

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, 2017 to December 31, 2017, 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: Alan Wang

General Auditor: Kenneth Huang

Legal Compliance Officer: Brian Huang

Dated: March 26, 2018

Plan for improving internal controls as of end-2017

Area for improvement	Details	Estimated time of completion
China Development Financial		
<p>FSC Letter Jin-Guan-Yin-Kong-Zi 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 was issued an order 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. FSC Letter Jin-Guan-Yin-Kong-Zi No.1066000222G on June 1, 2017</p> <p>KGI Bank failed to thoroughly inspect the board meeting minutes of a corporate client when engaging in financial derivatives business with the client, along with other malpractice in document management, causing risks to the healthy operations of CDF.</p> <p>Pursuant to Paragraph 1, Article 61-1 of the Banking Act, the Company was issued an order of correction.</p>	<p>KGI Bank revised its "Regulations for the Request and Management of Financial Derivatives Deeds" by adding a template for meeting minutes and a letter of authorization by the board for the reference of corporate clients.</p>	Completed.
<p>2. FSC Letter Jin-Guan-Yin-Kong-Zi No.10600015640 on June 8, 2017</p> <p>The ID verification policy, procedure and control mechanisms of KGI Bank for anti-money laundering were found to be flawed or improperly implemented. The bank also failed to keep records of inspections and verifications on suspicious transactions as requested, causing risks to the healthy operations of CDF.</p> <p>Pursuant to Paragraph 1, Article 61-1 of the Banking Act, the Company was issued an order of correction.</p>	<p>KGI Bank revised its "Guidelines for Anti-Money Laundering and Countering Terrorism Financing" and "Forex Operating Manual", and has strengthened its monitoring of suspicious transactions.</p>	Completed.

Area for improvement	Details	Estimated time of completion
<p>3. KGI Bank shall cooperate in the following matters, pursuant to related regulations promulgated and amended by the Bankers Association:</p> <p>(1) Perform risk assessment on money laundering and terrorism financing, and establish plans to prevent money laundering and counter terrorism financing;</p> <p>(2) Adjust risk assessment indicators for customers establishing a business relationship with the bank;</p> <p>(3) Enhance the filing mechanism of beneficial owners and senior managerial personnel.</p>	<p>(1) Risk assessment on money laundering and terrorism financing, and plans to prevent money laundering and counter terrorism financing will be completed by the end of March 2018;</p> <p>(2) indicators of “geographical location”, “products and services” and “trading or payment channels” are incorporated when assessing customers’ establishment of a business relationship with the bank;</p> <p>(3) add a “name” column in the system.</p>	<p>Scheduled for completion on March 31, 2018.</p> <p>Completed on February 22, 2018.</p> <p>Completed on February 8, 2018.</p>
<p>4. Control mechanisms for reporting operations by the bank’s statutory responsible person</p>	<p>Reporting operations have been strengthened; noted and stated in relevant documents.</p>	<p>Completed</p>
KGI Securities (subsidiary)		
<p>1. FSC Letter Jin-Guan-Zheng-Chuan-Zi No.1060019248 on May 19, 2017 During examination of the day-to-day operations of subsidiary KGI Securities (HK), the FSC found representatives of KGI Wealth Management (HK) have regularly visited Taiwan to verify the ID of new customers. KGI Securities Asia failed to check the ID of customers engaging in trading of Taix derivatives, indicating KGI Securities has not fulfilled its duty to supervise subsidiaries, which constituted a violation of securities-related laws and regulations. Pursuant to Paragraph 1, Article 61 of the Securities and Exchange Act, the Company was issued a warning.</p>	<p>1. For Taiwanese customers who are unable to visit Hong Kong to open the account in person, KGI Wealth Management will commission an impartial third party (either a practicing lawyer, accountant or notary) to perform ID verification on its behalf starting April 18, 2017.</p> <p>2. The Hong Kong subsidiary formulated relevant directions on August 1, 2017 to ensure ID inspection and subsequent trading controls are duly performed.</p>	<p>Completed</p>
<p>2. FSC Letter Jin-Guan-Zheng-Chuan-Zi No.1060036778 on September 22, 2017 Wu, a former broker at the Banqiao Branch of KGI Securities, was found to have violated securities-related laws and regulations by promising gains for customers, trading securities on customers’ accounts, providing safekeeping of customers’ seals and passbooks, embezzling securities and proceeds owned by customers, engaging in</p>	<p>1. Branch managers are required again to:</p> <p>(1) look into the daily operations of employees to prevent ethical risks;</p> <p>(2) understand the nature of orders from customers that have made huge trades or major losses in a given period to make sure the brokerage trade and related operations are appropriate; and</p> <p>(3) provide ethical and legal education and training to traders so that conflict of interest</p>	<p>Completed</p>

Area for improvement	Details	Estimated time of completion
<p>money borrowing and lending with customers, failing to execute trading as ordered, opening new accounts, and trading, delivering or subscribing to securities on behalf of others. An order to release Wu from duty was issued for these violations.</p>	<p>and trade disputes can be prevented. 2. Required branch companies to perform internal auditing of the brokerage unit. 3. Wu was dismissed from position on March 9, 2017.</p>	
China Life (subsidiary)		
<p>1. FSC Letter Jin-Guan-Bao-Shou-Zi No.10502548912 on January 6, 2017 China Life failed to compensate some policy buyers in accordance with policy terms or the values of compensations were calculated erroneously. Pursuant to Paragraph 5, Article 171-1 & Paragraph 1, Article 149 of the Insurance Act, the Company was imposed with fines totaling NT\$600,000 and issued an order of correction, respectively.</p>	<p>A thorough inspection has been carried out on its claim processing operations, including automatic compensation calculation functions and integration of the claim system.</p>	<p>Completed</p>
<p>2. FSC Letter Jin-Guan-Bao-Shou-Zi No.10602544662 on August 9, 2017 China Life failed to inform the competent authorities of the progress of its superficial investment plans within ten days after substantive details of the plans had become available. Pursuant to Subparagraph 3, Paragraph 5, Article 168 & Paragraph 1, Article 149 of the Insurance Act, the Company was imposed with fines totaling NT\$900,000 and issued an order of correction, respectively.</p>	<p>The latest development schedule of new buildings has been compiled and submitted to the FSC.</p>	<p>Completed</p>