

China Development Financial Holding Corporation

Statement on Internal Control System

We hereby declare, on behalf of China Development Financial Holding Corporation (“Company”), that, in accordance with the Implementation Rules of Internal Control and Audit Systems of Financial Holding Companies and Banking Industry, from January 1, 2022 to December 31, 2022, the Company established an internal control system, performed risk management and conducted audits by an impartial and independent audit department which regularly reports to the Board of Directors and the Audit Committee. After 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 will become a part of the Company’s annual report and prospectus, and 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 liabilities.

To:

Financial Supervisory Commission

Stated by

Chairman: Su Kuo Huang

President: Stefano Paolo Bertamini

Chief Auditor: Hans Tzou

Compliance Officer: Marisol Wang

Dated: March 27, 2023

China Development Financial Holding Corporation

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Matters for Improvement and Rectification Plan of the Internal Control System

(As of December 31, 2022)

Matters for improvement	Rectification measures	Estimated time of rectification
China Development Financial Holding Corporation ("CDF")		
<p>Financial Supervisory Commission Letter Jing-Guan-Ying-Kong-Zi No. 11102180331 and Decision No. 11102180332 dated August 2, 2022</p> <p>The inadequate corporate governance and ineffective operation of internal controls of CDF and its related subsidiaries are considered to be in violation of Article 51 of the Financial Holding Company Act and may hinder sound operations. A fine of NT\$20 million was imposed and corrections were ordered after review. The President's monthly salary was reduced by 30% for a period of 3 months, and the chairperson was suspended from his duties for 6 months.</p>	<p>I. Relevant personnel, who should be held responsible, have resigned from their related position in CDF or have been placed on leave without pay. In addition, the responsibilities of relevant personnel have been reviewed and negligent personnel have been punished.</p> <p>II. CDF has established regulations requiring its personnel to report their personal concurrent posts outside of CDF, and there must be no conflict of interest or matters violating the internal controls.</p> <p>III. The Audit Department has formulated systematic improvement measures and submitted them to the Board of Directors.</p> <p>IV. CDF's "Corporate Governance Best Practice Principles" has been revised by adding communication mechanisms between CDF and shareholders who have control over CDF.</p> <p>V. CDF has strengthened personnel education, training, and education promotion.</p>	<p>All have been rectified.</p>
Subsidiary - KGI Bank Co., Ltd. ("KGI Bank")		
<p>I. According to the Financial Supervisory Commission Letter Jing-Guan-Ying-Kong-Zi No. 11001483691 dated May 5, 2022, ○○ Chang, former operations manager of KGI Bank Beimen Branch, misappropriated customer funds, and ○○ Wu, former financing specialist of KGI Bank Jiguang Branch, had abnormal dealings with customers, which violated Paragraph 1, Article 45-1 of the Banking Act. According to Item 7, Article 129 of the Banking Act, a fine of NT\$6 million was imposed.</p>	<p>(I) In order to strengthen the account review mechanisms for customers and employees, monitoring reports have been added, and an independent unit have been dedicated to handle account review and telephone calls to customers.</p> <p>(II) In addition, to enhance the implementation of the dual identity confirmation mechanism for customers at the counter, starting from July 22, 2022, a second counter clerk is required to verify the customer ID and enter the system password in the transaction system.</p>	<p>All have been rectified.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>II. According to the Financial Supervisory Commission Letter Jing-Guan-Ying-Kong-Zi No. 11102222831 dated October 11, 2022, ○○ Guo, teller of the Commercial Finance Department of KGI Bank's Commercial Finance Center in Jianan District, violated the rules of retaining the account books and seals on behalf of customers. Corrective measures shall be taken according to Paragraph 1, Article 61-1 of the Banking Act.</p>	<p>(I) Strengthen personnel education and training. (II) Self-review mechanisms were introduced in September 2022 to prevent the re-occurrence of personnel retaining customer account books and seals.</p>	<p>All have been rectified.</p>
<p>III. Implementation of Anti-Money Laundering and Countering the Financing of Terrorism for 2022 (I) After the spot checks of account opening operations in 2022, it was found that the AML system did not produce customer risk ratings for 3 customers when they established business relationships with KGI Bank.</p>	<p>According to the results of the follow-up inspections, all customers who established new business relationships with KGI Bank in 2022 had risk ratings. In addition, the new module of the AML system under development of KGI Bank adopts a different risk rating program, which will be monitored by a responsible unit to ensure effective output results.</p>	<p>All have been rectified.</p>
<p>(II) After the spot checks of suspicious transactions in 2022, 1 case that triggered the suspicious transaction warning was found. There was a delay in delivery for processing and case closure.</p>	<p>The newly developed "Case Management Module" of KGI Bank's AML system was launched on June 25, 2022, which has been able to avoid the negligence in the submission of transaction warning cases.</p>	<p>All have been rectified.</p>
<p>Subsidiary - KGI Securities Co. Ltd. ("KGI Securities")</p>		
<p>From April 12 to April 21, 2021, the Financial Examination Bureau, Financial Supervisory Commission, conducted a special inspection on KGI Securities' control mechanism for accepting orders entrusted by institutional customers, and found the following deficiencies. It was concluded that KGI Securities did not implement the internal control system, which is in violation of Paragraph 2, Article 2 of the Rules for the Administration of Securities Dealers. Corrections have been ordered and a fine of NT\$240,000 has been imposed on KGI Securities.</p>		<p>All have been rectified.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>I. The customer connected to the Taiwan Stock Exchange server to place orders without applying for approval.</p> <p>II. The customer IP address for placing an order was not recorded correctly.</p> <p>III. The explanation and relevant supporting documentation regarding whether the transaction conditions of applying for a brokerage fee rate discount for a subsidiary were not better than those of other similar parties were not verified and retained, and KGI Securities' audit unit did not implement the self-inspection procedure.</p> <p>IV. Suggested stock target information was sent to professional institutional investors without clearly informing or stating the information as predictive in nature.</p> <p>V. The entrusted trading personnel and those responsible for knowing the customer's trading details were not included in the subjects for audit.</p> <p>VI. The identity of the person authorized to place orders for buying and selling securities on behalf of corporate clients was not confirmed, and no record was kept.</p>	<p>I. KGI Securities has requested that if customers require the use of server co-location services in the future, the business unit must confirm the customer's conditions and complete the application procedure before allowing the use of subsequent connection authorization operations.</p> <p>II. The related system program has been modified and launched on January 7, 2022, to accurately record the IP address of customer orders.</p> <p>III. Regarding applications for commission rate discounts for related parties, the handling personnel and approving supervisors will thoroughly examine the form, explain whether the transaction conditions are not better than those of other similar parties, and retain relevant supporting documentation. Since February 2020, self-audit personnel are required to inspect the working papers and descriptions in the audit statement when auditing the processing fee income from stakeholder transactions related to Article 45 of the Financial Holding Company Act.</p> <p>IV. From May 3, 2021, employees no longer send unstated suggest stock target information to professional institutional investor clients.</p> <p>V. The system modifications were completed on August 2, 2021. The order receiving personnel and traders of the entrusted transaction unit were included in the audit subjects.</p> <p>VI. The customer completed the document supplementation on April 8, 2021, and in accordance with regulations, the account creation operation was completed on the same day in the backend system.</p>	

Matters for improvement	Rectification measures	Estimated time of rectification
<p>The Financial Supervisory Commission conducted a general inspection on KGI Securities from November 4 to November 29, 2021 and found the following deficiencies. It was concluded that KGI Securities did not implement the internal control system and violated the security management regulations. Corrections have been ordered and a fine of NT\$240,000 has been imposed on KGI Securities.</p> <p>I. Failure to check and control the retention of communication information for brokerage clients that were identical to those of internal personnel of the securities broker.</p> <p>II. The operation of entrusted trading of foreign securities was carried out without informing the client of the actual distribution service fees and annual rates charged by the counterparty.</p> <p>III. During the process for securities subscription through a quotation circle, the communication information retained in the customer's inquiry circle purchase order was the same as that of their employee. It was not verified whether any employee had used someone else's name to subscribe to be directly allocated.</p> <p>IV. Failure to verify whether applicants using the same network IP address for public subscription and distribution of company's stock initial public offering (IPO) or cash capital increase underwriting have used the names of others or impersonated others to apply for subscriptions and whether records are kept.</p> <p>V. Customer personal data was deleted without leaving any trace of the deletion operation, relevant evidence, and records.</p>	<p>I. Regular inspection mechanisms have been implemented at the end of September 2022.</p> <p>II. KGI Securities' actual distribution service fees and annual rates have been disclosed in the sales report for the client since May 25, 2022.</p> <p>III. KGI Securities added a new query item in the quotation circle purchase operation information system on May 16, 2022, which compares the email address of the purchase participant with the email address stored in the employee trading account. The verification records are retained to prevent employees from participating in underwriting quotation distribution in the name of others.</p> <p>IV. The review process for purchases from the same network IP was launched on October 5, 2022.</p> <p>V. The standard operating procedures for department data analysis were stipulated on January 22, 2022, and the procedures have been officially announced and implemented.</p>	<p>All have been rectified.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>From January 14 to February 11, 2022, the Financial Supervisory Commission conducted a general business inspection on CDF and found that KGI Securities had the following deficiencies, which violated corporate governance principles. It was concluded that KGI Securities failed to implement internal control systems, which affected securities business operations and was in violation of relevant securities regulations. KGI Securities was ordered to rectify the situation and was fined NT\$2.4 million. The audit committee was ordered to take necessary measures to address the inspection deficiencies and report on the implementation to the Board of Directors. The Chairperson's monthly salary was reduced by 20% for a period of 3 months, and the President was suspended from his duties for 6 months.</p> <p>I. Reporting or seeking approval from non-authorized personnel or individuals outside of the management hierarchy for financial or business-related data of the company.</p> <p>II. The operations related to employee cafeteria personnel's overseas business trips, expense reimbursement, and applications for official travel were not handled in accordance with the internal management regulations set by KGI Securities.</p> <p>III. Employees handled matters unrelated to their job or not belonging to KGI Securities, but the company bore the related expenses.</p> <p>IV. There are CDIB Capital employees who do not concurrently hold positions in KGI Securities but work in the company's Dazhi headquarters for a long time.</p>	<p>I. The "Code of Conduct" has been revised and certain positions/employees have signed the "Commitment Letter to the Corporate Governance System" to ensure compliance with the regulations.</p> <p>II. The promotion of confidentiality and integrity related regulations has been enhanced.</p> <p>III. A notice has been announced requiring responsible supervisors to implement the review of employee's overseas business trips, expense reimbursements, and business travel applications to effectively implement internal management mechanisms in compliance with regulations.</p> <p>IV. CDIB Capital has leased part of the space in the KGI Financial Building for the office use of relevant employees.</p> <p>V. The Audit Committee reported to the Board of Directors on December 16, 2022 regarding the implementation of the necessary measures taken after finding the deficiencies.</p>	<p>All have been rectified.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>Taiwan Stock Exchange conducted audits on KGI Securities on June 17, 23, and 30, 2022, and found the following deficiencies. KGI Securities was found to have violated relevant regulations and has been asked to make improvements.</p> <p>I. Some systems still use end-of-support (EOS) software.</p> <p>II. The firewall control rules were reviewed in the first quarter of 2022. However, the control rules for the firewalls have been set too loosely.</p>	<p>I. The operating system is being replaced and expected to be completed by March 31, 2023.</p> <p>II. The settings for the firewall controls need to be analyzed, tested, and accepted one by one. The adjustments are expected to be completed by March 31, 2023.</p>	<p>The improvements are expected to be completed by March 31, 2023.</p>
Subsidiary - China Life Insurance Co., Ltd. ("China Life")		
<p>I. Failed to confirm whether the insured and their legal representative have personally signed the insurance application form and whether the policyholder and the insured have related insurance interests.</p> <p>II. Failed to implement the confirmation of policy suitability for minors under the age of 15.</p> <p>III. Failed to fully explain and disclose to policyholders the important provisions in the policy related to the rights and interests of financial consumers.</p> <p>[The Financial Supervisory Commission imposed a fine of NT\$600,000 on February 25, 2022]</p>	<p>I. The internal regulations have been amended to clearly stipulate the handling of incomplete policy documents. The new regulations have been promoted. In addition, a new system check function has been added, which reminds the user to review the insured's signature and insurance interest relationship.</p> <p>II. The internal regulations have been amended and the new regulations have been promoted. The system function has also been optimized to evaluate whether the products are suitable for the policyholder's needs. Additionally, a system check function has been added to remind the reviewing insurance solicitors to declare in the solicitation report that the suitability has been assessed.</p> <p>III. The new version of the policy discloses that the travel insurance for minors under the age of 15 includes funeral expense coverage. In addition, the travel insurance documents and internal regulations have been revised and promoted to fully explain and disclose the content of important policy terms related to the rights and interests of financial consumers.</p>	<p>I. Improved.</p> <p>II. Improved.</p> <p>III. Improved.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>I. Failed to establish internal regulations regarding policy control, internal review procedures, and horizontal communication mechanisms when handling investigations into disputes involving allegations of embezzlement of insurance premiums by insurance solicitors based on complaints from policyholders. Multiple solicitation disputes occurred within a short period of time at the same location, and the lack of cross-departmental communication mechanisms resulted in the failure to inform the audit department to conduct analysis and verification in a timely manner, which was detrimental to the management of the insurance solicitors.</p>	<p>I. The procedures for handling major complaint cases and the levels of responsibility have been revised. China Life has also added the "Case Verification and Notification Operating Manual," which specifies the scope of case verification, administrative control notification, and case communication mechanisms. This is to facilitate effective control and management of case verification, processing, and implementation of horizontal communication mechanisms.</p>	<p>I. Improved.</p>
<p>II. There were cases where the creation of files was not completed for stakeholder transactions. When conducting large-scale paired trading of domestic stock and bond ETFs, the inquiry on whether the stakeholders were related parties was not carried out, resulting in failure to comply with legal procedures for inquiry on related parties.</p>	<p>II. The regular stakeholder survey format has been revised and warnings have been added. The frequency of the survey has been changed from every 6 months to every quarter. Additionally, operational procedures have been established regarding the inquiry of related parties prior to executing large-amount paired trading transactions for domestic stocks and bond ETFs.</p>	<p>II. Improved.</p>
<p>III. Failed to inform policyholders of the possibility of reinstating a lapsed policy during the application for policy reinstatement, adversely affecting consumer rights and interests.</p>	<p>III. System notifications have been implemented to remind the case officer that the customer has a policy that can be reinstated. Text reminders have been added to the relevant forms.</p>	<p>III. Improved.</p>
<p>IV. The handling of mobile insurance business, in which customer insurance information is stored in the mobile device through screenshots without establishing relevant preventive measures to avoid the risk of personal information leakage, is detrimental to consumer rights protection.</p>	<p>IV. A system detection function has been added and internal operation guidelines have been established to continuously monitor and understand the reasons for the storage of personal information in mobile devices and confirm the deletion of such information by the management units of each channel. In order to strengthen the control measures, the mobile insurance app has been updated to include a blackout feature for screenshots or videos, as well as a watermark on the usage page.</p>	<p>IV. Improved.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>V. When handling domestic equity trading, related personnel only provided a statement instead of reporting the information if they refuse to provide trading information on their spouses or minor children. In addition, the mobile phones of trading room personnel are not managed by a ledger outside the trading room, which is detrimental to the management of conflicts of interest. The access control management of the trading room was not included in the relevant regulations approved by the internal decision-making level. Some telephones in the trading room did not have recording functions. Access to the trading room was granted to non-trading personnel, and relevant control regulations for recording and video recording in the trading room were not established. These resulted in inadequate control over the trading room. The list of trading personnel provided to the securities firms includes non-trading personnel, and there are managers who serve as both trading room managers and traders for order placement. The time for traders to place orders was earlier than the time for managers to issue "daily trading recommendation forms", resulting in the unclear division of responsibilities between traders and equity investment managers.</p>	<p>V. The reporting procedures for domestic equity investment-related personnel have been adjusted, and a review mechanism for special cases and strengthened management measures have been established. In addition, control regulations related to audio and video recordings in the trading room have been added. The list of trading personnel in the brokerage trading room has been provided to ensure the division of responsibilities.</p>	<p>V. Improved.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>VI. There was a situation where a request was made by the investigative authorities to review policyholder insurance information in connection with suspected money laundering or corruption cases. However, the evaluation of policyholder policy information to identify potential money laundering or terrorism financing transactions and adjust money laundering risk level assessment was not conducted simultaneously. Errors in the basic information of the policyholder's occupation field, omissions in the self-built database of negative figures in the news, and inadequate logic for checking names and titles were found in the China Life's anti-money laundering and counter-terrorism financing operations, which have led to the inability to effectively identify the individuals.</p>	<p>VI. Regarding the section about adjusting the level of money laundering risk, the relevant guidelines have been amended. Regarding the correctness of data filing, a system verification mechanism has been established. Regarding the list filing omissions and review logic, an automated search tool has been established.</p>	<p>VI. Improved.</p>
<p>VII. The 2019 Financial Report, which was audited and certified by an accountant, was found to have not disclosed the expense allocation method in the notes as required by Paragraph 32, Article 15 of the "Insurance Industry Financial Report Preparation Standards" stipulated under Paragraph 3, Article 148-1 of the Insurance Act.</p>	<p>VII. Starting from the 2020 Financial Report, a verification mechanism for the newly added financial report disclosure items has been added. The expenses allocation method between China Life and the parent financial holding company has been disclosed in the notes of the 2020 Financial Report in accordance with the regulations.</p>	<p>VII. Improved.</p>
<p>VIII. There were incidents of insufficient and inadequate evaluation in the decision-making process for the new building for self-use project management consulting project, office floor interior design project, and employee cafeteria interior design project.</p>	<p>VIII. The "renovation decision-making procedures for new buildings for self-use" has been established, including the establishment of a project team and regular reporting of execution progress.</p>	<p>VIII. Improved.</p>
<p>IX. The underwriting process for persons with disabilities relied solely on the assessment of the reinsurance company to deny coverage without consulting a consulting physician to evaluate the physical and mental condition of the disabled, and to assess the appropriateness of the insurance product and the health status of the policyholder.</p>	<p>IX. The underwriting process for persons with disabilities has been incorporated into the underwriting processing system and procedures, and education and trainings have been organized.</p>	<p>IX. Improved.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>X. When handling the evaluation of the renewal of the contract of the funds entrusted to the Taiwan stock discretionary business, the evaluation process for the renewal of discretionary investment contracts was not included in the internal regulations.</p> <p>[The Financial Supervisory Commission imposed a fine of NT\$600,000 on February 25, 2022 and issued corrections for 9 items]</p>	<p>X. The renewal evaluation process has been added to “Fully Entrusted Capital Investment Procedures” in the internal regulations.</p>	<p>X. Improved.</p>
<p>I. The electronic commerce system (online insurance and insurance services) was not designed with adequate security and was not in compliance with the "Information Asset Protection Management Regulations", which resulted in the failure to implement effective control mechanisms for system security.</p> <p>II. There are inadequacies in the information security in the handling of insurance business:</p> <p>1. The employee learning website was improperly configured for external connections, mistakenly allowing external access to the website.</p>	<p>I. The security design of the electronic commerce system (online insurance application and online insurance service) has been improved through methods such as adopting hidden code display for the login password field and encrypted storage for important payment information.</p> <p>II.</p> <p>1. The overall improvements to the security management of the employee learning website have been completed, including system splitting, configuration checking, adding inspection points, and regular detection, etc.</p>	<p>I. Improved.</p> <p>II. The server security parameters setting and the improvement of the 7 vulnerabilities of the E-Secretary on the official website are expected to be completed by the end of December 2023 according to the improvement schedule. The remaining matters for improvement have been improved.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>2. Computer system security assessments have not been fully implemented.</p> <p>3. Deficiencies in handling the server security parameter setting operation.</p> <p>4. Deficiencies in handling account management operations on the server.</p> <p>5. The network architecture and server network segment configuration are lacking and are not conducive to ensuring connection security and preventing unauthorized system access.</p> <p>6. Deficiencies in firewall management operations.</p>	<p>2. Computer system security assessments have included relevant systems in the assessment scope in accordance with the regulations. The inadequacies of the computer system security assessment report and its suggested improvements have been tracked and managed by the Information Security Department.</p> <p>3. Relevant regulations and checklists have been revised, special access programs have been documented and managed, and regular evaluations of related connections and file transfers will be conducted. The E-Secretary of the official website does not support the sha256 algorithm because the version is too outdated. Improvements will be made at the same time as the EOS system upgrade plan, which is expected to be completed by the end of December 2023.</p> <p>4. Special server access accounts have been inventoried and reclaimed.</p> <p>5. The network architecture has been adjusted. Firewall access controls have been established between the equipment in the server area.</p> <p>6. Regulations related to the key principles for firewall inspections have been formulated, and the firewall rules have been adjusted.</p>	

Matters for improvement	Rectification measures	Estimated time of rectification
<p>7. Deficiencies in handling the vulnerability scanning and penetration testing operations.</p> <p>8. Deficiencies in handling the collection, monitoring, and management of network equipment and system logs.</p> <p>9. The vulnerabilities identified through the application code scanning were not addressed in a timely manner.</p> <p>10. Deficiencies in handling the personal data protection operations.</p> <p>11. The scope of the personal information management system (PIMS) implementation does not include the operations on mobile devices by salespeople when salespeople upload personal information (including biometric facial features) of policyholders to the company's server. This is not conducive to the implementation of the provisions of Subparagraph 5, Paragraph 2, Article 3 of the "Guidelines for the Identity Verification Process of Mobile Insurance Sales in the Life Insurance Industry".</p> <p>[The Financial Supervisory Commission imposed a fine of NT\$600,000 on February 25, 2022 and issued a correction for 1 item]</p>	<p>7. The majority of the vulnerabilities have been patched, and compensatory measures have been taken for the remaining 7 vulnerabilities caused by the old system or system environment limitations to reduce risks. The risk assessment has been completed, and vulnerability patching is expected to be completed by December 31, 2023.</p> <p>8. The operation environment and user acceptance testing (UAT) system servers have all been included in the log collection operation, and a monitoring alarm tracking mechanism has been established.</p> <p>9. The scanned vulnerabilities in the source code of the applications have been patched.</p> <p>10. Control mechanisms for laptops have been established and rented mailboxes for field staff are no longer provided.</p> <p>11. It has been included in the scope of PIMS introduction and the personal information inventory table has been adjusted.</p>	
<p>From October to November 2021, the distribution of payouts to travel accident insurance policyholders was conducted. However, there was a lack of proper handling of personal data, where the collected data was used for purposes beyond the specified scope.</p>	<p>The internal regulations have been revised, and a specific consent form for the use of personal data beyond the intended purpose has been added. Relevant personnel have also received education and training on personal data protection.</p>	<p>Improved.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
[The FSC imposed a fine of NT\$50,000 on April 1, 2022 and issued a deadline of 1 month for corrections]		
<p>I. Failure to comply with corporate governance principles and failure to effectively implement the internal control system: China Life failed to implement internal policies and procedures related to business operations, human resources, etc., which resulted in the inability to maintain the independence of business operations. As a result, there were significant inadequacies related to corporate governance and control of various business operations.</p>	<p>I.</p> <p>(I) The "Corporate Governance Guidelines" has been revised, and China Life will abide by relevant regulations, the "Corporate Governance Guidelines," the "Internal Control System," and related rules and regulations in the future. In addition, China Life will not provide any information related to its operations, business, finance, and personnel to unauthorized personnel without permission. Furthermore, China Life has already communicated to all employees the importance of adhering to the principles and regulations related to corporate governance and internal control. It has also prohibited the disclosure of business information to unauthorized personnel and emphasized the need to strictly adhere to the boundaries set by the firewall between different companies. Meanwhile, all personnel have completed "Review of Inadequacies Found in Financial Inspections" education and training.</p>	<p>I. The review and improvement measures of the principles of interactions with the FSC and the internal control operating mechanisms will be formulated after communicating with the competent authority.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>II. Failure to establish and effectively implement internal control procedures for real estate rental transactions: The company has not established and properly implemented internal control procedures for real estate leasing transactions. There are conflicts of interest in the leasing contract negotiation process with related parties, and the process is not documented or tracked. In addition, there are no established mechanisms for evaluation and analysis, reporting levels, and post-audit before, during, and after the process, which results in inadequate control over the use of funds and other business internal control systems.</p> <p>[The Financial Supervisory Commission imposed a fine of NT\$6 million on August 2, 2022 and issued a correction for 1 item. Starting from the day after the receipt of the decision letter, the monthly salary of the Chairperson will be reduced by 10% for a period of 3 months. Additionally, the monthly salary of the President will be reduced by 30% for a period of 3 months.</p>	<p>(II) The Chairperson, President, direct subordinate managers, and other relevant managers or personnel of China Life have signed commitment letters to abide by the relevant provisions stated in the letters. The review and improvement measures such as principles for interactions with financial holdings and internal control operating mechanisms will be formulated after communicating with the competent authority.</p> <p>II. Relevant control measures for real estate transactions have been established. In addition, the terms of the lease agreements have been reviewed and proposed changes have been submitted to the Board of Directors. Supplementary agreements with the tenants will be signed once they have been approved.</p>	<p>II. Improved.</p>
<p>I. The calculation instructions for the disputed product include a reference formula for the declared interest rate, which sets out S2. The explanatory paragraph states that it is defined as the cost of operating the asset account for this product, including the company's administrative expenses, profits, capital costs and adjustment items. However, upon investigation, the adjustment item is a concept of uncertainty, which considers market competitiveness and the stability of the declared interest rate, and there are no specific calculation factors listed. The adjustment item has no clear basis for determination.</p>	<p>I. Starting from August 2022, the calculation formula of the declared interest rate for submitted products (S2 formula for the cost of operating the segregated asset account of the product) has been adjusted to include explicit calculation items such as company administrative expenses, profits, and risk capital costs, and the concept of uncertain adjustment items has been eliminated.</p>	<p>I. The improvement measures have been submitted to the competent authority on November 28, 2022.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>II. The resolution of the April 2022 announcement rate meeting held by China Life on March 31, 2022 stated that "due to the successive interest rate hikes announced by the Fed and central banks in March..., we need to reflect the overall market rate increase and the potential continued impact in the future. Therefore, we suggest adjusting the announced rates of some products in April." The declared rate of "China Life Shin-Mei US Dollar Variable Interest Rate Life Insurance - Regular Payment Type" was increased by 0.1%, taking into account the future expectations of the US interest rate as the basis for the decision of the rate announced in April 2022.</p> <p>[On August 18, 2022, the FSC suspended the sale of the two products listed in the decision letter from the day following the delivery of decision letter]</p>	<p>II. Since the announcement of the interest rate adjustment in November 2022, the interest rate was not based on the market's expected interest rate trends. The announced rate for products within the same asset class were adjusted with a consistent standard for both current and discontinued products to adhere to the principle of fair treatment of customers.</p>	<p>II. The improvement measures have been submitted to the competent authority on November 28, 2022.</p>
<p>I. The insurance solicitors of China Life soliciting investment-type insurance products did not accurately fill out the source of the premium in the soliciting report. They also did not correct the mistake in a timely manner. The investigation of the mistake only began after the FSC inspection.</p> <p>II. Conducted telephone interviews before underwriting new contracts for customers who have taken out insurance policy loans or canceled policies within the first three months, and only asked customers about the contents of the insurance documents without confirming the source of insurance premiums or informing them of the possible loss of equity.</p> <p>III. During the sales process of investment-type insurance products, customers were not informed of the characteristics and investment risks of high-yield bond funds.</p> <p>[The FSC imposed a fine of NT\$2.4 million on September 7, 2022 and issued a correction for 1 item]</p>	<p>I. The system inspection function has been strengthened. The system will generate a code to notify the underwriter to conduct a case assessment and report to the responsible unit for investigation when the soliciting report is not filled in correctly.</p> <p>II. The inquiries of telephone interviews have been adjusted. If the customer informed that the source of the premium is a loan or policy loan, the information on the risks of financial leveraging will be provided to help customers understand the possible loss of equity.</p> <p>III. The script for the investment-type product sales process has been adjusted. Descriptions of the characteristics and investment risks of high-yield bond funds have been added.</p>	<p>I. Improved.</p> <p>II. Improved.</p> <p>III. Improved.</p>

Matters for improvement	Rectification measures	Estimated time of rectification
<p>China Life decided to change the management model for managing financial assets but failed to announce and report the change within two days from the date of occurrence.</p> <p>[The Financial Supervisory Commission imposed a fine of NT\$720 thousand on the responsible persons of China Life on December 20, 2022]</p>	<p>China Life has announced its decision to change the management model for managing financial assets, and a corrective announcement has been made at the request of the competent authority. In the future, similar cases will be reviewed to determine whether the matters are material information to be announced in accordance with the law.</p>	<p>Improved.</p>
Subsidiary CDIB Capital Group ("CDIB Capital Group")		
<p>Financial Supervisory Commission Letter Jing-Guan-Ying-Kong-Zi No. 11102180331 and Decision No. 11102180332 dated August 2, 2022</p> <p>The inadequate corporate governance and ineffective operation of internal controls of CDF and its related subsidiaries are considered to be in violation of Article 51 of the Financial Holding Company Act and may hinder sound operations.</p>	<p>I. Relevant personnel who should be held responsible have resigned from their related position in CDIB Capital Group or have been placed on leave without pay. In addition, the responsibilities of relevant personnel have been reviewed and negligent personnel have been punished.</p> <p>II. CDIB Capital Group has established regulations requiring its personnel to report their personal concurrent posts, and there must be no conflict of interest or matters violating the internal controls.</p> <p>III. CDIB Capital Group has strengthened personnel education, training, and education promotion.</p>	<p>All have been rectified.</p>