

## **Statement on Internal Control System of China Development Financial Holding Corporation**

We hereby state 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, 2020, 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 in 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: Stefano Paolo Bertamini

Chief Auditor: Hans Tzou

Compliance Officer: Te En Chan

Dated: March 32, 2021

**China Development Financial Holding Corporation**  
**Plan for Improving the Internal Control System**  
(As of December 31, 2020)

Area of Improvement	Action Taken	Estimated time of completion
<b>KGI Bank</b>		
1. Punishments by the competent authority (1) According to the Letter Jin-Guan-Zheng-Shen-Zi No. 1090339171 issued by the Financial Supervisory Commission (FSC) on April 15, 2020, KGI Bank failed to report the change of the Principal Accounting Officer in accordance with Subparagraph 1, Paragraph 1, Article 9 of the Regulations Governing the Qualification Requirements and Professional Development of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges, which required rectification.	KGI Bank has held training to increase employee awareness of relevant laws and regulations. KGI Bank has also created a self-evaluation checklist to monitor compliance at least once every six months.	Completed.
(2) According to the Letter Jin-Guan-Bao-Shou-Zi No. 1090491902D issued by the FSC on May 19, 2020, when engaging in insurance brokerage, KGI Bank failed to complete the salesperson report with the correct premiums for policyholders who applied to purchase policies through policy loans, which violated Paragraphs 4 and 8, Article 163 of the Insurance Act and Subparagraph 23, Article 49 of the Regulations Governing Insurance Brokers. The FSC required rectification within one month and imposed a fine of NT\$600,000.	KGI Bank has improved its monitoring of operating procedures for selling insurance policies, including setting up a system for audits.	Completed.
(3) According to the Letter Jin-Guan-Yin-Kong-Zi No. 10902297361 issued by the FSC on December 23, 2020, the former Financial Advisor from Fengcheng Branch, KGI Bank misappropriated customers' money, which caused harm to the operation of KGI Bank. The FSC required ratification in accordance with Paragraph 1, Article 61-1 of the Banking Act.	1. KGI Bank has set up a mechanism for reviewing the outward remittances requested at the counter. 2. KGI Bank will consolidate monitoring reports on accounts in association with financial advisors.	1. Completed. 2. To be completed by March 2021.
(4) According to the Letter Bei-Shi-Lao-Dong-Zi No. 10960674861 issued by the Department of Labor, Taipei City Government on November 6, 2020, the employees of KGI Bank were not paid for extended working hours. A fine of NT\$320,000 was imposed accordingly.	1. Such employees have been paid for extended working hours or given compensatory leave. KGI Bank also held training to increase the employees' awareness of relevant laws and regulations. 2. KGI Bank will set up a process for verifying extended working hours.	1. Completed. 2. To be completed by April 2021.
2. Areas of improvement in the internal control system KGI Bank failed to report loans secured to stakeholders to the Board of Directors for review and approval.	1. KGI Bank has set up a process for reviewing the approval of loans to stakeholders in addition to improving the post-loan management system.	1. Completed.

Area of Improvement	Action Taken	Estimated time of completion
	2. KGI Bank plans to enhance the functions of the post-loan management system step by step, which is to be completed by June 2021.	2. To be completed by June 2021.
<p>3. The "Statement on Internal Control System of Anti-Money Laundering and Counter Terrorism Financing" for 2020</p> <p>When customers applied to open deposit accounts online, KGI Bank failed to take enhanced security measures fully protect against high risks, such as understanding customers' sources of funds.</p>	When engaging in e-deposit business, KGI Bank will undertake enhanced measures to understand customers' sources of funds.	To be completed by June 2021.
<b>KGI Securities</b>		
<p>In the audit carried out at XX Branch from August 2020 to October 2020, the Taiwan Stock Exchange, Taiwan Futures Exchange, and Financial Examination Bureau identified the following deficiencies, indicating that KGI Securities did not have a well-designed internal control system, failed to implement the internal control system, and did not fulfill its responsibility for supervising and managing its executives and salespersons.</p> <p>1. The former broker XX Lai (Lai), from XX Branch, was found in violation of the following:</p> <p>(1) In 2018, Lai solicited the fund subscription and guaranteed profits to customers.</p> <p>(2) In 2019 and 2020, Lai agreed to trade in futures on the behalf of XX Wu, XX Weng, XX Li, XX Hsiao, and other customers. Lai asked them to provide funds to trade in futures using his insider account.</p> <p>(3) From January 1, 2018 to September 30, 2020, Lai had financial dealings with futures traders XX Huang, XX Tsai, and XX Ho.</p> <p>(4) When engaging in electronic futures trading at the office, Lai made 6 transactions in 5 days without using an intranet IP address.</p> <p>2. KGI Securities and its executives failed to put the internal control system into practice.</p> <p>3. KGI Securities did not have a well-designed internal control system or the ability to implement it correctly.</p>	<p>1. On November 24, 2020, KGI Securities drafted and issued "Notice of Insider Account and Trading Control for Brokers." In addition to taking relevant control measures, KGI Securities now reviews the balances of employees' personal accounts and relevant insider accounts on a monthly basis. An amendment to the above notice was made on January 8, 2021, increasing control over the concentration of transactions by brokers.</p> <p>2. On December 30, 2020, KGI Securities required that executives at each branch take enhanced control measures for their employees' operations and behaviors in order to prevent unethical behavior.</p> <p>3. KGI Securities reiterated that employees comply with the code of conduct, and has asked them to sign in acknowledgement.</p> <p>4. In Q3 2020, KGI Securities revised the questions asked in customer interviews in order to understand whether customers lent money to brokers, applied for discretionary investments, or</p>	Completed.

Area of Improvement	Action Taken	Estimated time of completion
	<p>remitted funds or securities settlement payments to brokers' accounts, etc.</p> <p>5. Beginning November 27, 2020 supervisors at all levels were required to check insider transactions in order to understand why they occur, and provide audit details and results on appropriate forms.</p> <p>6. On October 13, 2020, KGI Securities reiterated to each branch that employees must only engage in electronic trading at the office and using the intranet IP in accordance with all regulations.</p>	
<b>China Life</b>		
<p>1. When handling applications solicited by insurance brokers, China Life neither asked said insurance brokers to verify the applicants' documents before submission nor was there a process for insurance brokers to confirm whether they verified applicants' documents.</p>	<p>1. China Life has set up a process for insurance brokers to verify applications before submission.</p>	<p>Completed.</p>
<p>2. When selling investment-linked insurance policies to customers aged 70 and above, China Life only explained the policies to customers verbatim, based on the template; China Life also failed to explain relevant investment risks according to the characteristics of the linked investments.</p>	<p>2. China Life has adjusted the sales script template used for selling investment-linked insurance policies, in accordance with the characteristics of the investments.</p>	<p>Completed.</p>