of deferred tax assets, which corresponded to a reduced income tax expense; and
2. Impact of Taiwan 2018 tax reform – the increase of corporate income tax rate from 17% to 20% which brings additional income tax benefits on deferred tax assets.

#### • Revenue, pre-tax income & income tax paid by country in 2018:



■ Taiwan ■ Mainland China and Hong Kong ■ Other countries

### 3. Strengthening compliance with global transfer pricing and information transparency

#### • Transfer pricing documentation and country-by-country reporting

On 5 October 2015, The Organization for Economic Co-operation and Development (OECD) released its final report on 15 focus areas in its Action Plan on Base Erosion and Profit Shifting (BEPS). OECD suggested, under Action 13, adoption of a three-tiered transfer pricing documentation framework, which consists of “master file”, “local file” and “Country-by-country reporting”. As the implementation of CbCR was then categorized as one of the BEPS minimum standards, it was becoming an important indicator of whether countries will work with one another on information exchange, more and more countries joined the cause and adopted the standardized approach to transfer pricing documentation to be implemented in domestic law.

To keep abreast with developing global transfer pricing mechanism trends and international organization standards, and to improve tax transparency to effectively prevent cross-border tax evasion while addressing the transfer pricing documentation compliance cost for multinational enterprises, Taiwan’s Ministry of Finance amended the Regulations Governing Assessment of Profit-Seeking Enterprise Income Tax on Non-Arm’s Length Transfer Pricing on November 13th, 2017, incorporating the OECD’s three-tiered transfer pricing documentation recommendations and requiring qualified multinational enterprises to comply with Master File and CbCR reporting obligation.

In order to increase the Group’s tax transparency, serve as a self-assessment on transfer pricing of related parties transactions and strengthen compliance with global transfer pricing, the Group started to file CbCR and Master File from fiscal year 2016 in jurisdictions outside of Taiwan and from fiscal year 2017 in Taiwan respectively in accordance to the regulations of the jurisdictions.

#### Foreign Account Tax Compliance Act & Common Reporting Standard

CDF established the “Guidelines on Compliance with Foreign Account Tax Compliance Act (FATCA)” in November 2016 in response to the Intergovernmental Agreement in the Foreign Account Tax Compliance Act signed by the government of Taiwan and the United States, and to comply with the Foreign Financial Institution (FFI) Agreement signed by the Company and the US Internal Revenue Service. The Guidelines shall apply to the Company and subsidiaries that meet the definition of “foreign financial institutions” in FATCA. From the effective date of FATCA, all subsidiaries in the Group shall not accept account openings by the following entities or conduct transactions with the following entities:

- Customers or recipients who do not comply with identification review procedures;
- Non-participating FFI

After the US rolled out “Guidelines on Compliance with Foreign Account Tax Compliance Act (FATCA),” the Organization for Economic Cooperation and Development (OECD) introduced Common Reporting Standard (CRS) as a standardized approach to facilitate the exchange of tax information among member

states. On November 16, 2017, the Ministry of Finance launched the “Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions”, stipulating reporting financial institutions shall conduct due diligence procedures starting this year to join other regions and countries for data exchange in 2020. CDF hired outside consultancy before publishing the “Key Points Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions” in January 2019, calling on all business arms of the Company to implement compliance to related rules.

### 3.3.2 Internal Audit

CDF adopts three lines of defense for risk management and the internal audit unit is the third line of defense. The Company has established a general audit mechanism in the Internal Audit Department under the Board of Directors in accordance with the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” for the purposes of helping the Board of Directors and senior management verify and evaluate the effectiveness of internal controls, providing timely recommendations for improvement, ensuring the continuity of implementation, and providing a basis for review and modification of the internal controls system.

All internal control and legal compliance tasks have been effectively implemented in 2018. No major deficiencies have been found for CDF and its subsidiaries, and all deficiencies have been tracked to ensure improvement (Please refer to 2018 AGM Report “Plan for improving internal controls” section for details).

Key performance target: Continue assisting the Board and the Management for auditing, assessing the effective operation of the internal control system, and offering timing suggestions for improvements to ensure the effectiveness of the internal control system.

Business initiatives of the internal audit system in 2018 are below:

Initiatives	Times/year
Internal control system deficiencies forum, internal audit officers meeting; joint conference for audit, compliance and risk management departments	3
Regular business auditing; special project auditing	12
Audit of derivatives trading	12
Tracking and review of auditor’s opinion	12

### 3.3.3 Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT)

To strengthen anti-money laundering and countering the financing of terrorism mechanisms, CDF established the Anti-Money Laundering and Counter Terrorism Financing Guidelines and establish a group-wide plan for prevention. The guidelines apply to CDF and all its financial institution subsidiaries as defined by Article 5 of the Money Laundering Control Act. It dictates that each subsidiary should follow relevant laws and regulations, announcements from affiliated trade associations, and the content of this policy to establish anti-money laundering and counter-terrorism financing regulations based on the nature of individual businesses, transaction types, transaction complexity, and the level of risk involved in money laundering. They should also actively cooperate with the policies of competent authorities to stop the flow of illegal funds.

We continue to make progress unifying the entire group with one database and building an information sharing platform from the FHC level to ramp up the AML/CFT knowledge base. The Compliance Department also compiles negative news every month about the eight “very high-risk crimes” identified by the National Risk Assessment (NRA), with the names of individuals involved in crimes to become available to users of each subsidiary.

#### Client Due Diligence:



Moreover, the Company and its subsidiaries organize training sessions on prevention of money laundering each year for employees to continue to learn, increase awareness, and respond to the ever-changing environment.

#### Courses organized in 2018 are as follows:

Course	Course hours	Participants
Introduction financial institutions' compliance of AML & CFT initiatives	2	122
AML & CFT training	3	175
AML & CFT training for internal audit personnel	3	98
Seminar on AML & CFT practice	2	33
Online course	Course hours	Participants
Money Laundering Control Act	2	35
Introduction financial institutions' compliance for AML & CFT initiatives	1.5	61
AML & CFT training	2.5	47
Introduction to AML regulation and related cases	1.5	15

### 3.3.4 Compliance

CDF believes that a good culture of legal compliance is the only way to strengthen corporate governance. Therefore, we established the Compliance Department in accordance with the compliance policy to be responsible for the Company's legal compliance functions of various units. Subsidiaries KGI Bank and KGI Securities have also established legal compliance departments to implement legal compliance affairs. The other subsidiaries have, based on the scale of employees, management structure, legal risk exposure, and shareholding ratios, staffed legal compliance executives or arranged for their management or parent companies to take charge of legal compliance affairs.

Moreover, to fully educate employees about the regulations and relevant policies, and raise the overall understanding of regulations, the company not only organized ethical corporate management and anti-money laundering courses, but also held the following courses on compliance regulations in 2018:

Course	Course hours	No. of participants
The impact of FinTech is on financial and securities laws	3	145
The impact of General Data Protection Regulation of the EU on financial institutions	2	104
Fair Dealing Principle to financial service industry	3	53
Analysis of the latest revisions to the Company Act	3	44
Modernization of Company Act in Taiwan – 2018 Company Act amendments	2	59
Regulatory course for the Personal Information Protection Act	0.5	42
Introduction to stakeholder related regulations in the Financial Holding Company Act and Banking Act	1	36

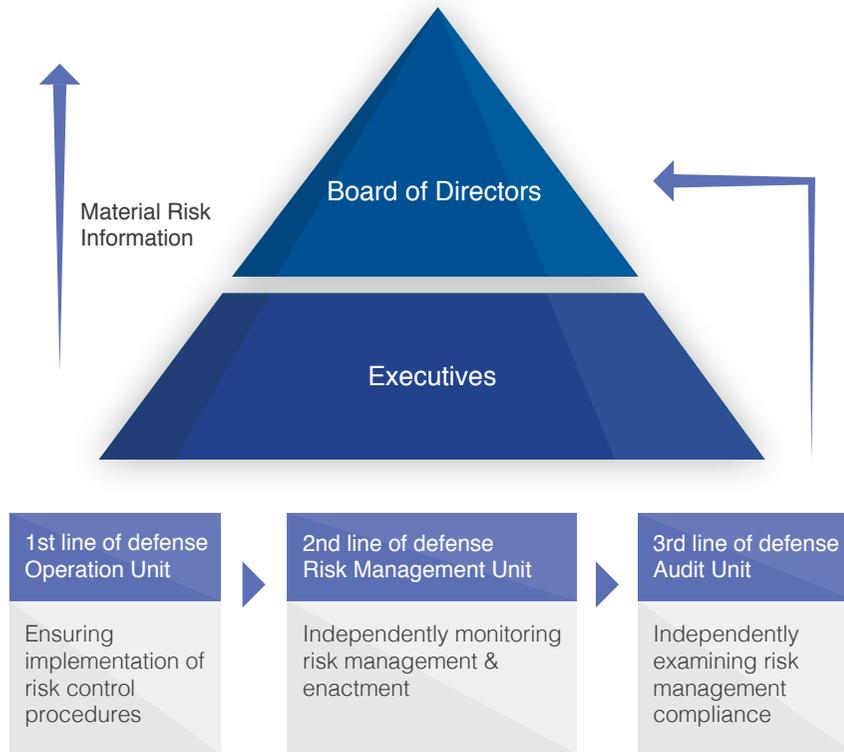
To ensure the full implementation of the compliance system, CDF conducts annual evaluations on the compliance system of each department. The evaluation results provide an important reference for the annual performance evaluation of each department and the Company's Statement of Internal Control.

In terms of violations in the environmental, social or economic domain, the company and its subsidiaries received one major penalty from competent authorities in 2018 (penalties as defined by Article 2 of the Financial Supervisory Commission Public Disclosure Regulations for Penalties Regarding Violations of Major Financial Sanctions). For more on the KGI Bank trader's violation which occurred in March 2018 and plans for improvement, please refer to Chapter 3.4 Risk Management.

# 3.4 Risk Management

## Scope of Risk Management

The scope of the Company's risk management includes KGI Bank, KGI Securities, CDIB Capital Group and China Life Insurance. Risk management covers market, credit, operational, and liquidity risks. CDF complies with international standards and its Risk Management Policy to formulate risk management principles accordingly as the basis for risk management of the Company and subsidiaries.

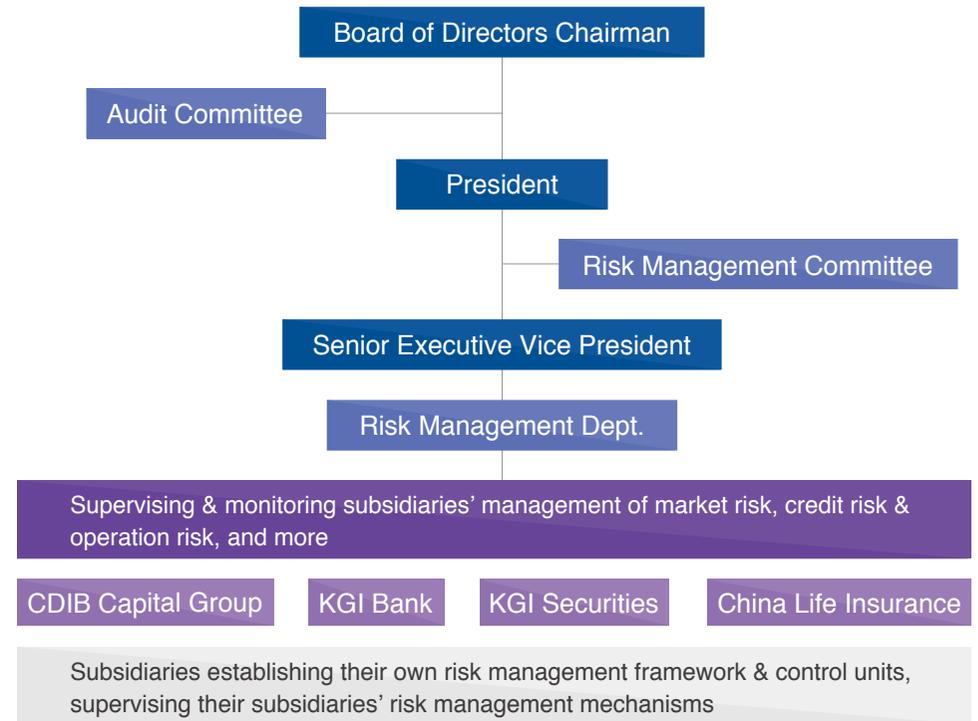


## Risk Management Structure

The Board of Directors is responsible of supervising the Company to establish an appropriate risk management structure and culture to ensure the efficacy of risk management practices and reviewing key risk control information. The Board also bears the ultimate responsibility of risk management and set up the Risk Management

Committee (convent quarterly meeting) to supervise the setting of risk management structure, review internal hierarchy of reporting and handling risks, and oversee overall execution of risk management. The Company adopts three lines of defense in its risk management framework:

- **First line of defense:** Each unit is responsible for verifying its compliance with risk management regulations and implementing daily risk management in business activities
- **Second line of defense:** An independent risk management unit is set up to design and manage CDF's risk management system and to supervise the execution of risk management of its subsidiaries and provide comprehensive risk management information to top management, including the Risk Management Committee and the Board of Directors.
- **Third line of defense:** The audit unit shall be responsible for reviewing the establishment of risk management systems and reviewing the compliance and implementation of the systems.



## Risk Management Mechanism

CDF conducts technical assessment of various risk sources and evaluates the potential losses and relevance of risk positions as reference for business administration. The Company defines the risk limit for its businesses in relevant rules and regulations, as well as Market Risk Management Principles, Credit Risk Management Principles, and Operation Risk Management Principles. The Company also established the frequency for monitoring in accordance with risk types and nature of businesses.

Major risk incidents and operational risk incidents: must be reported immediately;

Credit risks: conduct monthly credit and securities investment risk monitoring on country risk, high risk industry, concentration risk of large (enterprise / conglomerate) exposures;

Market risks: produce daily reports to disclose the state of value at risk (VaR) and utilization of risk limits on the trading books of short-term financial instruments, such as the measurement of the impact of interest-rate-sensitive positions on investment portfolios (Delta, DV01, Vega) and stop-loss limits, as well as quarterly simulations of stress-testing scenarios to assess possible stress losses on positions in extremely abnormal stress scenarios;

Sustainability and emerging risks CDF has assigned Research Department to regularly analysis of international emerging risk trends and impacts to identify higher-risk industries and countries. Moreover, we also convene regular brainstorming meetings with business units to discuss opportunities and commodities derived from emerging risks. Please refer to Chapter 1.1.2 Opportunities and Challenges of Sustainability for details.

## Report System

The Company complies and monitors critical information related to risks from subsidiaries and quarterly reports to senior management, the Risk Management Committee, or the Board of Directors. In the event of major changes in the macroeconomic and financial environment, or major risk events in line with the company's specifications, the Company shall retain control of related information to respond to actual risks and provide effective monitoring and response measures.

Major risks specified by the Company are categorized as business or operational/internal controls, including penalty or corrections from competent authorities. In 2018, the Risk Management Committee reported 27 cases that qualified as major risk incidents and reported these to the Board of Directors for reviewing. Of the 27 cases, 7 were business cases or cases where investment, credit, or financial transactions resulted in potential business loss. Relevant business units are in charge of follow up actions. The other 20 cases concerned operational/internal control missteps; corrective measures have been formulated by relevant departments. On the case of subsidiary KGI Bank's irregular trading incident that took place in March of 2018:

Case description: A staff trader at KGI Bank's Global Markets division was found conducting forex trading in the office on the evening of March 21, 2018, engaging in activities beyond his authorized position, which incurred losses and an NT\$8mn fine.

Moreover, KGI Bank was ordered to halt financial transactions outside of daytime trading hours for three months (though hedging transactions for existing customers were allowed to continue).

### Measures for improvement:

- **Procedurally:**  
KGI Bank's Market Risk Management Guidelines have been updated with added stop-loss limits to trading units.
- **Systematically:**  
Upgrade system of trading position control platform with new peripheral information about positions and ratios of limit breaking to help surveillance identify and deal with situations in a timely manner.
- **Implementation:**
  - First line of defense (front office) – Enhance the financial trading system/ real-time monitoring and deterrence on the trader position control platform; manager supervision mechanisms, e.g. reasonable authorization, and verification of transactions.
  - Second line of defense (middle and back offices) – Full implementation of alert and notification system when positions go over limits during evening trading, raised inspections, declined requests, rush orders and control processing progress of market deviation scenarios. Design more risk indicators to manage them.
  - Third line of defense (internal audit) – Confirm and assess the viability of the internal control and risk management schemes designed by the middle and back offices and offer suggestions for improvement at appropriate times.

Since June, 2018, the operational quality of trader activities in the Global Financial Market Division has been managed on a daily basis and now the front/middle/back offices convene a meeting every month to look at common issues like daily and monthly indicators and limit breaking

## 3.5 Public Engagement

To promote social integration and help the government advance domestic financial, monetary and business regulations, CDF has actively participated in a total of 52 organizations and associations, such as the Bankers Association, Taiwan Securities Association, Trust Association, and Chinese National Futures Association. In addition to maintaining good relations with the industry, through public engagement, CDF also keeps abreast of industrial development, exchanging opinions about regulatory changes, as well as staying up to date on corporate governance issues and to reach its goal of corporate sustainability.

In 2018, CDF invested a total of NT\$**8,999,097** (including membership and sponsorship fees).

### International Economics and Trade Matters

The group provides active assistance in the government's efforts to promote international economics and trade partnerships, membership and sponsorship fees totaled NT\$**802,288** in 2018.

Name of Association	Represent Person / Position	Membership/Sponsorship Fees
Chinese National Association of Industry and Commerce	KGI Bank Chairman Mark Wei / Supervisor	Total fees of NT\$350,000 Membership fees of NT \$50,000, Sponsorship fees of NT\$300,000
Taiwan-ASEAN Business Council	KGI Bank Chairman Mark Wei / Vice Chairman	Membership fees of NT \$150,000
Cross-Strait CEO Summit	Member	Membership fees of NT \$100,000
ROC-USA Business Council	CDF Chairman Chia-Juch Chang / Executive Director	Total membership fees of NT\$ \$60,000 CDF and KGI Securities NT\$30,000 each
Chinese International Economic Cooperation Association	CDF Chairman Chia-Juch Chang / Executive Director	Membership fees of NT\$50,000

### Business Association

The group actively participates in business associations to share the latest international financial information with peers and promote the financial industry. Membership and sponsorship fees totaled of NT\$**8,186,809** in 2018. The group mainly donates to and takes up major roles in the follow five major associations:

Name of Association	Entity / Position	Membership/Sponsorship Fees
Bankers Association of the ROC	CDF & KGI Bank / Director	Total membership fees of NT\$3,479,934
Trust Association of ROC	Member	Total membership fees of NT\$1,231,243
China Venture Capital and Private Equity Association (CVCA)	CDF / Director	Total membership fees of NT\$584,978
Securities Investment Trust & Consulting Association of the ROC	KGI Securities / Director	Total membership fees of NT\$540,000 KGI Bank NT\$80,000, KGI Futures NT\$80,000, KGI Securities Investment Advisory NT\$140,000 and KGI SITE NT\$240,000
The Taiwan M&A and Private Equity Council (MAPECT)	CDF / Vice Chairman	Total fees of NT\$410,000 Membership fees of NT\$60,000, Sponsorship fees of NT\$350,000

## Others

- Taiwan Corporate Governance Association  
 In order to actively follow the company's principles of fulfilling Corporate Social Responsibility, CDF also active participates in the Taiwan Corporate Governance Association (membership fees of NT\$10,000)
- Task Force on Climate-related Financial Disclosures (TCFD)  
 Focused on climate change's impact on the business world, we took the initiative to sign up and support TCFD of the Financial Stability Board (FSB) in 2018. We will adopt the framework of the "Task Force on Climate-related Financial Disclosures Recommendations" and incorporated the four core elements (governance, strategy, risk management, and metrics and targets) into our business strategies in order to control risks and advance sustainability.
- The Carbon Disclosure Project Initiative   
 CDP cares about the impact and opportunities that result from climate change. Beginning in 2016 and continuing over two years, it signed up to support the international non-profit organization Carbon Disclosure Project (CDP) and the its climate change project, and put emphasis on assessing the real value of natural resources, all with the aim of promoting the world's gradual progress towards sustainable development. 2018 membership fees totaled US\$975 (NT\$29,965). The grading for 2018 was B, marking improvement for two years in a row.
- Stewardship Principles for Institutional Investors  
 After CCG and KGI SITE took the initiative and signed it in 2017, KGI Bank and KGI Securities joined the cause in 2018 to periodically disclose the implementation status on the TWSE and Company websites. To implement stakeholder engagement, we also helped the authority to promote Stewardship Principles through forums.
- United Nations Sustainable Development Goals  
 CDF follows the spirit of the UN Sustainable Development Goals (SDGs) and the UN Global Compact. We plan short-, medium-, and long-term strategies plan according to the international development trends and corporate social responsibilities in order to achieve sustainable development.



開發 中壽 KGI

跨越



共創新世代



Chapter

4

Care  
Talent Cultivation



The success of financial business is driven by talents. So for us, each and every one of our employees, regardless of their gender, nationality, age, or rank, is not only a part of the company's most valuable assets, but also an important partner for sustainable development. CDF is committed to fostering an exceptional workplace.

We offer competitive salaries to attract talented employees and provide diverse learning channels which enable employees to realize their potential and be a proud member of the CDF family.

## 4.1 Workforce Diversity

We attach great importance to gender equality in our workplace. Regarding either employment or promotions, we are dedicated to following the gender equality goal of United Nations' Sustainable Development Goals (SDGs). As end of 2018, there are 6,762 full-time employees and female employees accounted for 60.8% of total employees. The Group had 440 female managers which accounted for 44.4% of all managers. We value diversity in our workplace. As of 2018, we hired 11 indigenous employees, of which 8 are female; we also had 38 physically or mentally challenged employees, of which 12 are female. Moreover, we also hired 129 part-time employees, of which 75, or 58.1%, are female.

### Workforce Structure

Definition of Managerial: Managers and supervisors whose rankings are vice president or above

Types of employment		Female		Male		Total	
		No.	Ratio (%)	No.	Ratio (%)	No.	Ratio (%)
Full-time Employee	Domestic	3,818	56.5	2,300	34.0	6,118	90.5
	Overseas	293	4.4	351	5.1	644	9.5
	Total	4,111	60.8	2,651	39.2	6,762	100
Managerial	Domestic	415	6.2	495	7.3	910	13.5
	Overseas	25	0.4	57	0.8	82	1.2
	Total	440	6.5	552	8.2	992	14.7
Non-managerial	Domestic	3,403	50.3	1,805	26.7	5,208	77.0
	Overseas	268	4.0	294	4.3	562	8.3
	Total	3,671	54.3	2,099	31.0	5,770	85.3

	Domestic	Overseas
Local Manager	99.5%	62.2%

Note: Local means the managers are citizens of the country in which the Company operates

### Female Participation

	2016	2017	2018
Percentage of female employees (%)	60.8	60.7	60.8
Percentage of female managers (%)	48.1	49.9	44.4
Percentage of female executive (%)	31.0	32.7	36.3

Note: Definition of executive: Maximum two levels away from the CEO or comparable positions

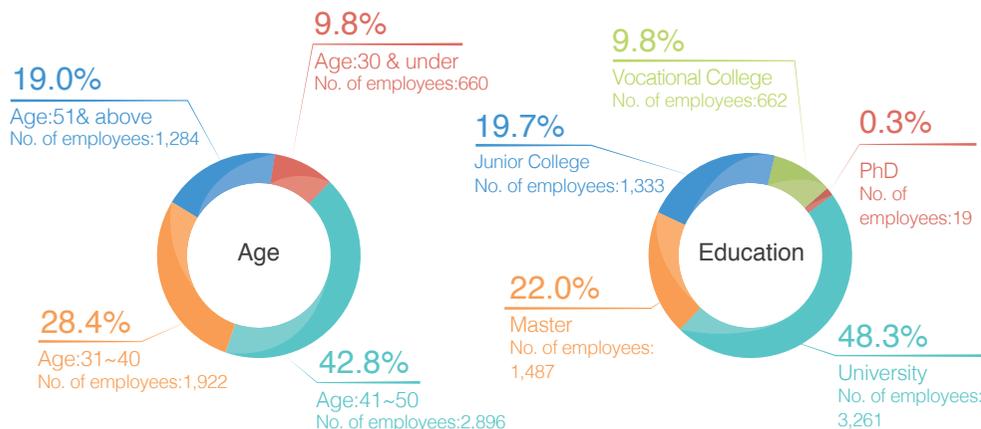
## 4.2 Human Rights

### 4.2.1 Protection Mechanisms

CDF is committed to upholding and observing all the international human rights treaties and will continue to supervise and evaluate the extent to which human rights are being complied with. In 2018, our employees received a total of 4,557 hours of education and training on human rights related issues, with a 55% participation rate. In the future, we will continue to devise online lessons for employees to study, so as to effectively increase the ratio of participation among employees. In 2018, no incidents of human rights violations or workplace discrimination were reported.

### Regulations

<b>CDF Human Rights Commitment</b>	CDF respects human rights and strives to comply with and promote human rights in accordance with international human rights standards including UN Universal Declaration of Human Rights, the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the UN International Labor Organization. CDF stands firmly in opposition to any business conduct that may infringe upon or violate human rights, and ensures strict compliance with local labor regulations. CDF has also established a Human Rights Assessment process to regularly monitor its internal compliance with the aforementioned human rights principles and to analyze related risk impacts. The full version of the Commitment is available at the following QR code: 
<b>Policies for preventing sexual harassment</b>	To safeguard the safety and human rights of employees as well as prevent sexual harassment in the workplace, the Group has formulated stringent policies for preventing sexual harassment in accordance with the Gender Equality in Employment Act. Complaint channels and complaint review committees have also been established to handle sexual harassment complaints. In 2018, no formal cases of sexual harassment complaints were found.



## Human Right Assessment 2018

Issue	Target	Criteria & Result	Measures	Goals
Equal employment opportunities	Potential and existing employees	<b>Strictly comply with non-discriminatory</b> employment laws Overall risks of non-compliance: Low	<ul style="list-style-type: none"> <li>• Ensure equality in its human resource policies and provide equal terms of employment, compensation, benefits, training, performance assessment and opportunities for promotion to all employees</li> <li>• Implement employee diversification by hiring people of different nationalities, aboriginal people, or people with physical and mental disabilities</li> </ul>	<b>Employment plan for employees with special needs</b> , including special designs of job description
Freedom of association	All employees	Encourage club activities Overall risks of non-compliance: Low	<ul style="list-style-type: none"> <li>• Respect for internationally recognized labor rights such as freedom of association</li> <li>• There is a grant regulation to encourage club activities</li> </ul>	<b>Encourage to participate in employee clubs</b>
Healthy workplace	All employees	Improve the work environment Overall risks of non-compliance: Low	<ul style="list-style-type: none"> <li>• Provide employees with a work environment that is healthy, safe, environmental-friendly, and energy-conserving, so that occupational jeopardies can be prevented and employee safety can be guaranteed</li> <li>• Periodically implement occupational safety education and training to improve employees' awareness of workplace safety</li> <li>• Offer employees all kinds of health information to increase their awareness of self-health management</li> <li>• Offer a better physical check-up program than required by laws</li> </ul>	Strengthen employees' awareness of healthy lifestyle practices and <b>provide a healthy workplace</b>
Work-life balance	All employees	Allow roll-over of annual leave as requested by law; employees in certain departments are subject to longer work hours Overall risks of non-compliance: Low	<ul style="list-style-type: none"> <li>• Offer work conditions that meet legal requirements; offer annual leave and compensation packages that are better than legal requirements</li> <li>• Provide division managers with work-hour statements of their subordinates to help them establish a better labor management concept</li> <li>• Allow roll-over of annual leave, as required by law, and advertise the rules regarding overtime work and leave, so that employees' work and private lives can be balanced</li> </ul>	<b>Review the workforce of long work-hour departments</b> or adjust the workflow
Labor-management relations	All employees	Fewer than 10 labor-management disputes a year Overall risks of non-compliance: Low	<ul style="list-style-type: none"> <li>• Stringently comply with the Labor Standards Act and related laws and regulations, and hold regular labor-management meetings to facilitate communication</li> <li>• Set up channels to process employee complaints</li> <li>• Ensure proper communication in the case of a labor-management dispute</li> </ul>	Implement measures <b>to prevent labor-management disputes</b> from happening

### 4.2.2 Workplace Safety

In addition to contributing to employees' national labor and health insurance plans as required by law, we arrange regular physical check-up for employees to ensure they remain healthy, both mentally and physically. Employees who are hospitalized due to injury or illness receive visits as a show of concern for their well-being. As workplace safety is high on our agenda, regular seminars are held on workplace safety, fire drills, and disaster control and prevention. These include courses on protection against occupational injury and transportation safety. The Company has also implemented emergency response plans and reporting systems to minimize safety risks. In accordance with relevant government regulations, we employ professional nurses to provide basic nursing services and promote the latest medical and health knowledge. Moreover, we also have a dedicated physician to provide consultation services on a regular basis to raise employee awareness and enhance their physical and mental wellbeing.

CDF and its subsidiaries hold **two** fire alarm drills every year, as required by law. KGI Bank held a total of **107** anti-robbery drills in 2018.

To create a hazard-free working environment, we have set up, as requested by law, a labor safety and health unit for organizing regular training sessions on workplace safety to keep employees up to date on the latest safety practices in order to reach the goal of zero-accident workplace. Moreover, health-care workshops and seminars are organized as part of our employee health promotion and occupational disease prevention activities.

Occupational Safety Courses	2017	2018
Total sessions	<b>41</b>	<b>45</b>
Total training hours	<b>7,468</b>	<b>5,706</b>
Participants	<b>3,489</b>	<b>4,707</b>
Participation ratio	<b>98%</b>	<b>98%</b>

Note: Employees are required to take 3 hours of occupational safety related courses every three year; 3,560 staff were scheduled to be trained in 2017 and 4,809 staff were scheduled to be trained in 2018.

## Measures related to employee health and workplace safety :

1. Employ professional nurses to provide nursing services and promote the information of health care and stress relief through internal bulletin boards; provide flu vaccines for employees.
2. Offer in-house health care and anti-stress training courses and health promotion lectures; hire physician to provide health consultation services on a regular basis; and arrange professional counseling institutions to help our employees release stress.
3. Assess all sorts of risk hazards, implement prevention plans for overwork-related diseases, human-caused harm, and workplace violence, and promote maternity health.
4. Install automated external defibrillator (AED) in office buildings and arrange fire evacuation and cardiopulmonary resuscitation (CPR) training classes every year.
5. Use ergonomic office facilitate aside; indoor lighting, air quality, drinking water quality, temperature and humidity control in the work environment are all periodically inspected by professional organizations to ensure a safe and healthy workplace.
6. Regular public safety and fire safety equipment maintenance, inspections and reporting.
7. Regular cleaning and sanitation, and regular maintenance of elevators, air conditioners, water dispensers and power distribution facilities.
8. Impose strict access control; surveillance systems are made sure to work properly to guarantee employees' safety at work daily.
9. We have not only a staff gym but also encourage employees to set up health-promoting clubs. There are in total **46** employee clubs currently.
10. Operate an employee canteen to offer healthy, nutritious and delicious lunches and set a monthly "no-red-meat day" campaign to support carbon reduction.
11. Establish private and quiet breastfeeding rooms, which have been accredited as "Excellent" by the Taipei City government.
12. Acquired the "Sport Enterprise" certification from the Sports Administration, Ministry of Education and the "Healthy Workplace" certification from the Health Promotion Administration, Ministry of Health and Welfare.
13. In order to implement a smoke-free working environment, a special team has stationed in our office to dissuade employees from smoking through diet, exercise, expert referral and alternative medicines to help colleagues quit smoking.
14. Hired four visually disabled masseurs as full-time employees to provide massage services. Employees can receive a 15 minute massage free of charge. The service has been well-received, with more than 2,500 employees signing up for free massages since September 2018.

Occupational injury leave is granted for employees injured at work based on the relevant regulations. CDF will help employees to make claims for Labor Insurance and Group Insurance so they can receive the compensation they need as soon as possible.

## Employee Occupational Inquiry

	2017			2018		
	Female	Male	Total	Female	Male	Total
Total occupational injuries (people)	17	14	31	27	27	54
Total lost days of occupational injuries	86.8	191.5	278.3	158.3	214.1	372.4
Occupational injury rate (%)	1.27	1.04	<b>2.31</b>	2.02	2.02	<b>4.04</b>
Lost day rate (%)	6.46	14.26	<b>20.72</b>	11.84	16.02	<b>27.86</b>
Number of absentees	1,220	569	1,789	1,479	678	2,157
Days of absence	5,469.3	2,042.2	7,538.5	7,519.1	3,051.9	10,571.0
Absentee rate (%)	0.33	0.12	0.45	0.73	0.46	0.63

Occupational injury rate (IR):(Total number of occupational injuries /scheduled annual working hours) x 1,000,000\*  
(Note: calculation based on fifty weeks a year, a forty-hour work-week, and the statistics are per 500 employees)

Lost day rate (LDR):(Total number of days lost / scheduled annual working hours) x 1,000,000\*

Absentee rate (AR): Days of absence for sickness, occupation-related injuries and menstruation as a percentage of scheduled working days on a full-year basis. The absentee rates of male and female employees are calculated separately. The 2017 figure only included sick leave.

Occupation-related sick leave: 16 on-site injuries, and 38 commuting (to and from workplace) accidents were reported in 2018, based on statistics from the HR leave system.

## 4.3 Career Development

### 4.3.1 Equal Recruitment

Talent is the most important asset and the key to our success. We attract new talents through campus recruitment programs, internal employee referral, official corporate website, job search websites and other channels prior to screening and interviewing potential candidates. Our HR practices comply with all relevant labor laws and regulations to ensure that the rights and interests of employees are adequately protected. We believe in equal opportunity in employment. Therefore, all forms of discrimination based on gender, race, religion, political affiliation, sexual orientation, job position, nationality, and age are strictly prohibited.

The Company fulfills its corporate social responsibility by employing four visually-disabled masseurs as full-time employees since September 2018, who work four hours every day on weekdays to help other CDF employees relax. The massage is free of charge and available in the afternoon.

### New Employee Distribution

Gender, age and education of new recruits	Female		Male		Total		
	No.	Ratio (%)	No.	Ratio (%)	No.	Ratio (%)	
<b>Total new employees</b>	536	7.93	500	7.39	1,036	15.32	
<b>Region</b>	Domestic	466	6.89	410	6.06	876	12.95
	Overseas	70	1.04	90	1.33	160	2.37
<b>Age</b>	30 & under	193	2.85	185	2.74	378	5.59
	31~40	190	2.81	185	2.74	375	5.55
	41~50	126	1.87	107	1.58	233	3.45
	51 & above	27	0.40	23	0.33	50	0.73
<b>Education</b>	PhD	2	0.03	6	0.09	8	0.12
	Master	120	1.77	174	2.57	294	4.35
	University	322	4.76	275	4.06	597	8.83
	Junior College	64	0.95	30	0.44	94	1.39
	Vocational College	28	0.41	15	0.21	43	0.63

The percentage shown above had used the total number of employees in 2018 as the denominator.

## Employees with Physical Disabilities

	2017			2018		
	Female	Male	Total	Female	Male	Total
No. of physical disabled employee	10	28	38	12	26	38

## Distribution of Departing Employees

	Female		Male		Total		
	No.	Ratio (%)	No.	Ratio (%)	No.	Ratio (%)	
Total	617	9.13%	533	7.88%	1,150	17.01%	
Region	Domestic	544	8.04%	442	6.54%	986	14.58%
	Overseas	73	1.08%	91	1.35%	164	2.43%
Age	30 & under	189	2.80%	200	2.96%	389	5.76%
	31~40	208	3.08%	155	2.29%	363	5.37%
	41~50	149	2.20%	111	1.64%	260	3.84%
	51 & above	71	1.05%	67	0.99%	138	2.04%

## Turnover Rate

	2017	2018
Turnover Rate (%)	15.75	17.01

## 4.3.2 Education and Training

Employee development has always been a top priority for CDF. In keeping with this philosophy, we have continued to provide our employees with the best training resources and environment. Our classroom and online courses cover the following topics:

- Financial courses that meet the international trends
- Legal courses to enhance compliance
- Corporate social responsibility courses to strengthen employee's awareness
- Information security courses to promote safe usage and storage of information
- Personal development courses to enhance the skills of employees

The "CDF Financial Academy" and "KGI e-Learning" continue to serve as a knowledge exchange center and experience sharing platform for all employees. Average employee satisfaction rate toward the contents and learning environment of the training course reached 87% in 2018.

## Educational Training

	2017			2018		
	Female	Male	Total	Female	Male	Total
Total training hours	159,541	78,049	237,590	149,573	78,257	227,830
Average training hour	41.2	33.3	38.2	39.2	34.0	37.2
Average training hour: managerial	41.8	38.0	39.9	37.1	30.9	33.7
Average training hour: non-managerial	41.1	32.3	38.0	39.4	34.9	37.9
Total education and training expenses (NT\$)	26,723,758			23,099,091		

For newly-recruited employees, we offer wide variety of courses to employees. The courses focus on knowledge of our organizational structure, management team, legal compliance, money laundering prevention, risk management, code of conduct, and employee care. All employees are required to complete internal and external training according to the needs of their jobs and relevant laws and regulations. We also provide information to keep employees up to date on the latest laws and regulations. In 2018, CDF has enhanced training on legal compliance, corporate social responsibility and information security in order to adapt the ever fast-changing external environment.

Subjects	Total Training Hours	Average Training Hours	Participation Ratio (%)
New Employee Orientation	8,167	7.9	99.5
Management Skills	6,855	8.4	74.5
Professional Knowledge	187,023	30.6	95.3
Legal Compliance	86,371	14.1	96.7
Corporate Social Responsibility	15,160	9.3	85.4
Information Security	21,155	3.5	97.8

Note: The denominator is the number of employees who are required to attend the course

We have made every effort possible to cultivate talents, as we believe that the joint growth of our employees and the Company can lead to greater team competitiveness and create sustainable value. Therefore, we introduced the Human Capital ROI as an evaluative indicator in 2017, which calculates the benefit that every one dollar of human capital investment can create. The results will be used as a reference for how we can invest resources and improve the human resource retaining system. Our Human Capital Return on Investment (**HC ROI**) in 2018: **15.85** (based on IFRS accounting standards and inclusive of subsidiary China Life).

## Employee Development Plan

In accordance with its business philosophy, CDF has instituted a comprehensive 360-degree competency assessment system designed to periodically assess employees at different stages of development from all angles, facilitate personal development and continuously help employees to identify their competitive advantages and overall potential.

347 employees underwent the 360-degree competency assessment in 2018.

In order to adapt to the rapidly changing financial environment and customer needs, CDF has continued to implement employee development programs and nurture all-round financial professionals. Through a comprehensive level-based training course

and professional certification, CDF seeks to enhance the financial literacy of its wealth-management employees and provide the most professional services for customers. In addition, for financial professional heritage, CDF has long dedicated to the recruitment and training of Management Associates (MAs) in order to cultivate talents for various departments of the Company. The Company became more proactive in organizing financial courses and workshops in collaboration with National Taiwan University and National Cheng Chi University, with executive CDF managers contributing as lecturers to pass down financial knowledge and help develop industry professionals as a way of fulfilling the Company's corporate social responsibility.

## Employment Development Program (EDP)

		Program	Content and Benefits	Main Output	Workforce Coverage Ratio
Career Development	KGI Bank	QFP Training and Certification Program	Promote the Qualified Financial Planner (QFP) financial planning professional certification program to enhance the professionalism and service performance of wealth-management professionals, in the process helping them expand job functions  Qualified Financial Planner (QFP) Certified Financial Planning Planner: The target of this training project is wealth-management professionals, sales heads and branch managers that are closest to the clients. Trainees must complete a four-day training course and pass internal professional certification (written and oral examinations) to be awarded QFP plaques.	<ul style="list-style-type: none"> <li>QFP training course is a <b>32</b>-hour program that lasts four days; a total of <b>51</b> people were trained.</li> <li>QFP Certificate Program received <b>35</b> applications and <b>23</b> had a passing grade</li> </ul>	<ul style="list-style-type: none"> <li>QFP Training 2.0% of KGI Bank employees 20.4% of total sales workforce of KGI Bank</li> <li>QFP Certification 1.4% of KGI Bank employees 14.0% of sales workforce of KGI Bank QFP certification course applicants featured a 66% passing ratio</li> </ul>
	KGI Securities	Management Associates Training	Provide professional training to equip employees of different backgrounds with the knowledge and skills needed for future assignments	A 6-day program was arranged in 2018 with <b>22</b> participants	All newly-recruited MAs of KGI Securities are required to attend 2% of total sales workforce of KGI Securities
		Investment Advisor Training	Provide monthly training to keep advisors informed of the latest products and legal compliance measures and refresh professional skills	12 monthly workshops were held in 2018 with a total of <b>1,133</b> participants	All investment advisors are required to attend 100% of total sales workforce of KGI Securities
		Product Manager/ Financial Advisor (PM/FA) Training	Highlight the selling points of all products and tips of services	3 training sessions were arranged weekly, each about 40 minutes long. A total of <b>185</b> sessions were held for <b>51</b> employees	All financial advisors and product managers are required to attend 5% of total sales workforce of KGI Securities
MA Program	CDF	MA Program	Since 2002, CDF has recruited 10 to 20 MAs each year and offer them a one-year comprehensive training and practicum course. In addition to the CEO and other executives of CDF are invited to share light on the business philosophy, the development strategy and future expectations of CDF, the heads or veteran colleagues of major business divisions also plan a rich and complete professional program for MAs, so that MAs can quickly absorb financial expertise and experience, which, combined their own ambitions for excellency, will make them great financial talents capable of creating a bright future with the group	In 2018, <b>19</b> MAs were recruited and trained for <b>3,080</b> hours.  This program is an important source of digital finance and FinTech talents	MAs accounted for 0.28% of all CDF employees; or 1.8% of all new employees in 2018

## Business-academia Collaboration

Organizer	Project	Recipients	Description	2018 Performance
CDF	CDF Lectures	National Taiwan University (NTU) students	Collaborate with the faculty of NTU MBA program to fulfill our corporate social responsibility and strengthen school-industry collaboration Cost:NT\$700,000	Participated students:79
	Greater China Mock Contest on Mergers and Acquisitions	Chengchi University students	The mock contest was collectively initiated by the law and business schools of the National Cheng Chi University (NCCU) and is now open to the participation of college students in the Greater China area. Executive business managers are invited to serve as mentors and judges and walk students through the process of actual M&As and negotiations and share their first-hand experience	A mock contest was held at the end of the semester with 27 participating students
KGI Bank	NCCU FinTech and Business Innovation Program	Chengchi University students	The program is an extension of the KGI Financial Innovation Workshop, which was first introduced to NCCU in 2017. NCCU incorporated the workshop into its FinTech and Business Innovation course in 2018, and in 2019 it was expanded into a formal program, featuring lectures on IoT finance, mobile payment, innovative lending, digital investment, big data applications, crowd-funding and Blockchain development. In addition to executive managers of KGI Bank, practitioners from other related fields are also invited as lecturers or guest speakers	56 students enrolled and 96.1% expressed satisfaction with the program
KGI Securities	Elite Incubation Program	Finance-related university students	To help students develop professional knowledge and skills required in the investment banking industry and readiness for work through our practicum modules	15 interns participated

### 4.3.3 Performance Evaluation

The purpose of performance evaluation is to integrate corporate strategies with employee work goals and review accomplishments during the evaluation period. A three-stage performance evaluation process consisting of defining goals, mid-term follow-up and adjustment, and final review of results provides all Group employees with a fair mechanism for undergoing annual performance evaluations. The results of the performance evaluations are used as a benchmark for determining performance bonuses, promotions, salary raises, and career development. There are five dimensions of CDF's performance evaluations: core operations, cost-effectiveness, legal compliance/risk management, ESG (Environmental, Social and Corporate Governance) and leadership/teamwork. Each department has its own specialized indicators for core operations to fully reflect the efforts and accomplishments of employees. In 2018, 100% of employees underwent routine performance and career development review

Internal Job Transferred	No. of people were internally transferred between the subsidiaries of CDF
2017	55
2018	42

regardless of their region, sex, or job role.

To encourage the circulation of talent throughout the Group and promote greater diversity in the career development for our employees, we leverage resources to give employees priority on applications for internal job openings. Employees are also transferred between subsidiaries, including overseas assignments, based on business needs.

## 4.4 Employee Wellbeing

### 4.4.1 Employee Benefits

#### Compensation System

We have adopted a performance-based compensation system that takes market competitiveness into account to recruit and retain outstanding talent, and link the Group's overall business results with individual performance to maximize returns for employees, the Company, and shareholders. Employee wages comply with local labor laws and regulations, and starting wages are based on professional competencies and the requirements of each position. CDF has developed a fair compensation system that offers pay in an equitable manner regardless of race, age, nationality, ancestry, sex, birthplace, or religion. We attach great importance to the compensation and benefits of all employees and strive to offer competitive remuneration packages. The starting salaries of new employees are at least 40% higher than the statutory minimum and have no different treatment due to gender.

In 2018, the average annual salary for 6,366 non-managerial full-time employees was NT\$977k (as requested by local regulation, disclosed figure including employees of China Life).

Domestic employee salary	 Female	 Male
Executive	100	111
Managers	100	107
Non-managerial positions	100	118

The compensation for CDF employees consists of salaries, allowances and variable bonuses, which are distributed annually based on overall corporate performance and individual merits. Each year, CDF will participate in the market salary survey and adjust the salary of employees according to factors such as market salary levels, economic trends, and individual performances. Through a fair and comprehensive promotion mechanism, CDF selects outstanding talents to promote to a position with greater responsibilities and better compensation, so that they will be more motivated to share a bright future with CDF.

## Benefits and Retirement System

### • Employee Caring and Health Care Projects

Only healthy employees can create a bright future for the company. Therefore we have long held improving the health and happiness of our employees as part of our business philosophy. In order to achieve concrete assistance and care for employees, since 2017 CDF actively promoted the “Employee Caring and Health Care Projects” to care for the physical and mental health of employees from multiple dimensions such as the workplace environment, physical check-up, and how to release the physical and mental pressure. To help employees release stress from work, CDF introduced a counseling hotline in collaboration with the Taiwan Institute of Psychotherapy. The hotline is free of charge, and guarantees absolute anonymity and confidentiality. Special workshops are also organized to facilitate communication between supervisors and staff.



### • Health and Life Quality

- Offer more annual leave than required by laws
- Offer a better physical check-up program than required by laws
- Flexible working hours  
 CDF provides flexible working hours so that employees can take care of their young children. Moreover, employees can choose to start their lunch break early or late by 15-30 minutes to best fit their work schedule.

### • Veteran Employees and Benefits

- Recognize veteran employees: Employees with 15 years of service, as well as for each additional five years thereafter, are publicly recognized every year and presented with memorabilia. In 2018, we publicly honored 646 veteran employees and offered them commemorative souvenirs
- A diversity of benefits: we have set up an employee benefit committee to be in charge of benefits, tours, gift money, presents, subsidies, and discounts to employees

### Recognition of Veteran Employees

	2016	2017	2018
Number of veteran employees awarded	243	512	646

Note: All CDF employees are given special awards in recognition of their contributions when the years of service reach 15, 20, 25, 30 and 35.

### • Employee Insurance and Pension Plan

- In addition to labor insurance and national health insurance, we have offered employees life insurance, accident insurance, hospitalization/healthcare insurance and other group insurances that offer better protection than what is legally required. Employees' spouses, underage children, and parents can also be enrolled in accident and hospitalization policies
- Complies with the Labor Standards Act and the Labor Pension Act, which require the Group to make monthly pension contributions to employees' personal accounts maintained by the Labor Pension Supervisory Committee and the personal account for pension fund

Defined Contribution Plan	Defined Benefit Plan	
<ul style="list-style-type: none"> <li>• CDF and its subsidiaries in Taiwan contribute 6% of monthly salary to employees' personal pension accounts as required by the Labor Pension Act. In 2017-18, total pension reserves amounted to NT\$444.21mn and NT\$614.05mn, respectively.</li> <li>• Overseas subsidiaries make contributions according to local regulations. In 2017-18, total pension reserves were NT\$5.96mn and NT\$7.53mn, respectively.</li> </ul>	<ul style="list-style-type: none"> <li>• CDF and its subsidiaries in Taiwan distribute pensions to retired full-time employees based on their years of service and base salary upon retirement, as required by the Labor Standards Act.</li> <li>• The pension plan of overseas subsidiary PT KGI Sekuritas Indonesia is formulated in accordance with local government regulations. In 2017-18, adjustments for the defined benefit plan, recognized as other income/ losses, were gains of NT\$103k and NT\$257k, respectively.</li> </ul>	
	2017	2018
Present value of defined benefit obligations	3,001,474	3,054,510
Fair value of plan assets	(2,013,124)	(2,066,806)
Net liability of defined benefits	988,350	987,704

### • Employee Networking

In addition to employee recognition activity, CDF also organizes softball games in the spring and autumn. In 2018, 13 softball teams, with a total of 400 players, participated in the spring games, and the autumn games attracted 550 players from the 13 teams. Activities for small children were also arranged near the field.

### • Other Benefits

We offer menstrual leave and prenatal exam leave for female employees, paternal leave for male employees, family care leave, as well as unpaid child-care leave. Employees also receive assistance with returning to work at the end of the unpaid child-care leave period.

## Child-care Leave

	2017			2018		
	Female	Male	Total	Female	Male	Total
No. of Applications	54	4	58	48	6	54
No. of Expected Reinstatements	59	8	67	55	9	64
No. of Actual Reinstatements	34	0	34	33	4	37
Reinstatement Rate (%)	57.6	0	50.7	60.0	44.4	57.8
Reinstatement rate of the previous year (%)	87.1	100	87.8	93.9	NA	93.9

Note: Employees who worked less than one year after reinstatement either resigned voluntarily or applied for a sabbatical again

### 4.4.2 Labor-Management Relations

In order to enhance labor relations and strengthen collaboration between the employer and employees, we hold labor management meetings on a regular basis wherein 50% of participants are employee representatives to negotiate various matters which have an impact on employees.

We respect and communicate with labor unions in good faith. Face-to-face communication between labor and management helps build a consensus, facilitates cooperation between employees and the employer, protects the rights of all employees, and creates a mutually beneficial outcome for both sides. In 2018, there were **22** labor-management meetings held, the topics discussed including work-hour extension, work-hour flexibility and other issues.

The employee complaint procedure is published on our internal website. This covers the organization or personnel responsible for handling complaints, scope of complaints, and complaint procedure as well as the responsible units, the complaint hotline and fax number. Employee-related complaints and feedback are processed by dedicated personnel. All cases are investigated in a lawful and reasonable manner to ensure that employee complaints are handled in an appropriate manner. In 2018, no employee complaints were reported.

Channels	Communicating Contents
Internal website	<ul style="list-style-type: none"> <li>• Important operating information</li> <li>• Employee training</li> </ul>
e-mail	<ul style="list-style-type: none"> <li>• Annual performance management operations</li> <li>• Employee benefits (physical exams and group insurance, etc.)</li> <li>• Information from Employee Welfare Committees</li> <li>• Notice of various employee activities (volunteering, charity events, sports tournaments)</li> <li>• Employee opinion mailbox</li> </ul>

To safeguard the rights and interests of our employees, CDF may terminate the labor contract after giving a prior notice if any of the conditions stipulated in Article 11 of the Labor Standards Act are met.

The periods of prior notice are as follows:

- 10-day notice: For an employee who has worked continually for more than three months but less than one year.
- 20-day notice: For an employee who has worked continually for more than one year but less than three years.
- 30-day notice: For an employee who has worked continually for more than three years.



Chapter 5

Giving Back  
Society Involvement

## Art Cultivation & Commercial Initiatives

2018 Input NT\$ 9,795,000

2018 Outcome Beneficiaries / 38,560 people

Collaborated universities / 2

Participants / 100

Partners / Online charity donation platform:

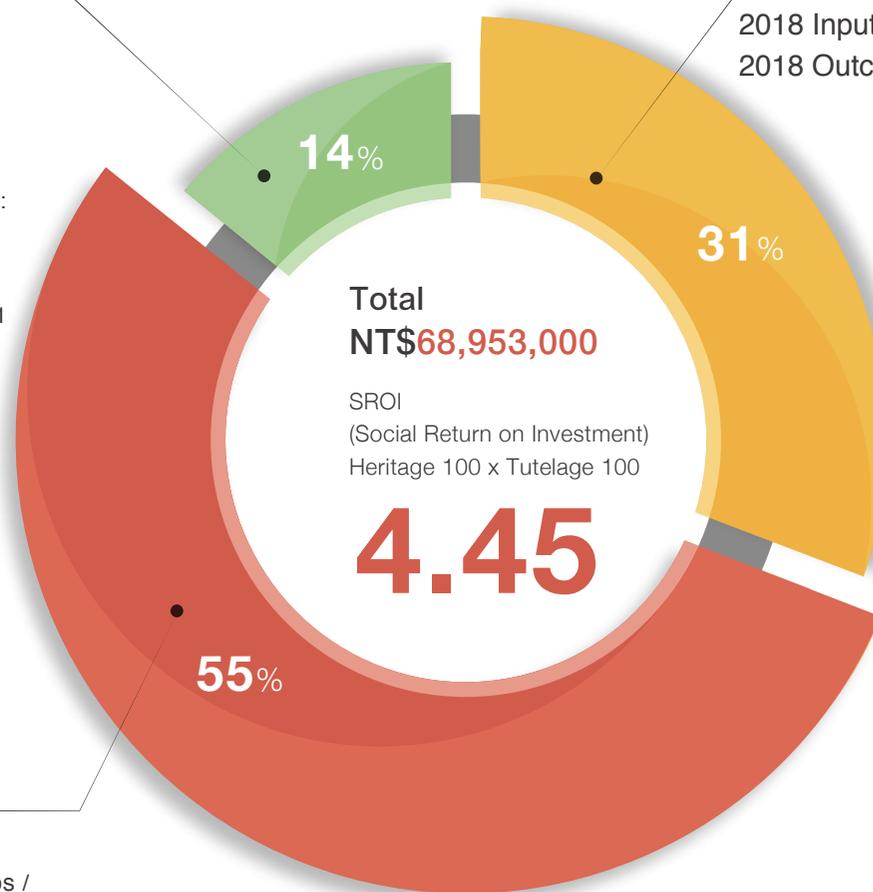
- Donations made: 418
- Amount donated: NT\$332,000
- Cooperating charity groups: 21

## Charitable Donations & Educational Aid

2018 Input NT\$ 21,213,000

2018 Outcome Beneficiary schools / 760

Beneficiary students / 15,750



## Community Investment

2018 Input NT\$ 37,945,000

2018 Outcome Number of participants and groups /

- Innovation Accelerator: 128 entrepreneurship events; 5,948 participants
- One-on-one resource match-up event served 15 social enterprises
- 2,017 underprivileged students were invited to attend art performances

Small and Medium Enterprise Credit Guarantee Trust Fund / NT\$ 3,544,000

## Input of Other Resources

Time Input Volunteer / 289 staff

Volunteering hours / 1,188

Management Overheads / NT\$ 7,377,000

Others Staff charity fundraising / NT\$ 2,400,000

Participate staff / 4,967

Our charity projects can be divided into four major categories: charitable donations & educational aid, community investment & industry-academia collaboration, art cultivation & commercial initiatives, and employee engagement.

## Main Projects and Performance :

Project / SDGs	Description	Business Benefit	Social Benefit
<p>Donations</p> 	NT\$5mn was donated to assist three schools in replacing musical instruments damaged by the Hualien earthquake, maximizing the benefits of the donated sum	Improve our brand image and awareness through direct contact with over <b>1,500</b> students, parents and the general public	<ul style="list-style-type: none"> <li>Subsidies to replace musical instruments for three schools: NT\$ <b>5 mn</b></li> <li>Beneficiaries: Mingyi Elementary School: <b>1,500</b>; Huagang Junior High School: 800; Hualien Senior High School: 900</li> </ul>
<p>Educational Aid</p> 	Heritage 100 X Tutelage 100 offered NT\$5mn in scholarships to 100 economically disadvantaged students, who, in return, will help underprivileged pupils with homework after school for 100 hours	<ul style="list-style-type: none"> <li><b>100</b> students opened new accounts at CDF subsidiaries</li> <li>Improve our brand image and awareness through direct contact with over <b>400</b> people, including 100 undergraduate students, 100 beneficiary pupils, 100 teachers and 100 parents of the beneficiary pupils</li> </ul>	<ul style="list-style-type: none"> <li>CDF sponsored scholarships totaling NT\$ <b>5 mn</b> for 100 undergraduate students</li> <li>Undergraduate students served as tutors for 100 pupils</li> </ul>
<p>Community Investment</p> 	Establishing CDF Innovation Accelerator, the largest innovation and entrepreneurship resources-integrated platform, and hosting the one-on-one resource matching event for social enterprises in Taipei City	<ul style="list-style-type: none"> <li>Enhance brand image and publicity: ad benefits NT\$8,026,532</li> <li>Innovation Accelerator's Facebook page accumulates over 2,000 fans</li> <li>Use connections with innovative entrepreneurs and social enterprises to create business opportunities in the form of corporate loans, personal credit loans, salary accounts, and group insurance</li> </ul>	<ul style="list-style-type: none"> <li>Overall <b>128</b> entrepreneurial events, with more than <b>5,948</b> participants, have been held</li> <li>One-on-one resource matching event invited representatives from 12 known enterprises and <b>15</b> corporate social enterprises</li> </ul>
<p>Art Cultivation</p> 	Sponsors TIFA Taiwan International Festival of Arts and the arts activities	<p>1.Enhance brand image and publicity:</p> <ul style="list-style-type: none"> <li>20 programs, 60 shows, and audience of 38,000</li> <li>Online video was seen over 280,000 times; Facebook page was liked by over 7,611 fans</li> </ul> <p>2.Customer relations management: Invited 700 clients to enjoy the performance</p>	TIFA Taiwan International Festival of Arts attracted an audience of <b>38,000</b> ; 30 of our employees took part in the "The NELKEN-Line Project" corporate-version filmmaking project
<p>Commercial Initiatives</p> 	Launching an online charity donation platform as a safe and convenient service for our clients to make donations	<ul style="list-style-type: none"> <li>Cooperated charity groups: <b>21</b> (increase in bank accounts)</li> <li>Enhance brand image and publicity</li> </ul>	<ul style="list-style-type: none"> <li><b>418</b> donations were worth NT\$<b>332,000</b></li> <li><b>21</b> public charity groups gained exposure and publicity</li> </ul>

## 5.1 Charitable Donations and Educational Aid

Believing education is the most valuable investment, CDF's social welfare activities have centered on the theme of "care for the next generation, invest in children's futures" to support and cultivate programs related to culture, art education, and social welfare. Regardless of a sponsorship program or an emergency aid, education is our focus: donations and support are provided to students of all ages, from primary school to postgraduate. We continue to support and cultivate various culture, art education and social welfare.



### Moving towards a dream – The story of inline speed skater Lin Jia-qing from Zhongli Junior High School

With support from his father, Lin Jia-qing had been training hard as an inline speed skater since elementary school, but in 2017, his father suddenly died, leaving Lin Jia-qing all by himself.

After being noticed of the situation, KGI Charity Foundation wasted no time in offering emergency aid to help him through the rough patch, so that he could concentrate on practicing. Ultimately, Lin transformed sadness into strength and won the gold medal at both the Chung Cheng Cup National Skating Race and the President Cup 15,000-meter skating race. In addition, knowing that Lin's goal is to represent Taiwan in the Asia Games and win the gold medal, KGI Charity Foundation presented him with a pair of competition-quality in-line skates as a gift and as recognition of his ambition.

We at CDF have long held the values of ensuring underprivileged students to be educated, to have the ability of becoming independent, and to dare to reach for their dreams. Down the road, CDF will continue to act as a positive force in the society to help our youth chase dreams and realize them.



### Charitable Donations – Emergency Aid

Donor	Project	Beneficiary	Description	2018 Performance
CDF	Hualian Earthquake	Schools with severely damaged instruments due to the earthquake	CDF donated NT\$5 mn to schools damaged in the earthquake, namely Mingyi Elementary School, Huagang Junior High School, and Hualian High School, so that they will have money to buy new musical instruments	Beneficiaries: Mingyi Elementary School: <b>1,500</b> ; Huagang Junior High School: 800; Hualian Senior High School: 900
CDF	Donation for Tainan Earthquake	Orphaned children	CDF donated NT\$10 mn for home reconstruction and child education right after the Tainan earthquake happened in February, 2016. To ensure effective utilization of donations, NT\$6 mn was deposited as emergency funding and the remaining NT\$4 mn was put in an education trust for children orphaned by the earthquake	
CDF Foundation	Financial Assistance to student victims of Formosa Fun Coast explosion	Student Victims	A subsidy project to cover the cost of school fees for student victims of the incident	<ul style="list-style-type: none"> <li>Beneficiaries: <b>87</b> students</li> <li>Subsidy amount: NT\$<b>3.07 mn</b></li> <li>Accumulative subsidy amount and number of beneficiaries since 2016: NT\$<b>17.37 mn</b> and <b>508</b> people</li> </ul>
KGI Charity Foundation	Emergent Aid Program	Low-income students	Subsidies: NT\$ <b>1.96 mn</b> Financial aid and emergency funds for students' families that experience sudden upheavals	Beneficiaries: <b>69</b> students and <b>55</b> schools



## Educational Aid

Donor	Project	Recipients	Description	2018 Performance
CDF Foundation	Perfect Nutrition	Elementary and junior high schools in rural areas	Subsidies for food budgets: NT\$7 mn	Beneficiaries: 204 schools and 10,787 students
	Country 100 Mobile Reading	Disadvantaged families in rural areas	Subsidies: NT\$130,000 Sponsored National Taiwan Museum Cultural Foundation to conduct "Our Class Has Got Talent" exhibition's sleepover activity	Beneficiaries: 40 students
	Our Class Has Got Talent	Individuals or groups with potential	Subsidies: NT\$1.16 mn Talent reward program	Beneficiaries: 70 students and 14 schools
	Scholarship for skilled vocational high school students	High school students with potential	Subsidies: NT\$1.62 mn Talent reward program Sponsored National Chung Cheng University to conduct National Intercollegiate Athletic Games	Beneficiaries: 67 students and 50 schools
	Heritage 100 X Tutelage 100	Low-income college students	Subsidies: NT\$5 mn Beneficiaries who receive the scholarship are encouraged to tutor underprivileged children for 100 hours, creating a synergy effect of not only providing academic support but also serving as positive role models to children	Beneficiaries: 100 college students, 100 underprivileged children, 10,000 tutorial hours and 100 schools
KGI Charity Foundation	Love, Starting From Elementary School	Low-income students	Subsidies: NT\$5.79 mn Support low-income students to secure their right to life and education	Beneficiaries: 119 schools and 310 students Total donation over NT\$30 mn and 900 beneficiary students since 2012
	Let Love Flower	Economically disadvantaged students living in rural areas	Subsidies: NT\$5.8 mn Assist students from economically disadvantaged backgrounds to have fair opportunity for quality education	Beneficiaries: 42 schools
KGI Securities Thailand	Dream Come True Bicycle Donation Drive III	Children aged 8-15 who have difficulties commuting to school	Subsidies: NT\$1.19 mn Ensure students who won't have to interrupt their education due to commuting difficulties	Beneficiaries: 151 schools and 920 bicycles donated to 920 students

### Social Return on Investment (SROI)

Heritage 100 X Tutelage 100 is a long-term program that the CDF Foundation have engaged in for more than ten years. The foundation puts in NT\$5mn each year to keep the program running, with beneficiaries including 100 college students and 100 elementary school children. In order to find out the social impact of the program, in 2017, we introduced the SROI system to assess the changes to the major stakeholders and the social impacts the program had brought about. The social impact is calculated and presented in monetary terms. The denominator is the cost, or the NT\$5mn we allocate for the program each year, while the numerator is the value of the social impacts, including the livelihood of college students, academic progress of school children, improved family relationships and reduced workload for primary school teachers, etc. We find out that the SROI of the Heritage 100 X Tutelage 100 program was 4.45 in 2018, meaning that for every NT\$1 we invested in, we created positive social impacts worth NT\$4.45. Going forward, we plan on holding teaching courses to help college students from poor families

become better tutors, so that they can better help kids from poor families learn and build up confidence. It's our hope that these efforts can lead to greater social impact and create more social benefits.



(Note: we have not yet interviewed or conducted a questionnaire survey on the stakeholders of the 2018 program, and thus the SROI we present here is only the preliminary result without sensitivity analysis).

## 5.2 Community Investment

In the process of making donations to social philanthropy, CDF strives to integrate charity work with business to create win-win situations. Having long committed to venture capital / private equity business, CDF has utilized its core competence and set up the CDIB Capital Innovation Accelerator Fund. CDF also is actively building an international resource platform which not only providing free event space, but also enable new entrepreneurs to share resources anytime and anywhere through various entrepreneurial community activities, and increase exchanges between large enterprises, investees and startups, thus creating a win-win-win situation for startups, strategic investors, and innovation funds.

In addition, CDF pays attention to the artistic needs of disadvantaged children in rural areas. Not only bringing the arts and cultural activities into the countryside, students from disadvantaged areas but also inviting to participate in artistic performances, so that children can see more possibilities and create a better future.



### Sprouting of innovation – the successful case of Greenvines

Greenvines is an ecologically-friendly detergent and personal care product band



name committed to the “spirit of purity”, meaning everything the company uses to make its products is natural and the company will go to great lengths to help consumers understand where each ingredient comes from and what it is for. Anything that poses the slightest threat to the skin or the environment will not be used. Greenvines aims to set a global cosmetics trend and also creates a triple-win situation for consumers, its own brand, and the environment. CDF Innovation Accelerator Fund has injected capital and offered crucial resources for growth to Greenvines, including mentor consultation, social media resources and work space. CDF is dedicated to help new start-ups to grow, so that they might thrive and shine on the world stage one day.



### Community Investment

Donor	Project	Recipients	Description	2018 Performance
CDF	Education Charity Fund	Underprivileged students	A supportive program of the Taiwan Financial Services Roundtable to help underprivileged students complete their study	Donation: NT\$2.5 mn
CDIB Capital	China Development and Innovation Accelerator	Social enterprise and start-ups	<ul style="list-style-type: none"> <li>Build CDF Innovation Accelerator, the largest innovation and entrepreneur resource-integrated platform in Taiwan, to offer professional investor and enterprise match-up services, public space, mentor consultation, innovation courses and more, in an effort to nurture the local start-up ecosystem</li> <li>The Department of Economic Development of the Taipei City Government held the “One-to-One Resource Matching Conference for the Social Enterprise Promotion Service Program in Taipei City” at CDF Innovation Accelerator, inviting representatives of well-known enterprises, including those active in investment, supply chain procurement, gift procurement, and CSR project cooperation, and having them interact one-on-one with social enterprises for resource matching purposes</li> </ul>	<ul style="list-style-type: none"> <li>Invested in <b>7</b> start-ups</li> <li>Held 10 mentor lectures; a one-day start-up board director event; Overall <b>128</b> entrepreneurial events, with <b>5,948</b> participants</li> <li>Invited 12 well-known businesses to meet with <b>15</b> social enterprises for one-on-one resource matching</li> </ul>
KGI Bank	Small and Medium Enterprise Credit Guarantee Trust Fund	Micro and social enterprise	Long support to SMEG Fund and helped micro and social enterprise to be qualified for credit guarantees and loans	Donation: NT\$35.44 mn
CDF Foundation	Zero Distance in Art	Disadvantaged students and families	Donation: NT\$200,000 Students from disadvantaged regions are invited to attend art performance event to enhance artistic and cultural exchanges. Hearing-impaired students are invited to attend the performance of the Philharmonix, with a preview and subtitles to help them understand the show before the performance	Beneficiary: <b>207</b> students
	National Taichung Theater “Dream Come True” program	Primary and secondary school students in remote areas	Donation: NT\$200,000 Students from disadvantaged regions are invited to attend art performance event	Beneficiary: <b>250</b> students, <b>6</b> schools

## 5.3 Art Cultivation and Commercial Initiatives

In addition to continued support for art talent cultivation and event sponsorship, we have also launched an online charity donation platform to work with charitable organizations to implement the Sustainable Development Goals (SDGS-17) "Partnerships for the Goal" of United Nations.



### 5.3.1 Art Cultivation

 <b>Art Cultivation</b>				
Organizer	Project	Recipients	Description	2018 Outcome
CDF Foundation	Art cultivation	Art and culture groups and schools	Sponsor amount: NT\$ <b>14.66 mn</b> Sponsored a variety of performance events, including the TIFA Taiwan International Art Festival, the NELKEN-Line Project corporate film shooting, the Dream Come True project, Yi Production dance group's Jie-Hui-Jiu, the Lan Yang International Double Bass Summer Camp, Taipei National University of the Arts' Kuandu Art Festival, and other activities.	Beneficiary: <b>38,560</b> people

### 5.3.2 Commercial Initiatives

  <b>Commercial Initiatives</b>				
Organizer	Project	Recipients	Description	2018 Outcome
KGI Securities	Sponsorship program for Rong-shing Cultural Foundation	Rong-shing Cultural Foundation	Total donation: NT\$200,000 Title sponsorship with company logo on the peripheral product, such as posters and brochures	1. Enhance our brand awareness and media exposure 2. Musical events attract around <b>1,800</b> people each year

 <b>Global Partnership</b>			
Organizer	Project	Description	2018 Performance
CDIB Capital Management Corporation / CDIB Capital International Corporation (CCIC)	Working with MIT and Wharton to help Taiwanese start-ups enter overseas markets using international entrepreneurial resources, promoting cooperation between Taiwanese and US entrepreneurs	<ul style="list-style-type: none"> <li>Participating in MIT Entrepreneurship and Maker Skills Integrator (MEMSI) project organized by MIT Hong Kong Innovation Node</li> <li>Acting as the judge on Showcase Day to share experience and promote the international exchange</li> <li>Sponsors Wharton's Alternative Investment Initiatives annual forum to bridge cooperation between Taiwanese and US entrepreneurs</li> </ul>	Number of student participants: <b>100</b> people (divided into six teams)
KGI Bank	Online charity donation platform	KGI Bank launched a charity donation platform and cooperated with <b>21</b> domestic charitable organizations to enable various non-profit organizations to gain more exposure opportunities and provide a safe and convenient donation platform service. Encourage customers transform love to action and donate through credit cards and financial cards	Total: <b>418</b> donations Donation value: NT\$ <b>332,000</b>

## 5.4 Employee Engagement

Employees are not only our biggest asset, but also the most important partners for sustainable development. We call on employees to spontaneously spread love more and jointly create a harmonious and sustainable social value.



### A story of a shoebox and pitayas

On one usual busy day, I received a package from an unfamiliar sender. When I tore it open, what greeted me were four bright red pitayas. The sender was a little girl, who had childishly explained in a note that this was a return gift for the Christmas shoebox sent by me, and that the fruit were from her father's pitaya farm. She said I was welcome to visit her. I found the whole thing very heartwarming.



I shared the pitayas with colleagues. Those pitayas were so fruity and sweet! I decided to visit the girl.

It turned out the girl's parents used to run a wedding dress photography business in northern Taiwan but had returned to the countryside to take over her grandfather's farm, as the grandparents had grown too old to work. It was a touching experience to listen to the girl's father tell his story of how, before getting where he is now, he had strived to transform conventional farming methods into organic methods friendly to the environment, and how he endured years of trial and error in pitaya production and being mocked by other farmers.

About six months later, the father of the little girl called me to ask for help with an order for three hundred boxes of pitayas, which had been cancelled just when he was about to deliver the shipment. Suddenly finding himself in a bind, he ran around begging people to buy the fruit from him. Finally, staff at KGI agreed to order 100 boxes, helping ease the farmer's plight. As a thank-you gesture, he promised to make it a tradition to always send to KGI his highest-quality pitayas for no extra charge.

What got all this started was just a small Christmas shoebox. But from that shoebox came many beautiful connections, and a new friendship forged despite age difference. How can you ask for more?

#### A return letter from a kid of a colleague:

My mom said that love is seeing your responsibility in other people's needs. I might not have much but the "Gift Box of Love" activity makes me see that I too can be of help to others.



### Comments from colleagues of KGI Securities:



#### From Da-zhi Headquarters:

The "Gift Box of Love" activity at year-end is the activity that I most look forward to every year. It always fills me with excitement and a warm feeling inside as I pick out gifts, wrap them up, and put words on a card to the kids in remote area. What's different this year is that I get to deliver the gifts in person, and that's a privilege for me.



#### From Jia-yi branch:

Christmas gifts are a luxury to underprivileged children from remote area. The moment I put the gifts in their hands their faces light up with excitement and anticipation. It is then I feel deeply that love grows through sharing, and that what I give is not only a gift, but also a warmth and hope in life.



#### From Shih-lin branch:

Our little contribution can bring such great satisfaction to these children. I am really glad to be part of this event.



#### Guilin Elementary School principal Huang Mei-zhi:

I appreciate the love and financial donations that enable us to plan a better diverse curriculum for pupils to learn in. This is the greatest gift to the pupils. I can't thank you enough.

SDGs	Organizer	Project	Recipients	Description	2018 Performance
	KGI Securities	Gift Box of Love	Students in rural areas in Chiayi	KGI Securities staff collected shoebox presents in Christmas time, sending their loving thoughts to children in rural areas	<b>400</b> employees collected over <b>500</b> shoebox presents
	CDF Foundation	Lunch Dates	Students and Teachers at rural areas	CDF staff visited schools in rural areas with insufficient funding to serve as one-day volunteers during lunch time, providing extra food for students and teachers • CDIB Capital President, James Ho and the team visited Fu-Long Elementary School in Hsinchu County to serve 48 students and teachers	Beneficiary: Total <b>48</b> students and teachers
	CDF Foundation	Bread Love	<ul style="list-style-type: none"> <li>• Mentally or physically challenged people</li> <li>• Elderly who live alone</li> </ul>	<ul style="list-style-type: none"> <li>• Regular purchased pastries and steamed buns made by mentally or physically challenged people sheltered by the Huakuang Social Welfare Foundation (Hsinchu) and Qi Zhi Vocational Training Center (Taoyuan)</li> <li>• Some employees donate the purchased food to orphanages. KGI Securities employees and their families also visited some of the orphanages before Thanksgiving to celebrate the holiday with the orphans</li> <li>• On Double Ninth Festival, deliver meals to the elderly and celebrate the holiday with them</li> </ul>	<ul style="list-style-type: none"> <li>• Raised NT\$ <b>400,000</b></li> <li>• <b>30</b> students benefited</li> <li>• <b>220</b> employees participated</li> </ul>
	KGI Securities			<ul style="list-style-type: none"> <li>• Raised NT\$ <b>800,000</b></li> <li>• Beneficiaries: <ul style="list-style-type: none"> <li><b>20</b> students of the shelter factories ;</li> <li><b>78</b> orphans;</li> <li><b>30</b> elderly who live alone</li> <li><b>484</b> employees participated</li> </ul> </li> </ul>	
	KGI Bank	KGI Volunteer Day	Elders from Senior Care Centers	In cooperation with the United Way of Taiwan, KGI Volunteer Day cares for the elderly from various Elder Centers. By rewarding the compensatory leave , employees are encourage to spend half a day a month during weekend at care facilities in Taipei, Taichung and Kaohsiung and provide companionship to senior citizens	<ul style="list-style-type: none"> <li>• <b>1,138</b> employees participated since 2013</li> <li>• <b>257</b> employees participated and served for 1,028 hours in 2018</li> </ul>
		Birthday Gifts for Employees	Social Enterprises and Charity Organization	Purchased gifts from social enterprises to show support and help more charity groups raise funds via this platform	<ul style="list-style-type: none"> <li>• Purchased value: NT\$<b>0.55 mn</b></li> <li>• <b>36</b> charity organizations</li> </ul>
	CDF Foundation	Scholarships	Disadvantaged students, employees, spouses, and children	Extending the talent cultivation program of the foundation, we invite sponsored students to serve as instructors, and to offer various courses. This is meant to provide more learning activities for employees and to help sponsored students learn to apply their skills to achieve independence	<b>50</b> people participated
		Annual Charity Day Event	Social enterprises and charity groups	The annual charity day event was held on December 13 in the form of a market fair, with 12 social enterprises and charity groups selling products to raise money for donation	About <b>1,000</b> employees attended the market fair sales totaling NT\$ <b>1 mn</b>



中華開發金控  
CHINA DEVELOPMENT FINANCIAL

Chapter  
**6**

Conservation  
Environmental Protection

# 6.1 Energy Conservation, Carbon Reduction & Resource Management

## 2018 Total Input NT\$260mn

### GHG Management

SO 14001: NT\$ 68,000

ISO 14064: NT\$ 182,400

### Energy Management

Externally purchased electricity: NT\$ 136.43mn

Other types of energy: NT\$ 5.22mn

Energy-saving initiatives: NT\$ 2.09mn

ISO 50001: NT\$ 118,700

### Water Resource Management: NT\$ 3.92mn

### Waste Reduction and Management

Environmental protection measures:

NT\$ 56.56mn

### Green Procurement: NT\$ 54.07mn

### Environmental Advocacy

## 2018 Performance

- Unaudited coverage of GHG inventory reached 100%, while 48.6% were verified with statements
- CO<sub>2</sub>e down 327.87 metric tons, or 1.7%YoY
- Extended the scale of Scope 3 GHG inventory

- Average electricity consumption reduced 5%
- Key energy-saving initiatives in 2018 achieved an estimated reduction of 232,000 kWh
- Selected as a demonstration user of energy management system by Bureau of Energy, Ministry of Economic Affairs
- Third-party authentication of ISO 50001 Energy Management System

- Water consumption per person down 1.5%
- Planning for developing rain water harvesting system commenced

- Achieved 167 metric tons of waste recycling, for a 49.6% recycling ratio
- The practice of paperless services saved approximately 259mn sheets of A4 paper, a 69.8% improvement in YoY reduction
- Digitalization of internal administrative processes saved 7.72mn sheets of A4 paper, equivalent to 55.55 metric tons of CO<sub>2</sub>e

- Percentage of main suppliers that signed the CSR Commitment Letter: 100%
- Carried out a supplier assessment
- Green procurement amount increased 5.6% YoY; selected as a top firm in promotion of green purchasing by private enterprises and groups in 2018
- Percentage of local suppliers increased to 98.6%

- 15,200 employees participated in low-carbon diet initiative
- 3,027 employees participated in the mountain cleanup event in celebration of the 60th anniversary of CDF
- Received certificate of appreciation from the Taipei City Government for supporting the ban on disposable tableware and melamine containers
- Joined the "Earth Hour" campaign for the fourth consecutive year

## 2020 Target



- **Reduce GHG emissions by 2.5% vs. 2016**
- Expand scale and coverage of GHG inventory
- Expand scope of GHG inventory



- **Reduce electricity consumption by 2.5% vs. 2016**



- **Reduce water consumption by 2% vs. 2016**



- Continue waste recycling
- Continue advocating paperless practice policy



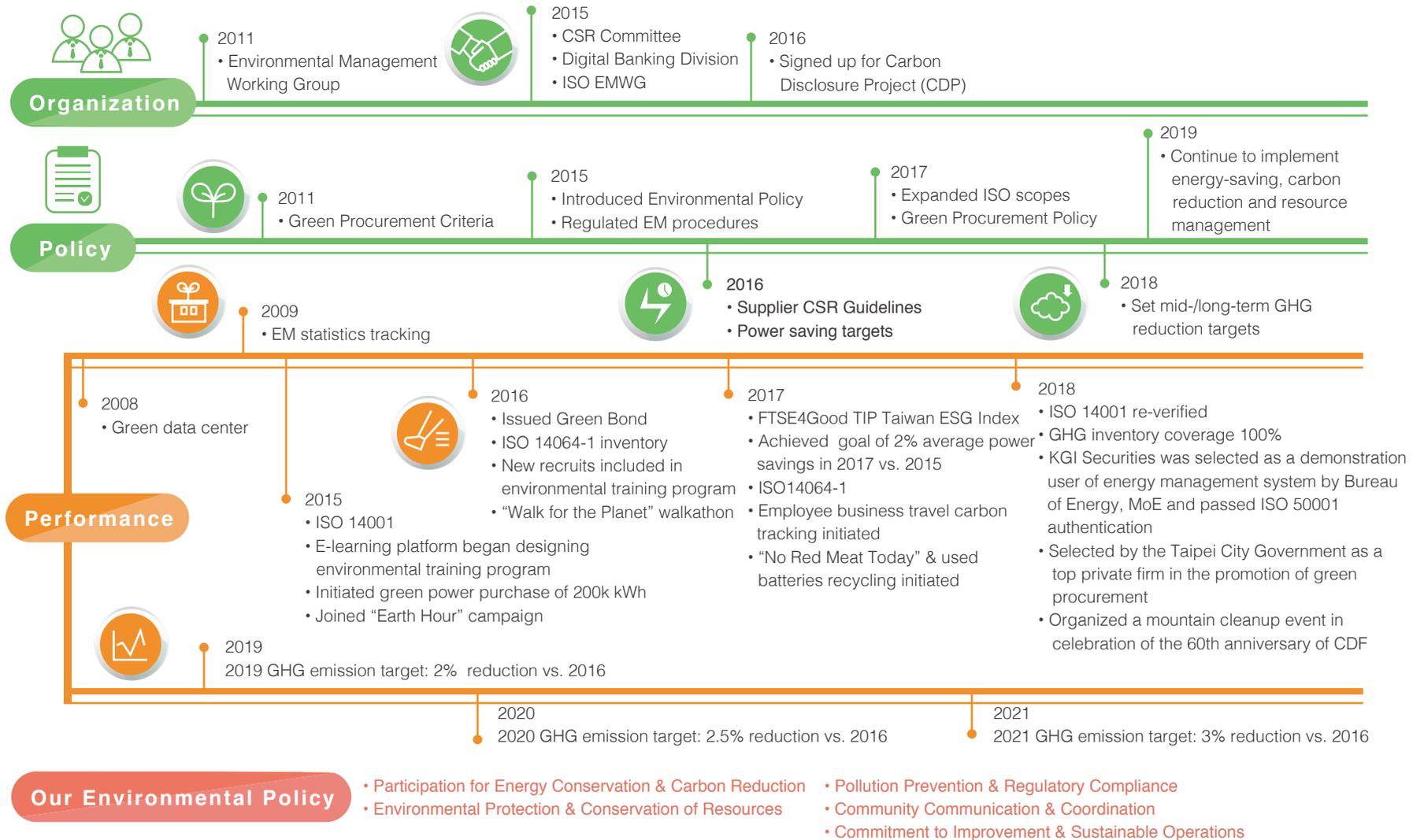
- Maintain local suppliers ratio at above 80%
- Maintain active participation in government environmental certification programs



- Commitment to support for government agenda on energy conservation and carbon footprint issues
- Set temperature control for AC chiller unit at 26°C and above

## 6.1.1 Environmental Policy and Strategy

We continue to promote GHG related action plans, setting longer-term objectives of 2% reduction in three years and 3% reduction in five years from the 2016 comparison base. The Group's ultimate goal is to achieve 10% GHG emissions reduction by 2050 vs. 2015. We have signed to support the Task Force on Climate-Related Financial Disclosures (TCFD) in December 2018 and carefully assessed the financial impacts of climate change. CDF's Milestones on Advancing Sustainable Operations



## 6.1.2 GHG Management

As a financial service provider, the bulk of CDF's GHG emissions are the result of externally purchased electricity as well as gasoline and natural gas consumed by facilities and vehicle fleets. In 2016, CDF kicked off ISO 14064-1 inventories and verification (Scope 1 and Scope 2). Since 2017, CDF has continued to expand the scope of GHG inventory and verification, and in 2018 it covered

seven major buildings, or 48.6% employee coverage. To effectively control GHG emissions, we have not only expanded the scope of coverage but also expand the scale for indirect emissions (Scope 3). In 2018, GHG inventory covered all domestic facilities, with total emission (Scope 1 and Scope 2) down 327.87 metric tons from 2016, reaching 86% of our midterm target.

The scope of statistics included the Group's CDF building, Dazhi building, Zhonghe building, and other locations (including the Nangang Park office, Taikai building and KGI Bank and KGI Securities branches) in 2016. In 2017, the Hongqi building and CDIB International Leasing office were incorporated into the inventories. In 2018, the coverage expanded to KGI Futures' head office and branches.



GHG emissions increased YoY in 2018 as the scope of statistics continued to expand in 2018, KGI Bank relocated its externally-leased computer facilities back to the Nangang Park office for its own management at the end of 2017, and outsourced manpower increased due to the establishment of a "new core system project". When using the same scope of statistics as in 2016 and excluding the Nangang Park office, 2018 GHG emissions decreased 1.7% from 2016. (With the same scope, emission was 19,088.48 metric tons CO<sub>2</sub>e in 2016, versus 18,760.61 metric tons in 2018.)

GHG emissions from 2016 to 2018 (Scope 1 and Scope 2):

Unit: mt CO<sub>2</sub>e

	2016	2017	2018	YoY change (%)
Direct greenhouse gas (GHG) emissions (Scope 1)	903.09	822.84	632.16	-23.2%
Indirect greenhouse gas (GHG) emissions (Scope 2)	18,826.71	18,609.91	20,438.77	9.8%
Total greenhouse gas (GHG) emissions (Scope 1 and Scope 2)	19,729.80	19,432.75	21,070.92	8.4%
Average emissions per person (Scope 1 and Scope 2)	3.26	3.26	3.43	5.2%
Total coverage of employees (%)	95.5%	96.1%	100%	4.1%



### Types of GHG emissions in 2018 (Scope 1 and Scope 2):

Unit: mt CO<sub>2</sub>e

Type	CO <sub>2</sub>	CH <sub>4</sub>	N <sub>2</sub> O	HFCs	PFCs	SF <sub>6</sub>	NF <sub>3</sub>	Total
Emissions	20,878.58	99.42	8.64	84.29	-	-	-	21,070.92
Percentage (%)	99.09%	0.47%	0.04%	0.40%	0.00%	0.00%	0.00%	100.0%

Total emissions: 744.27 metric tons of CO<sub>2</sub>e / Total coverage of domestic employees: 95%

Increasing sources of other indirect emissions (Scope 3) for identification:

#### Business trips / 7,512,889km / 429.90 metric tons of CO<sub>2</sub>e

CDF began unaudited inventorying and reporting carbon emissions from employees' business travels by public transportation in 2015, including aircraft, Taiwan High Speed Rail (THSR), Taiwan Railways, and taxis. Estimated carbon emissions from business travel are calculated based on the amount of carbon emissions generated by each type of transportation (carbon emissions from aircraft were calculated based on the United Nations International Civil Aviation Organization's Carbon Emissions Calculator with data from the same year provided on its website; those from high-speed rail were calculated based on 2017 carbon footprint data provided on THSR's website; and those from railway and taxi were calculated based on the Industrial Technology Research Institute's carbon footprint calculation platform with 2014 and 2015 data) and the number of miles traveled. For 2015 and 2016, the scope only included employees of CDF and CDIB Capital Group. In 2017, the scope further expanded to include employees of KGI Bank and KGI Securities, with total employee coverage of 95%.

#### Printer paper consumed/ 48,830 packs of A4 paper/ 176.43mt CO<sub>2</sub>e

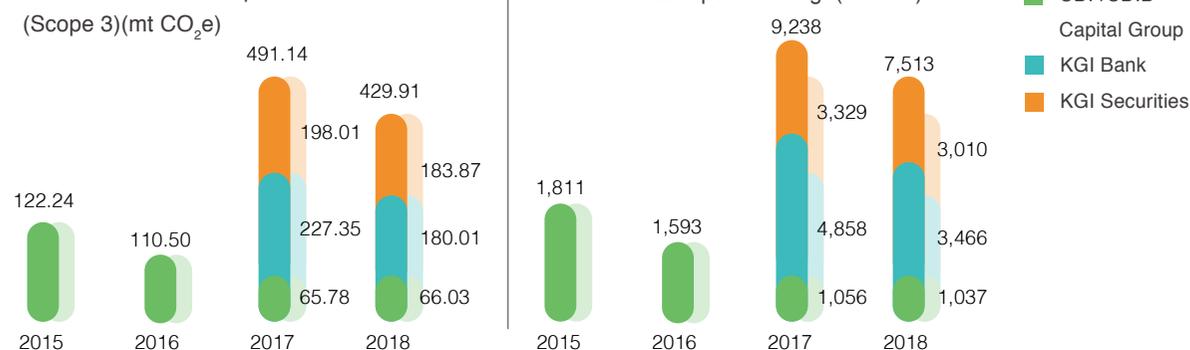
Referring to the data from the Cabinet-level Environmental Protection Administration (EPA), one pack or 500 sheets of 70g (210mm x 297mm) A4 paper translates to 3.6kg CO<sub>2</sub>e, and one pack or 500 sheets of 80g (210mm x 297mm) A4 paper translates to 4.0kg CO<sub>2</sub>e.

#### Incineration of general waste/ 170,024kg/ 135.34mt CO<sub>2</sub>e

#### Mailing/ 411,738 mails/ 2.60mt CO<sub>2</sub>e

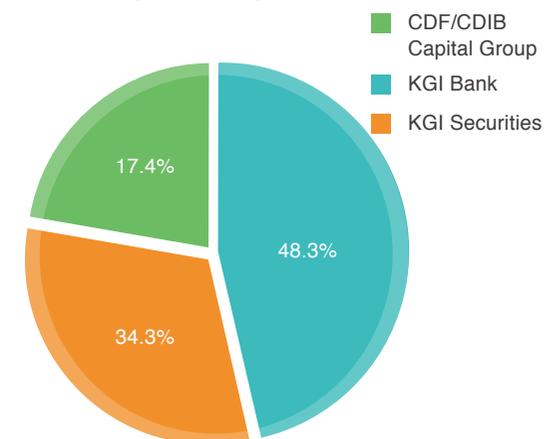
Estimated carbon footprint of business travels (Scope 3)(mt CO<sub>2</sub>e)

Business trips in mileage('000km)

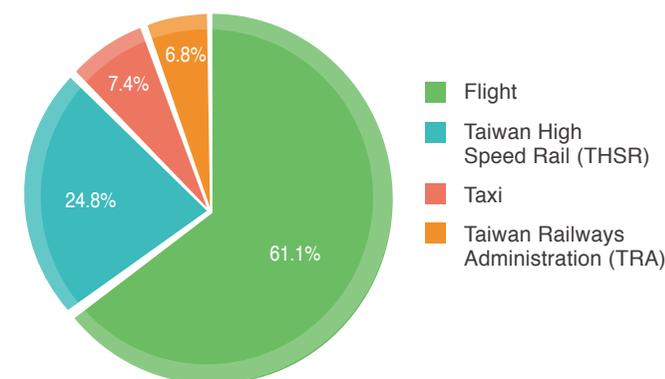


Note: The carbon footprint reference data of aircraft, high-speed rail, railways and taxi have been update accordingly.

### Breakdown by subsidiary



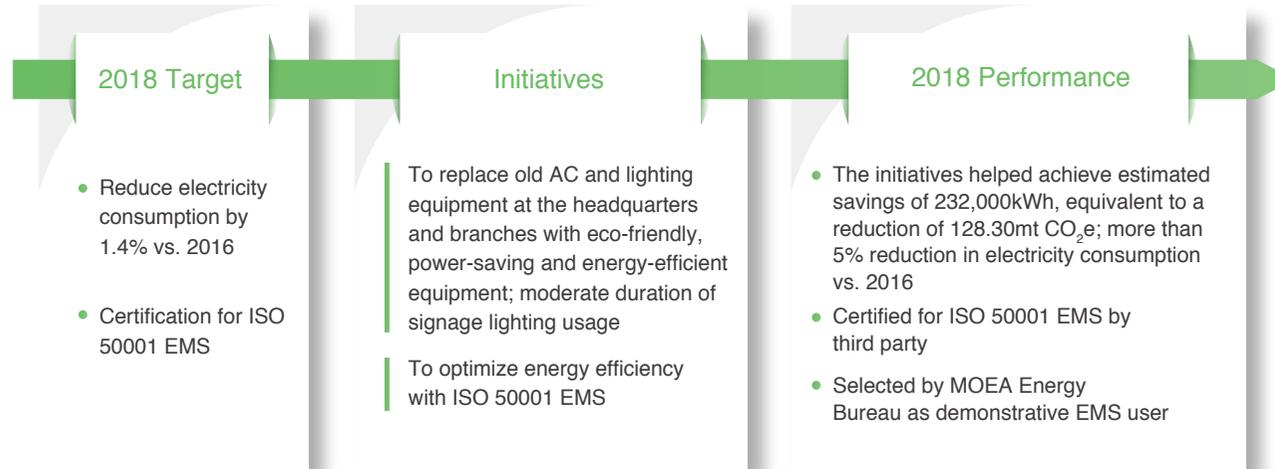
### Breakdown by type of transportation



## 6.1.3 Energy Management

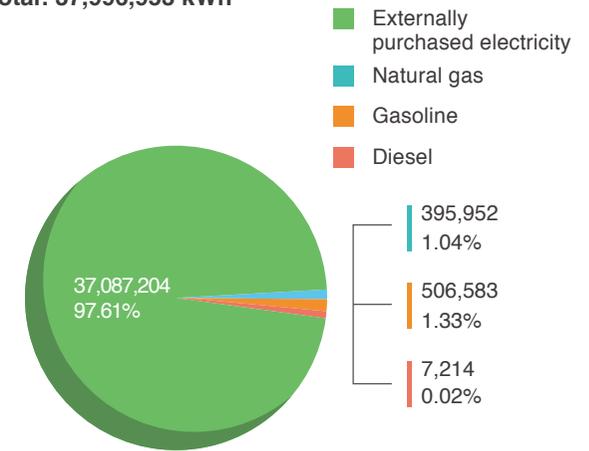
Apart from continuing to expand the scope of GHG inventory, CDF is also actively developing feasible low-carbon solutions in the hope of reducing environmental impact as much as possible to strike a balance between environmental sustainability and company growth.

Main accomplishments in 2018:



### Breakdown of energy consumption

Total: 37,996,953 kWh



Note: The Group's energy consumption statistics for 2018 were calculated using the energy unit conversion table issued by Academia Sinica and are denominated in kWh.

CDF's energy consumption is all supplied by non-renewable sources. Externally purchased electricity accounts for 97.6% of the Group's energy consumption while gasolines is the second largest sources which was mainly used for corporate vehicles. In 2018, externally purchased electricity cost a total of NT\$136,429,947; other energy costs amounted to NT\$5,222,993; total energy consumption expenditure in 2018 was NT\$141,652,940.

Energy Consumption		2016	2017	2018	2018	
					Expressed in gigajoule (GJ)	Expressed in kWh
Externally purchased electricity	Total consumption (kWh)	35,938,625	35,455,173	37,087,204	133,524	37,087,204
	Average consumption per person (kWh)	5,942	5,949	6,037	22	6,037
Natural Gas	Total consumption (cubic meters)	97,541	94,010	98,665	3,718	395,952
Gasoline	Total consumption (liters)	184,800	138,391	129,466	4,228	506,583
Diesel	Total consumption (liters)	2,370	1,337	1,712	60	7,214
Coverage of total employees (%)		95.5%	96.1%	100%	Total 141,530	Total 37,996,953

Note 1: The scope of the 2016 statistics for externally purchased electricity, natural gas, and gasoline included the Group's CDF building, Dazhi building, Zhonghe building, and other sites including the Nangang Park building, Taikai building, KGI Bank branches and KGI Securities branches. In 2017, the Hongqi building and office of CDC Finance & Leasing were incorporated into the scope of inventories. In 2018, KGI Futures' headquarters and branches were added to the inventories. The scope of inventories for diesel includes the main office buildings – CDF, Dazhi, Zhonghe, Taikai and Cheng Tung buildings.

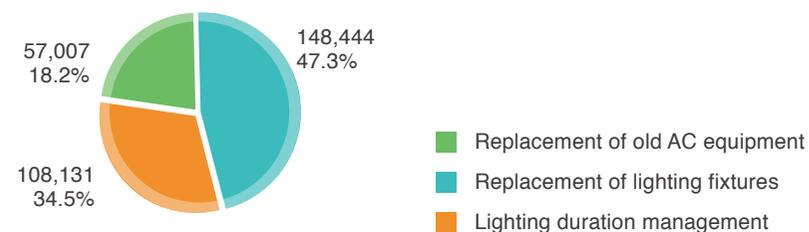
Note 2: Externally purchased electricity is the only metric used for calculating 'average consumption per person', and only entails electricity consumed within CDF's subsidiaries.

Note 3: 2018's increased electricity consumption versus the previous year was due to CDF's expanding scope of inventories, as well as KGI Bank's relocation of an IT data center from a leased facility to its self-managed Nangang Park office at end-2017 in addition to the Bank's ramp-up of outsourced support team for the deployment of its New Core System project. However, on a comparable scope of inventories with the Nangang Park offices also taken out of the equation, 2018's comparable electricity consumption was down 5.1% vs. 2016 (under the same scope of inventories, electricity consumption was 34,724,013 kWh in 2016 and 32,958,087 kWh in 2018).

Note 4: Sources of data include payment receipts, property cost allocation spreadsheet, procurement or utility records.

Note 5: Our accounting of emission heating value is based on the GHG Emission Coefficient Management Chart version 6.0.3, published online by the Bureau of Energy.

**Key Energy-saving Initiatives in 2018: Projected power savings of 314,000 kWh, equivalent to reduced carbon emission of 173.72 mt CO<sub>2</sub>e**



### Key Annual Energy-Saving Initiatives

As externally purchased power is our main source of energy consumption, we prioritized replacing the more power-demanding equipment in the 2018 key energy-saving initiatives. We have achieved estimated savings of 231,586 kWh, equivalent to a reduction of 128.30 mt CO<sub>2</sub>e (Scope 2)

Project	Initiatives in 2018	2018 Performance	Investment Cost (NT\$'000)
Replacement of old AC equipment	KGI Bank replaced 7 sets of outdated AC equipment at branch offices with modern eco-friendly refrigerant or inverter AC equipment	Total savings of 19,172 kWh/reduction of 31.58 mt CO <sub>2</sub> e; (projected annual savings of 57,007 kWh)	393.6
Replacement of lighting fixtures	1.KGI Bank replaced 602 LED energy-saving lighting fixtures and 87 T5 lamps, in addition to removing 198 lighting fixtures at the Zhonghe Building 2.KGI Securities replaced 254 LED energy-saving lighting fixtures and 291 T5 lamps 3.At the CDF building, a total 73 emergency exit lights have been replaced with power-saving LED fixtures	Total savings of 104,283 kWh/ reduction of 82.24 mt CO <sub>2</sub> e; (projected annual savings of 148,444 kWh)	1,693.6
Lighting duration management	1.In 2018, KGI Bank reduced the duration of illuminated outdoor vertical and horizontal signage by 2 hours daily at 39 branch locations 2.Daily utilization of lighting at the KGI Securities Dazhi headquarters basement parking area was reduced by 12 hours	Annual savings of 108,131 kWh/ 59.91 mt CO <sub>2</sub> e	

Note 1: The above energy-saving initiatives offer projected power savings of up to 314,000 kWh per year. With an average electricity charge of NT\$3.52/kWh in 2018, this translates into savings of NT\$1,104,000 per year. The total investment cost of NT\$2,087,000 is estimated to be recouped within 1.89 years

Note 2: Accounting of carbon emissions based on 2017 electricity emissions coefficient of 0.554 (kg CO<sub>2</sub>e/kWh) as published by the Bureau of Energy, MOEA

## 6.1.4 Water Resource Management

Most of CDF's water consumption is from livelihood water consumption and air-conditioning. All water is supplied by the local water plants without use of ground-water or waterways. Wastewater from building kitchens and pantry rooms is processed before being discharged into the underground sewers laid by the government. Oil and water separation equipment is installed in kitchens to prevent water pollution. In 2018, no sewage spills had occurred. To utilize water resources more efficiently, automatic flush sensors are installed on urinals in CDF restrooms. In addition, faucets in restrooms and pantryrooms are equipped with water-saving devices to moderate water usage. When replacing equipment and facilities, priorities are given to products certified with a water-saving eco-label. To optimize utilization of water resources, a rain water harvesting facility is added to the planning of CDF's new headquarters.



### Water Resource Consumption 2016 to 2018

Year		2016	2017	2018
Water	Total consumption (cubic meters)	199,724	197,471	199,818
	Average consumption per person (cubic meters)	33.0	33.1	32.5
	Carbon emissions (kg CO <sub>2</sub> e)	30,358	30,016	32,371
Coverage of total employees		95.5%	96.1%	100%

Note 1: The increased total water consumption in 2018 was due to the expansion of inventory scope on building coverage.

Note 2: Calculation of carbon emissions based on equivalent unit tap-water CO<sub>2</sub>e data published annually by the Taiwan Water Corporation.

Note 3: Sources of data include payment receipts and property cost allocation spreadsheet.

## 6.1.5 Waste Management

As a financial services provider, CDF's operations create a milder environmental impact compared to the manufacturing industry. The waste produced is mostly general trash, not industrial waste containing toxic materials that require special treatment.



CDF sorts its trash and waste into what's recyclable and non-recyclable, since it generally does not generate hazardous waste. Below is the treatment data compiled from 2016 to 2018: (unit: kg)

Category	Item	Treatment method	2016	2017	2018
Recyclables	Paper	Recycled by outsourced contractors	67,938	60,576	60,417
	PET bottles		2,012	2,308	2,010
	Tin/aluminum cans		1,297	1,309	1,644
	Kitchen scraps		107,030	104,876	102,733
	Light tubes, light bulbs		-	145	218
	Total		178,277	169,214	167,022
Non-recyclables	General trash	Transported to incinerator by a licensed contractor	169,650	165,186	169,999
Total			347,927	334,400	337,021
Recycling ratio			51.2%	50.6%	49.6%

- Note 1: Statistics commenced for paper, PET bottle, tin cans, kitchen scraps and general trash started in 2016; the scope of inventories included CDF building, Dazhi building and Zhonghe building, covering 37.2% of employees.
- Note 2: Empty toner cartridges are recycled and professionally treated by our MFP suppliers.
- Note 3: Statistics commenced for light tubes and light bulbs started in 2017. Waste PLL and T5 light tubes are the bulk of light tube recycling. In 2017 and 2018, 1,450 and 2,180 waste light tubes were recycled, respectively. The scope of inventories includes CDF building, Zhonghe building and Nangang Park office.
- Note 4: In compliance with the Personal Information Protection Act and relevant regulations, classified documents are disposed of under work colleagues' monitoring, by turning into pulp before turning into recycled paper. Data storage devices to be disposed of must be first destroyed by IT personnel before recycling in order to prevent leaking of personal and classified information.

## Resource Management and Waste Reduction Measures

A principle of standardization and uniformity has been implemented for procurement in order to share and exchange resources. This also allows for reuse after organizational restructuring to reduce waste

- Business cards and annual reports are printed on eco-friendly FCS-certified paper. Purchase FSC- or PEFC-certified printing paper only
- Arrange periodic inventory for, and prop up management of, IT equipment, office furniture, among other corporate fixed asset. Reallocate and resume utility of idle asset to prevent wasteful handling of resources
- Email, bulletin board system (BBS), and the electronic official document systems are used to replace hard-copy documents and streamline the approval process. Use tablets instead of photocopies as interface for regular meeting handout

To conserve resources and reduce paper consumption, CDF is continuing to encourage and promote the use of phone, internet, and mobile platforms by customers for electronic trading, e-statements, online account opening and other paperless services

### Achievements of paperless policy and services:

Business unit	Project	Projected reductions				
		Saving of A4 paper (1,000 sheets)		Equivalent reduction of carbon emissions <sup>(Note)</sup> (kg CO <sub>2</sub> e)		Change YoY (%)
		2017	2018	2017	2018	
KBI Bank	Internet banking and mobile banking	1,277	1,851	9,196	13,326	44.9
	Online account opening, electronic billing, eDM	7,280	29,577	52,418	212,957	306.3
KGI Securities	Online account opening, e-statement	5,719	6,028	41,179	43,399	5.4
	Electronic consignment order system	138,133	221,295	994,559	1,593,323	60.2
Total		152,409	258,751	1,097,352	1,863,005	69.8

Note: Based on data posted by the EPA on the Taiwan Product Carbon Footprint website, each box of A4 paper containing 500 x 70g (210mm x 297mm) sheets generates 3.6 kg of CO<sub>2</sub>e emissions.

- Give preference to MFP rental services with Green Mark eco-label. Rationalize utilization by specifying 2-sided print or merging multiple pages etc. as default. Use recycled paper to reduce consumption. Use eco-friendly recyclable consumables
- Glass or ceramic cups are provided instead of paper cups. No disposable tableware is provided at employee cafeterias, and employees are encouraged to use eco-friendly chopsticks. Instead of providing bottled water at corporate events, encourage colleagues to prepare their own bottles. Subsidiary China Development Asset Management received a certificate of appreciation from the Taipei City Government for supporting its call for banning disposable and melamine resin utensils
- Ensure use of legally-required minimum of green materials during renovations to reduce burden on the environment

### Achievements of internal paperless operations:

Project	Business unit	Projected reductions	
		Saving of A4 paper (1,000 sheets)	Equivalent carbon emission <sup>(Note)</sup> (kg CO <sub>2</sub> e)
Digitalized procurement procedures	CDF	1	4
	KGI Bank	9	47
	KGI Securities	18	67
	CDIB Capital Group	6	127
Digitalization of visitor parking application service	CDF	8	57
ID authorization mechanism for employee access to MFP	CDF CDIB Capital Group	452	3,257
Streamlined procedures	KGI Bank	7,221	51,988
Total		7,715	55,547

Note: Based on the data provided by the Taiwan Product Carbon Footprint website of the EPA: Each box of A4 paper containing 500 x 70g (210mm x 297mm) sheets generate 3.6 kg CO<sub>2</sub>e

The Group's office buildings and business premises are regularly cleaned and disinfected (including waste removal, carpet cleaning, and exterior wall cleaning, etc.). Areas outside the office buildings are cleaned and disinfected with the help of the heads of local villages and neighborhoods. Plants are planted throughout the arcades, balconies and rooftops of the Group's main office buildings to green and beautify the environment. In 2018, the Group spent a total of NT\$56.56mn on environmental protection measures.

## 6.2 Task Force on Climate-Related Financial Disclosures (TCFD)

CDF has continued to pay attention to climate change and environmental sustainability issues, and has actively participated in different initiatives. In order to effectively address climate change issues, in 2017, a TCFD Climate Change Task Force was assembled by the CDF Corporate Strategy and Planning Department, which consists by managers from 11 departments of CDF and its three main subsidiaries. Meetings are organized on a regular basis to help the task force identify the potential risks and opportunities of climate change. An annual Risk Report has also been produced by the CDF Research Department since 2017 as a reference for credit/ investment decisions at all operating units. In December 2018, CDF signed a letter of commitment to support the Task Force on Climate-related Financial Disclosures (TCFD), and held a seminar on the introduction of TCFD. Twenty participants of high-ranking executives or department heads of subsidiaries attended 60-hours training. In that meeting, the physical and transition risks and climate change opportunities were identified. A risk matrix and opportunity matrix were then formulated to facilitate further scenario analyses in order to assess the impact of the risks and opportunities on the company, and develop short-, medium- and long-term action plans.

### 6.2.1 Climate Risk Management and Strategy

#### The Role of the Board

- Supervise the establishment of a proper framework and practices for climate risk management within CDF.
- Ensure the effectiveness of risk management, review material risk control information and take final responsibility of risk management.
- Established a CSR Committee (CSRC) consisting of directors and independent directors of subsidiaries with the CDF Chairman serving as the chairman. The Committee has five working groups, namely corporate governance, social philanthropy, environmental, client relations and employee well-being, which are run by top executives of subsidiaries as group heads. The five task groups are responsible for proposing and implementing ESG annual plan, and are required to report the implementation to the board of directors regularly.

#### The Role of the Management

- The Risk Management Committee is chaired by the CDF President, and the committee members are all executives of CDF subsidiaries.
- The Risk Management Committee supervises the implementation of risk management plans, reviews risk control reports and addresses related issues.
- The CDF Corporate Strategy and Planning Department consolidates all ESG-related issues and provides to the CSR Committee task group heads for formulating annual work plans.

### 6.2.2 Climate Risk Management

In 2018, with the reference of stakeholders' opinion, the TCFD Climate Change Task Force has identified and prioritized the risks and opportunities related to climate change based on the two dimensions of "likelihood of occurrence" and "level of impact." An in-depth scenario analysis was performed to assess the financial and operating impacts of the risks and opportunities on the company for the development of short-, medium- and long-term action plans.

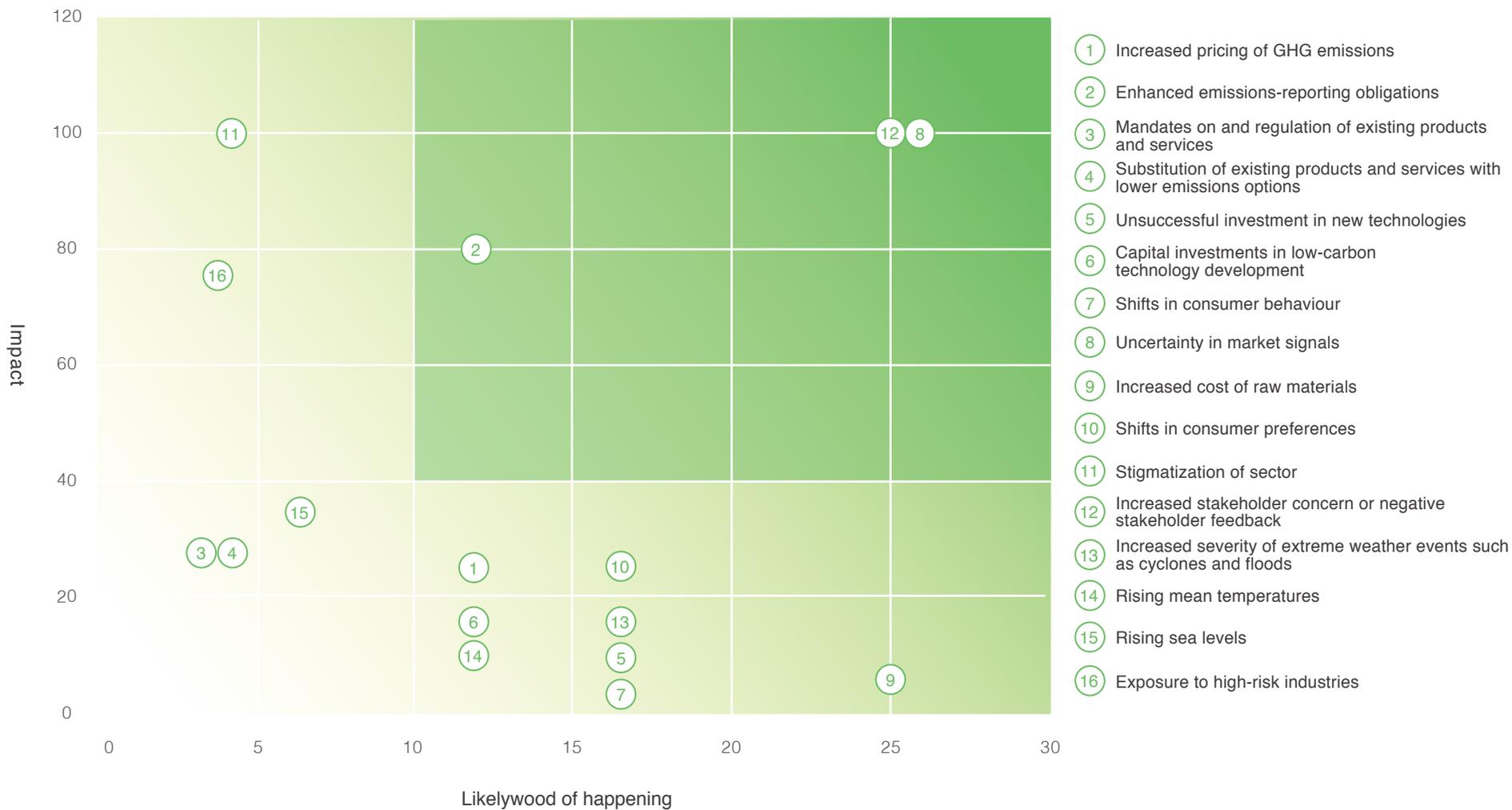
The task force referred to the "Global Warming of 1.5°C", the latest special report of the United Nations Climate Change Group (IPCC) to evaluate the 1.5 degree Celsius scenario (1.5DS) and external environmental changes (including political, economic, social, and technological), and further assessed risks and opportunities that could affect the Company's development and investment. To counter the negative impacts, CDF drawn on the four risk management principles of "transfer," "avoid," "retain," and "control" for the development of responding action plans and related management measures. A regular evaluation is performed to find out how the operations of CDF are affected by climate change. As for the underlying opportunities, regular tracking is carried out to assess potential investment opportunities. Through the aforementioned collection of information, CDF continues to enhance climate change management capabilities and hopes to build a systematic financial impact valuation model in order to mitigate risks and help the Company capture climate-related business opportunities.

## Climate Change Risks

In 2018, CDF identified three high-risk factors, which are all belonged to transition risks, through its risk matrix, namely: (1) rising stakeholder concerns or negative feedback; (2) market signal uncertainty; and (3) higher requirements for carbon emission disclosures. Under the 1.5DS scenario, CDF anticipated that future changes of government policy

and consumer preferences could disrupt its operations, and has thus formulated management plans in order to modify the existing risk management strategy for investment and mitigate the negative impact of climate change.

Risk type	High risk factor	Description of risk	Impact	Existing measure	Performance	Future action plan	Required resources	Financial impact (NT\$)
Policy and Regulation	Higher requirements for carbon emission disclosure	<ul style="list-style-type: none"> <li>Earnings of investees decline on higher compliance costs</li> <li>Constant penalties caused less credit approval</li> <li>Listing progress delayed on higher costs, leading to reduced IPO/SPO cases</li> </ul>	• Revenue	• Regular visit to the investees for update	• Produce a quarterly report on “Operating Update of Investees” to stay informed	<ul style="list-style-type: none"> <li>Continue the tracking plan for investees to stay updated</li> <li>Explore and visit potential investees</li> </ul>	<ul style="list-style-type: none"> <li>Account managers should review the performance of the investees and produce an operating update report quarterly</li> <li>Convene follow-up meetings monthly</li> </ul>	160k
Market	Market signal uncertainty	<ul style="list-style-type: none"> <li>High volatility in residual asset value caused less credit approval</li> <li>Higher uncertainty in industry research; a larger workforce is required to monitor the legal and technological impacts on the industry, resulting in higher operating cost for CDF</li> <li>Increase the costs of credit investigation, industry research, asset appraisal; more frequent reports on major risks</li> </ul>	<ul style="list-style-type: none"> <li>Input cost</li> <li>Revenue</li> <li>Operating cost</li> </ul>	<ul style="list-style-type: none"> <li>Credit investigation report</li> <li>Appraisal guidelines</li> <li>Monitor market changes and exchange information</li> <li>Assessment mechanism and industry research</li> </ul>	<ul style="list-style-type: none"> <li>Credit lines are renewed annually and reviewed semiannually</li> <li>Produce annual reports on the impact of climate change on individual countries and industries</li> <li>Perform annual review and adjustment of credit mechanism and industry research systems</li> </ul>	<ul style="list-style-type: none"> <li>Expand credit investigation workforce</li> <li>Monitor market changes and work out responding tactics</li> </ul>	<ul style="list-style-type: none"> <li>Likely to add 150 new cases annually</li> <li>Add 13 credit analysts and 1 debt collector</li> </ul>	16.1mn
Reputation	Rising stakeholder concerns or negative feedback	• Company reputation could be damaged	• Input cost	• Maintain good and frequent interactions with the media and build a positive, transparent company image	<ul style="list-style-type: none"> <li>Host four analyst meetings annually and multiple roadshows at home and abroad. FINI holdings have been rising as a result.</li> <li>Maintain good interactions with the media and increase media exposure to enhance transparency</li> </ul>	<ul style="list-style-type: none"> <li>Monthly IR/PR work report</li> <li>Subscribe to the IPREO database to stay informed on the latest movements of institutional investor</li> <li>Subscribe to news database to review the reports from media and take measures accordingly</li> </ul>	<ul style="list-style-type: none"> <li>IPREO database: to capture the latest trends of institution investors</li> <li>Enhance communication with the media</li> <li>Utilize newspaper clipping to ensure top executives receive instantaneous media coverage and work out response tactics</li> </ul>	2mn
Total impact on financials								18,260,000

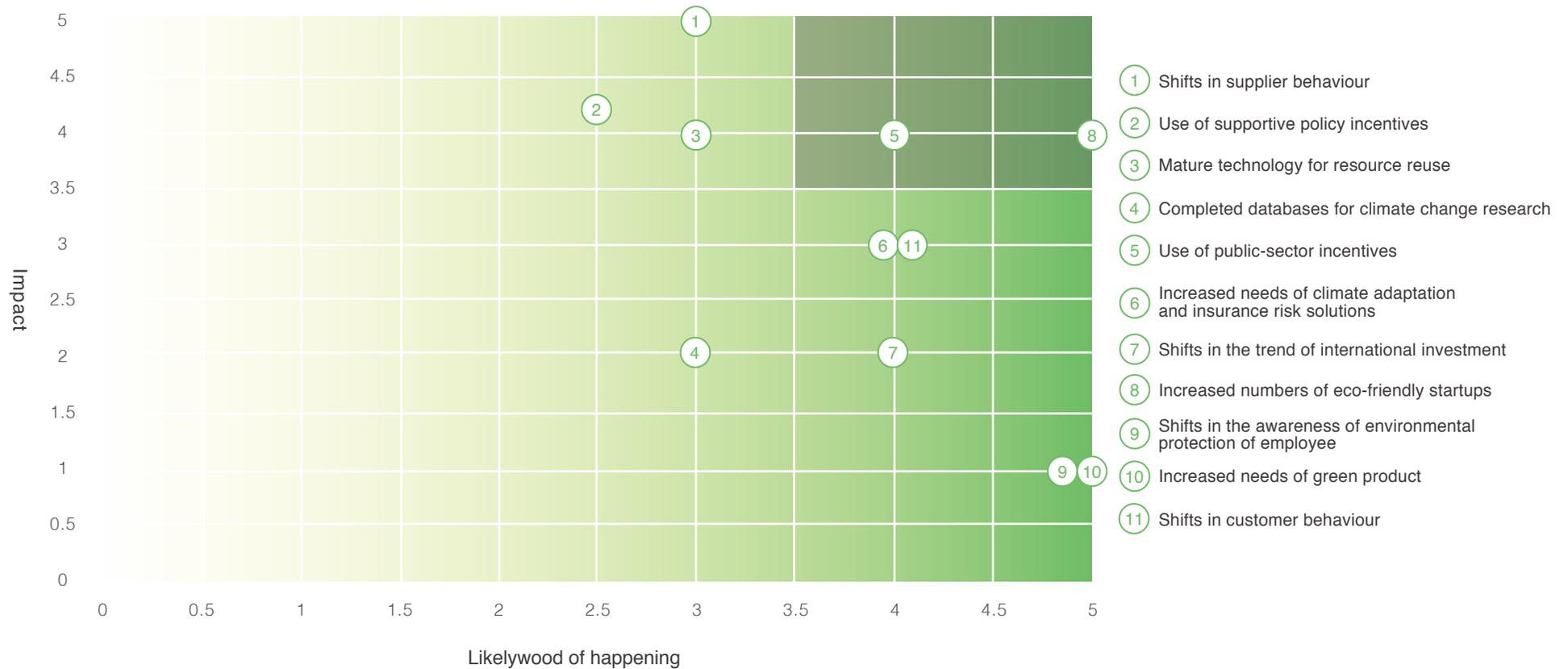


### Opportunities in Climate Change

In 2018, CDF identified two major opportunity factors through its risk matrix, namely: (1) adoption of new technology; and (2) government incentives. Another factor, “increasing demand for green/ low-carbon products,” is most likely to come to pass, although its impact on the Company’s operations is limited. As such, it is also included in the discussion of major opportunity factors. Based on the matrix analysis, we estimate there

will be more opportunities for investment and financing for environment-related projects, such as green financing and low-carbon products. The government is likely to roll out more green policies, so it is important that CDF pays attention to market and policy trends, and takes proper measures to create higher investment value for stakeholders.

Opportunity type	Major opportunity factor	Description of opportunity	Impact on CDF	Nature of impact	Financial impact (NT\$)
Energy source	Adoption of new technology	<ul style="list-style-type: none"> <li>• More environmentally-friendly micro-enterprises</li> <li>• Higher capital accessibility</li> </ul>	Emerging micro-enterprises from the green energy, circular economy and alternative energy sectors to create more demand for credit and financing	Increase revenue	1bn in total green investment/financing
Market	Government incentives	Rewards from government	More green bond issuances in the market translates to more underwriting cases	Increase revenue	1mn income from underwriting green bonds
Product and service	Increasing demand for green/ low-carbon products	Investors become more interested in low-carbon products	Higher returns from investment in green technology	Increase revenue	150 mn
Total impact on financials					1,151,000,000



## 6.2.3 Metrics and Targets

CDF has been a long-term supporter of the government's greenhouse gas reduction policy, with an ultimate goal of achieving zero emissions. CDF has proactively introduced the ISO 14001 environmental management system and the ISO 50001 energy management system at its head office and operating branches nationwide, along with a comprehensive GHG inventory check to effectively control emission and thus construct an action plan for GHG reduction. Moreover, since 2016, CDF has voluntarily become a signatory for carbon disclosure project (CDP) to show support for the climate change project. CDF uses several metrics to manage risks and opportunities related to climate change:

### 1.Greenhouse gas emissions – Scope 1, 2 and 3 emissions and related risks

CDF conducts its scope 1 and 2 greenhouse gas emissions inventory check annually by adopting the ISO14064-1 standard. The Scope 3 emissions, which mainly come from employees' business trips, copy paper consumption, waste incineration and physical mailing, is reviewed independently. CDF sets carbon reduction targets to evaluate its progress on improving global warming.

**Target: reduce carbon emissions by 2.5% from 2016 level by 2020**

### 2.Internal research report on climate change to help monitor related risks and opportunities

With years of experience in macroeconomic and industry research, CDF is capable of identifying risks related to climate change, and a comprehensive risk classification framework which has categorized risks in high-, medium- and low-levels and shown on the risk map. Meetings are arranged regularly by the Risk Management Committee to review external risk changes, and to devise responding internal measures, such as quota management and pressure tests based on the overall risk map. Operating units are required to adjust their investment portfolios according to the reviewing and assessment results.

**Target: publish annual research reports on climate change**

### 3.Weightings of green investment and financing

CDF is fully aware of its mission as a financial service provider, and endeavors to gradually promote green finance through green credit and underwriting and green investments, to ultimately contribute to the transformation of the green energy industry in Taiwan.

**Target: assess green finance performance annually**

## 6.3 Green Supply Chain

### 6.3.1 Supplier Management

We attach great importance to procurement operations and supplier management. Through pre-screenings, performance management, on-site inspections and annual supplier assessments, we have selected suppliers based on their professionalism, technical certifications and track records of performance and environmental friendliness. Upon selection, suppliers are offered to sign the Company's Supplier CSR Commitment Letter, and are supervised as per the contract to comply with guidelines involving labor human rights policy, occupational safety and health code, fire and construction regulations, environmental policy and consumer protection to prevent serious environmental or social impact and fulfill CSR. In case of failure to deliver sufficient improvement within given timeframe upon violations of CSR commitment which result in significant environmental or social impact, CDF may terminate, suspend and revoke the contract, impose penalties, and possibly disqualify the entity's supplier status under exceptional circumstance. In 2018, major suppliers accounted for 84.1% of total procurement value.



Note: The local suppliers here refer to suppliers based in Taiwan.

In 2018, CDF's CSR Commitment Letter was signed by a total of 529 suppliers, up 74.01% YoY from 304 suppliers in 2017. 100% of our key suppliers signed the CSR Commitment Letter in 2018, the same as in 2017. 100% of new suppliers with procurement value worth over NT\$200,000 have also signed the Commitment Letter. A total of 80 suppliers underwent 80 onsite audits throughout 2018, and 100% of the audits indicated sufficient compliance with CDF's policy. In 2018, we have added 298 key or new suppliers and among them, two with the records of endangering the environment (one was fined for NT\$12,000). The ratio of suppliers harming the environment is 0.7%, and there were no serious flaws or major changes.

Evaluation for new suppliers	No. of suppliers evaluated	New supplier ratio	No. of suppliers with negative impacts
Environmental screening	142	100%	0 (none with the records of being an environmental threat)

Evaluation for existing suppliers	No. of suppliers evaluated	No. of suppliers with negative impact on the environment	No. of suppliers that have made improvements	Percentage of suppliers being terminated
Environmental impact evaluation	22 (or 3.5% of total suppliers)	2 (or 0.3% of all suppliers)	1	0

### 6.3.2 Responsible Procurement

Responsible Procurement (green procurement) Policy:

**Assess the actual needs:**

A thorough needs analysis involving the relevant stakeholders will help define the scope for greening the contract as well as avoiding unnecessary purchases.

**Apply selection criteria based on energy saving capacity:**

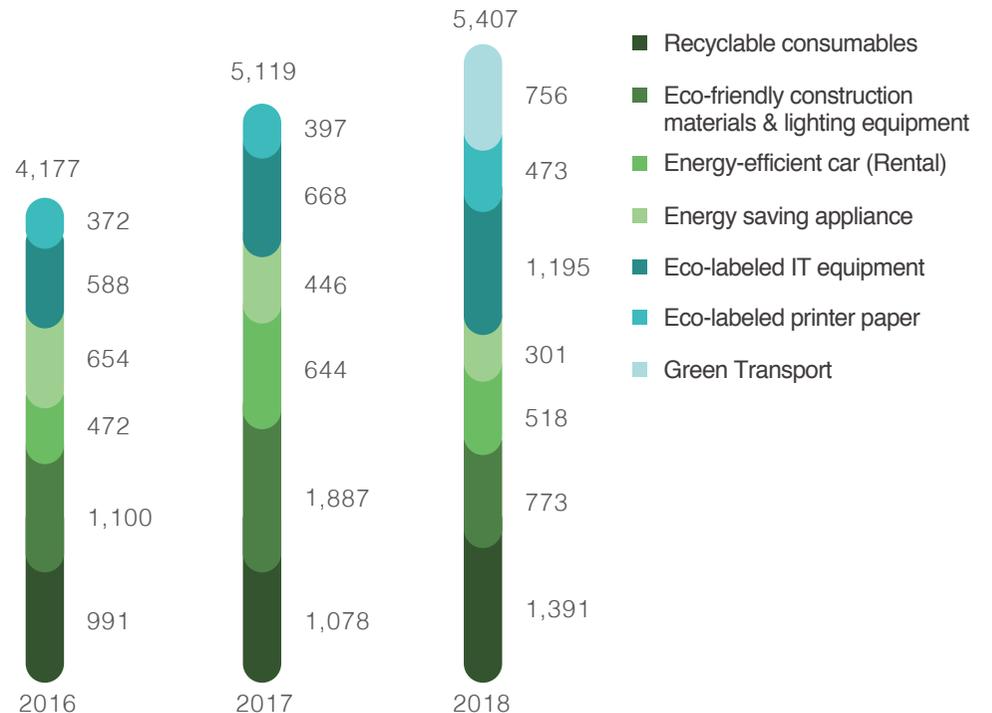
Set awarding criteria which encourages equipment and products that emit less pollutant, are more energy efficiency, and are eco-label certified or verified by relevant manufacturing directives.

**Reduce purchases of single-use disposable items:**

Consider alternatives which offer reusability and durability to minimize environmental impact.

In 2018, there were no suppliers with deliveries of poor-quality products or major environmental hazards, and 99.3% of suppliers with no environmental hazard records. In the future, we will continue to promote responsible procurement policies and join hands with suppliers in implementing environment protection and CSR practices.

Green procurement values (NT\$10k)



## 6.4 Environmental Advocacy & Promotion

As a corporate citizen, CDF continues to advocate environmental protection and encourage employees to take actions in reducing carbon emissions and thus contributing to environmental sustainability.

- Celebrating the company's 60th anniversary, we have held the "Cross Mountain 60, Move Forward to Excellence", an environmental/social/governance (ESG) mountain-cleaning activity meant as a way to give back to society. We selected 60 hiking trails and 3,027 employees have participated to implement CSR. The length of these 60 hiking trails totaled of 171 kilometers. The length of the trail covered by participating employees was about 8,376 kilometers, which reduced CO<sub>2</sub>e by 1.98 metric tons, equivalent to the amount of carbon dioxide absorbed by 198 trees a year.
- Actively supporting the "Earth Hour" campaign. In 2015, we began actively supporting the "Earth Hour" campaign for three consecutive years, joining hands with the world to offer our corporate platform for positive impact.



- Low carbon footprint diet – No Red Meat Today monthly initiative. The Company sources fresh in-season ingredients produced locally to minimize necessary processing and shipping. Our meals are prepared with energy-saving measures and proportional to the cafeteria size to avoid excessive leftover and waste. In 2018, about 15,200 employees took part in the No Red Meat Today monthly initiative, equivalent to 17.94 metric of CO<sub>2</sub>e cut.

• Proactively participating in government environmental protection events:

1. In support of Taipei City Government Department of Environmental Protection's Earth Day Fair, the Group recycled about 24kg of used batteries collected across main operating buildings at the Yanhui Book Warehouse on Cloud project in exchange for free used children books to endorse KGI Charity Foundation to help underprivileged children catch up on reading.

2. Promotes the green procurement policy. Participates in Taipei City Government Department of Environmental Protection's "2018 Green Procurement Promoting Plan" and is recognized as a top firm among private enterprises/groups.



3. Encourages employees to use environmentally-friendly eating utensils in response to the Taipei City Government's call for banning disposable and melamine eating utensils and was presented with a certificate of gratitude.
- To promote the cause for carbon reductions, CDF periodically forwards promotional materials through internal email to all employees advocating practicing the principles in everyday activities, such as taking public transportations, taking the stairs instead of the lift, increasing the portions of fruit and vegetables and in-season ingredients in our diet, setting temperature control for AC chiller unit at 26°C and above, promoting electronic paperless services, reducing plastic consumption, and conducting garbage sorting and recycling, etc.



## 6.5 Environmental Profit & Loss (EP&L)

We conduct an “Environmental Profit and Loss (EP&L) Assessment” with reference to the “Social Costs Carbon” published by the US Environmental Protection Agency, assessing the impacts and influence on the environment and ecosystem during the operation process. This helps us to exam our operations from a broader perspective.

Initiative		GHG emissions (mt CO <sub>2</sub> e)	Source of quantification	EP&L (NT\$)
GHG Emissions	Scope 1	632.16	The calculation has adopted the conversion data published by Executive Yuan EPA's GHG Emissions Coefficient Management Table and Inventory Registration Form 6.0.3 edition. The inventory border is based on operating control methods, and the GWP values of various greenhouse gases are chosen according to IPCC's fourth evaluation report (2007), with the scope 2 calculation was calculated on a region-specific basis	(209,697)
	Scope 2	20,438.77		(6,779,865)
	Scope 3	744.27		Emissions are calculated based on: <ul style="list-style-type: none"> <li>• Emission levels of chosen transportation and mileage occurred during business trips of employees</li> <li>• The paper emissions data released by the Executive Yuan Environmental Protection Administration's Taiwan Product Carbon Footprint website</li> <li>• In the original-unit emission factors of various types of energy announced by the Bureau of Energy of the Ministry of Economic Affairs, the carbon coefficient of “general waste” is 0.796 kg CO<sub>2</sub>e/kg</li> </ul>
Key energy-saving initiatives		(128.30)	Based on 2017 electricity emissions factor data of 0.554 kg. CO <sub>2</sub> e/kWh as published by the Bureau of Energy of the Ministry of Economic Affairs	42,559
Paperless policy	Businesses & services	(1,863.01)	Estimate that 500 sheets of A4 paper generate 3.6 kg CO <sub>2</sub> e, according to EPA statistics accessible on its website	617,989
	Internal management	(55.55)		18,426
Total		19,768.34	-	(6,557,474)

Note 1: Quantification of social cost of carbon (SCC) based on US EPA Technical Support Document estimates of US\$11 per CO<sub>2</sub>e on a 5% discount rate, according to its August 2016 revision.

Note 2: Based on 2018 interbank spot market closing rates of the NT dollar against the US dollar of 30.1560 (<https://www.cbc.gov.tw> and Taipei Foreign Exchange Market Development Foundation)

Note 3: The statistical scopes of initiatives are consistent with those previously discussed.



Chapter **7**

Appendix

# Appendix

## GRI Standard Index

GRI Standard Disclosure		Related Section / Explanatory Notes
GRI 102: General Disclosures 2016		
102-1	Name of the organization	About the Report
102-2	Activities, brands, products, and services	Operation Overview 3.1 Operation Overview
102-3	Location of headquarters	Business Development
102-4	Location of operations	Business Development
102-5	Ownership and legal form	Business Development
102-6	Markets served	Business Development 3.1 Operation Overview
102-7	Scale of the organization	Business Development 3.1 Operation Overview (For major changes in operations, please refer to our news or Market Observation Post System website.)
102-8	Information on employees and other workers	4.1 Workforce Diversity
102-9	Supply chain	6.3 Green Supply Chain
102-10	Significant changes to the organization and its supply chain	Business Development 3.1 Operation Overview
102-11	Precautionary Principle or approach	3.4 Risk Management
102-12	External initiatives	3.5 Public Engagement
102-13	Membership of associations	3.5 Public Engagement
102-14	Statement from senior decision-maker	Chairman's Message
102-16	Values, principles, standards, and norms of behavior	3.3.1 Management Mechanism
102-17	Mechanisms for advice and concerns about ethics	3.3.1 Management Mechanism
102-18	Governance structure	3.2.1 Board of Directors Structure

GRI Standard Disclosure		Related Section / Explanatory Notes
102-20	Executive-level responsibility for economic, environmental, and social topics	3.2.3 Board Operation
102-22	Composition of the highest governance body and its committees	3.2.1 Board of Directors Structure
102-23	Chair of the highest governance body	3.2.1 Board of Directors Structure
102-26	Role of highest governance body in setting purpose, values, and strategy	3.2.3 Board Operation
102-27	Collective knowledge of highest governance body	3.2.1 Board of Directors Structure
102-29	Identifying and managing economic, environmental, and social impacts	1.1.1 Stakeholder Engagement 3.2.1 Board of Directors Structure
102-30	Effectiveness of risk management processes	3.4 Risk Management
102-31	Review of economic, environmental, and social topics	3.2.3 Board Operation
102-32	Highest governance body's role in sustainability reporting	3.2.3 Board Operation
102-33	Communicating critical concerns	3.4 Risk Management
102-34	Nature and total number of critical concerns	3.4 Risk Management
102-35	Remuneration policies	3.2.2 Board Performance Evaluation 3.2.3 Board Operation
102-40	List of stakeholder groups	1.1.1 Stakeholder Engagement
102-41	Collective bargaining agreements	We have corporate union but have not sign any collective bargaining agreement
102-42	Identifying and selecting stakeholders	1.1.1 Stakeholder Engagement
102-43	Approach to stakeholder engagement	1.1.1 Stakeholder Engagement
102-44	Key topics and concerns raised	1.1.1 Stakeholder Engagement
102-45	Entities included in the consolidated financial statements	About the Report
102-46	Defining report content and topic Boundaries	1.2 Sustainability Visions and Values
102-47	List of material topics	1.2 Sustainability Visions and Values
102-48	Restatements of information	About the Report

GRI Standard Disclosure		Related Section / Explanatory Notes
102-49	Changes in reporting	1.1.1 Stakeholder Engagement (For major changes in operations, please refer to Announcements on our website or Market Observation Post System website. There is no significant change in our supply chain in 2018.)
102-50	Reporting period	About the Report
102-51	Date of most recent report	About the Report
102-52	Reporting cycle	About the Report
102-53	Contact point for questions regarding the report	About the Report
102-54	Claims of reporting in accordance with the GRI Standards	About the Report
102-55	GRI content index	Appendix
102-56	External assurance	About the Report
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	1.1.2 Material Issues Identification
103-2	The management approach and its components	1.1.2 Material Issues Identification
103-3	Evaluation of the management approach	1.1.2 Material Issues Identification
GRI 201: Economic Performance 2016		
201-1	Direct economic value generated and distributed	3.1 Operation Overview
201-2	Financial implications and other risks and opportunities due to climate change	1.2.2 Opportunities and Challenges of Sustainability
201-3	Defined benefit plan obligations and other retirement plans	4.4.1 Employee Benefits
GRI 202: Market Presence 2016		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	4.4.1 Employee Benefits (Not applicable for other workers)
202-2	Proportion of senior management hired from the local community	4.1 Workforce Diversity

GRI Standard Disclosure		Related Section / Explanatory Notes
GRI 204: Procurement Practices 2016		
204-1	Proportion of spending on local suppliers	6.3 Green Supply Chain
GRI 205: Anti-corruption 2016		
205-2	Communication and training about anticorruption policies and procedures	3.2.1 Board of Directors Structure 3.3.1 Management Mechanism 6.3.1 Supplier Management
205-3	Confirmed incidents of corruption and actions taken	3.3.1 Management Mechanism
GRI 302: Energy 2016		
302-1	Energy consumption within the organization	6.1.3 Energy Management 6.5 Environmental Profit & Loss (EP&L)
302-3	Energy intensity	6.1.3 Energy Management
302-4	Reduction of energy consumption	6.1.3 Energy Management
GRI 303: Water 2016		
303-1	Water withdrawal by source	6.1.4 Water Resource Management
GRI 305: Emissions 2016		
305-1	Direct (Scope 1) GHG emissions	6.1.2 GHG Management 6.5 Environmental Profit & Loss (EP&L)
305-2	Energy indirect (Scope 2) GHG emissions	6.1.2 GHG Management 6.5 Environmental Profit & Loss (EP&L)
305-4	GHG emissions intensity	6.1.2 GHG Management
305-5	Reduction of GHG emissions	6.1.3 Energy Management
GRI 306: Effluents and Waste 2016		
306-2	Waste by type and disposal method	6.1.5 Waste Management

GRI Standard Disclosure		Related Section / Explanatory Notes
GRI 307: Environmental Compliance 2016		
307-1	Non-compliance with environmental laws and regulations	3.3.4 Compliance
GRI 308: Supplier Environmental Assessment 2016		
308-1	New suppliers that were screened using environmental criteria	6.3 Green Supply Chain
308-2	Negative environmental impacts in the supply chain and actions taken	6.3 Green Supply Chain
GRI 401: Employment 2016		
401-1	New employee hires and employee turnover	4.3.1 Equal Recruitment
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	4.4.1 Employee Benefits
GRI 402: Labor/Management Relations 2016		
402-1	Minimum notice periods regarding operational changes	We have not sign any collective bargaining agreement
GRI 403: Occupational Health and Safety 2016		
403-3	Workers with high incidence or high risk of diseases related to their occupation	4.2.2 Workplace Safety (There are no workers with high incidence or high risk of diseases related to their occupation.)
GRI 404: Training and Education 2016		
404-1	Average hours of training per year per employee	4.3.2 Education and Training
404-3	Percentage of employees receiving regular performance and career development reviews	4.3.3 Performance Evaluation
GRI 405: Diversity and Equal Opportunity 2016		
405-1	Diversity of governance bodies and employees	3.2.1 Board of Directors Structure 4.1 Workforce Diversity (There are three directors whose age are between the ages of 40 and 60, accounting for 33% of the board, and 6 directors are above 60 years old, accounting for 67% of the board.)
405-2	Ratio of basic salary and remuneration of women to men	4.4.1 Employee Benefits

GRI Standard Disclosure		Related Section / Explanatory Notes
GRI 406: Nondiscrimination 2016		
406-1	Incidents of discrimination and corrective actions taken	4.2.1 Human Rights Protection Mechanisms
GRI 408: Child Labor 2016		
408-1	Operations and suppliers at significant risk for incidents of child labor	4.2.1 Human Rights Protection Mechanisms 6.3.1 Supplier Management (We had no operations or suppliers identified as having incidents of child labor and we will conduct supply chain risk assessment in 2019.)
GRI 409: Forced or Compulsory Labor 2016		
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	4.2.1 Human Rights Protection Mechanisms 6.3.1 Supplier Management (We had no operations or suppliers identified as having significant risk for incidents of forced or compulsory labor and we will conduct supply chain risk assessment in 2019.)
GRI 412: Human Rights Assessment 2016		
412-2	Employee training on human rights policies or procedures	4.2.1 Human Rights Protection Mechanisms
GRI 415: Public Policy 2016		
415-1	Political contributions	3.3.1 Management Mechanism
GRI 417: Marketing and Labeling 2016		
417-2	Incidents of noncompliance concerning product and service information and labeling	2.4.2 Customer Rights and Protection
417-3	Incidents of noncompliance concerning marketing communications	2.4.2 Customer Rights and Protection
GRI 418: Customer Privacy 2016		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	2.4.2 Customer Rights and Protection
GRI 419: Socioeconomic Compliance 2016		
419-1	Non-compliance with laws and regulations in the social and economic area	3.3.4 Compliance 3.4 Risk Management (For details, please refer to the 2018 Annual Report of the Shareholders' Meeting.)

GCorporation Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies (last revised by Taiwan Stock Exchange on Jan. 04, 2019)		Related Section / Explanatory Notes	Page No.
Article 4 Item 3	Listed companies within the financial and insurance industry shall disclose their management approaches, topic-specific disclosures and their reporting requirements for major topic on sustainable finance. Their reporting requirements shall include, at least, products and services designed by individual operating units to create benefits for the society or environment.	1.1.2 Material Issues Identification 2.2 ESG Financial Products	
Article 4 Item 4	A listed company under Article 2 shall disclose the number of its full-time employees who are not in a managerial position, the average and medium of the salaries of the full-time employees who are not in a managerial position, and the difference of the three figures from the previous year.	4 Care Talent Cultivation	

# Opinion Statements & Certificates

- 1 Excellence Sustainability Strategy
- 2 Innovation Sustainable Finances
- 3 Integrity Corporate Governance
- 4 Care Talent Cultivation
- 5 Giving Back Society Involvement
- 6 Conservation Environmental Protection
- 7 Appendix



# Independent Limited Assurance Report



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### INDEPENDENT AUDITORS' LIMITED ASSURANCE REPORT

The Board of Directors and Shareholders  
China Development Financial Holding Corporation

We have performed a limited assurance engagement on the selected subject matter information (see Appendix A) on the Corporate Social Responsibility Report ("the Report") of China Development Financial Holding Co., Ltd. ("the Company") for the year ended December 31, 2018.

#### Responsibilities of Management for the Report

Management is responsible for the preparation of the Report in accordance with Taiwan Stock Exchange Corporation Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies, GRI Standards and Sector Guidance published by the Global Reporting Initiatives (GRI), and other applicable rules according to its sector features, and for such internal control as management determines is necessary to enable the preparation of the Report that are free from material misstatement.

#### Auditor's Responsibilities for the Limited Assurance Engagement performed on the Report

We conducted our work on the selected subject matter information (see Appendix A) in the Report in accordance with the International Standard on Assurance Engagements 3000 (Revised) (ISAE 3000 (Revised)) to issue a limited assurance report on the preparation, in all material respects, of the Report. The nature, timing and extent of procedures performed in a limited assurance engagement are different from and more limited than a reasonable assurance engagement and, therefore, a lower assurance level is obtained than a reasonable assurance.

We applied professional judgment in the planning and conduct of our work to obtain evidence supporting the limited assurance. Because of the inherent limitations of any internal control, there is an unavoidable risk that even some material misstatements may remain undetected. The procedures we performed include, but not limited to:

- Obtaining and reading the Report.
- Inquiring management and personnel involved in the preparation of the Report to understand the policies and procedures for the preparation of the Report.
- Inquiring the personnel responsible for the preparation of the Report to understand the process, controls, and information systems in the preparation of the selected subject matter information.
- Analyzing and examining, on a test basis, the documents and records supporting the selected subject matter information.

### Independence and Quality Controls

We have complied with the independence and other ethical requirements of the Norm of Professional Ethics for Certified Public Accountant in the Republic of China, which contains integrity, objectivity, professional competence and due care, confidentiality and professional behavior as the fundamental principles. In addition, the firm applies Statement of Auditing Standard No. 46 "Quality Control for Public Accounting Firms" issued by the Accounting Research and Development Foundation of the Republic of China and, accordingly, maintains a comprehensive system of quality controls, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

### Conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the selected subject matter information in the Report are, in all material respects, not prepared in accordance with the above mentioned reporting criteria.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

June 14, 2019

APPENDIX A

SUMMARY OF SELECTED SUBJECT MATTER INFORMATION

#	Descriptions of Indicators	Corresponding Section	Applicable Criteria
1.	The ESG reviewing process of investment of CDIB Capital Group	Reviewing Process	The CDIB Capital Group developed a reviewing process and associate checklist, which includes 11 ESG criteria for project development.
2.	The external social benefits of the financial inclusion products in 2018	Inclusive Finance	<ol style="list-style-type: none"> <li>The number of applications received and approved by KGI Bank for the Taxi Driver's Small Revolving Loan Project and the "Giving You A Hand" Revolving Personal Loan Promotion Project in 2018.</li> <li>The number of wheelchair-friendly ATM installed in Taiwan by the end of 2018.</li> <li>The number of cross-bank withdrawal transactions via ATM with service fee exemptions for disadvantaged customers.</li> </ol>
3.	The internal business benefits of the financial inclusion products in 2018	Strategies and Performance of Sustainability  Inclusive Finance	<ol style="list-style-type: none"> <li>The total loans granted by KGI Bank for the Taxi Driver's Small Revolving Loan Project and the "Giving You A Hand" Revolving Personal Loan Promotion Project in 2018.</li> <li>The balance of loans for key industry start-ups, cultural &amp; creative industry and micro-businesses of KGI Bank by the end of 2018.</li> </ol>
4.	The development of the green finance products, including the amount raised for the green bonds underwriting cases, the number of clients and the amount of green loans, the number of ESG-related IPO and SPO projects and the amount raised in 2018.	Green Finance	<ol style="list-style-type: none"> <li>The amount raised for the green bonds, the number of participated environmental protection and green energy related IPO and SPO projects and the amount of equity fundraising by KGI Securities in 2018.</li> <li>The number of clients and the balance of green credits of KGI Bank by the end of 2018.</li> </ol>

#	Descriptions of Indicators	Corresponding Section	Applicable Criteria
5.	The greenhouse gas emissions from business traveling of employees in 2018.	GHG Management	The carbon emission from business traveling was calculated using the total distance traveled in 2018 and the publicly available emission factors, including data from the International Civil Aviation Organization (ICAO), carbon footprint for high speed rail service from Taiwan High Speed Rail Corporation, and the carbon footprint calculation platform by the Industry Technology Research Institute.
6.	Management approach of the codes of conduct, including the reporting lines and management procedures, employee performance appraisal systems which integrates compliance/codes of conduct, the breach of the code of conduct and the investigation results.	Ethical Corporate Management	The management approach, reporting process, relative cases and the investigation results for the codes of conduct were examined by reviewing the "Ethical Corporate Management Best Practice Principles", "Codes of Ethical Conduct", "Code of Conduct for Employees", "Code of Conduct for Subsidiaries' Insiders", "Regulations Governing the Handling of Whistleblowing Cases", the record for whistleblowing cases in 2018, and the integration of code of ethics into employee performance review.
7.	Absentee rate in 2018	Workplace Safety	The absentee rate was calculated from the record of employee leave of absence (including sick leave, work-related injury leave and menstruation leave) and the scheduled workdays.
8.	Energy consumption within the organization.	Energy Management	The energy consumption was calculated from the relative records of energy consumption and the heat values published by the Bureau of Energy.
9.	Water withdrawal by source	Water Resource Management	The water withdrawal was calculated from the water bills of 2018.
10.	Waste by type and disposal method	Waste Management	The waste by type and disposal method was calculated from the waste clearance and transport record in 2018.
11.	Average hours of training per year per employee	Education and Training	The average training hour by employee type and gender was calculated from the total training hours recorded in the HR training system and the number of employee by the end of 2018.

*Notice to Readers*

*For the convenience of readers, the independent auditor's limited assurance report and the accompanying summary of selected subject matter information have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditor's limited assurance report and summary of selected subject matter information shall prevail.*



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