

## **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, 2018 to December 31, 2018, 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 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

Chief Auditor: Hans Tzou

Legal Compliance Officer: Brian Huang

Dated: March 25, 2019

## Plan for improving internal controls as of end-2018

Area for improvement	Details	Estimated time of completion
<b>KGI Bank (subsidiary)</b>		
<p><b>FSC Letter Jin-Guan-Yin-Kong-Zi No. 10701079800 on June 27, 2018</b></p> <p>When conducting forex trading business, KGI Bank was found to have failed to establish or execute risk management and internal control systems on multiple occasions, which was in violation with paragraph 1 of Article 45-1 of the Banking Act and might interfere with healthy operations of the bank. Pursuant to subparagraph 7 of Article 129, KGI Bank was fined NT\$8mn and pursuant to subparagraphs 2, 3, and 5 of paragraph 1 of Article 61-1 of the Banking Act. As of the date on which the punishment took effect, KGI Bank will be temporarily banned from conducting financial transactions outside of daytime trading sessions for three months, not including serving existing clients' needs for short-covering or hedging transactions. KGI Bank will be allowed to reinstate the business after its improvements have been recognized by the FSC. In addition, KGI Bank has been ordered to dismiss trader Ke from the current position and suspend Vice Present Huang from manning the job for three months.</p>	<p>KGI Bank has fully reviewed the appropriateness of the transaction authorization quotas for financial transactions and strengthened the internal control risk management and control procedures for foreign exchange transactions.</p>	<p>Completed</p>
<p><b>FSC Letter Jin-Guan-Yin-Kong-Zi No. 10600312910 on August 29, 2018</b></p> <p>KGI Bank conducted HR operations regarding managers doubling in other positions and anti-money-laundering operations in a manner that is inappropriate, causing risks to the health of operations of KGI Bank. Pursuant to Paragraph 1, Article 61-1 of the Banking Act, the Company was issued an order of correction.</p>	<p>KGI Bank has strengthened control of HR operations in several aspects, as explained in the note section of the submitted data. Regarding the flaws found in anti-money-laundering operations, we have conducted across-the-board reviews and improvements, which were all checked and confirmed by the FSC as of July 2018.</p>	<p>Completed.</p>
<p><b>FSC Letter Jin-Guan-Yin-Kong-Zi No. 10702017700 on August 31, 2018</b></p> <p>As KGI Bank's subsidiary, CDC Finance &amp; Leasing Corporation has handled the financing project for Ting Sing Group in a manner involving multiple errors, which represents a lack of sufficient supervision and management of its subsidiary on the part of KGI Bank and is found to present risks to the health of operations of KGI Bank. Pursuant to Paragraph 1, Article 61-1 of the Banking Act, the Company was issued an order of correction.</p>	<p>KGI Bank has assisted subsidiary CDC Finance &amp; Leasing Corporation in examining its business flows and regulations and has finished amending the related charters accordingly.</p>	<p>Completed.</p>

Area for improvement	Details	Estimated time of completion
<p>The Taipei City Government and other agencies have conducted labor inspections on KGI Bank and found the following punishable violations:</p> <p>(1) Shift differential was not included as the basis for overtime pay calculation</p> <p>(2) The extension of working hours for laborers and night-time work for female workers was not been approved by the union in advance.</p> <p>(3) Laborers working for over four consecutive hours are not given rest for 30 minutes.</p>	<p>KGI Bank has included the Shift differential as the basis for overtime pay calculation and strengthened the regulations of the Labor Standards Law. KGI Bank has continued to communicate with the union on the matters of extending working hours and assigning nighttime work to female workers.</p>	<p>KGI has continued to communicate with the union on the matter of extending working hours and assigning nighttime work to female workers. Other improvements have been completed.</p>
<p>Improvements to be made for KGI Bank regarding the prevention of money laundering and combating information terrorism from the internal control and execution points of view:</p> <p>(1) The scope of regularly executed batch scans fails to include de facto beneficiaries and high-level managers in the name-checking process.</p> <p>(2) Regarding operations of collecting accounts receivable in trade finance, KGI Bank failed to execute the namecheck mechanism on trading partners who were not KGI Bank clients during the establishment of business in 1H18.</p>	<p>(1) Regarding the matter that the scope of regular batch scans should include de factor beneficiaries and high-level managers, we have discussed with system companies about the possibility of adding new methods of scanning.</p> <p>(2) To more effectively conduct the monitoring operations for anti-money-laundering purposes, we have, since July 2018, begun to execute the namecheck mechanism on trading partners who are not KGI Bank clients.</p>	<p>(1) To be completed by end of June 2019</p> <p>(2) Completed.</p>