

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

Q3 2020 360 DigiTech Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 20, 2020 / 1:00AM GMT

## CORPORATE PARTICIPANTS

**Haisheng Wu** 360 DigiTech, Inc. - President, CEO & Director

**Mandy Dong** 360 DigiTech, Inc. - IR Director

**Yan Zheng** 360 DigiTech, Inc. - Chief Risk Officer

**Zuoli Xu** 360 DigiTech, Inc. - CFO

## CONFERENCE CALL PARTICIPANTS

**Daphne Poon** Citigroup Inc., Research Division - VP & Senior Associate

**Jacky Zuo** China Renaissance Securities (Hong Kong) Limited, Research Division - Analyst

**Steven Chan** Haitong International Research Limited - Executive Director

**Yushen Wang** CLSA Limited, Research Division - Research Analyst

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the 360 DigiTech Third Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised today's event is being recorded. At this time, I'd like to turn the conference call over to Ms. [Mandy Dong], IR Director. Please go ahead, Mandy.

---

### Mandy Dong 360 DigiTech, Inc. - IR Director

Thank you, Ray. Hello, everyone. Welcome to our third quarter 2020 earnings conference call. Our results were issued earlier today on our website. Joining me today are Mr. Wu Haisheng, our CEO and Director; Mr. Alex Xu, our CFO; and Mr. Zheng Yan, our CRO.

Before we begin the prepared remarks, I'd like to remind you of the company's safe harbor statement. Except for historical information, the materials discussed here may contain forward-looking statements, which are based on our current plans, estimate and projections. Therefore, you should not place undue reliance on them. Forward-looking statements involve inherent risks and uncertainties. We caution that a number of important factors could cause actual results to differ materially from those contained in forward-looking statements. For more information about potential risks and uncertainties, please refer to the company's filings with the SEC.

Also, this call includes discussion of certain non-GAAP measures. Please refer to our earnings release for our conciliation between non-GAAP and GAAP one. Plus, unless otherwise stated, all figures mentioned are in RMB. I will now turn the call over to our CEO, Mr. Wu Haisheng.

---

### Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

---

### Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Hello everyone, I'm very happy to report another set of record-breaking results of key operational and financial metrics in the third quarter. Total loan origination reached RMB 66 billion during the quarter, a 12% on a sequential basis. Outstanding loan balance increased by 7.3% to RMB 84.2 billion from RMB 78.5 billion last quarter. Total revenue was RMB 3.7 billion, up 10.9% from last quarter.

Non-GAAP net income was RMB 1.29 billion, up 36.7% from last quarter.

---

### Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

---

### Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] It has been a very busy quarter in terms of regulatory change, which created significant challenges for the fintech industry. Since the beginning of the year when COVID-19 hit, we have now successfully navigated through 3 quarters under the tremendous market uncertainties and volatility with consistent execution and steadily improving results. This is a strong testament to the soundness of our strategies and the sustainability of our business. In the wake of the pandemic and the regulatory change, we believe the fintech

industry has become further polarized as companies with core competitive edge continue to thrive with consistent performance across business cycles.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] While we have tightened our policy in customer acquisition and risk management following the uncertainty created by the high core rate cap ruling in Q3, we still achieved strong business growth, mainly benefiting from the noticeable recovery in macroeconomy. Let me elaborate in three aspects.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] First, overall, we continued to generate consistent growth in the number of registered users, user with approved credit lines and active borrowers. During the quarter, we added approximately 1.57 million with new users with approved credit lines, similar to that of last quarter.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Second, we have made noticeable progress in our new business initiative, embedded fintech, where fintech companies provide their service in a Infrastructure as a service, IaaS, in short, module. This is a new industry trend that started in the Silicon Valley and is gradually accepted in China. A growing number of 2C platforms have embedded fintech IaaS as a standard component into their offerings, in order to better monetize their user base and serve their customers' needs. We are in a strong position to benefit from this trend as our IaaS solutions offer better user experience and higher conversion.

During the quarter, more and more 2C platforms took our IaaS solutions, including Xiaomi, Meituan and iQIYI, among 16 platforms in total. And we have another 10 in the pipeline, including JD, Didi and Baidu. This demonstrates the increasing recognition of market position by our partners.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Third, we continued to advance our capital-light model as our long-term strategy. Capital-light and other tech empowered models further increased to approximately 28% of total loan origination during third quarter. While we have been on a measured pace to roll out our capital-light model so far, this year, given the uncertain market conditions, we are fully confident that we will at least achieve our year-end target of 35% to 40%, as we expect to see acceleration in the rest of the year. During the quarter, we also made considerable progress in providing more tech empowered SaaS solutions. To date, we have established cooperation with 15 institutions with over 50 in pipeline.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] As our business continued to grow, our asset quality also near the best levels ever. During the quarter, we continued to execute our prudent risk management strategy with a slightly tightening bias. Key leading indicators continued to improve since the end of second quarter. Day 1 delinquency rates further dropped to a record low of 5.3% and the day 7 delinquency rate to only 0.8%, while M1

collection rate rose to about 90%. The strong risk management metrics not only reflect continued improvement in macroeconomy, but also further validated efficiency and capability of our risk management strategies and models.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] As a leading fintech player, we have always ensured that we maintain the highest standard of compliance, in line with the latest regulations. This is critical for healthy and sustainable development of our business. Since the middle of this year, the regulators have rolled out a series of policies and the guidance closely associated with the development of fintech industry. Overall, we believe the regulators are promoting industry orders for healthy and sustainable development.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] In early November, CBIRC issued the Interim Measures for the Administration of Internet Microlending Consultative Paper, imposing a set of restrictions on microlending and joint lending operations. We believe the regulators are aiming to further lower leverage and prevent systematic risk in financial markets. Currently, the outstanding balance of self-funded loans issued through our micro-lending subsidiary accounts for less than 1% of the total loan balance. And joint lending accounts for around 0.01%. Therefore, based on our preliminary evaluation, the new rules will have little impact on our loan facilitation business.

In addition, the leverage restriction may force some leading players to scale back their business. That creates opportunity for us to grab additional market share.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] CBIRC recently also issued a Notice on Promoting the Sustainable Development Capability of Consumer Finance and Auto Finance Companies and Improving Quality and Efficiency of Financial Service. In our view, the notice will benefit consumer finance companies to expand their operations and to boost their business with loan facilitation platforms. In particular, it clearly sets out specific practice for the cooperation between consumer finance companies and the loan facilitation platforms, which will benefit leading loan facilitation platforms like us.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] We believe the busy regulatory movement in the past 6 months are a clear indication that Chinese fintech industry is entering a phase of comprehensive regulation. These policies also show that rather than a strong handed crackdown, the regulators are promoting industry orders by supporting good practices and correcting that not so good ones. This will drive the healthy development of the industry, and we are glad to see that.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Outside our core business of consumer finance, we will also proactively exploring new business opportunities and seeking more room for growth, compared with roughly RMB 20 trillion consumer finance market, China's SME loan market is estimated to be around RMB 50 trillion with over 50% of credit demand unmet. We know that a few players already developed sustainable approach.

Some use banking license to access the SME tax data to support risk management and some use extensive offline channels to reach potential SME customers.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] The early success of both strategies indicate that there are great opportunities for us, as we have access to banking license through our affiliate, and we have also established a large offline sales network, with over 1,000 representatives. In addition, we are very excited to find that a significant portion of our existing customers as SME owners, which could provide a large pool of potential customers for SME lending.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Despite the various challenges and difficulties related to macroeconomy, fintech industry and our operation in the 3 quarters of 2020, we have successfully passed multiple stress tests with outstanding performance. For the rest of 2020, we will carry on implementing prudent business strategy and further exploring new business initiatives. We are highly confident to exceed key operational targets that were set at the beginning of this year. Now I will pass the floor to Alex to offer some detail of our operational and financial performance.

---

**Zuoli Xu 360 DigiTech, Inc. - CFO**

Thank you, Haisheng. Good morning and good evening, everyone. Welcome to our quarterly earnings call. For the interest of time, I will not go over all the financial line items on the call. Please refer to our earnings release for the details. During the third quarter, we see continued rebound of our business momentum as consumer confidence and economic activities gradually recovered post COVID-19. Benefiting from such macro trend, we have experienced robust consumer demand for credit along with noticeable improvement in asset quality.

Total net revenue for Q3 reached CNY 3.7 billion versus CNY 3.34 billion in Q2 and CNY 2.58 billion a year ago. The year-over-year comparison is somewhat distorted by the accounting standard change early this year. Revenue from credit-driven service, which we called, capital heavy, was CNY 2.96 billion compared to CNY 3.08 billion in Q2. The sequential decline was mainly due to the decline in take rate as we lowered our average interest rate in later Q3 to -- and the average take rate for the entire Q3 is 25.9% -- sorry, the interest rate for the entire Q3 is 25.9% compared to 27.2% in Q2 following the Supreme Court ruling in late August. Revenue from platform service, which we call capital-light, was CNY 748 million compared to CNY 259 million in Q2.

If you recall, in Q2, we took accounting charges against the revenue because the projected delinquency rate for certain assets exceeding performance benchmark set by revenue sharing agreement with our partners. As the asset quality continued to improve, the actual performance of those assets turned out better than previously expected, and the delinquency rate fell below the benchmark. Therefore, from accounting perspective, the charge should be reversed in Q3. Aside from these charges, the underlying take rate for the platform service also modestly improved in Q3. Total operating expenses, excluding provisions, were roughly flat Q-on-Q, but decreased 33% year-on-year. The year-on-year decline mainly reflect significant improvement in operational efficiency, particularly the deduction of customer acquisition costs.

Sequentially, we were able to keep operating expenses stable as we grew our business substantially. Average customer acquisition cost per user with approved credit line was RMB 172 in Q3, modestly higher than RMB 167 in Q2. As the macro economy recovered, demand for online traffic increased significantly. Q4 is also a seasonally high demand period for online traffic, particularly around the intense online shopping events such as Double Eleven. Non-GAAP net income was CNY 1.29 billion versus CNY 942 million in Q2 and CNY 756 million a year ago. Once again, the year-on-year comparison was negatively impacted by the accounting standard change. Nonetheless, this is the first time ever our quarterly net income exceeding RMB 1 billion mark. We are very proud for the achievement, particularly

given the challenging market conditions early in the year.

The overall macroeconomic condition is improving, and the COVID-19 is largely contained in China. However, we will continue to take a prudent approach to expand our business and to manage overall risk. With strong operating results and increased contribution from capital-light model in Q3, our leverage ratio, which is defined as risk-bearing loan balance divided by shareholders' equity, further declined to 7.4x from 8.3x in Q2 and 9.5x in Q1. We expect to see continued deleveraging in our business driven by accelerating movement towards capital-light model and solid operating results.

Meanwhile, our provision coverage ratio rebound to 436% in Q3 compared to 321% in Q2 and 400% in Q1. The sequential improvement in provision coverage ratio was mainly because of significant decline in projected delinquency rate for risk-bearing loans and our conservative approach to estimate provisions. We note that recently, CBIRC lowered provision coverage ratio requirement for consumer finance companies to 130% from 150%.

Nonrestricted cash balance reached a record high of approximately CNY 4.8 billion in Q3. This was largely driven by strong operating results and effective management of working capital. Total cash and cash equivalents were CNY 7.9 billion at the end of Q3. A significant portion of our cash was allocated to the security deposit with our institutional partners and registered capitals of different entities to support our daily operations. We believe that sufficient cash position will not only enable us to compete in an ever changing market, but also position us to potential growth opportunity -- to capture potential growth opportunities in the market recovery.

Finally, let me give you some color about our outlook for the fourth quarter. After delivering strong operating results in the 3 quarters of the year, we -- our previous full year loan original guidance -- origination guidance appears too conservative. We now expect loan origination volume in the first quarter to be between RMB 64 billion to RMB 66 billion, which implies full year loan origination guidance to be RMB 244 -- RMB 242 billion to RMB 244 billion compared to our previous guidance of RMB 200 billion to RMB 220 billion. The revise in guidance reflects current business momentum as well as normal seasonality. With that, I would like to conclude our prepared remarks. Operator, we can now take some questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question is from Jacky Zuo from China Renaissance.

---

**Jacky Zuo China Renaissance Securities (Hong Kong) Limited, Research Division - Analyst**

(foreign language)

So I will translate my question. So congrats on the strong results. My question is related to regulation. So we observed that the new online macro lending rules requires actually a high capital requirement for the applicant. So what is our view on the new lending license and any plan to apply this license jointly with other parties? And in addition, do we expect any further tightening on the consultation regulation? And what will be the timeline?

---

**Zuoli Xu 360 DigiTech, Inc. - CFO**

Thank you, Jacky, for your question. I would let our CEO to answer your question. Haisheng?

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Sure. I will translate for our CEO. Jacky, regarding your question about our microlending license, there are a few aspects involved in this notice. One is about the joint lending. Actually, on this asset, we mainly have less than 1% of our total loan balance, which is a very, very small portion. Secondly, the notice mentioned some regional restriction about microlending and also the recurring facility. We barely have that part either.

About the registered capital, it required about CNY 1 billion for local lending and CNY 5 billion for the national lending. Actually, looking at our whole business, we mainly use other funding source rather than the micro-lending license. Therefore, we will focus on the loan facilitation platform, not relying on the micro-lending license. And we -- in the long term, we're intending not to leverage the micro-lending license. Furthermore, if we please consider we have banking license. And if we want to increase the registered capital, it's more easy for us to register in the banking license.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Jacky, regarding your question about regulation on loan facilitation business. Please recall that in July, regulator released online lending guidance of commercial banks. And recently, they issued notice about the consumer finance company and auto finance company loan facilitation business. Both notices indicate regulator's view, they legitimize loan facilitation business in law. In the long term, we do not think that regulator is tightening the loan facilitation business in China. It's actually promoting industry order for a healthy development and sustainable development. Also, if you look at China market, the traditional banking cannot develop the micro-lending consumer finance capability on their own. The relationship between traditional institutional banking and loan facilitation platforms are complementary and collaborated we can forge synergy and become the interoperable model.

---

**Jacky Zuo China Renaissance Securities (Hong Kong) Limited, Research Division - Analyst**

(foreign language)

So my follow-up question is regarding to the laaS model, as we mentioned. So we are cooperating with other traffic platforms. So what is the percentage of this cooperation of our loan volume currently? And what is the outlook?

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Well, in terms of the new acquired users, the API model, what we call the embedded fintech model, takes account roughly 20% to 30%. And we still continually see the growth momentum in terms of this customer acquisition. The platform with consumption scenarios when they choose loan facilitation platform, they require -- you need to have a better user experience and high commercial rates, which are our strong competitive. That's why there are a lot of other platforms lying in the pipeline.

---

**Zuoli Xu 360 DigiTech, Inc. - CFO**

Jacky, I want to add 1 point that is, to your question, the 20%, Haisheng just mentioned, is actually for the new user acquisition percentage. But from a loan volume perspective, given the significantly larger percentages coming from old users, so the new format is only contributing roughly 2% to 3% of the loan volume we're generating.

---

**Operator**

Your next question is from Daphne of Citi.

---

**Daphne Poon Citigroup Inc., Research Division - VP & Senior Associate**

(foreign language)

So I will translate my question. So it's mainly regarding the loan origination and customer acquisition outlook. So first, when we look at the first quarter new borrowers number is still flattish Q-o-Q. So I just want to check whether it seems that the loan volume growth in the third quarter is mainly driven by a larger ticket size are given to the existing borrowers. So if possible, can the management also share the average ticket size on borrowers in the third quarter. And per your guidance for fourth quarter, it only implies like a flattish loan volume Q-o-Q. So just wondering why the growth would not be stronger, given like everything continues to improve and whether there is any seasonality here? And lastly, if you can share the outlook in terms of your loan origination for next year?

**Zuoli Xu 360 DigiTech, Inc. - CFO**

Thanks, Daphne. I would like Haisheng to answer more kind of overview side of your question, then I will give you some detailed numbers. Haisheng?

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Okay. I will translate for our CEO. First of all, yes, you are right. We will see more contribution from existing customers in terms of loan origination in Q3. About the ticket size, yes, we see relatively stable compared to last quarter. About our Q4 outlook, there are a few reasons that we gave this outlook. Number one is, usually, there was seasonality in the last quarter, especially considering some traffic pressure from e-commerce platforms, etc. Secondly, we are a very prudent company. We stay vigilant about any alert about -- of the pandemic and macro conditions down the road. And we don't think it's wise to give so aggressive approach in the fourth quarter.

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Sure. Overall, for our next year outlook, I don't have very concrete number to share now, but I can give a rough idea that we expect to see continued improved momentum next year. I will elaborate in a few aspects. Number one, as we explore more new initiatives this year, we expect to see the growth showing up next year. Secondly, considering our affiliates stakes in KCB, we expect to see the synergy and the codeveloped products ramping up next year. Thirdly, about a small SME loan business I mentioned in my speech, we started already. And for example, for the channels 2B, we have already covered most of them.

**Zuoli Xu 360 DigiTech, Inc. - CFO**

Just wanted to...

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

**Yan Zheng 360 DigiTech, Inc. - Chief Risk Officer**

(foreign language)

**Unidentified Company Representative**

[Interpreted] Okay. So to elaborate more on the contribution of the existing customers. So we have analyzed that 45% is due to the cross-selling product like V-pocket that increase the customer activity and also the retention of the customers. And 25% is due to the operational efficiency improvement. For example, we have like increased the different touch points and do the model integrations. And the last one is from the ticket size increase and credit line increase, for example, for the SME owners and for people with cars and property, we will increase the credit line. So the ticket size is relatively stable in this month. It's around some from CNY 5,300 to CNY 5,400.

**Yan Zheng 360 DigiTech, Inc. - Chief Risk Officer**

(foreign language)

**Zuoli Xu 360 DigiTech, Inc. - CFO**

Yes, Daphne. Go ahead.

**Daphne Poon Citigroup Inc., Research Division - VP & Senior Associate**

(foreign language) So I just want to follow-up regarding your partnership with Kincheng Bank and also the SME lending initiative you mentioned earlier. So first, wondering whether this SME loan is just mainly granting through your partnership with Kincheng Bank? And

also, is there anything more that you can share regarding your current progress at partnering with Kincheng Bank and your expected contribution into next year?

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Sure. Currently, we are implementing a few very effective customer channels in terms of SME loans. Number one, for our extensive existing users after we analyze, we are happy to see roughly 20% to 25% of them are SME owners. And we have done some initial attempts to lend money to them. The asset quality turned out to be better than our total loan book. Secondly, we leverage the enterprise SaaS service companies to cover SME owners. Those enterprise does include tax and invoice related service. And thirdly, with the offline channels turn out to be very effective as is proven by Ping An, which is backed by Lufax. Nowadays, we have over 1,000 offline sales team.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Sure. I'll just give you a few updates on the -- our cooperation with KCB. Firstly, regarding the banking side, we have advanced the progress with them. Secondly, collaborate with KCB, we are able to tap into some better quality prime customers. Thirdly, KCB has banking license, which provide us to legitimately access tax data, which is the pivotal risk management data for SME loan. Thirdly, we are codeveloping tech-side products with KCB. This will be the standardized module for our 2B business.

---

**Operator**

Next questions is from Ethan Wang at CLSA.

---

**Yushen Wang CLSA Limited, Research Division - Research Analyst**

(foreign language) My question on take rate, especially on platform service, which is quite strong in the third quarter. So just if management can share some color on the reason behind this and the trend going forward? And the related question is on the APR level and the funding cost in the third quarter? And if there is some guidance for future quarters, that would be great.

---

**Zuoli Xu 360 DigiTech, Inc. - CFO**

Sure. Thank you. I think I'll go the reverse order in terms of questions. The first one, in terms of the funding cost. Third quarter, we continue to see modest decline versus the second quarter. If you remember, second quarter, we are 7.2% on average. Third quarter, we are somewhere between 7% and 7.1%, so slightly lower. That's the funding cost. And secondly, regarding interest rates. For the quarter, the average is at 25.9%. The second quarter average, as you'll recall, is 27.2%. So you see that drop, mainly because starting from September, we adjust our pricing for the -- all the products following the high court ruling in terms of interest rate cap there. So that's for the interest rate question.

And then in terms of take rate for capital-light model, it is, if you do the math, significantly higher than the second quarter and also probably higher than normal. The main reason is because -- in my prepared remarks, I mentioned a little bit. If you recall, the second quarter -- actually the capital-light take rate model is quite low -- was quite low because, as I said, there is a batch of the assets, the projected performance in terms of delinquency exceeded the benchmark we set with our partners.

According to the agreement, mostly the early time sort of agreement we had with the partners. If the delinquency exceeding certain benchmark, our take rate will be reduced accordingly. So that's the main reason for Q2's take rate for capital-light dropped quite significantly. But that doesn't mean the actual loss for that batch of asset happened in Q2. It's just a projected kind of a delinquency. Now as the macro economy improved, the asset quality continued to improve. So we get over the third quarter, that particular batch of assets, the actual loss is actually much better than previously expected and making the delinquency lower than the benchmark we set in the agreement.

So from accounting perspective, whatever the charge you took in the second quarter has to be reversed back in the third quarter. So if you just look at the printed number, you see the third quarter's take rate is significantly higher than the second. But if you get rid of all these kind of noises, meaning adding back those charges to the second quarter and get rid of this write-back in the third quarter, you would compare to the real core take rate for the capital-light model. For that number, we see very modest improvement in the third quarter versus the second quarter.

---

**Yushen Wang CLSA Limited, Research Division - Research Analyst**

Got it. Alex, just a quick follow-up. So the high take rate for capital-light model in the third quarter, may be partially contributed to the reversal of the charge in the second quarter. So in the fourth quarter and forward, should we assume that this reversal is one-off? So it should be gone and take rate should go fairly lower to be normalized. Is that the correct understanding?

---

**Zuoli Xu 360 DigiTech, Inc. - CFO**

I think, in general, that's probably the right assumption. Given the macro economy continue to improve, we don't expect any sort of piece of asset to exceed any of those benchmark anymore. So that's -- the noise will be gone either way. And overall, the -- and remember that since September, our overall pricing coming down a little bit, that for capital-light model, the take rate also related to a certain degree of the pricing. So for the fourth quarter, we will see flattish to slightly downward on the take rate for the capital-light model.

---

**Operator**

Our next question is from Steven Chan at Haitong International.

---

**Steven Chan Haitong International Research Limited - Executive Director**

(foreign language) My question, divided into two parts. One follow-up on the lending rate APR. Just want to know the decline in APR, is it related to the pressure from the funding partner or from the market? Do we see a stabilized trend in Q4? And then for micro finance loan facilitation business. If you compare with the business model of Lufax, actually, the business model of Lufax is completely different from the consumer finance loan facilitation model, especially one for acquisition costs -- the per customer acquisition cost actually was very high. So are we going to see similar pattern? Two, in terms of risk management system, they have to cater for bigger ticket size and the longer tenure. Is our current risk management system -- can our current risk management system cater for this change in like ticket size and tenure? And finally, even in terms of like guarantee model, they do not provide back-to-back guarantee to the customer. But currently, like for our guaranteed business model, we provide back-to-back guarantee. So are we going to follow this similar patent? Or do we have some unique sort of like business model in terms of like guarantee our capital-light business for the inclusive microfinance loan facilitation business?

---

**Zuoli Xu 360 DigiTech, Inc. - CFO**

Thanks, Steve. I would let our CEO and CRO, to take your questions.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Okay. I will translate for our CEO. For the result of lower APR in Q3, the main reason is that we proactively lower APR to fully comply with the regulation. We pretty much have done this process in Q3 and will be in a stable situation in Q4.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Sure. About the customer acquisition cost of SME loans. In the market, there are 2 successful strategies from two of our peers. Number one is the Ping An from Lufax. It is offline coverage team. Secondly, the Weiyedai backed by WeBank. Currently, they have

around RMB 100 billion loan balance. Weiyedai applies online SaaS service provider to channel the SME owners. Both of them, the customer acquisition strategy are successful. And we apply a different strategy, if we learn from them. The customer acquisition cost will vary a bit.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] Yes. Regarding your question about SME loan guarantee model, since we have cooperated with all our funding partners in the past few years, we have -- have established the deeply rooted cooperation, and we trust each other very much. Currently, we have a few billion RMB balance in terms of SME loan, and we will advance the SME loan to capital-light model without guarantee.

---

**Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director**

(foreign language)

---

**Mandy Dong 360 DigiTech, Inc. - IR Director**

[Interpreted] I would turn the floor to our CRO regarding your risk question about SME loss.

---

**Yan Zheng 360 DigiTech, Inc. - Chief Risk Officer**

(foreign language)

---

**Unidentified Company Representative**

[Interpreted] Okay, I will translate. As Haisheng and Mr. Zheng have mentioned before that historically, actually, we have SME customers. And based on the different data sources we can achieve, we have different credit lines. For example, for SME owners with a license, we have around RMB80,000 to RMB90,000 and for data of invoice, we have around RMB140,000. And for the tax data, we have around RMB300,000 and we can see that the risk performance is about 20% lower than the average of our total assets. For the duration is about 17 to 18 months, so there's no fundamental difference from 36 months period. So we can see that actually, our risk management mechanism can work on this customer base. And historically, we have also proved that every time, if we do the refinement operation and improve our model, we can actually do and operate to the customers, yes.

---

**Operator**

That's all for today's Q&A session. I now would like to hand it back to the management for closing remarks.

---

**Zuoli Xu 360 DigiTech, Inc. - CFO**

Thank you, operator. Thanks, everyone, to participate in our call. If you have additional questions, please feel free to contact us. Thank you.

---

**Operator**

That is the conclusion of today's conference call. You may disconnect. Goodbye.

---

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020 Refinitiv. All Rights Reserved.