OVERVIEW

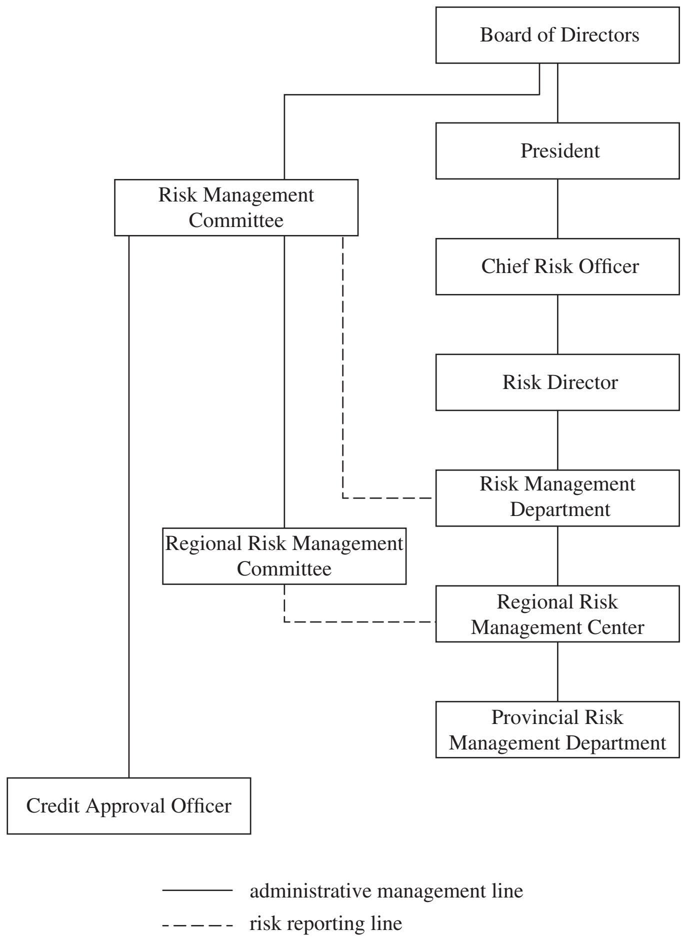
As a financial services provider serving various industry sectors, we face a variety of risks, including credit risk, operational risk, legal and compliance risk, and liquidity risk, with credit risk being our principal risk. We recognize the importance of an effective risk management system for identifying, managing and mitigating these risks. We have developed a risk management system tailored to the characteristics of each of our business lines, with a focus on managing the risks through comprehensive customer due diligence, independent information review and multi-level approval process. Meanwhile, we continue to monitor and review the operation and performance of our risk management system, and improve it from time to time to adapt to the changes in market conditions and regulatory environment as well as our product offering.

In particular, based on our extensive experience in serving the SME and microenterprise sector, we have developed our credit evaluation system, which is tailored to the characteristics of our business model and our risk assessment, to assist us in determining the creditworthiness of our customers. Our credit review process focuses on evaluating a borrower's ability and willingness to pay its financial obligations. It primarily involves the eight essential aspects, which we refer to as the "eight elements," namely, experience; reputation; wealth accumulation; team; market; finance performance; financing arrangement and future plan, in helping us form our judgment on the borrower's creditworthiness. See "— Credit Risk Management — Review and Approval — Review Elements." In addition, we believe that, particularly for SMEs and microenterprises, stability and continuity of business operations, and the ability and willingness to honor repayment obligations as they fall due, are closely related to the commitment and attitude of their controlling persons and management team. Therefore, our credit evaluation system also emphasizes on assessing a borrower's controlling persons and management team and on their experiences, credit records and stability. Our credit evaluation system enables us to effectively conduct our guarantee and SME lending businesses based primarily on the creditworthiness of our customers, rather than collateral.

While we consider credit risks, including customer defaults and loan impairment, are inherent to our business, we believe our long-term business success and sustainability are dependent on our ability to effectively manage our credit risks at a reasonable and tolerable level relative to our business scale and profitability, amid a constantly changing external credit and economic environment. In consideration of the foregoing, we continue to strive for an optimal balance between an acceptable and manageable credit risk level and an efficient use of available funds to expand our business and improve returns for our shareholders.

RISK MANAGEMENT SYSTEM FRAMEWORK

The organizational structure of our risk management system is illustrated below:



Board of Directors: Our Board of Directors is ultimately responsible for our overall risk management and performs its risk management function by giving guidance and authorization to our Risk Management Committee.

President: Our president oversees our overall risk management on behalf of the Board of Directors. Mr. ZHANG Guoxiang is our president. For details about Mr. Zhang's biography, see "Directors, Supervisors, Senior Management and Employees — Directors — Executive Directors."

Risk Management Committee: Our Risk Management Committee at our Group level is the highest decision-making body in respect of risk management, subject to the guidance and authorization of our Board of Directors. Our Risk Management Committee leads various authorization bodies within our risk management system and grants credit approval authorities to these authorization bodies as well as individual credit approval officers. Currently, our Risk Management Committee comprises Mr. ZHANG Guoxiang, Mr. LIN Feng, Mr. WANG Dayong, Mr. CUI Weilan, Mr. REN Weidong, Mr. LIU Ruifeng and Mr. HUANG Gang, with

Mr. ZHANG being the chairman and Mr. CUI being the deputy chairman of this committee. For biographies of Mr. ZHANG, Mr. LIN, Mr. WANG, Mr. CUI, Mr. REN and Mr. LIU, see "Directors, Supervisors, Senior Management and Employees — Directors" and "Directors, Supervisors, Senior Management and Employees — Senior Management." Below is the biography of Mr. HUANG:

Mr. Huang Gang, aged 46, has been the general manager of the Risk Management Department and the general manager of the risk management department of the Company since January 2013. He joined our Group in April 2008 and served in various positions, including senior credit review officer and deputy general manager of the Risk Management Department. Prior to joining our Group, Mr. Huang worked in Sichuan Shizhu Teacher School from 1990 to 1992 and in Chongqing International Trust Investment Co., Ltd. from 1997 to 2008, and was the director of Baoying Fund Management Co., Ltd. from 2001 to 2003. Mr. Huang obtained his bachelor's degree in pedagogy from East China Normal University in June 1990 and obtained his master's degree in economics from Southwestern University of Finance and Economics in June 1997.

Chief Risk Officer: Our chief risk officer reports to our president and assists our president in performing his risk management function. Our chief risk officer is responsible for supervising the implementation of our risk management policies and procedures, organizing risk management activities, and examining, supervising and inspecting the legal and compliance matters of our business operations. Mr. CUI Weilan is one of our vice-presidents and is in charge of our risk management. For details about Mr. Cui's background, see "Directors, Supervisors, Senior Management and Employees — Senior Management."

Risk Director: The primary responsibility of our risk director is to assist our chief risk officer in managing the risks we face. Our risk director is Mr. LIU Ruifeng. For details of Mr. Liu's biography, see "Directors, Supervisors, Senior Management and Employees — Senior Management."

Risk Management Department: Our Risk Management Department at our Group level is a standing department of our Risk Management Committee. It performs the daily risk management functions on behalf of our Risk Management Committee.

Our Risk Management Department has four divisions responsible for devising relevant risk management policies at Group level and giving guidance to their respective counterparts at provincial level, if any.

Credit Policy Division: The credit policy division is responsible for:

- developing credit policies and criteria for our various financial products;
- stipulating guidelines and standards for customer due diligence and the review process;
- developing business evaluation and approval mechanisms;

- examining and supervising the implementation of credit policies and criteria, business guidelines and standards;
- establishing various management information systems and conducting *ad hoc* analysis; and
- supervising and training risk management personnel.

Business Operation Management Division: The business operation management division is responsible for:

- developing, examining and supervising various business operation procedures; and
- providing training and guidance to personnel dealing with lending operations and document management.

Portfolio Management Division: The portfolio management division is responsible for:

- setting up customer classification systems and portfolio management strategies; and
- setting up collection policies for non-performing assets.

Legal and Compliance Division: The legal and compliance division is responsible for:

- reviewing our compliance with regulatory requirements;
- supervising the implementation of corporate policies;
- reviewing the completeness of procedures and documentation before we provide any guarantee or loan;
- providing training to the legal and compliance personnel;
- dealing with legal matters in relation to our regular business operations and assets collection; and
- drafting and reviewing contracts and other legal documents.

Regional Risk Management Committee: Under the leadership and authorization of the Risk Management Committee, our regional risk management committees are principally responsible for making credit decisions for medium transactions as defined below.

Regional Risk Management Center: Our regional risk management center is a standing department under our regional risk management committee and is responsible for the daily operation of the regional risk management committee.

The chart below sets out details of our regional risk management committees and regional risk management centers as of October 31, 2013:

Regional Risk Management Committee	Regional Risk Management Center/Department	Regions Covered
Risk Management Committee (Northern)	Risk Management Center (Northern)	Beijing, Tianjin, Hebei, Shandong, Shaanxi, Gansu, Guangxi and Guangdong
Risk Management Committee (Southwest)	Risk Management Center (Southwest)	Chongqing, Guizhou and Hubei
Risk Management Committee (Northeast)	Risk Management Center (Northeast)	Liaoning, Jilin and Heilongjiang
Risk Management Committee (Eastern)	Risk Management Center (Eastern)	Jiangsu, Anhui and Shanghai
Risk Management Committee (Sichuan)	Sichuan Risk Management Department	Sichuan and Yunnan

Provincial Risk Management Department: Each of our provincial risk management departments is under the direct leadership of the corresponding regional risk management center. Provincial risk management departments directly conduct our daily risk management operations, including signing and closing of loans and guarantees and portfolio management. As of October 31, 2013, we had 19 provincial risk management departments.

Credit Approval Officer: Our Risk Management Committee has delegated credit approval authorities in varied amounts to certain individuals, as appropriate. Credit approval officers may make credit decisions pursuant to our credit review and approval procedures within their respective credit approval authority.

Credit approval officers consist of certain members of the risk management committees, key personnel of business departments and key personnel of risk management departments. Credit approval officers are responsible for carrying out risk assessments and determining the credit terms. The table below sets out the numbers of credit approval officers based on their maximum credit approval authority as of October 31, 2013:

Maximum Approval Authority (RMB in millions)	1	2	3	5	10	20	30	>30
Number of officers . . .	18	11	5	7	5	1	1	1

CREDIT RISK MANAGEMENT

Credit risk is the principal risk that we face. Credit risk arises from a customer's inability or unwillingness to make timely payments under the financing we have guaranteed or provided. We have developed a credit evaluation system tailored to our business based on our extensive experience in serving the SME and microenterprise sector.

We have divided transactions into three categories, primarily based on the size of the transactions:

(i) **medium**: includes all transactions exceeding RMB5.0 million;

(ii) **small**: includes primarily transactions ranging from RMB1.0 million to RMB5.0 million; and

(iii) **micro**: includes transactions below RMB1.0 million.

We follow the principles below to control credit risks:

1. "**Small and diverse**" principle: We focus on guarantee or loan businesses of small amounts and the establishment of a diverse customer base to avoid concentration risk in our portfolio;

2. "**Repayment in installments**" principle: Our products and services allow the majority of our customers to repay the financing we guarantee or provide in installments to ease the customer's repayment pressure, thus lowering the risk of customer default;

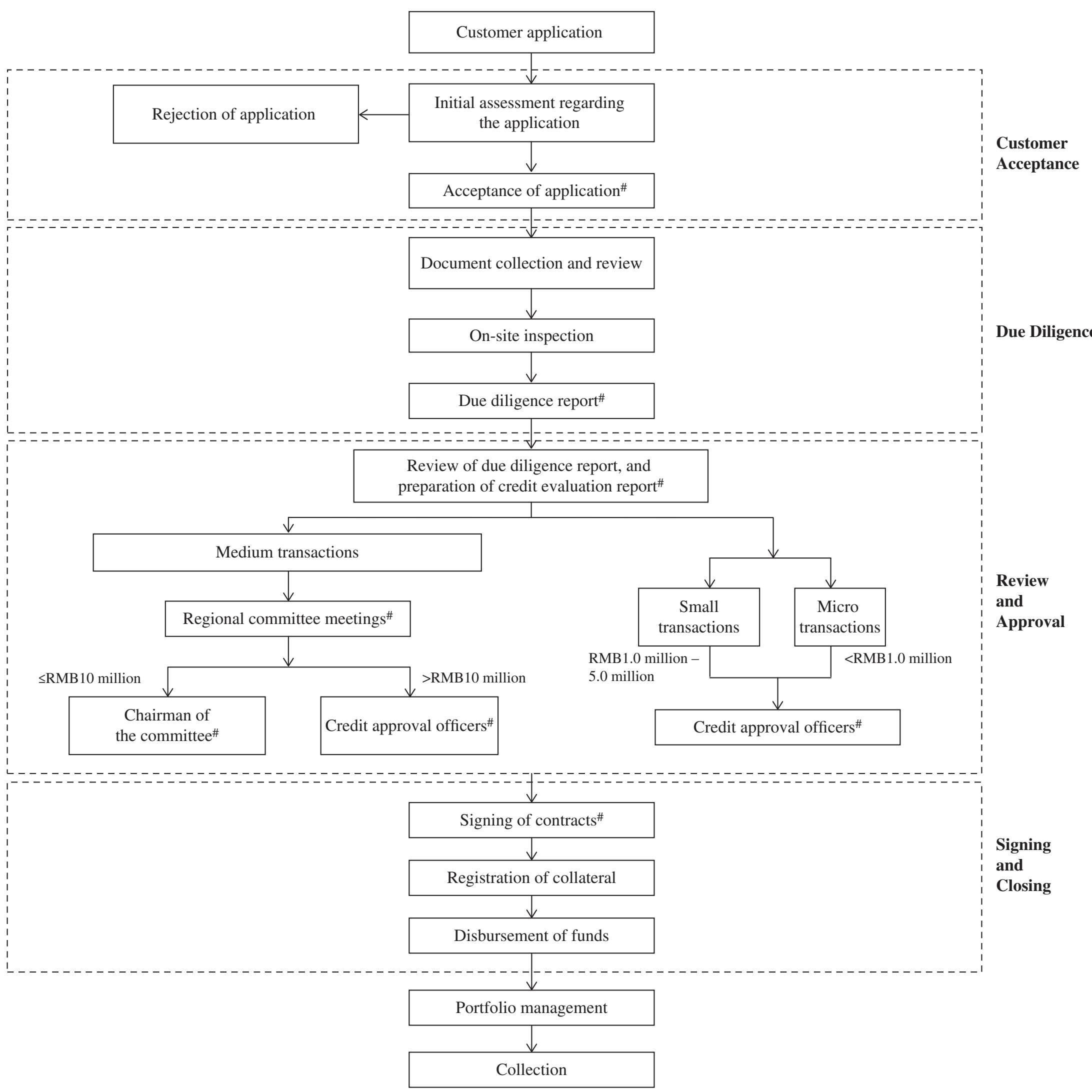
3. "**Short maturity**" principle: Faced with a rapidly-changing economic environment both domestically and abroad, we typically set short maturities for our loan products of up to 12 months;

4. "**Serving the real business**" principle: We focus on catering for the actual operational funding requirements of SMEs and microenterprises such as retailors and manufacturers. These customers have a strong incentive to retain a high credit rating to facilitate their business growth, thus we believe that the default rate for these customers is generally lower.

5. "**People-oriented assessment**" principle: We believe that in particular for SMEs and microenterprises the stability and continuity of business operations, and the ability and willingness to honor repayment obligations as they fall due, are closely related to the commitment and attitude of their controlling persons and management team. Therefore, our assessment of a borrower primarily places a significant emphasis on its controlling person(s) and management team and on their experiences, credit records and teamwork. We generally seek counter-guarantees from the person(s)

controlling, or having substantial influence over, all our guarantee and entrusted loan customers. For micro and small loan customers who are individuals or individual entrepreneurs seeking a relatively small loan amount, we typically require the borrower's spouse to act as joint borrower in lieu of a guarantor.

The flowchart below illustrates the key processes of our credit risk management system:



Note: # refers to the checkpoints which have been migrated into our IT system since October 2013.

Customer Acceptance

The credit management workflow begins with customer application. Our project manager answers enquiries from the customer, assesses the customer's financial needs and planned use of the financing, introduces our products and services, and establishes the initial relationship with the customer. Wherever relevant, we take into consideration the prevailing general conditions in which our customers operate, such as the national and local laws and regulations governing a customer's business, industry performance and macro-economic conditions. Our project managers may reject a customer's application if such customer cannot meet our basic eligibility requirements, such as the age and business experience of the controlling person, the customer's operating track record and results, etc.

Due Diligence

Two-person investigation: For medium transactions, a team of two project managers will conduct our due diligence. For other transactions, one project manager will typically conduct the investigation.

On-site inspection: In order to gain first-hand information and verify the authenticity of the information provided, our project managers will conduct on-site visits to inspect the business operations of our customers and counter-guarantors and/or collateral provided. Before officially commencing the on-site inspection, our project manager will require our customers to provide their latest financial reports and prepare a written outline of the inspection.

Interviews: We conduct interviews with our customers for medium transactions to make a comprehensive assessment of the customer's experience, personality and integrity, which will be used as one of the bases of the credit evaluation. We also identify opportunities for further cooperation during the process.

Dual investigations: For important or complicated transactions, our risk management department will cooperate with the business department to conduct due diligence investigations. We may also engage third-party independent investigation agencies, such as external accounting firms, to participate in the investigation.

Use of "soft information": We use "soft information" obtained in the due diligence process to help assess the creditworthiness of our customers and verify the information provided by them. Such "soft information" may include feedback from the customer's upstream and downstream counterparties and other independent third parties on its business and credit reputation, and the controlling person's expertise and experience in the customer's business and the industry. We consider such "soft information" a useful tool as it provides a more comprehensive appraisal of the customer and its controlling persons.

Due diligence on counter-guarantors: Counter-guarantors provided by our customers normally include the controlling persons, spouse and children of the controlling persons, senior management and affiliates. Review of the counter-guarantors' creditworthiness is included in our review of a customer's creditworthiness. For example, in our review of the controlling persons and the senior management, we focus on their experiences, family wealth (primarily including real estate and cars, with the relevant certificates for verification), personal credit history, information obtained through internet searches and peer reference (if applicable). In our review of the borrower's affiliates, we focus on their operation history, business scales, and assets and liabilities. Review results of the counter-guarantors, if any, form part of the basis of our credit decision for a customer.

Due diligence guidelines: We have three sets of due diligence guidelines and requirements tailored to our medium, small and micro transactions. Our due diligence primarily focuses on a customer's (1) basic information, including its controlling person's and affiliate's(s') basic information, (2) financial affairs, such as debt-to-income ratio, debt-to-asset ratio, liquidity ratio, with particular focus on assets and wealth accumulation, including controlling persons' family wealth, (3) its management's quality and stableness, (4) credit history, (5) purpose of the financing, contract or other obligations to be guaranteed, and (6) relationships with upstream and downstream counterparties. For certain major industries where our customers are operating, we have developed specific and detailed guidance/template of due diligence and review focuses, which includes the key aspects of such industries and the necessary verification procedures to help our business team to conduct their due diligence more effectively.

Review and Approval

Review Elements

Our review focuses on evaluating a borrower's ability and willingness to pay its financial obligations and primarily involves the following eight aspects which we refer to as the "eight elements." Our evaluation of a customer's creditworthiness involves a comprehensive analysis of those eight elements. We use soft information obtained in the due diligence process to refine our understanding of a customer's creditworthiness. While we do not evaluate our customers by assigning a particular credit score, we set out certain criteria in these elements to assist our review. We do not consider these criteria in an isolated manner or by simple addition; instead, they are taken together as a whole to form the basis on which our credit review and approval officers, who are experienced in this industry, would evaluate a customer's creditworthiness and consider the credit proposal as appropriate. Strong performance on one element may, to some extent, compensate a relatively weak performance on other elements.

Experience: Experience refers to the ages and industry experience of the controlling person(s) and management team of a borrower, and the borrower's track record. We believe that a stable and experienced management team will help to maintain the borrower's continuous business operations, and generate a stable cash flow for its business operations and repayment of its financial obligations.

Reputation: Reputation includes a borrower's and its controlling person's credit records (including data from various third parties, such as credit bureaus, tax bureaus, and industry and commerce bureaus), social status, comments from peers and counterparties, and cooperation history with us. Reputation effectively helps us to assess a borrower's creditworthiness and willingness to perform repayment obligations. We believe that an SME, a microenterprise or an individual entrepreneur with a good reputation is less likely to default, compared with others.

Wealth accumulation: Wealth accumulation includes the net worth of a borrower and the accumulated wealth of the family of its actual controlling person(s). We believe that justifiable wealth accumulation reflects a borrower's operational ability and historical profitability, as well as its possible damage when it defaults.

Team: Team includes a borrower's shareholding structure and historical changes, experiences of its senior management responsible for its finance, manufacturing, technology and sales, and the senior managers' employment history with the borrower. We believe that an efficient and stable management team helps the borrower's stable development.

Market: Market includes whether a borrower has a clear business model, a key business line, a diversified business model, a stable upstream and downstream counterparty base and advantages in terms of locations and resources, and structure of current demands.

Finance performance: Finance performance includes a borrower's sales volume, cash flow from operations, profit level in the industry, reasonableness in the cross check of financial index, such as revenue, profits and indebtedness, and customer base in relation to development of the industry. We will also ensure the completeness of financial information made available to us by our customer for an informed evaluation.

Financing arrangement: Financing arrangement includes whether a customer has a specific and reasonable financing need, whether a customer accepts repayment by installment, and a customer's current liability structure, future cash flow from operations, and access to financing.

Future plan: Future plan includes a customer's plan for its short-term, mid-term and long-term development, which will help us judge the reasonableness of a customer's financing needs, plan our future relationship with the customer and develop further opportunities for cooperation with the customer.

Credit Limits and Collateral

We monitor our total exposure to a customer and its affiliates by granting a consolidated credit limit to such customer and its affiliates based on our credit review of the customer and its affiliates as a group. In the due diligence process, our business team will enquire whether the customer has any affiliates and whether it or any of its affiliates has pre-existing transactions with us. Our business team will also verify the information provided by such customer by comparing the historical records stored in our IT system.

Based on our extensive experience in serving the SME and microenterprise sector, we have developed a credit evaluation system which focuses on the comprehensive customer due diligence and segregation of credit approvals, to determine the credit limit of each individual customer. If a customer provides collateral when applying for a guarantee or loan with us, such collateral will be taken into consideration when determining such customer's credit limit. If a customer's financing needs exceed the credit limit that we grant to him or her, we may require such customer to provide collateral to secure the financing, to the extent we consider appropriate to the customer's proposed use of the financing based on the due diligence results and credit review. Such arrangement will be finalized in a credit proposal approved by us for such customer. A typical credit proposal usually includes a credit limit, fee rate, repayment schedule, financing plan and collateral (if any). Generally, the guarantees or loans provided to a customer, whether with collateral or not, do not exceed the maximum exposure as determined by regulatory requirements and our due diligence on the customer's business.

During the due diligence process for our credit guarantee and SME lending business, our business team will gather basic information in order to estimate the value of the collateral to be provided by the borrower. This is based on the original cost or purchase price of the collateral (in the case of accounts receivable and equity interests) and the prevailing selling prices of comparable assets (in the case of real property interests). During the review and approval process for our credit guarantee and entrusted loan business, our collateral valuation analysts will conduct an independent assessment of the collateral in order to adjust or confirm the estimated fair value proposed by the business team, based on a more refined approach, including conducting data analysis, on-site investigations, and discussions with third parties. Our collateral valuation analysts typically have at least three years' experience in the accounting and asset valuation business and some of them were certified public valuers in China.

The types of collateral we accept mainly consist of land use rights and building ownership. We determine the fair market value of the land use rights and building ownership primarily by referring to the following, as appropriate: (i) the cost of land; (ii) the prevailing selling prices of the neighboring land; (iii) the average selling price of buildings situated on other pieces of land with similar zoning and development plans; and (iv) the prevailing selling prices of the surrounding properties in the second-hand property market. For accounts receivable and equity interests, we primarily rely on the historical cost of those assets. We normally consider the value of the collateral before a customer's application is approved and shortly before such guarantee or loan contract becomes due and payable.

Review and Approval Processes

Our review and approval processes vary based on the transaction size:

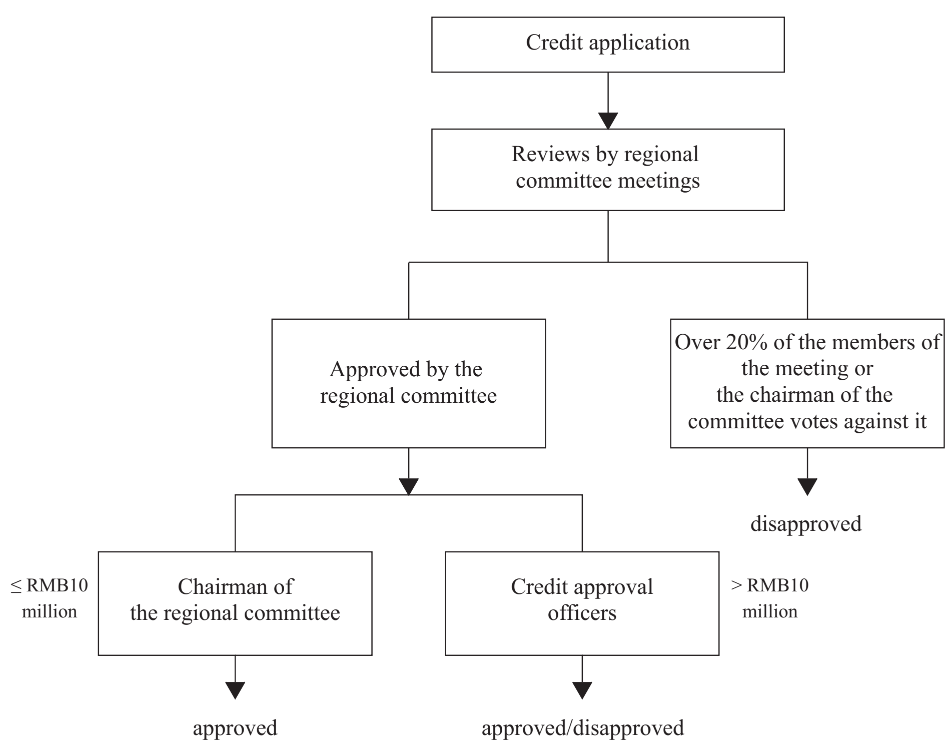
Medium transactions

Our medium transactions are evaluated and approved by collective decisions. We adopt segregation between the business team and the credit review team in our credit approval process. Our credit review officers, generally with at least three years of relevant experience, will review the due diligence report and the supporting documents submitted by our business team, and prepare a credit evaluation report which typically contains the credit review officers' analysis on a customer's strengths and weaknesses and includes a credit proposal setting out the proposed credit amount, financing plan, fee rate, repayment schedule and counter-guarantees and collateral, if any. This credit evaluation report forms the basis of discussion at the regional committee meetings to make a credit decision.

Regional committee meetings review and approve credit applications for medium transactions within their respective regions. At least three members of the regional risk management committee will be present at the regional committee meetings. We adopt the principle of "collective discussion and independent voting" at these meetings. Each regional risk management committee member attending the regional committee meeting has one vote. A credit proposal will be rejected if over 20% of the members at the meeting or the chairman of the regional risk management committee votes against it.

If a credit application exceeds RMB10 million, such credit application requires further approval by each of the credit approval officers with adequate credit approval authority after it is approved at the regional committee meeting. Currently, three members of our Risk Management Committee, being the standing committee member, deputy chairman and chairman, can approve medium transactions with a value ranging from RMB10 million to RMB20 million, RMB20 million to RMB30 million and above RMB30 million, respectively. For example, a credit application of RMB31 million will be approved by the chairman after it is approved by the deputy chairman, the standing committee member and the regional committee meeting, respectively.

The flowchart below sets out the credit review and approval process for medium transactions:



Small and micro transactions

Small and micro transactions are approved by individual credit approval officers within their approval authority.

Similar to medium transactions, we divide our credit approval process for small transaction between the business team and the credit review team in our credit approve process. Our business team will investigate a small transaction and submit its due diligence report for review by the independent credit review officer. Credit approval officers will approve a small transaction based on their respective approval authorities after it is reviewed by the credit review officer. A small project may require approval from two or three credit approval officers, depending on its size.

A small transaction with certain conditions, including loan restructuring, loan extension and loans at risk, irrespective of its size, will need a credit approval officer from our Risk Management Committee to review and approve it after it is approved by the credit approval officers from the relevant Provincial Risk Management Departments.

Micro transactions follow a similar approval process to small transactions, except that a credit approval officer with a sufficient approval authority can both review a credit application and approve that same application.

Rejection

Based on the review results, we may (1) approve a credit request; (2) amend the credit proposal as appropriate; or (3) decline a credit request. Typical reasons to decline a customer's credit request include the following:

- financial data not consistent with industry average data, or not supported by due diligence results;
- financing purpose not verified or involving too high a risk;
- negative information about the borrower or its products;
- source of funding for the repayment not satisfactory;
- difficulty in enforcing our rights on the collateral; and
- background check of the controlling person not in line with our expectations.

Maintaining Consistency in Our Credit Decisions Made Across Our Group

To ensure credit decisions made by different credit approval officers across our Group remain consistent and suitable to our risk appetite, we mainly rely on the following three measures:

1. *A systemic credit risk management mechanism*

We have developed a risk management system in line with the characteristics of each of our business lines based on our extensive experience in the industry.

- We ensure that consistent risk management policies are adopted and applied to our Group. The credit policy division of the Risk Management Department at Group level is responsible for, among other things, stipulating guidelines and standards for the due diligence process and developing business and approval mechanisms, which will be applied throughout our Group.

- We ensure the consistency of credit decisions made by different credit approval officers by streamlining the management of our credit review officers. Our Risk Management Committee directly delegates credit approval authority to our credit approval officers, as appropriate. We have more credit approval officers with small approval authority than those with large approval authority. Transactions with large amounts can only be approved by a relatively small group of credit approval officers, which helps to ensure consistent credit decisions. Credit approval officers typically start with a credit approval authority for small transactions. This authority may increase over time, as credit approval officers become more experienced in credit evaluation through their work and training.

See "— Risk Management System Framework."

2. *The establishment of criteria for customer selection*

Our review and selection of customers focus on evaluating a customer's ability and willingness to pay its financial obligations and primarily involves the "eight elements," which are made familiar to our employees during our regular training. Our credit approval officers will consider, on a comprehensive basis, among other things, the industry in which the customer operates, operating history, management team, business size, assets, indebtedness, reasonableness of financing demands, future plans, credit records (both with us and with third parties) and counter-guarantee. We have set out certain criteria to assist their evaluation. These factors may not be considered in an isolated manner or by simple addition, but are taken together as a whole to form the basis of our credit decisions. Our credit approval officers will go through each of these elements in reaching credit decisions regarding our customers. See "— Credit Risk Management — Review and Approval."

3. *Ensuring new credit review/approval officers learn from our accumulated experience*

We focus on sharing our accumulated experience with our new credit review/approval officers. When we establish a new subsidiary, other subsidiaries with longer track records will provide personnel support and regular training to the new subsidiary. Credit review officers and credit approval officers who are to work in the new subsidiary should (a) obtain their authorizations to work as a credit review officer or credit approval officer by on-the-job training at the existing subsidiaries and passing certain tests, or (b) be transferred to the new subsidiary from the existing subsidiaries with proper authorizations. Credit approval officers from regional risk management centers conduct regular or *ad hoc* training at the relevant subsidiaries and share experiences with relevant personnel to promote uniformity of credit review standards. The Risk Management Department at Group level and regional risk management centers also communicate with our employees regarding our policies, requirements and information updates in terms of risk management via reports, conference calls and emails, so that we can respond to market changes based on the same standards.

Signing and Closing

In our bank financing guarantee business, upon receiving our internal approval, we submit a letter of intent to our cooperating bank for approval and, once approved, we proceed with the signing process. Typically, we issue our letter of guarantee to the bank and enter into a guarantee contract with our customer and counter-guarantors, and the bank signs a loan agreement with our customer. If any collateral is provided, we register our security interest in such collateral with the relevant government authorities before issuing the letter of guarantee. Prior to releasing bank loans to the borrowers that we guarantee, we normally need to place the requisite security deposits to the relevant lending banks as part of the bank loan release process. Once these steps are completed, our customer is able to drawdown the financing we have guaranteed.

In our micro and small loan business, we proceed with the signing process after receiving our internal approval. We enter into a loan agreement with the borrower and a guarantee agreement with the guarantor and notify the borrower that the loan is available for drawdown. If any collateral is provided, we register our security interest in such collateral with the relevant government authorities before making our funds available for drawdown.

Portfolio Management

We review our guarantee and loan portfolios periodically. In our bank financing guarantee business, we normally evaluate the repayment ability of our guarantee customers within one to three months prior to the due date of the relevant guarantee contract. In our micro and small loan business, we normally review the borrower's actual use of funds during the first month after drawdown and continue to monitor its repayment ability at each installment due date. Through our portfolio management policies, as elaborated in detail below, we can be aware of any potential repayment difficulties of our customers ahead of the guarantee or loan due date and can take precautionary measures, as appropriate. Given our relatively low default rate and impaired loan ratio during the Track Record Period, we consider our portfolio management measures to be effective.

Guarantee and entrusted loan portfolio management

We categorize our business into two categories based on their respective risk levels: low risk business and general risk business.

Low risk business: This mainly refers to non-financing guarantees, such as performance guarantees and litigation attachment bonds.

General risk business: This refers to guarantees other than the ones categorized as low risk business, and entrusted loans.

Post-transaction inspection of the guarantee and entrusted loan portfolio primarily covers the due diligence scope conducted prior to the transaction, with some variations pursuant to the actual circumstances. For general risk business, our post-transaction reviews focus on our customers' product markets, operating income, assets and liabilities, cash flows from operating activities, use of financing and source of repayment, with reference to the due diligence report and credit assessment report for checking and analysis. For low risk business, we normally conduct simpler post-guarantee reviews, except when any material changes to our customers' operating conditions has occurred or if we expect to encounter any legal obstacles when exercising our rights.

In particular, for counter-guarantees and collateral, we primarily review the following:

- whether the operational and financial conditions of the counter-guarantor remain normal;

- whether the counter-guarantor maintains adequate financial capacity and has the ability to provide sufficient counter-guarantees;

- whether the collateral remains in good condition; and

- whether there are any expected changes in the regulatory environment for exercising our rights to the collateral.

We conduct on-site inspections during the review process. The reviewers need to report promptly to our Risk Management Department or Risk Management Committee and recommend solutions or contingency measures, if we find material changes in the operational and financial conditions of our customers or counter-guarantors or indications of heightened risk. Our review process allows us to detect potential risks, take proactive preventive actions based on the risk levels, and design our contingency plans.

In general, we do not allow our guarantee customers to extend the guarantees granted by us because such extension is also subject to the lending banks' approval for loan extension, which may be difficult to obtain.

Micro and small loan portfolio management

The review of our micro and small loan portfolio mainly focuses on the use of loans, the financial and operational conditions of the borrowers or the progress of projects, and status of the collateral.

Use of loans: We will check whether the loans are used for the intended purposes as set out in the loan contracts or for other agreed purposes.

Financial and operational conditions of the customers or the progress of projects: We require our customers to provide authenticated financial data, including financial statements and bank statements, to monitor their financial and operational conditions, primarily their cash flow. We consider the maintenance of a stable operating cash inflow for six consecutive months as an important indicator for determining a customer's repayment ability. To monitor the progress of projects for which the loans are granted, we will review the project's progress, focusing on whether there have been any changes to the project proposal and the corresponding budget; whether the self-raised funds and other bank borrowings are in place for the project; whether related ancillary projects are in line with the progress of the principal project; whether there is any shortfall in the funding of the project; and the project schedule.

Collateral: We conduct on-site inspections of collateral from time to time. We focus on ascertaining whether the collateral is disrepaired, demolished or otherwise damaged; and whether there are any changes to the value of the collateral. We require the collateral to be maintained at adequate value for the loans we granted. If the value of the collateral decreases due to market conditions, we will require additional collateral or alternative adequate security from our customers.

We require an internal valuation report to be prepared after the on-site inspections.

During the month before any micro and small loan will become due, we will re-evaluate our customer's ability to repay our loans. Where we find a customer is experiencing temporary liquidity tightening and other events of default which may affect its ability to honor any forthcoming repayment obligations, we may, upon the customer's request, consider extending the loan to allow such customer additional time to increase liquidity, provided that such customer's business and financial conditions remain relatively sound based on our re-evaluation. We only allow our loan customer to extend its loan by up to half of the original maturity period and such extension can only be granted twice for each loan customer. In the ten months ended October 31, 2013, RMB17.0 million of our micro and small loans were extended and classified as "special-mention," on which we made allowance of RMB2.2 million to cover probable impairment losses. None of these extended loans have deviated from our standard loan extension policy. Once the customer defaults, we will not accept any loan extension request from the customer and, instead, we will start our formal collection process. See "— Repayment of Guaranteed Financing, Management of Non-performing Assets and Collection — Collection."

Repayment of Guaranteed Financing, Management of Non-performing Assets and Collection

Repayment of guaranteed financing

We provide guarantees for our customers to enable them to obtain financing from banks or other financial institutions. When we repay the financing to the banks or other financial institutions on behalf of our default customers, we have the recourse to the payments against such default customer. Normally we will agree on a grace period for repayment with our cooperating banks. When our guarantee customers default, we can either make the default payments immediately or when the grace period, if any, expires, depending on the repayment plan we negotiate with the default customers. If the customers agree to make the repayment directly to the banks within the grace period, we will accordingly arrange the customers to do so. If the customers are not able or not willing to make the repayment directly to the banks within the grace period, we will choose to repay, on behalf of such customers, immediately after the relevant payment becomes overdue, and will initiate our collection process to recover such payment.

In the collection process, our business team will work out a repayment plan with our default customers, which will be reviewed by our risk management department and approved by our Risk Management Committee. Our business team will also provide the default guarantee customers with the legal documents and accounting records relevant to the repayment. Our finance and accounting department is responsible for the preparation of the funds for repayment.

After making the default payments, our business team will inform the default guarantee customers and request for immediate repayment of the default payment from such default customers.

Management of non-performing assets

Non-performing assets consist of assets in substandard, doubtful and loss categories under our asset classification policy. For more details of our management of non-performing assets, see "Business — Provisioning Policies and Asset Quality — Provisions for Loan Loss."

Collection

Our portfolio management division at the Risk Management Department at Group level is responsible for the overall management and supervision of the collection of overdue payments from our customers, including the default payments, loans we grant to a customer and loans under the entrusted loan arrangement.

We adhere to the following principles in our collection activities:

(1) Speedy settlement: We believe that the likelihood to succeed in collecting default payment is best within the first 30 days after the payment becomes overdue. As such, we endeavor to take proactive measures to clearly communicate with our default customers on a timely and regular basis within this period of time about our resolve to collect the payment.

(2) Loss minimizing: When payment becomes overdue, we endeavor to minimize our losses by adopting and implementing customized measures on a case-by-case basis based on the on-site investigation, interview and review and analysis of relevant information.

(3) Cooperation: To facilitate the collection of default payment, our project managers, collection personnel and senior management of the relevant subsidiary cooperate collaboratively in the collection process. Project managers take the lead in the collection process within 30 days after the payment becomes due with the assistance of collection personnel, while the collection personnel take the lead after 30 days of the payment becoming due with the assistance from project managers.

(4) Comprehensive analysis: To ensure the effectiveness of our collection measures, collection personnel are encouraged to implement collection measures based on a comprehensive analysis of various factors of each default customer, such as his ability to repay, willingness to repay and the cost of the default.

(5) Application of appropriate approaches: We negotiate with the default customers who are willing to honor payment but are experiencing temporary liquidity difficulties a revised repayment schedule, such as extending the payment term or reducing the instalment payments. Where the default customers demonstrate no intention to repay, we resort to legal actions or take enforcement actions such as disposal of mortgaged or pledged assets.

(6) Legal action as the last resort: Before we take legal action as our last resort, we endeavor to facilitate the collection of the default payment by requesting additional counter-guarantors or collateral or both in the course of working with the customer to come up with a repayment plan.

We have detailed collection procedures for overdue payments primarily based on the size of the transactions. Within one to three months prior to the due date of the underlying loans of our guarantees and the loans that we granted, we review a borrower's business and financial conditions, as well as their ability and willingness to make timely repayment, in order to evaluate the possibility of default by the borrower. We will then enter into discussions with such borrower about a repayment plan to avoid defaults.

For medium transactions, we generally follow the steps below on learning of a customer's default:

- within 24 hours of the default, senior management of the relevant credit guarantee company or micro and small loan company, together with other key business personnel for the transaction, will visit the default customer's business premises to investigate the situation and discuss it with the default customer's management and other controlling person(s);

- within two to five days of the default, our collection personnel will keep close contact with the default customer via phone calls, text messages or on-site visits;

- within 30 days of the default, our collection personnel will conduct at least two on-site visits of the default customer's premise and monitor the status of the collateral.

For small or micro transactions, we typically follow the steps below on learning of a customer's default:

- within 24 hours of the default, a project manager will contact the default customer to investigate the situation, including reasons for the default. A project manager should also conduct an on-site visit if such default customer cannot be reached via phone calls;

- within three days of the default, a project manager will conduct on-site visits, mostly announced, to the default customer's premises to investigate the situation and inform the default customer of the possible negative impacts of the default, including a negative record on its credit history, failure to obtain financing from us in the future, increased interest rate, acceleration of the remaining payments, and public reprimand on our website;

- within five days of the default, our collection personnel will conduct on-site visits to the default customer's premises to verify the reasons of default and reiterate the negative effects of the default;

- within 15 days of the default, our collection personnel will call the default customer and inform them of the possible action we will take and the legal consequences that will ensue.

We will inform the relevant counter-guarantors, if any, of the default and request repayment on behalf of the default customers, if we fail to collect repayment from the default customers due to various reasons, including, among others:

- failure to contact and meet the default customers;

- failure to agree on a repayment plan with the default customers; or

- failure by the default customers to make payments in accordance with the agreed repayment plan.

If any counter-guarantors are involved in the collection process, we follow the same collection procedures as we do with the default customers.

Typically, if payment cannot be collected within 30 days of a default, we will issue a formal attorney's letter, requesting the default payment. We will either resort to legal action or engage external professional parties to recover payment from default customers through legal proceedings. During the Track Record Period, we have primarily engaged law firms as external professional parties to collect default payments. We have relied upon their professional judgment and ethics to ensure compliance with PRC laws and regulations during the collection process. We have also previously, to a lesser extent, engaged professional agencies (including law firms) to recover payments. In our selection of external professional parties to assist us in recovering payments from the default customers, we normally do a background check of such parties and will only choose those without illegal collection records. Nothing pertaining to the illegality of collection activities conducted by external professional parties has been brought to our attention. Prior consent from the Risk Management Department at Group level is required for taking legal action and prior consent from the Risk Management Department is required for engaging external professional parties. Typically, for a small or micro loan, if payment cannot be collected within 60 days of the default, we would announce acceleration of the undue portion of loans and require immediate repayment.

If the default customer has provided collateral, we will update the valuation of the collateral on an expedited basis. In discussion with the default customers on the repayment plan, we will include the option of selling the collateral for the repayment. If we cannot reach agreement with the default customer on the repayment plan, we will resort to legal action. When initiating a lawsuit, we will also request a court to attach and preserve the collateral and other assets of the default customer and its counter-guarantors, if any, pending judgment by the court or settlement with the default customer. When we obtain a favorable judgment, we can file an enforcement application with the court to realize the value of the collateral through auction or sale.

If the default customer has not provided collateral, we will discuss with the default customer the repayment plan and increase of security measures, such as requiring additional counter-guarantors or providing collateral. If we cannot reach agreement with the default customer on the repayment plan, we will resort to legal action. When initiating a lawsuit, we will also request a court to attach and preserve the assets of the default customer and its counter-guarantors, if any, and follow the same procedures for repayment as discussed above.

During the legal proceedings, we will continue our negotiation with the default customer in order to achieve settlement and speedy repayment.

We endeavor to ensure proper conduct of our collection personnel during the collection process through the following measures:

- providing detailed collection procedures in the collection process for our collection personnel to follow;

- conducting regular training and ethical education to all employees, including the collection personnel, which require them, among other things, to act in the best interests of our Company and the general public instead of themselves;

- involving senior management of the respective guarantee or loan subsidiaries in the collection process to monitor the progress and the conduct of the collection personnel;

- engaging professional third parties to assist us if the collection is difficult to progress; and

- seeking proper damages and pursuing legal proceedings as appropriate if any misconduct is found in the collection process.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk resulting from inadequate or failed internal controls and systems, human errors or external events. We consider operational risk to be one of the major risks in our business and believe that this inherent risk can be controlled or mitigated through adequate and comprehensive operational policies and procedures. We have adopted the following measures:

1. establishing a comprehensive corporate governance structure with clearly defined duties of the Board of Directors, the Board of Supervisors and senior management;

2. establishing a vertical risk management system to ensure the independence of our risk management;

3. establishing a business operation management division under our Risk Management Department responsible for developing, examining and supervising the workflow of various business operations and providing training and business guidance to personnel dealing with lending operations and document management;

4. establishing and continuously improving our operational procedures and internal control system, and utilizing our IT system to monitor and control the performance of each procedure. In particular, we have adopted and have strictly implemented measures to prevent and detect potential employee frauds, such as the two-person investigation, segregation of business team and credit review team, multiple approval layers, on-site visits and inspection, and interviews conducted by our high-level managers with the owner or management of the borrowers;

5. seeking proper damages and pursuing legal proceedings if necessary if any misconduct by an employee is found; and

6. providing ethical education to all employees, including organizing visits to prisons and conducting interviews with the prison staff and prisoners, mostly who have committed economic crimes, so as to deter our employees from committing crimes.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that funds will not be available to meet the liabilities as they fall due and may arise from value or maturity mismatches of assets and liabilities (including contingent liabilities arising from guarantees). Our finance and accounting department is mainly responsible for managing and controlling our liquidity risk and monitoring the relative maturities of our assets and liabilities. We manage our liquidity risk by generally matching our assets and liabilities at a proportion that we believe to be appropriate and making provisions for our loan guarantees based on prior experience and historical default rates. See "Financial Information — Quantitative and Qualitative Analysis of Market Risk — Liquidity Risk."

LEGAL AND COMPLIANCE RISK MANAGEMENT

Our business is subject to extensive and complex regulation and supervision by national, provincial and local government authorities with regard to our guarantee and loan operations, capital structure, pricing and provisioning policy, as set out in "Regulatory Environment," which are subject to constant changes. If we do not respond to these changes in a timely manner or are found to be not in compliance with applicable laws and regulations, we may incur significant losses. We have set up a legal and compliance division under our Risk Management Department and corresponding counterparts at provincial level, which are responsible for operational compliance review, examination of the completeness of lending procedures, implementation of regulatory policies, provision of operational guidance and training to legal personnel, legal matters related to asset collection, and drafting and review of contracts and other legal documents.

When planning a new service or product, our legal and compliance department, together with our other departments involved, will review the relevant development plan thoroughly, including advising on the legal and regulatory requirements applicable to such new business or product, as well as the relevant restrictions. We may also consider consulting external legal advisors on the legal compliance aspects of offering a new thought or product. Such information will be included in the new business or product proposal for the senior management's consideration and approval. If a new service or product is approved, we will introduce such business or product as planned. Each of our subsidiaries offering a new service or product will be responsible for completing the administrative procedures and/or obtaining the applicable approvals.

Following the non-compliance incidents which have been discovered by Beijing Finance Bureau in an on-site inspection in June 2013, we have further strengthened our legal and compliance risk management through the following measures:

- reviewing our management accounts on a monthly basis to monitor the key financial indicators of our operations, in particular net assets;
- cooperating with our IT department to establish risk-monitoring thresholds in our system in accordance with the relevant legal and regulatory requirements, to monitor, supervise, identify and report the irregularities and non-compliance incidents in our operations;
- providing legal updates, including updates on the interpretation of applicable laws and regulations by relevant regulatory authorities to the legal personnel of our risk management system on a regular basis and as necessary; and
- reiterating the importance of adhering to our operational protocols and procedures to all our employees and, in particular, our new employees, to ensure effective implementation of our operational protocols and procedures.

For details of the non-compliance incidents, see "Business — Legal Proceedings and Compliance — Non-compliance Incidents."

CERTAIN INTERNAL CONTROL DEFICIENCIES

We have established an internal risk management framework, policies and procedures to manage our risk exposures, primarily credit risk, operational risk, compliance risk and legal risk as well as liquidity risk. These risk management policies and procedures are based upon historical behaviors and our experience in the industry.

Past Internal Control Deficiencies

We have in the past found incidents of deficiencies in the implementation of our internal control procedures. Although these incidents did not reveal any material risks and have not resulted in any material non-compliance or financial loss, they revealed certain deficiencies with respect to our internal controls. Our internal control advisor in connection with this Global Offering has provided us with certain observations with respect to certain deficiencies in our internal controls through conducting sample testing of our operations internal controls between May 1, 2012 and April 30, 2013. A summary of these key observations is set out below:

Nature of deficiencies	Key findings and observations	Reasons for deficiencies	Number of deficiencies found during the review period	Guarantee or loan amount
Failure to keep paper records of certain reviews conducted and approvals obtained	Failure to keep a full and complete chain of approval records on guarantee fees charged or review decisions for certain guarantees	Failure to strictly follow our internal control procedures by our employees	7	RMB1 million to RMB30 million
	Failure to keep full and complete records of all signatures on certain review and approval documents		10	RMB3.8 million to RMB30 million
	Failure to keep a full and complete chain of approval records on closing and fund transferring activities		3	RMB15 million to RMB45 million
	Failure to keep a full and complete chain of approval records on release of guarantees		1	RMB0.8 million
	Failure to keep a full and complete chain of review records on collateral valuation		2	RMB1.5 million to RMB5 million
	Failure to keep a full and complete chain of review records on disposal of non-performing loans		1	RMB1.5 million

Nature of deficiencies	Key findings and observations	Reasons for deficiencies	Number of deficiencies found during the review period	Guarantee or loan amount
Failure to keep proper records of the due diligence activities	Insufficient retention of data and information during due diligence process	Failure to strictly follow our internal control procedures by our employees	13	RMB3.8 million to RMB45 million
	Failure to keep records of signatures on the review and approval of the due diligence reports		5	RMB5 million to RMB45 million
Failure to keep proper records of portfolio management activities	Failure to keep full and complete records of all signatures on the on-going monitoring reports in the portfolio management activities	Failure to strictly follow our internal control procedures by our employees	17	RMB1.8 million to RMB45 million
	Failure to date a counter-guarantee contract		1	RMB30 million
Failure to keep written record of authorization from credit approval officers in the case of oral confirmation	Failure to keep written record of authorization in approval loan application	Credit approval officers were away and only provided oral approval instead of written one	1	RMB4 million
	Failure to keep written record of authorization in transferring funds to customers		4	RMB1.6 million to RMB4 million
Portfolio management paperwork not fully completed	Incomplete post-transaction monitoring reports in the micro and small loan business, which are inconsistent with our internal requirements	Failure to strictly follow our internal control procedures by our employees	13	RMB40,000 to RMB2 million

Remedial Measures and Revisit Results

In response to the these internal controls deficiencies, we have carefully investigated each incident, implemented a series of remedial measures, employee training programs, supervision mechanisms and policies to strengthen our implementation of internal control procedures, including reiterating our requirements of keeping proper records and utilizing our IT systems to control the checkpoints of our review and approval processes. Following a revisit of our remedial actions for the observed deficiencies as described above and further sample testing on our internal controls in November 2013, no incident of departure nor deficiency has been identified by the internal control advisor in relevant controls tested during its revisit following our implementation of proper remedial actions. The internal control assessment and revisit was conducted on a factual finding basis, and no assurance or opinion on internal controls was expressed by our internal control advisor.