

## **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 Implementation Rules of Internal Control and Audit Systems of Financial Holding Companies and Banking Industry, from January 1, 2019 to December 31, 2019, the Company established an internal control system, performed risk management, and was audited by an detached 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 as an integral part of the Company's annual report and prospectus, and shall be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

To:

Financial Supervisory Commission, R.O.C

Stated by

Chairman: Chia-Juch Chang

President: Daw-Yi Hsu

Chief Auditor: Hans Tzou

Compliance Officer: Te En Chan

Dated: March 30, 2020

## Plan for improving internal controls as of end-2019

Area for improvement	Details	Estimated time of completion
<b>KGI Bank</b>		
Violated items of Taipei City Government labor inspection 1. Workers extended working hours and female workers work at night without union consent 2. Workers were not paid for extended working hours 3. Workers' normal working hours and extended working hours totalled 13.5 hours per day	KGI Bank has obtained the union's agreement to extend working hours on June 13, 2019, and has strengthened the promotion of the relevant provisions of the Labor Standards Law.	Completed
Need to optimize the warning function of Anti-Money laundering/countering the financing of terrorism system: “A large number of customer registrations at the same address, frequent changes of occupants, or the address is not the real residential address”	The manufacturer and the Information Technology Dept. have been engaged to correct the program.	To be completed by March 2020
<b>China Life</b>		
When assessing risks of Anti-Money laundering/ financing of terrorism for clients' new insurance contracts, the calculation system was not set properly and caused underestimation of the clients' risk rating. It is not conducive to implementation for high-risk customers, should strengthen the review operation	The setting of risk scoring system has been adjusted for new contracts.	Completed
For customers who are at high Anti-Money laundering risk, China Life does not actually understand the source of their funding.	The Reviewing Table of high-risk customers has been adjusted.	Completed
When policyholder is the owner or employee of a legal person, China Life does not check i authorizeation, sources for premium payment, and related records	Revised the specifications and strengthen the control and evaluation mechanism for legal-person policyholders.	Completed
When BOD discussed the cases which has conflict interest with directors, the directors did not recuse from voting. The cases also did not provide evidence that the terms were not better than otherss, and relevant facts related to the transaction were not include in the board meeting minutes.	Revised the specifications and strengthen the inspection mechanism.	Completed
The prevention of conflicts of interest for equity investment was not declared on time.	Revised the application checklist, strengthen the checkup mechanism.	Completed
OIU did not properly verify the suspicious lists when assessing Anti-Money laundering.	Revised the specification and review form of the operation manual, and strengthen the process of identity confirmation.	Completed
The IT system is not designed properly to identify and evaluate customers' money laundering and terror risk risks, which is detrimental to the control of money laundering risks.	Revised the assessment of customer risk factors for online insurance.	Completed