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# EDITED TRANSCRIPT

Q3 2021 360 DigiTech Inc Earnings Call

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**Yada Li** China International Capital Corporation Limited, Research Division - Analyst

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the 360 DigiTech Third Quarter 2021 Earnings Conference Call. Please also note today's event is being recorded.

At this time, I would like to turn the conference over to Ms. Mandy Dong, IR Director. Please go ahead, Mandy.

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

Thank you. Hello, everyone, and welcome to our third quarter 2021 earnings conference call. Our results were issued earlier today and can be found on our IR website. Joining me today are Mr. Wu Haisheng, our CEO and Director; Mr. Alex Xu, our CFO and Director; and Mr. Zheng Yan, our CRO.

Before we begin the prepared remarks, I'd like to remind you of our safe harbor statement in our earnings press release, which also applies to this call. We may refer to forward-looking statements based on our current plans, estimates and projections. Also, this call includes discussions of certain non-GAAP measures. Please refer to our earnings release for a reconciliation between non-GAAP and GAAP ones. Last, unless otherwise stated, all figure mentioned are in RMB.

I will now turn the call over to our CEO, Mr. Wu Haisheng.

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

(foreign language)

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

[Interpreted] Hello, everyone. I'm happy to report another strong quarter. This marks the sixth consecutive quarter of record-breaking results since the pandemic last year.

During the quarter, total loan facilitation volume reached RMB 97.6 billion through our platform, marking another record high, up 48% year-on-year and 10% Q-on-Q. Outstanding loan balance reached RMB 133.4 billion, up 58% year-on-year and 13%, 1-3 percent, Q-on-Q.

Total revenue was RMB 4.6 billion in Q3, up 25% year-on-year and 15%, 1-5 percent, Q-on-Q. Non-GAAP net income was RMB 1.63 billion, up 27% year-on-year and 1% Q-on-Q. We are in a fast changing world and market hot topics come and go. Our response to all of that is to consistently deliver record-setting results quarter after quarter. We believe this fully demonstrates strong resilience of our team and the business.

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

(foreign language)

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

[Interpreted] We got a lot of questions about recent regulatory developments. We have maintained such dialogue with regulators in recent months. So let me first share some updates here.

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

(foreign language)

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

[Interpreted] Rectification is the top priority for the 14 leading Internet platform summoned by regulators early this year. Majority of the issues have to be addressed by the end of this year. On October 19, 2021, Mr. Guo Shuqing, CCP Chief of PBOC and Chairman of CBIRC stated publicly, "in the process of rectification of the 14 leading Internet platforms, regulators raised over 1,000 issues. We have received proactive response for majority of the issues and about half of the issues have been resolved. As such, we anticipate more substantive progress by the end of this year". Compared to other platforms with financial holding company structure, we don't do payment business, nor do we offer sophisticated one-stop financial services.

Our business model is rather simple and straightforward, thus we have far fewer issues than most other platforms. Currently, we are progressing based on the regulatory time line. This includes enhancing corporate governance, adjusting operations under various licenses and optimizing user experience, et cetera. We are very confident to complete this compliance-related items by the regulatory deadline.

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

(foreign language)

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

[Interpreted] As for new regulations related to credit agencies, we have been in close communications with regulators and prepared multiple proposals to cover different scenarios. First, we can further leverage various financial license on hand, and we also have sufficient cash to inject capital into our licensed entities, if necessary.

Second, we can actively in discussion with existing credit rating agencies to explore potential business arrangement. Of course, this is a rather complicated process from both operational and technology perspective. That's why regulators give a rather long grace period. Third, as a leading fintech company in Shanghai and nationwide, we will also proactively participate in applying for a new credit agency license when opportunity presents. Fourth, we will continue to work with our strategic partner, KCB, leveraging the banking license. As you can see, we have multiple solutions to satisfy this requirements of new regulation, and we might be the better prepared than most other peers.

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

(foreign language)

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

[Interpreted] On cap 24% front, some financial institutions have been window guided to lower their APR to below 24% by next June. We have proactively communicated with our financial partners to drive down prices on our platform. Our average pricing in Q3 dropped by more than 1% compared to Q2. As of October, more than 60%, 6-0 percent, of loans from our platform were price below 24%. Going forward, we will continue to lower our average pricing in an orderly manner to meet cap 24% by Q2 next year.

Meanwhile, the hedging benefits of lower prices are gradually showing. We started to attract better quality customers and larger financial institutions. New customers risk profiles appear better than existing ones. Meanwhile, our operational efficiency is also enhancing.

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

(foreign language)

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

[Interpreted] In addition to consumer loan users, our SME and large ticket loan users have both grown nicely, and the quality of our SME borrowers continued to improve. Average credit line of SME borrower was up by 34% year-on-year. As such, CAC i.e., customer acquisition cost is no longer a proper measure to evaluate our user acquisition efficiency. We have established a more diversified borrower matrix that has better quality and higher ROI.

In addition, our embedded finance API model continued to grow rapidly and maintained leadership position. In Q3, more than half of our new consumer loan borrowers were acquired under this model.

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

(foreign language)

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

[Interpreted] On the funding front, we will gradually expand our collaboration with national banks and a diverse beyond consumer finance company and urban commercial banks. Currently, we have a number of national banks in our pipeline, including Everbright Bank, Zheshang Bank and Pudong Development Bank, among others. Expanding relationship with larger national banks will provide us with more stable funding source at a more attractive cost. In Q3, our overall funding cost remained at around 6.7% near historical low.

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

(foreign language)

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

[Interpreted] Next, I would like to share some strategic developments. First, for the tech-driven transition strategy, loan facilitation under the capital-light and other tech model increased to 56.8% in Q3, close to our full year target.

Our smart marketing products, ICE, Intelligence Credit Engine, continued to grow with more innovative products rolling out. Transaction volume under ICE in October increased by 53% compared to June.

For our customer acquisition system, we are piloting upgraded marketing models on some channels, and AB test data shows average credit line rate increased by 20% for the dollar we spend. We will continuously progress the test run and apply to more channels to obtain better quality customers.

We have received the patents and have outstanding patent applications in several cutting-edge areas such as federated learning, perception and recognition and bionic technology. So far, we have filed over 900 patent applications in fintech-related areas.

Recently, we have received multiple awards from the Asian Banker 3 years in a row. We won the Best Risk Data and Analytics Technology implementation of the Year in China, the Best Fraud Prevention Technology Implementation of the Year in China, and Best Digital Lending Services in China. Among fintech companies, we had the most awards in the most categories for 2021.

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

(foreign language)

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

[Interpreted] Our SME business continued to deliver solid growth in Q3. Total amount of new approved credit lines increased 13%, 1-3 percent, Q-on-Q to RMB 8 billion. We are constantly refining our business process to roll out more innovative products. For example, we leverage our technical strength to improve borrower experience. More than 30%, 3-0, of SME owners received their credit line within 10 minutes. Better user experiences give us a clear competitive edge in marketing channels.

We also established a process for the "bank and tax interaction" model, a financing channel by which banks provide loans to SMEs based on their historical tax payments. We also made breakthroughs in corporate credit rating and credit approval.

Last but not least, our off-line direct sales team continued to ramp operations, and it contributed about 20% new customers in Q3.

Off-line team can access better quality first-hand customer information to feed in our risk models. With these measures, we have gradually built up our competitive strength in SME finance in terms of risk management, funding, user acquisition and products.

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

(foreign language)

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

[Interpreted] As a leading fintech company, we regard ESG as a key component of our long-term business strategy. Under the guideline of China Association of Small and Medium Enterprise, CASME, we have launched joint loan products with over 100 partners including Kingdee, Nuonuo, Yonyou, and Baiwang. These products serve different industries, including supermarkets, suppliers and logistics. Meanwhile, we announced November at the special SME month, during which we target to waive RMB 10 million worth of interest for our SME customers. To support China's carbon neutral commitment, we have rolled out consumer loans for electric vehicles.

In addition, the World Economic Forum recently awarded us New Champions Community Awards of Excellence in Agile Business Governance 2021. We are especially honored to be the only company in Asia to have received this award this year. This speaks to our increasing impact and commitment to social responsibility and corporate governance.

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

(foreign language)

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

[Interpreted] Finally, a note on our guideline for Q4. It's already in the middle of November. Based on our year-to-date performance and the business momentum so far this year, we are confident that we will deliver a solid Q4 and exceed our previous full year loan volume guidance.

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

(foreign language)

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

Okay. Thank you, Haisheng. Good morning, and good evening, everyone. Welcome to our quarterly earnings call. For the interest of time, I will not go overall the financial line items on the call. Please refer to our earnings release for details.

As Haisheng mentioned, we delivered the sixth consecutive record-breaking quarterly results in both operational and financial terms for the third quarter of 2021 in a relatively muted macro backdrop. We saw continued strong consumer demand for credit and stable asset quality. Our faster-than-market growth suggests that we continue to gain shares in the target segment.

Total net revenue for Q3 was CNY 4.6 billion versus CNY 4 billion in Q2 and CNY 3.7 billion a year ago. Revenue from credit-driven service, capital heavy, was CNY 2.62 billion compared to CNY 2.4 billion in Q2 and CNY 2.96 billion a year ago. The year-over-year decline was mainly due to facilitation volume mix change as capital heavy loan volume decreased significantly. Meanwhile, capital-heavy facilitation revenue take rate improved modestly quarter-on-quarter.

Revenue from platform service, capital light, was CNY 1.99 billion compared to CNY 1.6 billion in Q2 and CNY 748 million a year ago. The robust growth was mainly driven by continued progress we have made in capital light and other technology solutions.

During the quarter, capital light and other tech solutions contribute roughly 57% of total loan volume, and capital-light facilitation revenue take rate also improved nicely.

During the quarter, average pricing was 26.1% compared to 27.2% in Q2 and 25.9% a year ago. As the 24% rate cap being implemented across the industry, gradually, we are expecting average pricing to trend down by about 1 percentage point each quarter through mid-2022 to satisfy the rate cap requirement.

As we discussed in the past, even under a more restrictive and steep rate cut scenario, we should still be able to maintain healthy growth and profitability in the transitional year of 2022 and resume to a more robust growth upwards.

During the quarter, we continue to maintain a healthy pace of customer acquisition while focusing on attracting high-quality borrowers. In particular, we significantly increased the number of customers with much larger credit lines and relatively lower risks. The average ticket size of these type of customers typically runs between RMB 150,000 to RMB 200,000, compared to the average of RMB 10,000 for "regular borrowers". As such, on a blended basis, average customer acquisition cost, which is calculated by dividing the sales and marketing costs with the total new credit line users. Customer acquisition cost per user with approved credit line was RMB 305 in Q3 compared to RMB 250 in Q2. However, excluding large ticket sized customers in both consumer and SME markets, average cost per approved credit line was approximately RMB 249 in Q3 compared to RMB 224 in Q2.

As we discussed in the past, average cost per approved credit line is a calculated number with limited value in our internal decision making process. We will continue to use life cycle ROI and LTV as key metrics to determine the pace and scope of our customer acquisition strategy. So far in 2021, we have maintained healthy ROI and LTV trends, which, in turn, drive stable net take rate.

While overall risk metrics were relatively stable in Q3, we continue to take prudent approach in booking provisions against the potential credit loss. New provision for contingent liability for loans originated in the quarter was approximately CNY 1.5 billion. Meanwhile, approximately CNY 800 million of provisions for contingent liability of previous period loans was written back as actual performance of those loans was better than expected.

Provision booking ratio, which is defined as new provision for contingent liability divided by capital heavy loan facilitation volume, remained stable. With strong operating results and increased contribution from capital-light model, our leverage ratio, which is defined as risk-bearing loan balance divided by shareholders' equity, further declined to 4.3x in Q3 from 4.8x in Q2 and 7.4x a year ago. We expect to see continued deleveraging in our business driven by further movement towards capital-light and solid operating results.

We generated CNY 1.74 billion cash from operations in Q3 compared to CNY 1.3 billion in Q2 and CNY 1.42 billion a year ago. Total cash and cash equivalents was CNY 7.6 billion in Q3 compared to CNY 8.8 billion in Q2. Nonrestricted cash was approximately CNY 4.2 billion in Q3 versus CNY 5.2 billion in Q2, The decline in cash was mainly due to more proactive deployment of cash in our operations to support ABS and pre-ABS assets, which generate higher returns. As a result, during the quarter, on-balance sheet loan volume increased to CNY 12.8 billion from CNY 9.8 billion sequentially.

Meanwhile, a significant portion of our cash was also allocated to security deposits with our institutional partners and registered capital of different entities to support our daily operations. As we continue to generate strong cash flow from operations, we believe our current cash position is more than sufficient to support the growth of our business to invest in key technologies and to satisfy potential regulatory requirements. Therefore, yesterday, our Board of Directors approved a quarterly dividend policy and declared our first ever quarterly dividend of USD 0.28 per ADS for Q3.

Going forward, we will distribute approximately 15% to 20% of quarterly net income after tax in the form of cash dividends on a recurring basis. We believe it is an appropriate way to generate additional return to our shareholders and to appreciate their long-term support.

Finally, let me give you some update of our outlook for the fourth quarter. The operating results for the first 3 quarters of 2021 were very encouraging, and we continue to see healthy business development in Q4 despite some seasonal headwinds and muted macro conditions. As such, we now expect Q4 total loan volume to be between RMB 90 billion and RMB 100 billion, which bring our 2021 total loan volume guidance to be between RMB 350 billion and RMB 360 billion compared to previous guidance of RMB 340 billion and RMB 350 billion.

The revised guidance represents year-on-year growth of 42% to 46%. As always, this forecast reflects the company's current and preliminary view which is subject to material change.

With that, I would like to conclude our prepared remarks. Operator, we can now take some questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And first question is Richard Xu from Morgan Stanley.

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### Ran Xu *Morgan Stanley, Research Division - MD*

(foreign language) My question is basically, the management mentioned that there's 60% of loans already priced at below 24%. What's the growth in net take rate and risk profile of these client base, and that will give us probably a better indicator of the profitability after the transition period. (foreign language)

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

(foreign language)

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

I will translate for our CEO Haisheng first. [Interpreted] Thank you, Richard, for your question. I will give you some color about this take rate. Number one, for the net take rate, the asset below 24%, it's 1% lower than our current total loan book, which is 3% net take rate.

Secondly, as for the risk profile of this 24% cap assets, what we observed is in Q3, the new transaction has better risk performance than the existing assets. For example, in the day 1 delinquency metrics, the new transaction is 4.2%, and the total loan book is 5.1%.

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

(foreign language)

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### Yao Lu

[Interpreted] Okay. To add a little bit more. In the meanwhile, we have seen that there's a little bit fluctuation in risk performance. For example, the D1 delinquency rate has declined for 5 consecutive quarters while is 5.1% in this quarter, slightly higher than the second quarter, and the 30-day recovery rate decreased slightly from 90% Q2 to less than 90%. However, we're confident to say that such change is very controllable. We believe such kind of changes are caused by the cyclical factors as well as regulatory policies, but they are short term and temporary and have relatively little impact on our customer base.

At the same time, our customer acquisition team and risk management team have made some changes proactively, including firstly, for customer acquisition, we have improved our intelligent marketing strategy. We changed from improving efficiency and controlling costs to improving quality and controlling cost.

Taking information for channels as an example. The proportion of RTA customer acquisition model has further increased to more than 40%. In this quarter, the Pre-A model was optimized focusing on user quality and the user acquisition efficiency, in which the user quality screening ability was improved by 17%, and the user acquisition efficiency was improved by 20%. So as Haisheng has mentioned before, with the same customers acquisition costs, we are able to improve -- increase the credit line by 20%.

Secondly, for potential risky customers, we have started a risk reduction strategy in advance. We make full use of our self-developed advanced algorithm models such as GBST to accurately identify risk susceptible groups and tighter risk management accordingly. For example, for people borrowing from multiple platforms, we have lowered approval rates.

Thirdly, for existing new customers, we reduced prices while matching users' conception and business revolving needs so as to achieve the efficiency of transferring balance to lower-risk customers.

Eventually, as Haisheng has mentioned, we can see risks for new transactions is decreasing. Taking the first repayments of new loans in September as an example, the delinquency rate decreased to 20%, which is lower than the average of the second quarter. In short, with the continuous improvement of our customer base and optimization of our risk management, we are very confident to keep the risks within expected range in the future.

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

Richard, do you have any follow-ups or we can move on to the next question?

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**Ran Xu Morgan Stanley, Research Division - MD**

Just one quick follow-up. What's the overall, I mean, if you factor in the risks and client acquisition cost, differences, any overall guidance on sort of the net take rate for this client base?

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

Well, let me take this one. We are still seeing the same logic as we mentioned, after the second quarter results. If you recall, we have the sort of a stress test under the 24% scenario, basically, we still see 1 percentage drop. When everything being said and done when the entire portfolio moved down below 24%, the average pricing will probably sit somewhere around 22.5% and the net take rate will drop from 4% roughly to about 3%. That's still the outlook for the moment.

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**Ran Xu Morgan Stanley, Research Division - MD**

Okay. So it's consistent with our original estimates, the new data suggest, right?

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

Yes.

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**Operator**

Next question is Yada Li, CICC.

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**Yada Li China International Capital Corporation Limited, Research Division - Analyst**

(foreign language) Okay, then I'll translate my question. My question is regarding the risk metrics. I see some of our risk matrix on year the best level in Q3 during this quarter. I was wondering when we're looking forward when interest rate gradually declines and lower origination continue increasing, can we expect to see a better level of risk metrics? Or is it what we can see now is almost the best we can do?

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

(foreign language)

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**Yao Lu**

[Interpreted] Okay. We will take some time for adjustment. So when the adjustment is finally done, we can say that as a proportion of new transactions take place and customers improved, eventually the risk performance will be improved. While during the process, there will be cyclical and regulatory policies change, so there will be a little bit fluctuations in the process.

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

Yada, do you have any follow-up?

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**Yada Li China International Capital Corporation Limited, Research Division - Analyst**

(foreign language)

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**Operator**

Next question is Alex Ye from UBS.

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**Xiaoxiong Ye UBS Investment Bank, Research Division - China Financials Research Associate**

(foreign language) So my question is regarding regulation. So in your prepared remarks, you mentioned about considering different options of the company financial license. Could you give us some additional color on that in terms of what you mean? And we saw from the news earlier that one of the micro loan license under QFIN has increased capital from CNY 500 million to CNY 1 billion. I'm wondering what's your consideration behind? And is there any progress you have heard from the regulators about your national micro loan license?

And finally, so given the current regulatory progress or direction. have you considered a scenario where in the future, our business model will need to be conducted through any kind of license?

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

(foreign language)

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

[Interpreted] Sure. Well, compared to other, let's say, peers, we are one of the few companies that have direct dialogue with regulator. Therefore, we can proactively follow the regulatory guidance according to our firsthand information. Firstly, for the credit rating agency, we will participate actively in applying for a new credit rating license. Secondly, for the current existing financial license on hand, we will now consider carefully to inject capital into the licensed entities. Of course, we have abundant capital reserve to inject. Thirdly, according to the regulator requirement for the financing company that nowadays, we have shareholders in 2 guarantee companies. In the discussion, we might need to exit from one guarantee company, but there will be very muted impact to our operation.

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

Yes. Sorry, I want to get a little bit of clarification on this. So we currently hold 2 financial guarantee licenses. And according to the new regulatory guideline, for any entity, you can only hold one. So we will, in the future, consolidate 2 into 1 license. And because this license -- basically the business is driven by the registered capital as the license, essentially, we just need to move the registered capital from one license to another. From the scale -- in terms of scale of the business we can do with this license, there's no impact because it's based on the capital, registered capital. That's just one add up to that. Haisheng, you can continue.

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

(foreign language)

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

[Interpreted] As for your second part question for possible business model change, I will address this question in 2 parts. First, for our self-funded business, we can further leverage our micro finance license and guarantee license. Both licenses are national-wide and they have enough leverage to be utilized. Second part for our loan facilitation business. First, we can actively cooperate with the current existing credit rating agencies. Secondly, the micro finance license can also play a vital role in the loan facilitation business.

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

(foreign language)

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

[Interpreted] Last, KCB has a deep-rooted relationship with us. We can further utilize their license to be fully compliant.

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

Sorry, Mandy was breaking up a little bit her line. But basically, Haisheng said is that KCB is, even though it's not our directly holding license as a related party holding, but we can still leverage the relationship with KCB and to use the banking license, conduct a series of business activities there.

**Xiaoxiong Ye UBS Investment Bank, Research Division - China Financials Research Associate**

(foreign language) So a quick follow-up from me. So you mentioned that the micro loan license could play a role in the future. So given that the regulation regarding the handout of micro loan license is still in the consolidation status. Do you have any expectation of when it's going to be rolled out? And also, you state it's such a micro loan license part of your sales impaction and rectification progress for the 14 platforms?

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

(foreign language)

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

[Interpreted] Alex, to answer your question. First, we are not informed about the time line of the guideline for micro finance license. We believe that may follow after some basic law about the 9th financial institution guidance is released. Secondly, yes, you are right, the guideline of micro finance license is within the issues of the 14 Internet platforms rectification progress.

**Operator**

The next question is Thomas Chong from Jefferies.

**Thomas Chong Jefferies LLC, Research Division - Equity Analyst**

(foreign language) My question is more about the 2022 outlook. So it's a bit early to talk about next year's numbers. But given the fact that the macro headwinds and the uncertainties of the properties sector, how should we think about our business growth momentum into next year, qualitatively, would be great.

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

(foreign language)

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

[Interpreted] Yes. Sure. First, I understand that market has some concern about the macro economy next year. We stay very vigilant and closely monitor our operational metrics on every front. Nowadays, we are still in the budgeting process. We do not have more concrete guidance to share with you, but we can assure you that all the outlook color we give now is based on a very prudent approach.

Secondly, I want to emphasize that our business and team has experienced a cycle of regulation and pandemic last year. This is a very strong demonstration of the resilience of our business and the teams. We don't think next year, the situation will be more severe than the previous regulatory cycle or pandemic cycle. Therefore, we are very confident.

**Thomas Chong Jefferies LLC, Research Division - Equity Analyst**

(foreign language) And my follow-up question is about our different customer or borrower industry categories. Given that we are ramping up the SME business, I just want to get some color about the industries that they are engaging in and whether they are impacted by the macro headwinds. Is there any categories that are doing okay? Some are not doing better or a bit below expectation. Can we talk about the key factors that they're engaging in and their outlook?

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

(foreign language)

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

Go ahead, Mandy.

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

[Interpreted] Sure. Okay. I will translate first. Currently, SME takes a small proportion in our business, and our customers is tiny, small business customers. Based on our firsthand information with them, we still see very good risk performance. Yan Zheng, please go ahead.

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

(foreign language)

**Yao Lu**

[Interpreted] So as Haisheng has mentioned, as our volume for SME business is relatively small, we have a larger base to choose the customers we want. And for case study and risk performance, I'd say that the risk is relatively steady. But for some cities with the COVID problem, there's a small fluctuation. While with the COVID is gradually under control, the risk performance will become steady again. And as I mentioned before, for customers acquired, the portion of direct sales is increasing and the risk performance of the direct sales customer acquisition is just like 80% to 90% of the average. So with the increasing of these channels, we can see our risk performance will be lower in the future.

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

Thomas, I just want to add one color to your first question regarding the outlook for 2022. As Haisheng mentioned, yes, at this point, we can't give you any official sort of a guidance to the outlook. But if you recall, after the second quarter, we did the stress test, which related to the 24% rate cap. In that stress test, we consider the microenvironment for 2022 as well as the regulatory change, in particular related to the credit agency connectivity issues, which we believe is a very complicated issue, involve a lot of technology problem solving. And with that kind of assumption, in that stress test, if we recall, we assumed a 20% kind of a volume growth for next year. And then the net take rate, as I mentioned earlier in this call, will come down from 4% right now to about 3% in that stress test. So that assumption as well as the conclusion for that stress test still holds at this point. Although I would just want to emphasize again, this is not an official guidance.

**Operator**

This is the end of the question-and-answer session. Now I hand back over to the management for closing remarks.

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

Okay. Thank you, everyone, for joining us for the call. If you have additional questions, please contact us directly. Thank you. Bye-bye.

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

Bye-bye.

**Operator**

That's the end of the conference call. You can hang up. Thank you.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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