

# MANAGEMENT PRESENTATION

## Q1 RESULTS

May 2020



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# AGENDA

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- 1 Snapshot of Operation & Financial Results
- 2 Key Updates – New Accounting Policies
- 3 Key Updates – Covid-19 Impact
- 4 Key Updates – New Regulation
- 5 Business Outlook





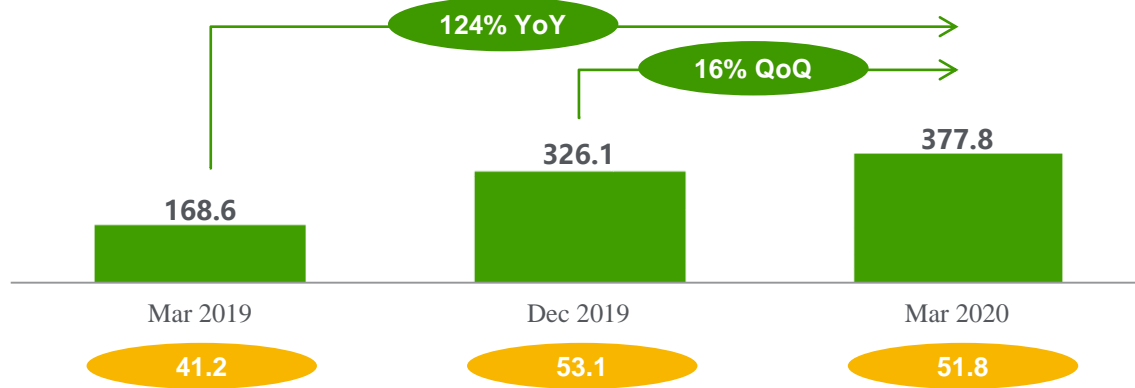
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# SNAPSHOT OF OPERATION & FINANCIAL RESULTS

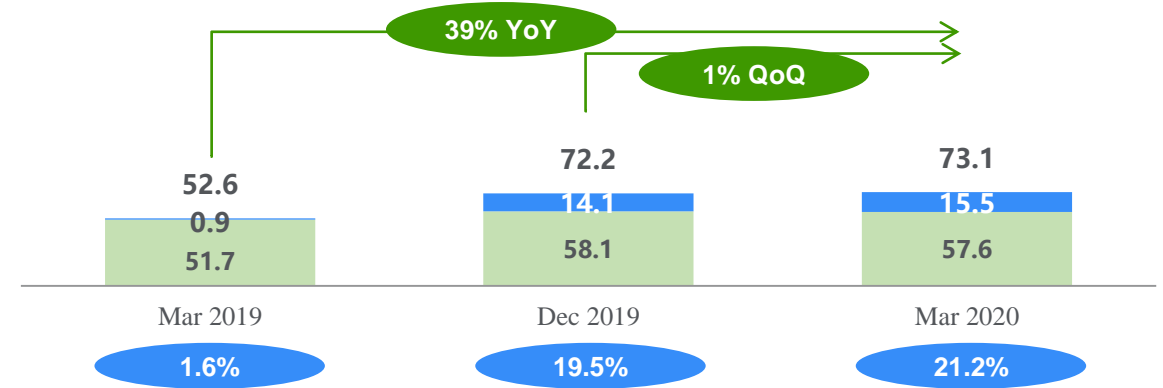
# DESPITE THE OUTBREAK OF COVID-19, STILL MAINTAINED GROWTH MOMENTUM

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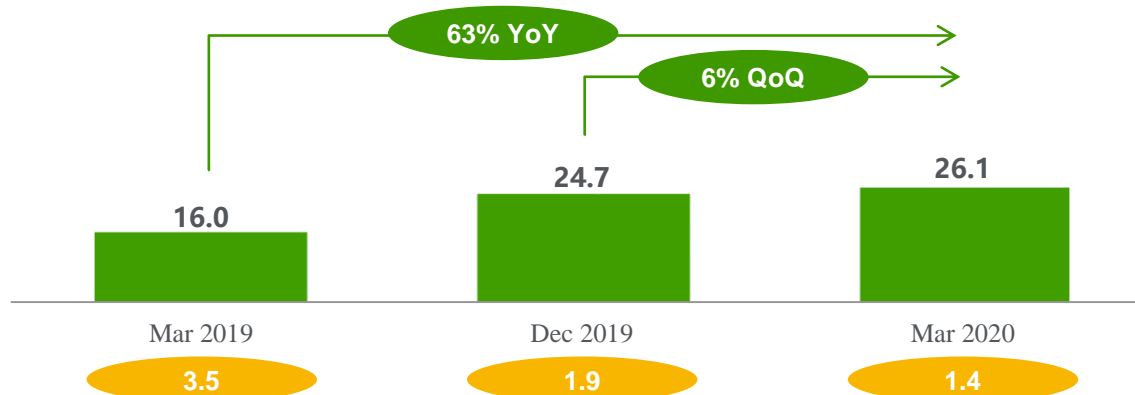
Cumulative Loan Origination  
(RMB BN)



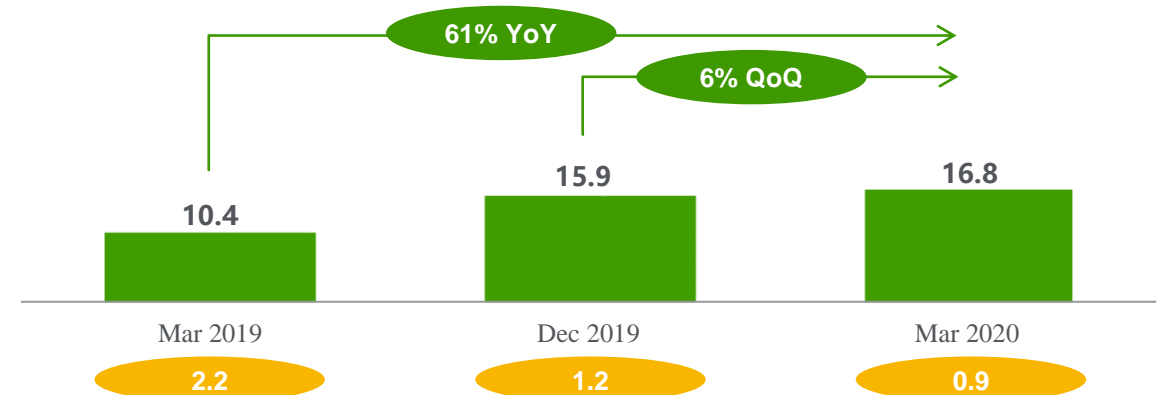
Outstanding Loan Balance  
(RMB BN)



Users with Approved Credit Line<sup>1</sup>  
(MM)



Cumulative Borrowers  
(MM)



● Quarterly Growth Amount 
 ● Capital Light % 
  Risk-bearing outstanding loan balance 
  Capital-light outstanding loan balance

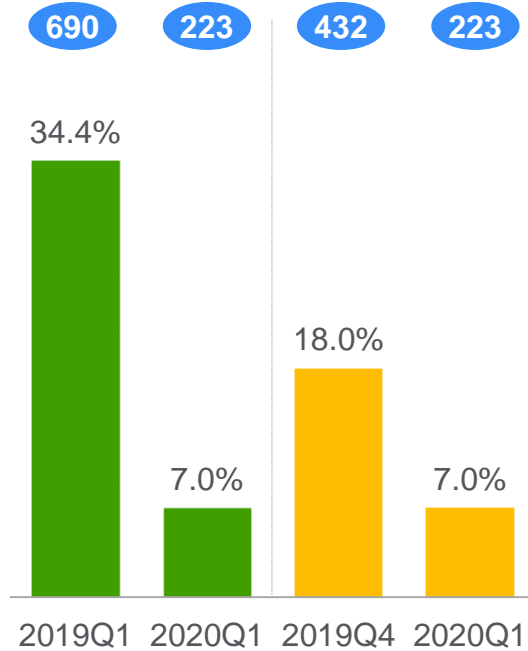
Note: 1. Refers to the total number of users who had submitted their credit applications and were approved with a credit line by the Company at the end of each period.

# IMPROVING OPERATIONAL EFFICIENCY

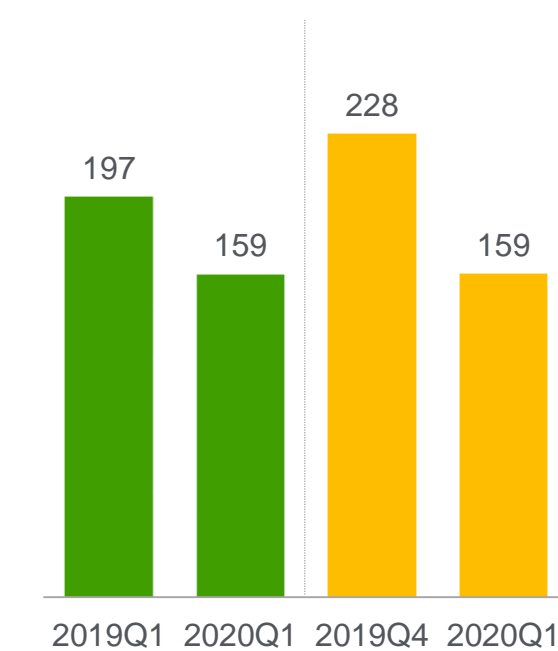
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## Sales and Marketing Expenses as % of Revenue

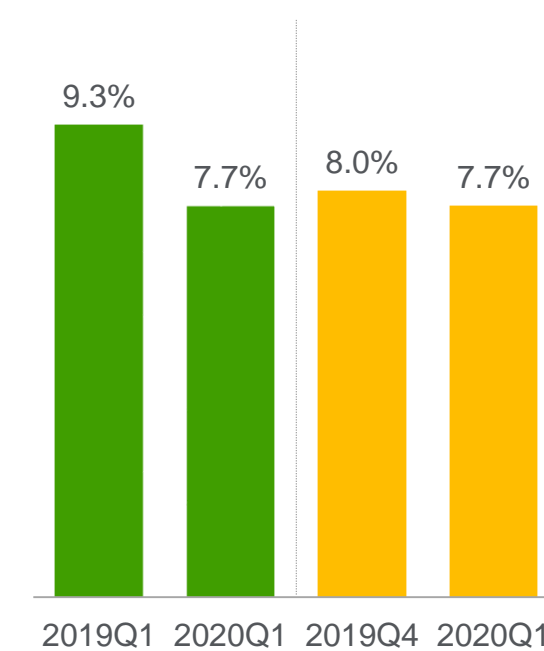
Sales and Marketing Expenses  
(RMB MM)



## User Acquisition Cost<sup>1</sup> (RMB)



## Funding Cost



## ABS Issuance

Time	Stock Exchange	Amount (RMB MM)	Funding Cost
Feb 2019	SHSE <sup>2</sup>	300	5.7%
July 2019	SHSE <sup>2</sup>	1,000	5.5%
Oct 2019	SZSE <sup>3</sup>	500	5.8%
Nov 2019	SZSE <sup>3</sup>	500	5.4%
Jan 2020	SZSE <sup>3</sup>	500	6.0%
Apr 2020	SHSE <sup>2</sup>	300	5.5%
May 2020	SZSE <sup>3</sup>	300	4.9%
<b>Total</b>		<b>3,400</b>	<b>5.6%</b>

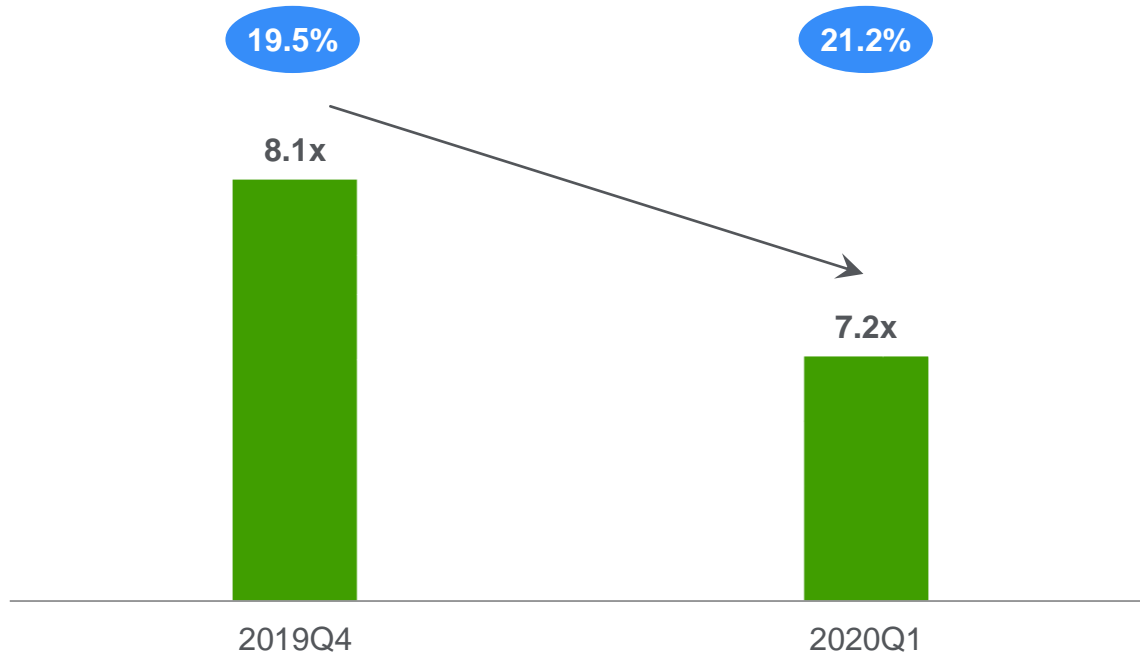
Note: 1. User acquisition cost is calculated by (i) sales and marketing expenses, divided by (ii) the number of new users with credit lines for the period. 2.Refers to Shanghai Stock Exchange. 3. Refers to Shenzhen Stock Exchange.

# IMPROVING MARGIN OF SAFETY

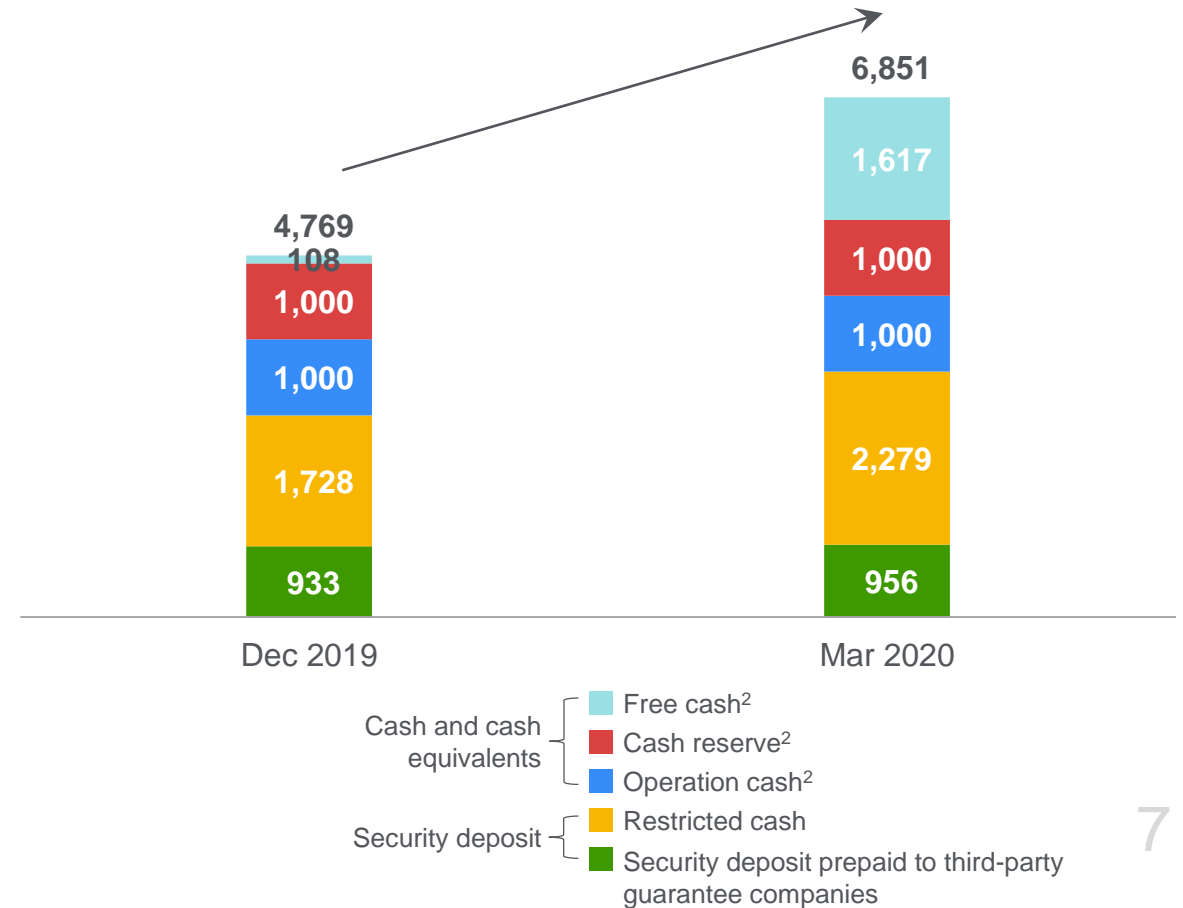
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## Leverage Ratio<sup>1</sup>- Old Accounting Policies

### Capital Light as % of Outstanding Balance



## Cash Position (RMB MM)



Note: 1. Leverage Ratio = Risk-bearing outstanding loan balance / net assets. 2. For illustrative purpose only.

# BY THE WAY, WE DID NOT FORGET INNOVATION

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## Efforts on Customer Stickiness



## Building Up Ecosystem – More Traffic



## Exploring To-B Services

### Invoice-backed SME Loan

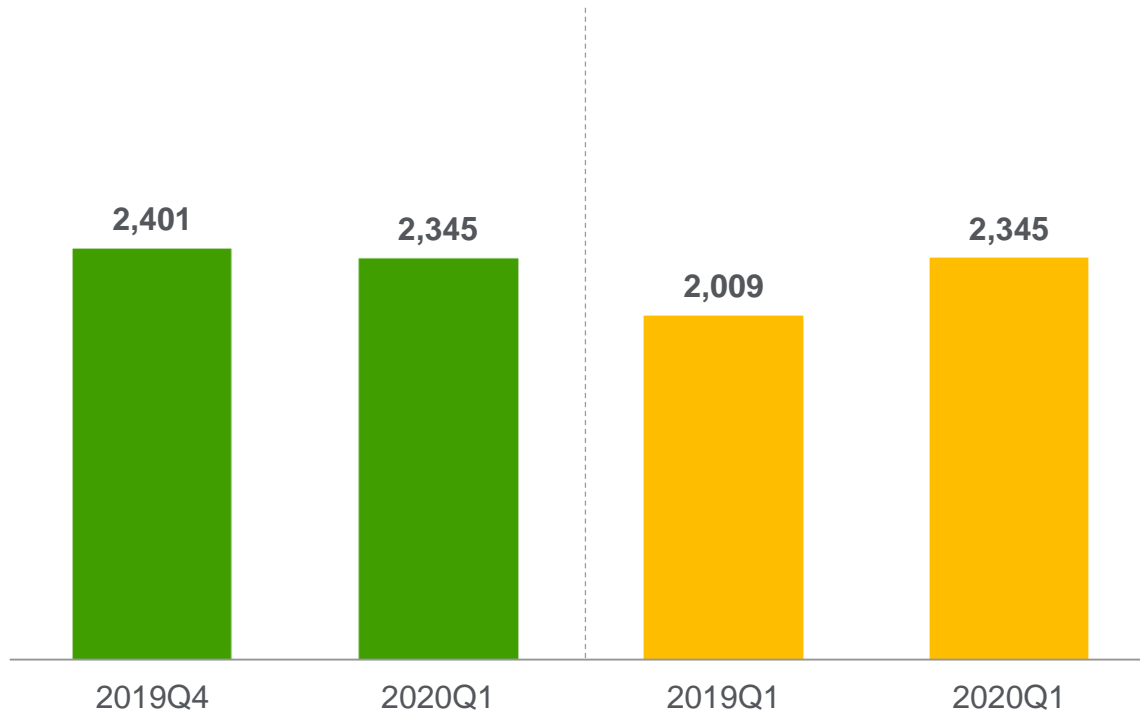
- ✓ Based on SMEs' invoice data
- ✓ Build up SMEs' risk profile
- ✓ Help SMEs solve financing problems



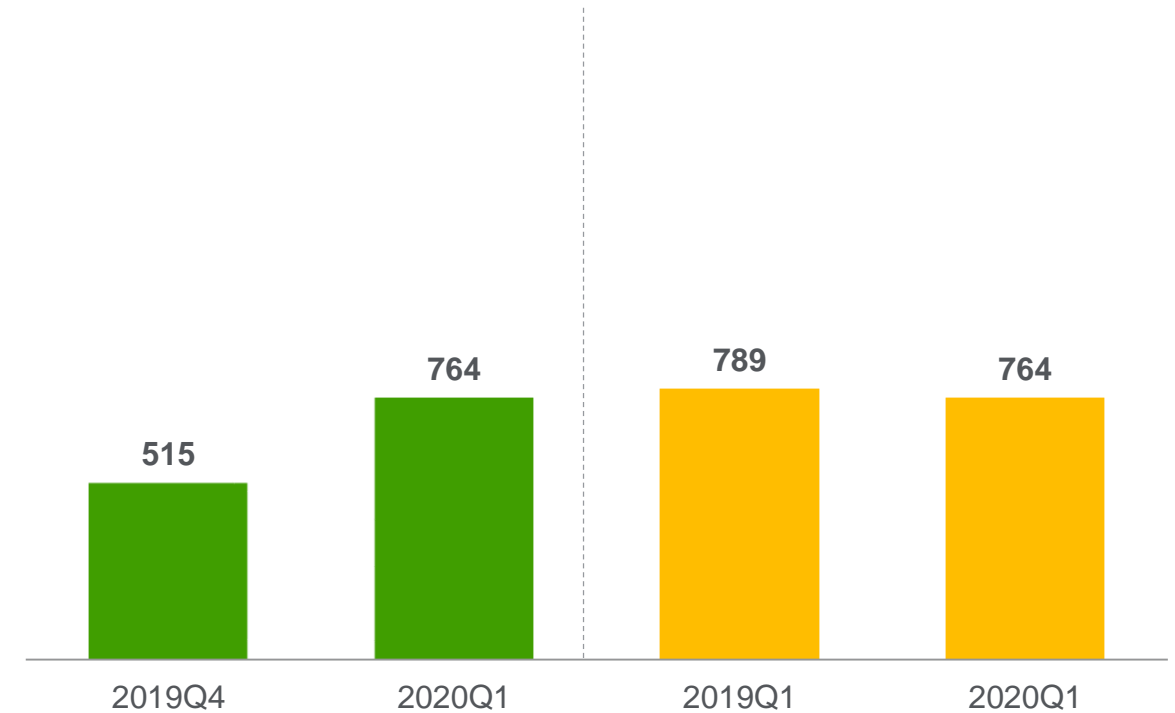
# STEADY FINANCIAL OUTPUTS

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Net Revenue – Old Accounting Policies  
(RMB MM)



Non-GAAP Net Income<sup>1,2</sup> – Old Accounting Policies  
(RMB MM)



Note: 1. Excludes share-based compensation related expenses. 2. The GAAP net income under old accounting policies for 2019Q1, 2019Q4, and 2020Q1 are RMB 720, 430, and 692 million respectively.

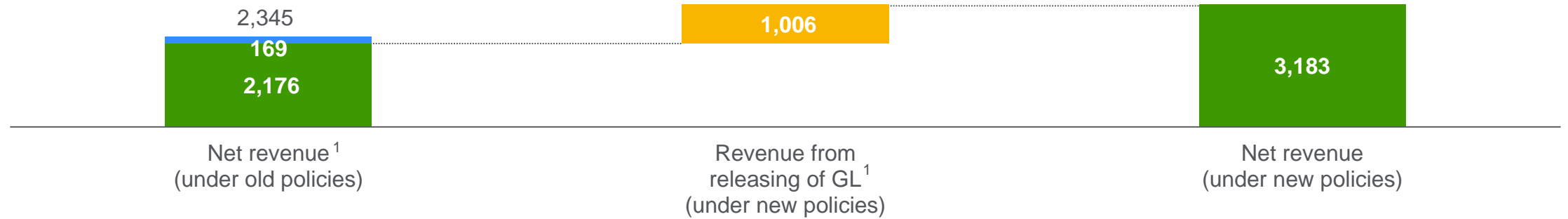
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**KEY UPDATES  
– NEW ACCOUNTING POLICIES**

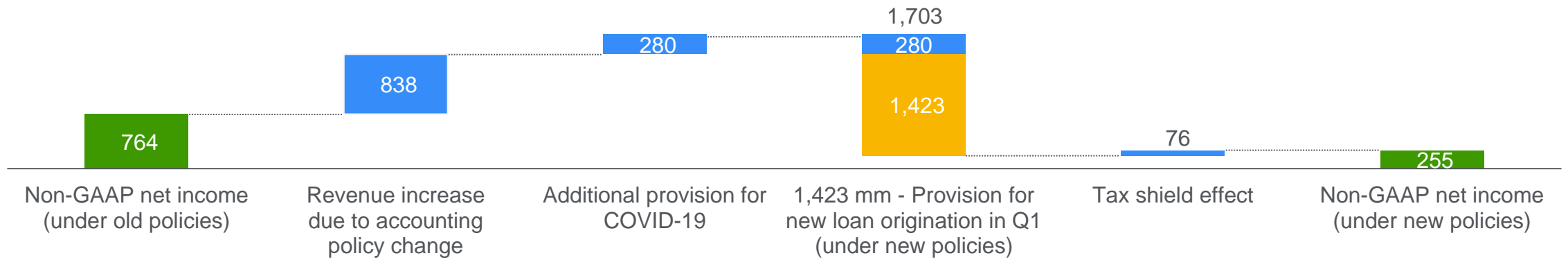
# HOW TO BRIDGE FROM OLD POLICIES TO NEW POLICIES

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## Revenue (RMB MM)



## Net Income (RMB MM)



Accounting  
Items

Revenue from  
releasing of GL<sup>2,3</sup>

Provision for CL<sup>4</sup>

Provision for CL<sup>4</sup>

Note: 1. Includes RMB169mm of revenue from releasing of GL under old accounting policy. 2. GL refers to guarantee liabilities. 3. Includes revenue from releasing of GL under old accounting policy. 4. CL refers to contingent liability.

# ILLUSTRATIVE ACCOUNTING TREATMENT COMPARISON – OLD POLICES

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## Key Assumptions

- 3-month product, loan originated in Month 1, principal and interest repaid in Month 3
- Loan facilitation revenue all recognized in Month 1 (no post-origination revenue)
- No Tax

## Key Metrics

Principal	100
APR	29%
Funding cost	8%
Vintage loss	7%
Net interest spread	14%

## Old Rule

### Month 1

P&L	
Loan facilitation revenue	+14
Revenue from releasing of GL	+7
Provision for CL	+7
Net Income	+14

Net off  
directly

### B&S

AR	+14
FAR	+7
GL	+7
Equity	+14

### Month 3

#### Default (Loss rate at 7%)

P&L		B&S	
No impact		Cash	+14
		AR	-14
		FAR	-7
		GL	-7
Net Income	-	Equity	-

#### No Default

P&L		B&S	
Revenue from releasing of GL	+7	Cash	+21
		AR	-14
		FAR	-7
		GL	-7
Net Income	+7	Equity	+7

Denotes liability items on B&S

Note: CL refers to contingent liability. AR refers to accounts receivable. FAR refers to financial assets receivable. GL refers to guarantee liabilities.



# ILLUSTRATIVE ACCOUNTING TREATMENT COMPARISON – NEW POLICES

.....

## Key Assumptions

- 3-month product, loan originated in Month 1, principal and interest repaid in Month 3
- Loan facilitation revenue all recognized in Month 1 (no post-origination revenue)
- No Tax

## Key Metrics

Principal	100
APR	29%
Funding cost	8%
Vintage loss	7%
Net interest spread	14%

## New Rule

### Month 1

#### P&L

Loan facilitation revenue	+14
Provision for CL	+7

Net Income	+7
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### Month 2

#### P&L

Revenue from releasing of GL	+4
Net Income	+4

### Month 3

#### Default (Loss rate at 7%)

#### P&L

Revenue from releasing of GL	+3
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#### B&S

Cash	14
AR	-14
FAR	-7
GL – stand ready	-3
GL	-7

Net Income	+3
Equity	+3

#### B&S

AR	+14
FAR	+7
GL – stand ready	+7
GL	+7
Equity	+7

#### B&S

GL – stand ready	-4
Equity	+4

#### No Default

#### P&L

Revenue from releasing of GL	+3
Provision for CL	-7

#### B&S

Cash	21
AR	-14
FAR	-7
GL – stand ready	-3
GL	-7

Net Income	+10
Equity	+10

Denotes liability item on B&S

# ILLUSTRATIVE ACCOUNTING TREATMENT COMPARISON – OLD POLICES VS NEW POLICES

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## Key Assumptions

- 3-month product, loan originated in Month 1, principal and interest repaid in Month 3
- Loan facilitation revenue all recognized in Month 1 (no post-origination revenue)
- No Tax

## Key Metrics

Principal	100
APR	29%
Funding cost	8%
Vintage loss	7%
Net interest spread	14%

## Revenue Comparison

Default as expected	Month 1	Month 2	Month 3	Lifetime
<b>Old</b>				
Loan facilitation revenue	14	-	-	14
<b>Net revenue</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>14</b>
<b>New</b>				
Loan facilitation revenue	14	-	-	14
Revenue from releasing of GL	-	4	3	7
<b>Net revenue</b>	<b>14</b>	<b>4</b>	<b>3</b>	<b>21</b>
<b>Net difference between old vs new</b>	<b>-</b>	<b>(4)</b>	<b>(3)</b>	<b>(7)</b>

## Net Income & Equity Comparison

Default as expected	Month 1	Month 2	Month 3	Lifetime
<b>Old</b>				
Net revenue	14	-	-	14
Revenue from releasing of GL	7	-	-	7
Provision for CL	(7)	-	-	(7)
<b>Net income</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>14</b>
<b>Equity</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>14</b>
<b>New</b>				
Net revenue	14	4	3	21
Provision for CL	(7)	-	-	(7)
<b>Net income</b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>14</b>
<b>Equity</b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>14</b>
<b>Net difference between old vs new</b>	<b>7</b>	<b>(4)</b>	<b>(3)</b>	<b>-</b>

Net off directly

Note: CL refers to contingent liability. GL refers to guarantee liabilities.

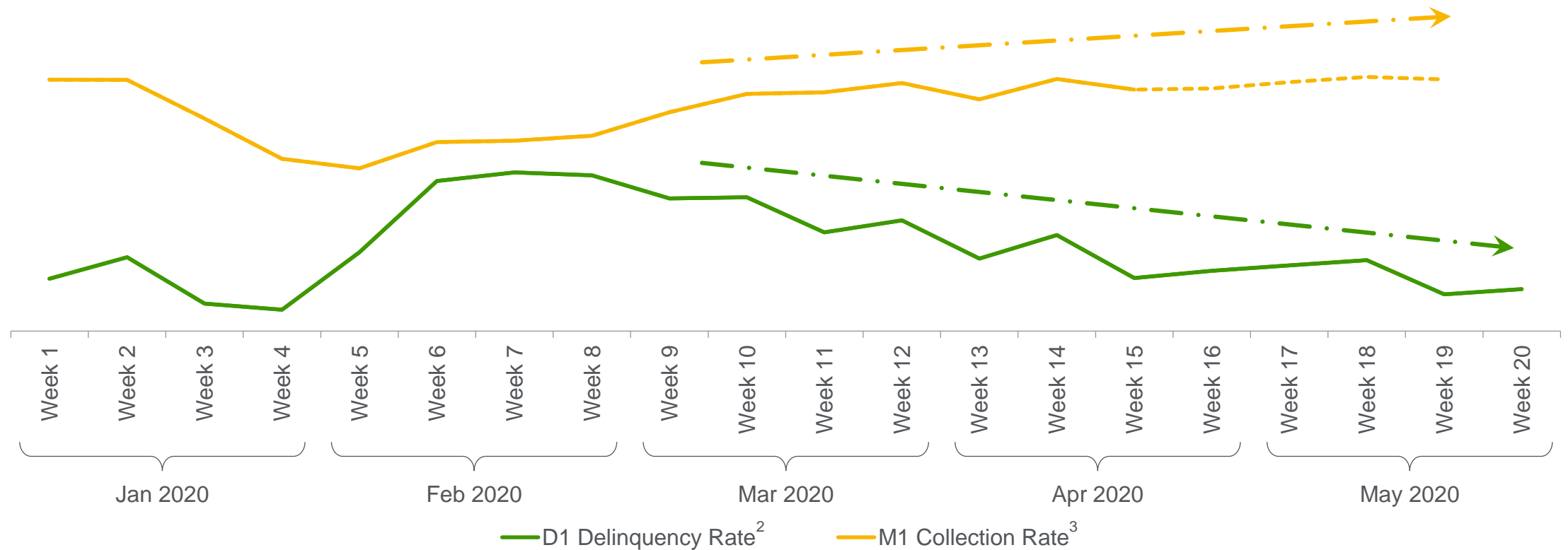
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# KEY UPDATES – COVID-19 IMPACT

# INDICATORS SHOW **SIGNS OF STABILIZATION**

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D1 Delinquency & M1 Collection Rate - Rebased<sup>1</sup>



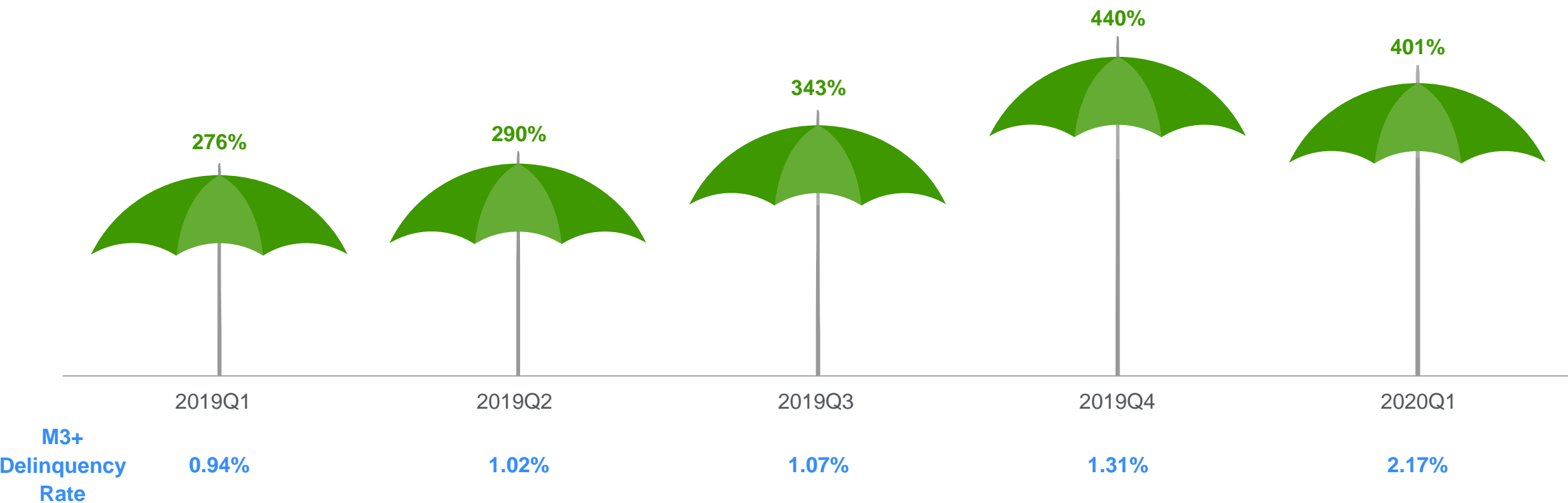
Note: 1. Rebased to week 1 in 2020. 2. D1 delinquency rate is defined as (i) the total amount of principal that became overdue as of a specified date, divided by (ii) the total amount of principal that was due for repayment as of such date. 3. M1 collection rate is defined as (i) the amount of principal that was repaid in one month among the total amount of principal that became overdue as of a specified date, divided by (ii) the total amount of principal that became overdue as of a specified date.



# WE CONTINUED TO MAINTAIN SUFFICIENT PROVISIONS TO MITIGATE THE IMPACT OF MARKET UNCERTAINTIES

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Reserve Coverage Ratio<sup>1</sup>

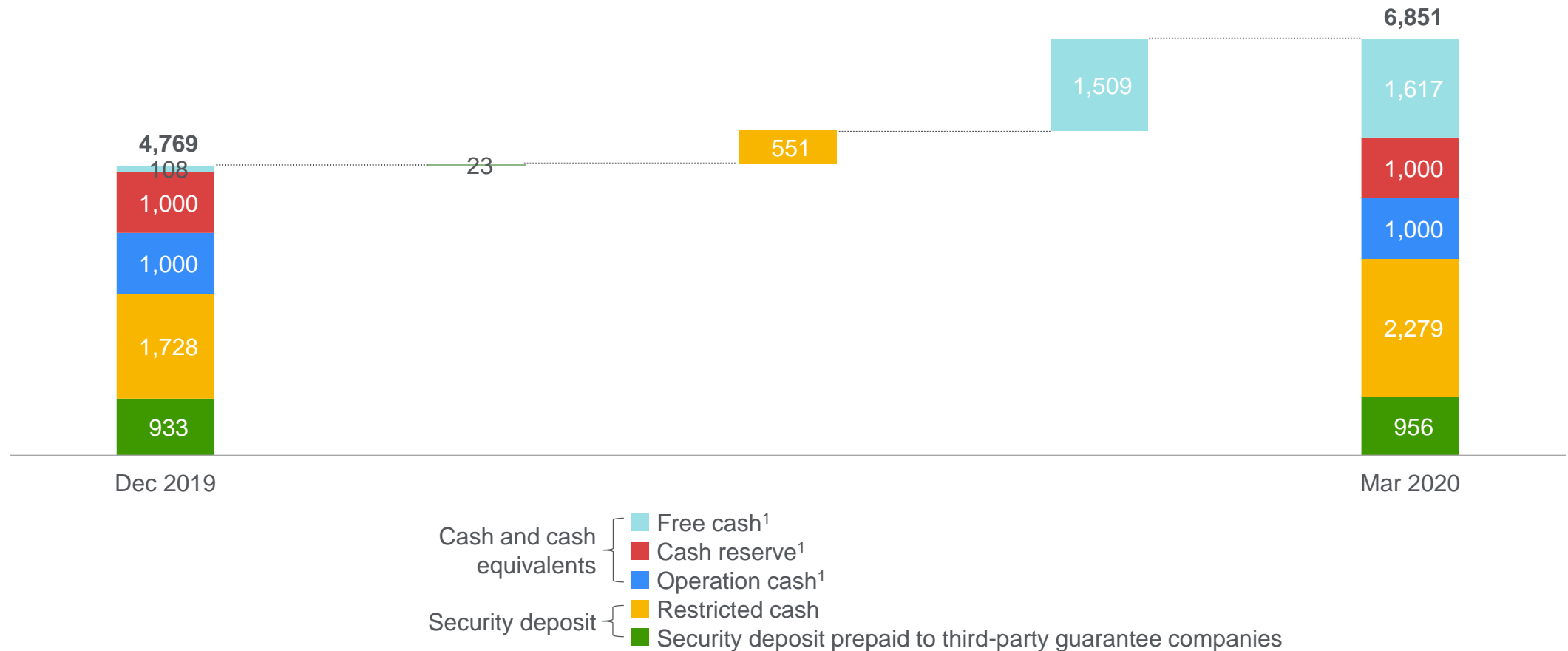


Note: 1. Reserve coverage ratio = provision rate / adjusted M3+ delinquency rate; provision rate = (loan facilitation provisions + provisions for on-balance-sheet loan + additional provisions) / outstanding balance for credit driven services; adjusted M3+ delinquency rate = outstanding balance for M3-M6 in quarter T / outstanding balance in quarter T-2.

# STRONG CASH POSITION

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Cash Position  
(RMB MM)



Note: 1. For illustrative purpose only.

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**KEY UPDATES  
– NEW REGULATION**

# A KEY REGULATORY MILESTONE

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On May 9th, CBIRC issued exposure draft on “Interim Measure for the Management of Online Lending by Commercial Banks”



A clearer schedule to release official guidelines which **legitimizes online loan facilitators**. These guidelines have earlier been listed as a top task under CBIRC’s 2020 Legislative Work Plan



The long awaited document is supportive for healthy development and **benefits quality online loan facilitators** down the road

## Comparison of Key Rules under Different Versions of the “Guidelines on Commercial Banks’ Online Lending Business”<sup>1</sup>

Key Areas	Nov 2018 Version (from Media Reports)	Jan 2020 Version (from Media Reports)	May 2020 Version (Exposure Draft)
Definition of Online Loans	• n/a	• Personal consumption/ operating loans and working capital loans that are applied, approved and disbursed 100% online (excludes loans involving any offline verification/ risk assessment e.g. mortgages)	
Loan size/ Duration cap	• Personal/ corporate working capital loans cannot exceed RMB300k/ RMB500k loan size and 1 year loan duration	<ul style="list-style-type: none"> <li>• Personal loans cannot exceed RMB300k loan size and 1 year duration;</li> <li>• For working capital loans with &gt;1 year duration, banks have to reassess and approval the loans at least once a year</li> </ul>	<ul style="list-style-type: none"> <li>• Personal consumption loans cannot exceed RMB200k loan size, and those with full principal repayment at maturity cannot exceed 1 year duration;</li> <li>• For personal operating loans/ working capital loans with &gt;1 year duration, banks have to reassess and approval the loans at least once a year</li> </ul>
Use of Funds	• n/a	• Banks should restrict borrowers' use of funds, which should not be used for [1] home purchases/ mortgage repayment; [2] securities investments; [3] fixed asset investments; [4] any illegal uses	
Regional Banks' Geographical Constraint	• Cap regional banks' online loans granted to customers outside of home province at 20% of total online loan balance	• Regional banks' online loans should primarily serve local customers, and should be cautious in extending loans outside of home regions (i.e. regions that the banks have no branch presence). Banks without branch network/ mainly conduct business online will not be subject to geographical constraints.	
Selection of Third Party Partners	• n/a	<ul style="list-style-type: none"> <li>• Banks should form clear &amp; standardized criteria in selecting third party partners based on their operating condition, risk mgmt. capability, technology, etc., adopt list-based management, and have all external partnership approved at headquarter level.</li> <li>• In selecting partners for joint-lending, banks should pay particular attention to the prospective partners' capital adequacy, leverage, NPL ratio, loan concentration etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Banks should form clear &amp; standardized criteria in selecting third party partners based on their operating condition, risk mgmt. capability, technology, etc., adopt list-based management.</li> <li>• In selecting partners for joint-lending, banks should pay particular attention to the prospective partners' capital adequacy, leverage, NPL ratio, loan concentration etc.</li> </ul>



# A KEY REGULATORY MILESTONE (CONT'D)

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## Comparison of Key Rules under Different Versions of the “Guidelines on Commercial Banks’ Online Lending Business” (Cont’d)<sup>1</sup>

Key Areas	Nov 2018 Version (from Media Reports)	Jan 2020 Version (from Media Reports)	May 2020 Version (Exposure Draft)
Role of Third Party Partners	<ul style="list-style-type: none"> <li>In partnering with third parties, banks should perform independent risk mgmt., and cannot the outsource business procedures <ul style="list-style-type: none"> <li>e.g. credit approval, risk mgmt. to third parties;</li> </ul> </li> <li>Online data partners must provide banks with comprehensive borrower info.</li> </ul>	<ul style="list-style-type: none"> <li>In partnering with third parties, banks should perform independent risk mgmt., and cannot outsource the core business procedures e.g. credit approval, risk control, loan disbursement, payment management and post origination management to third parties</li> <li>Banks should ban third party partners from collection fees from borrowers in any form</li> </ul>	<ul style="list-style-type: none"> <li>In partnering with third parties, banks should perform independent risk mgmt., and cannot outsource the core business procedures e.g. credit approval, risk control, loan disbursement, payment management and post origination management to third parties</li> <li>Banks should ban third party partners from collection fees from borrowers in any form, except for insurance companies &amp; guarantee companies which may collect reasonable fees from borrowers</li> </ul>
Scale & Funding Constraint on Joint Lending	<ul style="list-style-type: none"> <li>Banks cannot partner with non-licensed entities in joint-lending;</li> <li>For banks accepting borrower referral in joint-lending, cap their funding contribution at 70% of total &amp; their total joint-loan balance at 30% of online loan total;</li> <li>For banks referring borrowers in joint- lending, their funding contribution should be no less than 30% &amp; their total joint-loan balance is capped at 10% of online loan total</li> </ul>	<ul style="list-style-type: none"> <li>Banks cannot partner with non-licensed entities in joint-lending;</li> <li>Banks should control their joint loan exposure and funding contribution at reasonable levels.</li> </ul>	
Credit Enhancement	<ul style="list-style-type: none"> <li>n/a</li> </ul>	<ul style="list-style-type: none"> <li>Banks cannot accept guarantee from entities w/o guarantee or credit insurance qualifications, and should carefully access the credit enhancement capability and concentration risk of their guarantee partners</li> </ul>	
Loan Collection	<ul style="list-style-type: none"> <li>Banks cannot entrust third parties with records of violent/ malicious loan collection</li> </ul>		<ul style="list-style-type: none"> <li>Banks cannot entrust third parties with records of violent/ malicious loan collection;</li> <li>Banks should request third party partners not to carry out loan collection activities on anyone that's not related to the loans</li> </ul>
Information Disclosure / Consumer Protection	<ul style="list-style-type: none"> <li>n/a</li> </ul>	<ul style="list-style-type: none"> <li>Banks should disclose in eye-catching ways their loan APR, repayment schedule, loan collection procedure and channels to file compliant, and cannot engage in negative confirmation/ bundling sales practices</li> <li>In gathering data from borrowers, banks should disclose the type of data they are seeking to gather, make sure the data are collected legally and with borrowers' consent</li> <li>Banks should not use borrower data for activities irrelevant to the lending business, and should not share the user data to any third parties</li> </ul>	
Transition Period	<ul style="list-style-type: none"> <li>1 year from the date of implementation</li> </ul>	<ul style="list-style-type: none"> <li>3 years from the date of implementation</li> </ul>	<ul style="list-style-type: none"> <li>2 years from the date of implementation;</li> <li>Banks/ consumer finance companies/ auto finance companies should submit report on their current business model and any rectification plans within 1 month after effective date of the guidelines</li> </ul>

Note: 1. Based on Citi's research report.

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# BUSINESS OUTLOOK

# BUSINESS OUTLOOK

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- Continue to **improve operation efficiency** and **enhance the margin of safety**, while also keep monitoring the macro situation and grasp the growth opportunities, if any
- **Have achieved solid performance so far in Q2**, but still vigilant on the development of the COVID-19 pandemic, especially globally, hence, we still maintain the full year guidance that the **total loan origination volume** is targeted in a range of **RMB 200 and 220 billion**



**THANK YOU**

