

Statement on Internal Control System of China Development Financial Holding

We hereby declare on behalf of China Development Financial Holding Co., Ltd., that, in accordance with the Regulations Governing the Implementation of Internal Control and Audit Systems by Financial Holding Companies and Banking Industry, from January 1, 2016 to December 31, 2016, the Company had an internal control system, performed risk management, and was audited by an impartial and independent internal auditing department, which regularly reports to the Board of Directors and the Audit Committee. After a careful assessment, except for the items listed on the attachment, all units were able to effectively implement internal control and legal compliance tasks during the year. This statement shall be included among the chief contents of the Company's annual report and prospectus, and shall be made public. Any illegalities such as misrepresentations or concealments in the published contents mentioned above will be considered a breach of Articles 20, 32, 171, and 174 of the Securities and Exchange Act and incur legal responsibilities.

To:

Financial Supervisory Commission, R.O.C

Stated by

Chairman: Chia-Juch Chang

President: Daw-Yi Hsu

General Auditor: Kenneth Huang

Legal Compliance Officer: Brian Huang

Dated: March 21, 2017

Plan for improving internal controls as of end-2016

Area for improvement	Details	Estimated time of completion
China Development Financial		
<p>FSC's bank and financial holding issue No.10500185010 on January 10, 2017</p> <p>The FSC's ad-hoc risk management inspection of the Company found that subsidiary KGI Securities' overseas subsidiary, Grand Cathay Capital HK, failed to report related party transactions to the board of directors as stipulated in the FSC's bank issue No.0946000269 on July 8, 2005. The subsidiary and FHC were thus found failing to establish a legal compliance system and fulfill supervisory duties, respectively. Pursuant to Paragraph 1, Article 54 of the Financial Holding Company Act, the Company received the punishment of correction.</p>	<p>KGI Securities has revised its "Principles for Supervising Subsidiaries", having overseas subsidiaries comply with regulations regarding disclosure of directors' conflicts of interest and recusals and report any potential conflicts of interest against a proposal at the board meeting and in the meeting minutes.</p>	Completed.
KGI Bank (subsidiary)		
<p>1. Procedures of switching targets for investment-linked insurance policies</p>	<p>KGI Bank has revised its rules for switching targets for investment-linked insurance policies, adding quarterly examination.</p>	Completed.
<p>2. FSC's bank and financial holding issue No.10560001090 on June 23, 2016</p> <p>KGI Bank was found to have deficiencies in operations as it failed to implement proper account opening procedures and internal controls required by the parent company and found to have inadequate procedure of approval by the board of directors. Pursuant to Paragraph 1, Article 61-1 of the Banking Act, the Company received punishment of correction.</p>	<p>1. KGI Bank has reviewed its procedures of opening accounts, adding phone call recording and joint visits.</p> <p>2. KGI Bank has drafted internal control guidelines, approved by the board of directors.</p>	Completed.
<p>3. FSC's bank and financial holding issue No.10500185210 on December 14, 2016</p> <p>KGI Bank was found in violation of the Bankers Association's Self-Regulatory Rules on Banks Conducting Financial Derivatives Business with improper risk management, KYC procedure and selling process. Pursuant to Paragraph 1, Article 61-1 of the Banking Act, the Company received punishment of correction.</p>	<p>KGI Bank has revised its regulations in compliance to FSC's latest version of Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business.</p>	Completed.