

# **KGI Financial Holding Corporation**

**(Formerly known as: China Development Financial Holding Co., Ltd.)**

## **Statement on Internal Control System**

We hereby declare on behalf of KGI Financial Holding Corporation (the “Company”) that, in accordance with the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries, the Company has, from January 1, 2024 to December 31, 2024, established an internal control system, conducted risk management, and been audited by a detached and independent internal audit department, which regularly reports to the Board of Directors and the Audit Committee. After careful evaluation, the internal control and regulatory compliance of each unit for the current year have been effectively and properly implemented, except for the matters listed in the attachment. This statement constitutes an integral part of the Company’s annual report and prospectus, and will be made public. If any of the information disclosed above contains misrepresentations, concealment, or other illegal matters, legal liabilities will be incurred in accordance with Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

Respectfully submitted to

Financial Supervisory Commission

Stated by

Chairman: (Signature and Seal)

General Manager: (Signature and Seal)

Chief Auditor: (Signature and Seal)

Chief Compliance Officer: (Signature and Seal)

March 24, 2025

# KGI Financial Holding Corporation

(Formerly known as: China Development Financial Holding Co., Ltd.)

## Matters for Improvement in the Internal Control System and the Improvement Plan

(Record Date: December 31, 2024)

Matters for improvement	Rectification measures	Estimated time of rectification
<b>Subsidiary - KGI Bank Co., Ltd. (“KGI Bank”)</b>		
According to Financial Supervisory Commission (FSC)’s letter Jin-Guan-Yin-Kong-Zi No. 11302124011, dated July 17, 2024, the deficiencies arising from the failure of KGI Bank’s staff to handle issues related to the operational environment application systems in accordance with internal regulations are deemed to pose a potential threat to sound business operations. In accordance with Paragraph 1 of Article 61-1 of the Banking Act, a corrective action is hereby warranted.	<ol style="list-style-type: none"><li>1. The inventory and review of the usage of the application system's backend management interface have been completed.</li><li>2. Internal promotion and training have been conducted to strengthen employees' understanding of information security and regulatory compliance, and to ensure the effective implementation of information security management.</li></ol>	All have been rectified.
Through KGI Bank’s internal monitoring and reporting mechanisms, a case has been identified in which a branch financial advisor had misappropriated funds from a client’s account.	<ol style="list-style-type: none"><li>1. KGI Bank has conducted employee code of conduct training for all financial advisors and distributed the Prohibited Conduct Guidelines to clients.</li><li>2. KGI Bank has added verification items to its risk audit framework to strengthen the review mechanism for interactions between financial advisors and clients.</li></ol>	All have been rectified.  The system has been successfully launched on February 1, 2025. (All have been rectified.)
Matters for improvement related to KGI Bank’s implementation of the AML/CFT internal control system: A review revealed that one of the transaction monitoring programs	Due to the incomplete application of monitoring period settings	The correction of the transaction monitoring

Matters for improvement	Rectification measures	Estimated time of rectification
had a misconfiguration in the system's monitoring period settings based on customer segmentation, which led to irregular generation of suspicious transaction alerts.	based on customer segmentation, the transaction monitoring program did not generate alerts as intended. The program will be revised to accurately reflect the monitoring period settings for each customer group.	program and the configuration of customer segmentation-based monitoring period settings were completed on January 10, 2025. As a result, suspicious transaction alerts were accurately generated on January 24, 2025. (All have been rectified.)
<b>Subsidiary - KGI Securities Co. Ltd. ("KGI Securities")</b>		
On May 2-3, 2024, the Taiwan Stock Exchange ("TWSE") conducted an examination of the Miaoli Branch and found the manager, Mr. Chen, had engaged in misconduct including safekeeping clients' seals and passbooks, executing securities transactions on behalf of clients, and acting as an intermediary in loan arrangements between clients. The aforementioned misconduct constitutes violations of securities regulations. The TWSE has requested the company to rectify these issues, imposed a penalty of NT\$60,000, and suspended the manager from performing duties for six months. The FSC further imposed corrective measures on KGI Securities, including a fine of NT\$480,000 and a two-month suspension of the manager's business activities.	<ol style="list-style-type: none"> <li>1. KGI Securities has conducted training sessions for all managers and sales personnel to reinforce awareness of the prohibited conduct outlined in Article 18 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms. Employees were reminded of the behaviors strictly forbidden for securities professionals and were instructed to comply with the regulations.</li> <li>2. The reminder emails have been sent to clients outlining key points regarding their rights and protections, specifically emphasizing the types of conduct that are prohibited for sales personnel, in order to prevent any potential harm to clients' rights and interests.</li> <li>3. KGI Securities has reiterated that personnel are strictly prohibited from advancing settlement funds on behalf of clients or safekeeping clients' seals or passbooks.</li> </ol>	All have been rectified.

Matters for improvement	Rectification measures	Estimated time of rectification
	4. Disciplinary actions have been taken against the branch manager and the regional supervisor involved in the case of misconduct.	
<p>Financial Examination Bureau conducted targeted examination of the Station Front Branch from September 26 to October 5, 2023, and the Gangshan Branch from October 11 to October 18, 2023. The examinations identified several deficiencies, which were found to be in violation of Paragraph 2, Article 2 of the Regulations Governing Securities Firms. KGI Securities was ordered to undertake corrective actions and was fined NT\$300,000.</p> <p>1. The Station Front Branch accepted a telephone order from senior clients to purchase foreign securities rated below BBB but failed to disclose the associated investment risks at the time of the transaction. This constitutes a violation of Article 23-1 of the Regulations Governing the Brokerage Trading of Foreign Securities by Securities Firms of Taiwan Securities Association.</p> <p>2. The Gangshan Branch conducted conflict-of-interest checks for transactions involving internal personnel and clients trading the same securities in the same direction within a five-minute window. However, the order-taking personnel were not included in the scope of the review, which constitutes a</p>	<p>1. The procedures for accepting client orders to purchase foreign securities via telephone have been communicated. Specifically, sample telephone scripts for sales personnel clearly indicate the requirement to explain the credit rating of the bond and to confirm that the client understands the associated credit risk. Risk disclosures must be provided, and the call recordings retained accordingly. Additionally, further emphasis has been placed on ensuring that, when accepting telephone orders to purchase foreign securities with credit ratings below BBB, sales personnel must explain the credit rating of the securities to the client and disclose the investment risks, in order to ensure financial consumer protection.</p> <p>2. The responsible employee has resigned. KGI Securities has expanded the scope of conflict-of-interest checks to include all internal personnel who are authorized to access to client trading details.</p>	All have been rectified

<b>Matters for improvement</b>	<b>Rectification measures</b>	<b>Estimated time of rectification</b>
violation of the internal control system CA-11210, Section (6) on brokerage and execution operations.		
On May 13-14, 2024, the TWSE conducted an examination of the Gaomei Branch and found that Mr. Kao, a securities broker, had engaged in misconduct including accepting securities transactions from unauthorized client representatives without a power of attorney, acting as a lender or intermediary in client loan arrangements, safekeeping client seals and passbooks, and determining stock sale prices and quantities on behalf of clients. The branch manager, Mr. Kuo, was found to have failed in supervisory responsibilities regarding this misconduct, which constitute breaches of securities regulations. The TWSE sent a letter requesting KGI Securities to take corrective actions, imposed a penalty of NT\$60,000, suspended Mr. Kao from performing his duties for six months and issued a warning to the manager, Mr. Kuo. The FSC further imposed corrective measures, including a fine of NT\$600,000 and a six-month suspension of Mr. Kao from business activities.	<ol style="list-style-type: none"> <li>1. The client has provided a valid power of attorney to authorize the representative for securities trading.</li> <li>2. Sales personnel have been reminded to comply with Article 18 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms, as well as other applicable laws and regulations.</li> <li>3. In accordance with the official letter, disciplinary actions have been taken against the responsible sales personnel and the branch manager involved in the case.</li> </ol>	All have been rectified
<b>Subsidiary - KGI Life Insurance Co., Ltd. ("KGI Life")</b>		
1. KGI Life transmitted customer consent data for joint marketing to the financial holding company's consent platform. The transmitted data includes nine items from the "Customer Data Usage Consent Form":	1. Previously transmitted data to the financial holding company was deleted. Going forward, the use of customer data for joint marketing between the financial holding company and its subsidiaries will only include personal information	1. All have been rectified.

Matters for improvement	Rectification measures	Estimated time of rectification
<p>the name of the consenting party, ID number, joint marketing consent record, data sharing consent record, consent effective date, personnel who obtained the consent, channel name, channel code, and consent form version. However, it included and uploaded ID numbers of customers who either did not agree or left the consent form blank to the financial holding company's consent platform.</p> <p>2. The system used for assessing the suitability of investment-linked insurance products includes a verification mechanism for inconsistencies in policyholders' risk profiles within a short period. However, the system's verification rules only compare policies with statuses of "under review" or "contract modification" that have differing investment risk attributes. The system therefore does not detect short-term increases in a policyholder's risk profile if the previous policy has already been finalized and thus is excluded from the verification scope. For example, if a policyholder purchases two policies within one month with differing risk profile questionnaire results, and the second policy's risk profile is higher than the first, the system fails to identify this. Additionally, for policyholders who indicate limited financial product</p>	<p>from customers who have explicitly given consent.</p> <p>2. To strengthen the control mechanism for changes in policyholders' risk profiles, the system will restrict any changes within one year after the completion of a risk profile assessment.</p>	<p>2. All have been rectified.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>investment experience and low risk tolerance in the “Investment-Linked Insurance Product Customer Suitability and Important Matters Confirmation and Investment Orientation Analysis Questionnaire”, KGI Life did not reconfirm their actual risk capacity nor conduct a comprehensive assessment of product suitability.</p> <p>3. The process of issuing electronic documents did not fully comply with the verification mechanism required by the FSC’s letter Jin-Guan-Bao-Shou-Zi No. 10804358672 dated November 8, 2019. Documents were sent to the same email address without proactively confirming or contacting the policyholders. It was only during the inspection period that it was discovered the email addresses belonged to the insurance solicitors.</p> <p>[FSC imposed an administrative fine of NT\$2.9 million on June 12, 2024.]</p>	<p>3. The system identifies cases where a policyholder’s email address for receiving electronic documents matches that of an insurance agent. In such cases, the policyholder is notified via written notice and SMS to update their email address. If the update is not completed, a follow-up phone call is made. Until the update is made, the issuance of electronic documents is suspended, and all related notifications are sent in paper form instead.</p>	<p>3. All have been rectified.</p>
<p>1. In July 2018, the customer, designating their minor child as both the policyholder and the insured, purchased an insurance policy issued by KGI Life through, Han, an insurance agent of KGI Insurance Brokers Co., Ltd. (“KGI Insurance Brokers”). Subsequently, in October 2018, Han submitted a policy amendment form to process a change of the policyholder of</p>	<p>1. KGI Life issued an official letter to KGI Insurance Brokers for a negative annual performance rating, suspended the responsible agent from selling its products for one year, and requested litigation cost reimbursement. In the future, if there is evidence in dispute cases arising from the bank channel and KGI Life determines that there are clear facts indicating</p>	<p>1. All have been rectified.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>the insurance contract.</p> <p>2. In July 2019, the customer filed a complaint with KGI Life and subsequently, on February 15, 2023, submitted supporting evidence requesting the cancellation of the policyholder change. However, KGI Life did not reinstate the original policyholder until after the civil litigation concerning the case was concluded by a final judgment on June 27, 2023, in accordance with the court's decision.</p> <p>3. KGI Life failed to properly manage its business dealings with the insurance broker during the solicitation and policyholder change process, and did not adequately protect the rights of financial consumers.</p> <p>[FSC imposed an administrative fine of NT\$1.8 million on December 23, 2024.]</p>	<p>a violation of Article 6 of the Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises, KGI Life will include the relevant channel in the annual negative performance evaluation, require appropriate action against the involved agent, and implement necessary corrective measures.</p> <p>2. From January 2025, major complaint cases involving KGI Insurance Brokers and other group channels have been included as regular discussion items in monthly meetings held by the bank channel management unit, in order to resolve disputes early and prevent similar cases from recurring.</p> <p>3. KGI Life revised its Customer Rights Protection Department Manual to specify that if a complaint case is also under litigation and KGI Life becomes aware of or obtains evidence that may significantly impact the case, or if there is a potential violation of Article 20 of the Financial Consumer Protection Act or the fair treatment principles for financial services, the case will be classified as a major complaint/dispute and submitted to the Policyholder Complaint Committee for discussion.</p>	<p>2. All have been rectified.</p> <p>3. All have been rectified.</p>