

# Q2 2019 Financial Results

20<sup>th</sup> August 2019

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# Mission

**Innovative technology**, makes finance better.

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智慧金融研究院  
SMART FINANCE INSTITUTE

# #1 online consumer finance marketplace in China



## Marketplace business model

Driving scalability in the long run



## 12-year operating history

Consistent strategy and continuous innovation



## Technology driven

99% of loans processed automatically<sup>(1)</sup>



## Large user base

99mn registered users<sup>(2)</sup>/16.5mn borrowers<sup>(3)</sup>

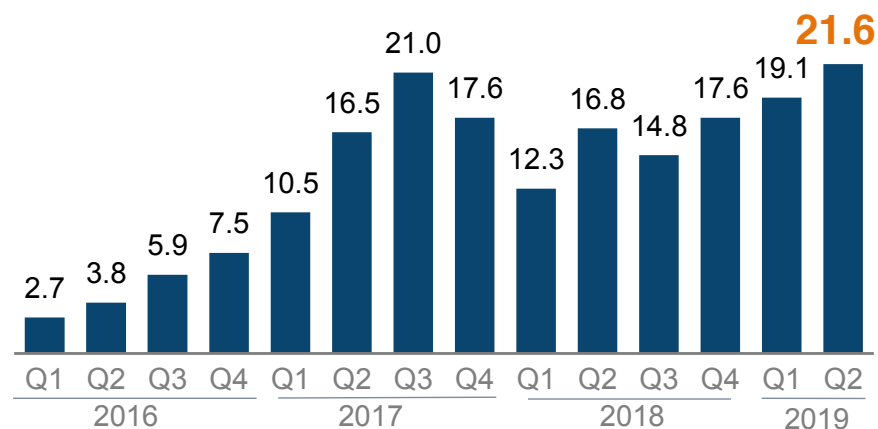


## Consistent growth

Sequential operating revenue increase<sup>(4)</sup>

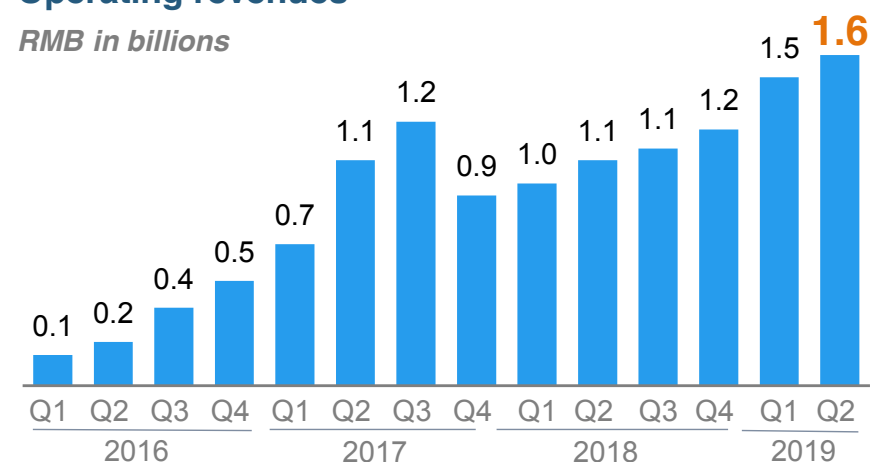
## Loan origination volume

RMB in billions



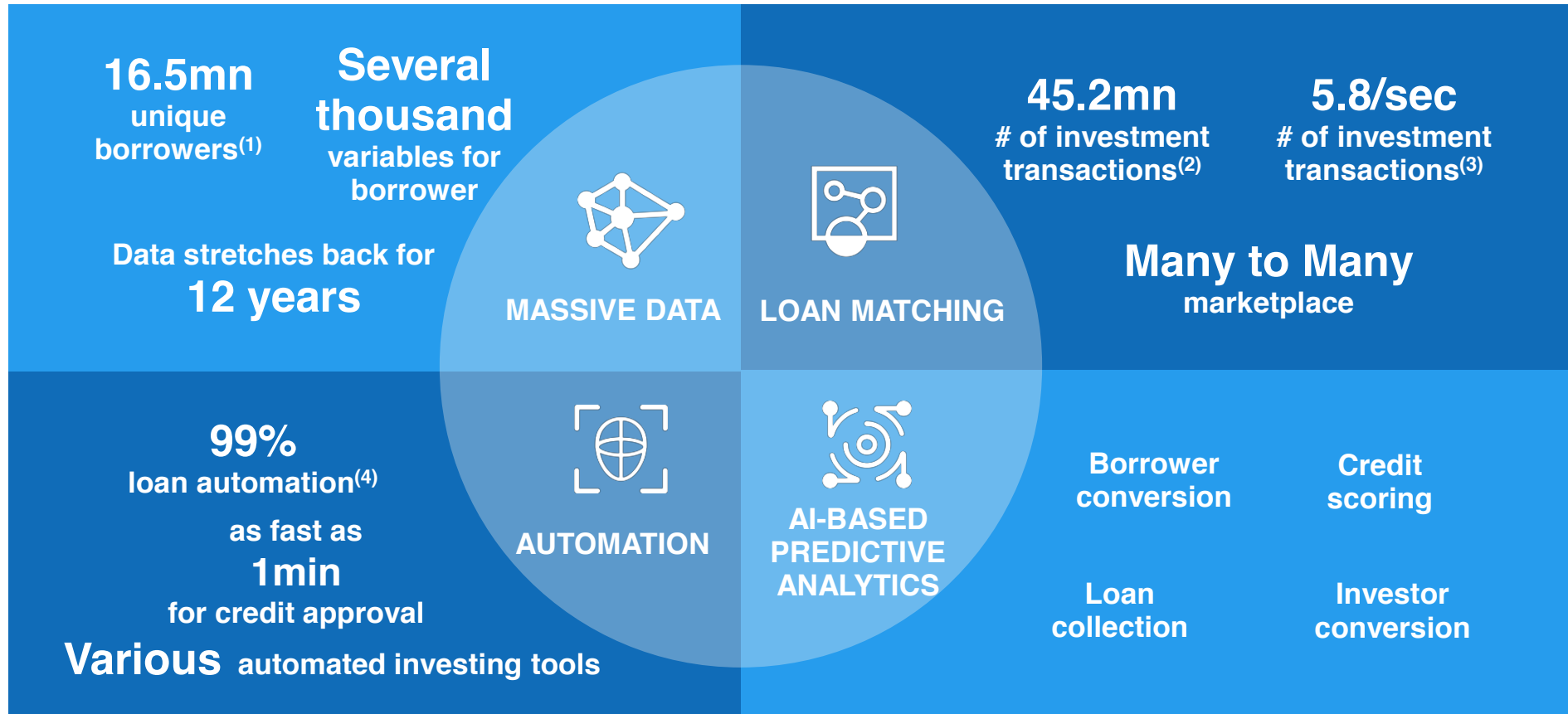
## Operating revenues

RMB in billions



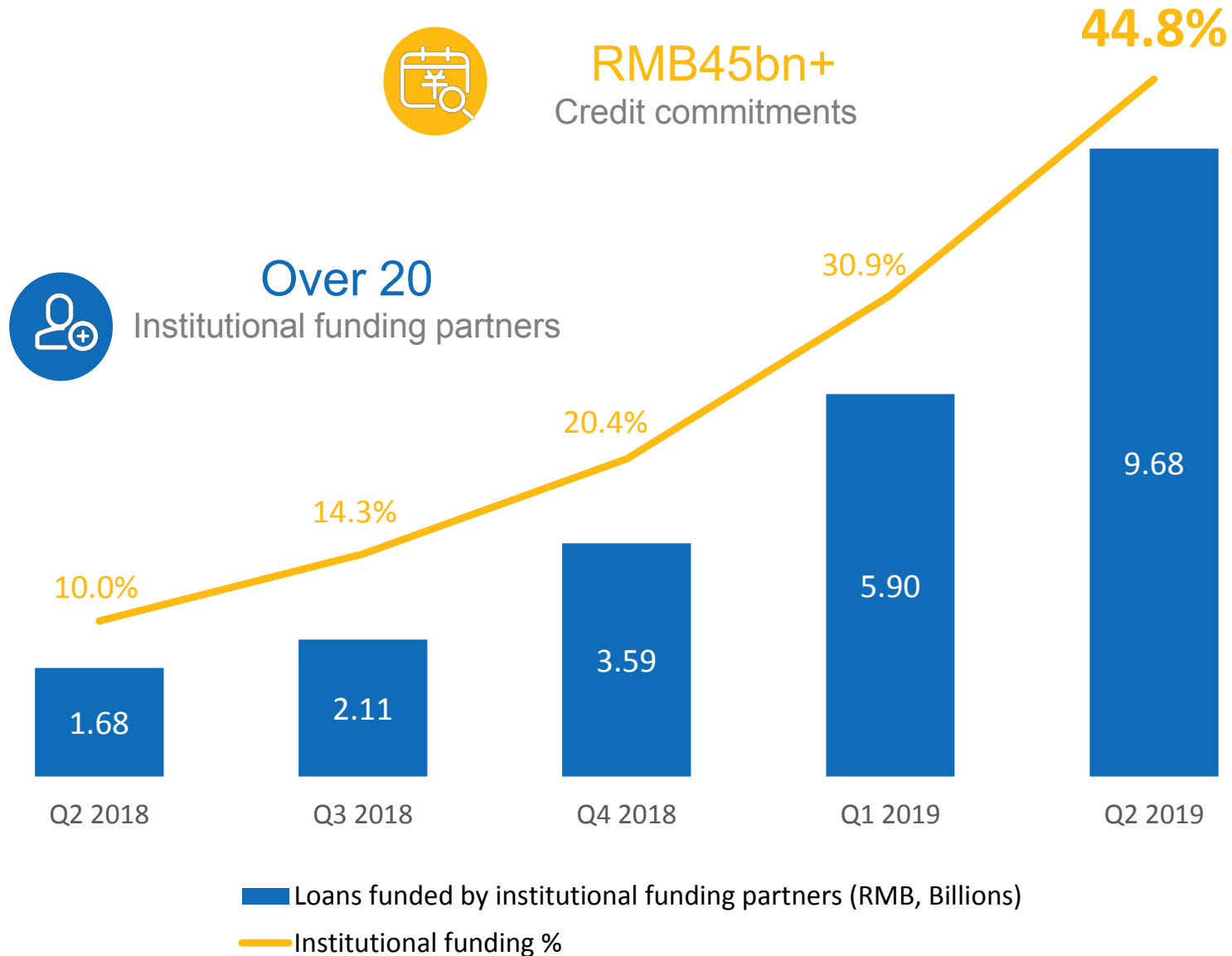
- Note: Rank No.1 among China's online consumer finance marketplaces in terms of number of borrowers as of December 31, 2016 and June 30, 2017.  
 (1) Represents the % of loan applications on the marketplace that go through the automated process. Data for the three months ended June 30, 2019.  
 (2) As of June 30, 2019.  
 (3) On a cumulative basis, as of June 30, 2019.  
 (4) Sequential operating revenue growth from Q4 2017 to Q2 2019.

# Automation powered by big data and proprietary technologies



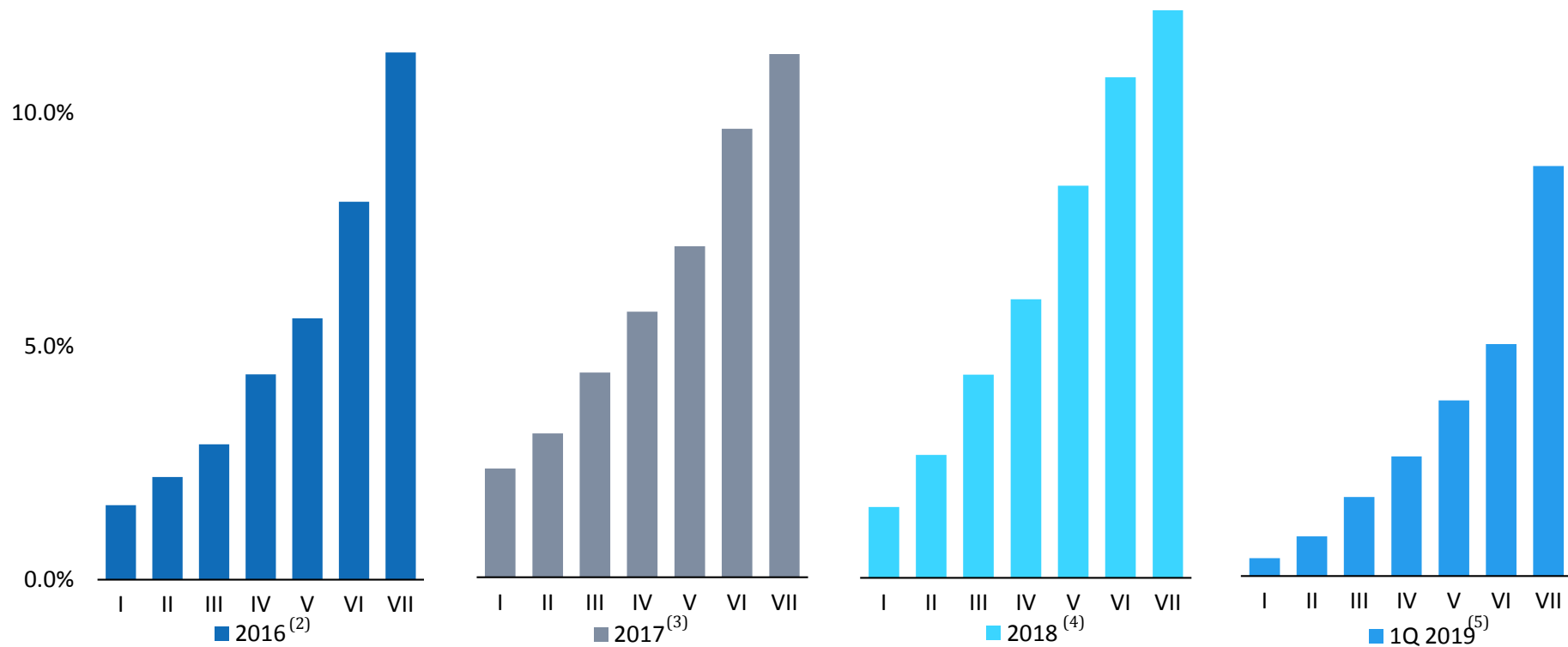
(1) On a cumulative basis, data as of June 30, 2019.  
 (2) Data for the three months ended June 30, 2019.  
 (3) Data for the three months ended June 30, 2019. Calculated by: (i) number of investment transactions, divided by (ii) number of seconds during the period.  
 (4) Represents the % of loan applications on the marketplace that go through the automated process. Data for the three months ended June 30, 2019.

# Diversified funding sources



# Strong and consistent risk-sloping capability by credit rating

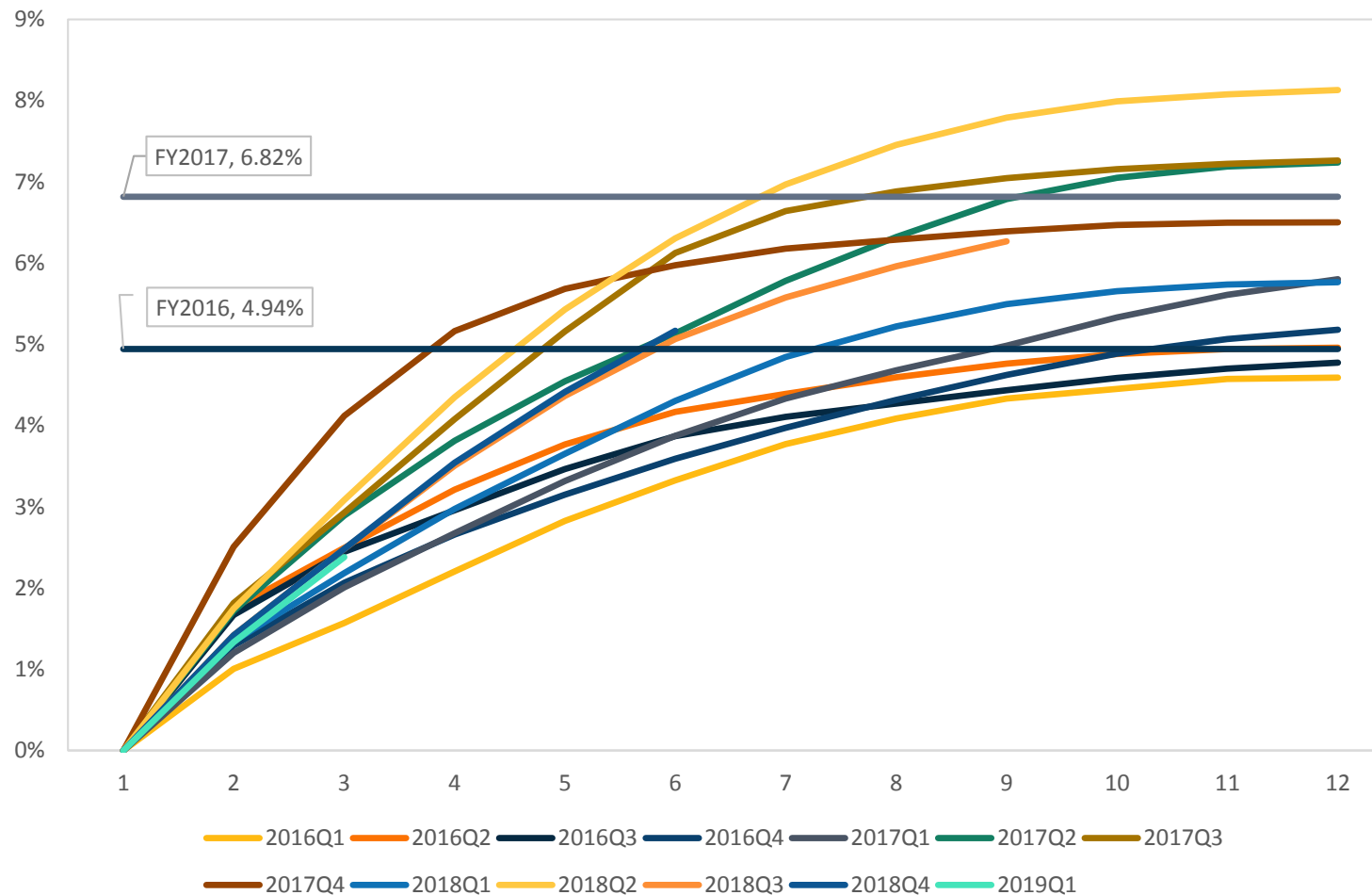
Vintage delinquency rate by credit rating<sup>(1)</sup>



- (1) Credit rating refers to Magic Mirror scores, with Level I representing the lowest risk and Level VIII the highest, Level VIII loan applicants will be rejected.
- (2) Vintage delinquency rate for loans facilitated during 2016 is calculated as the volume weighed average of the quarterly vintage delinquency rates at the end of the 12th month following the inception of each loan in an applicable vintage.
- (3) Vintage delinquency rate for loans facilitated during 2017 is calculated as the volume weighed average of the quarterly vintage delinquency rates at the end of the 12th month following the inception of each loan in an applicable vintage.
- (4) Represents vintage delinquency rate for loans facilitated during 2018 as of June 30,2019.
- (5) Represents vintage delinquency rate for loans facilitated during 1Q19 as of June 30,2019.

# Cumulative delinquency rates by vintage

Delinquency rate by vintage<sup>(1)</sup>



Note: Data as of June 30, 2019. Represents the historical cumulative 30-day plus past due delinquency rates by loan origination vintage for all loan products.  
 (1) Vintage is defined as loans facilitated during a specified time period. Delinquency rate by vintage is defined as (i) the total amount of principal for all loans in a vintage that become delinquent, less (ii) the total amount of recovered past due principal for all loans in the same vintage, and divided by (iii) the total amount of initial principal for all loans in such vintage.



# Delinquency rates by balance<sup>(1)</sup>

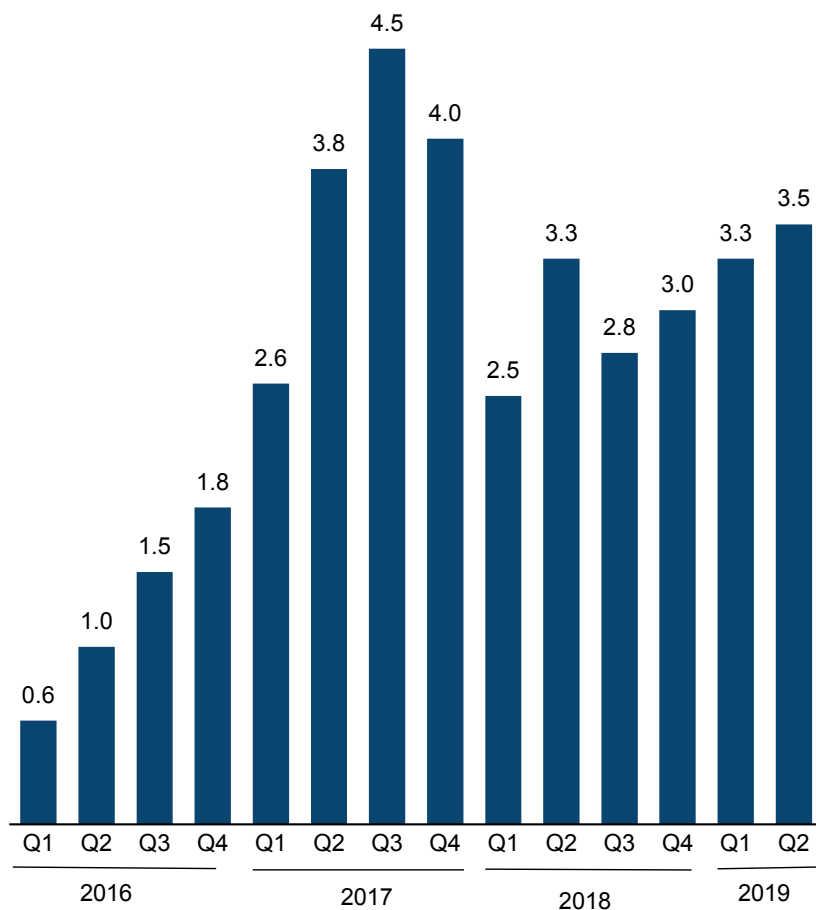
	Delinquent for			
	15–29 days	30–59 days	60–89 days	90–179 days
March 31, 2016	0.62%	0.93%	0.72%	1.41%
June 30, 2016	0.82%	1.01%	0.63%	1.34%
September 30, 2016	0.83%	1.11%	0.80%	1.50%
December 31, 2016	0.63%	0.91%	0.75%	2.04%
March 31, 2017	0.57%	0.95%	0.79%	1.64%
June 30, 2017	0.86%	1.11%	0.79%	1.58%
September 30, 2017	0.89%	1.40%	1.15%	2.41%
December 31, 2017	2.27%	2.21%	1.72%	4.19%
March 31, 2018	0.87%	2.11%	2.43%	8.01%
June 30, 2018	0.83%	1.21%	1.05%	4.61%
September 30, 2018	1.03%	1.77%	1.49%	3.37%
December 31, 2018	0.92%	1.63%	1.41%	4.23%
March 31, 2019	0.80%	1.61%	1.45%	3.80%
June 30, 2019	0.86%	1.42%	1.37%	3.66%

(1) Delinquency rate by balance is defined as the balance of outstanding principal for loans that were 15-29, 30-59, 60-89, 90-179 calendar days past due as of the date indicated as a percentage of the total outstanding principal for loans, excluding those at 180+ days delinquent, as of the same date.

# Borrowers fuel our loan origination volume

## Number of unique borrowers<sup>(1)</sup>

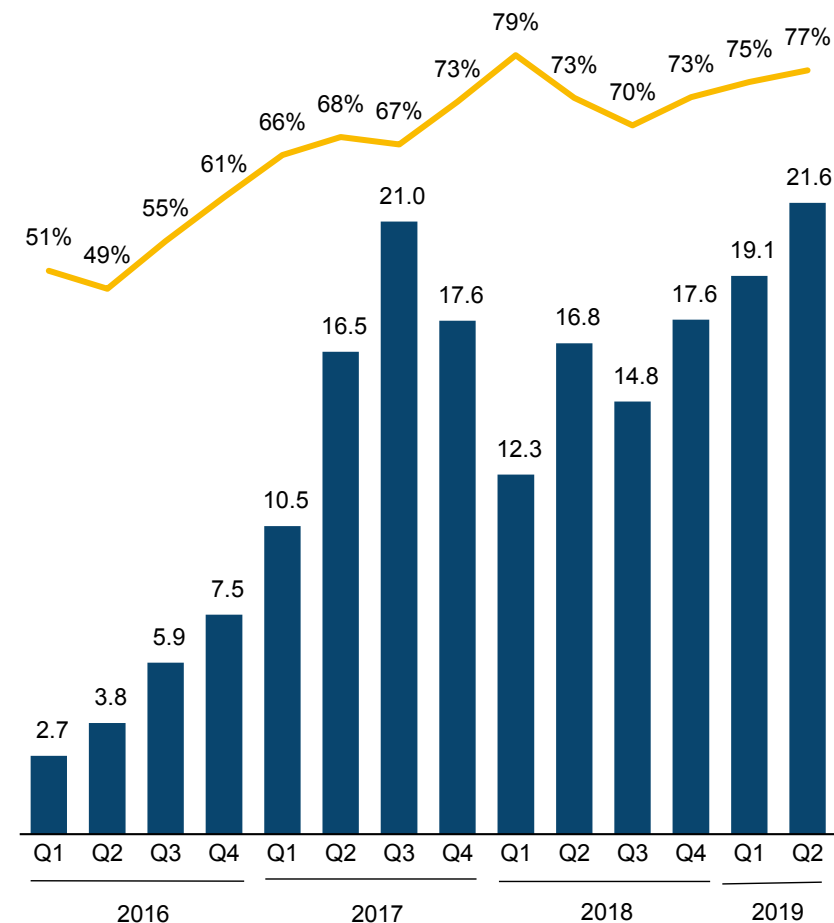
(Millions)



## Loan origination volume

(RMB in billions)

Repeat borrowing rate <sup>(2)</sup>

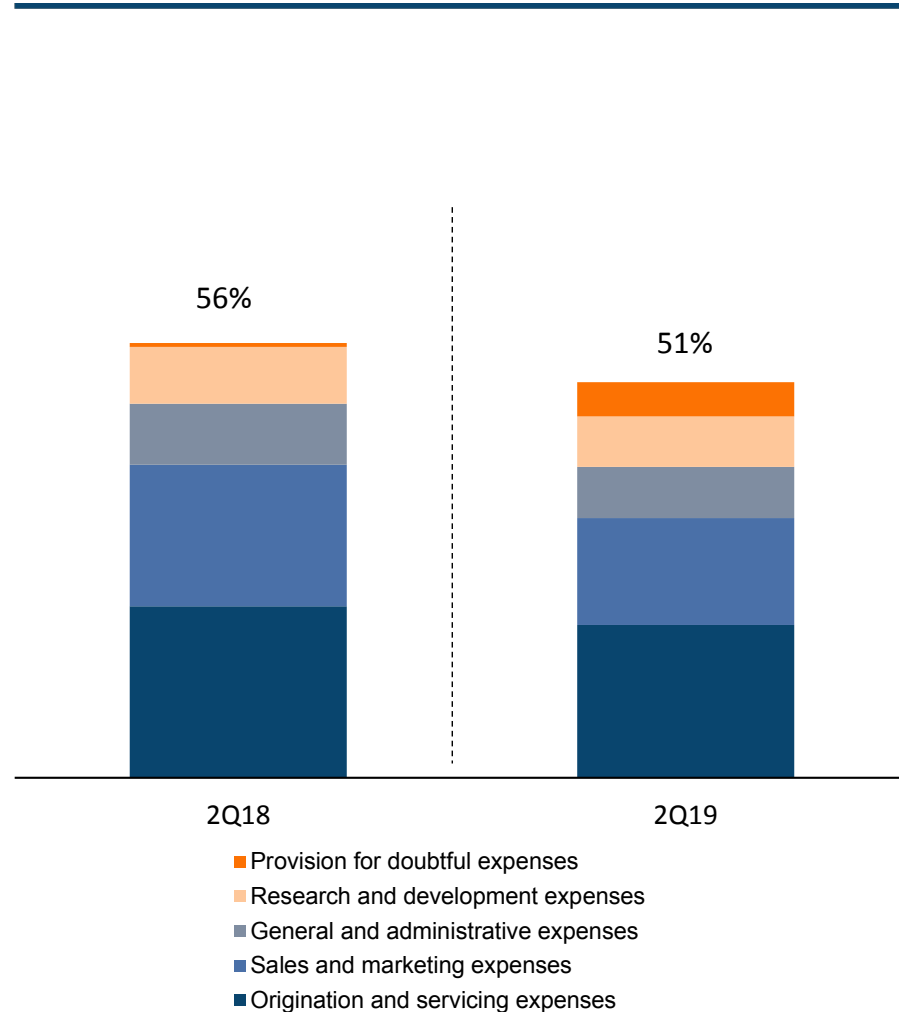


(1) Represents number of borrowers whose loans were funded during each period presented.

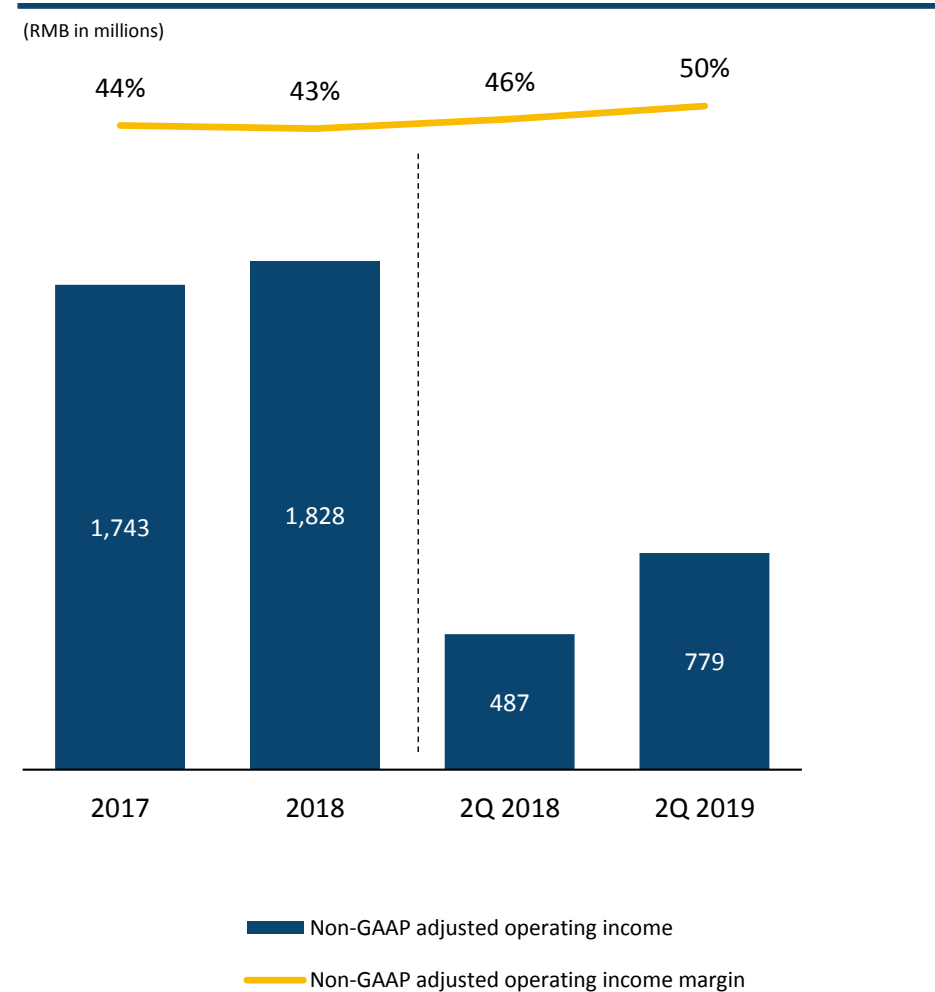
(2) % of loan volume generated by repeat borrowers. Repeat borrowers are borrowers who have successfully borrowed on our platform before.

# High operating leverage driving profitability

Operating expenses as percentage of operating revenue



Non-GAAP adjusted operating income<sup>(1)</sup>



(1) Non GAAP adjusted operating income for FY2017, which excludes share-based compensation expenses of RMB106.2 million and a provision of RMB107.7 million for expected discretionary payments to investors in investment programs protected by the Company's investor reserve funds.  
 Non GAAP adjusted operating income for FY2018, which excludes share-based compensation expenses of RMB50.3 million and a write-back of provision of RMB68.6 million for expected discretionary payments to investors in investment programs protected by the Company's investor reserve funds.  
 Non GAAP adjusted operating income for Q2 2018, which excludes share-based compensation expenses of RMB17.8 million.  
 Non GAAP adjusted operating income for Q2 2019, which excludes share-based compensation expenses of RMB11.8 million.

# Financials



# Income statement summary

RMB million	FY2017	FY2018	2Q2018	2Q2019	1H2018	1H2019
<b>Operating revenues</b>	<b>3,881</b>	<b>4,351</b>	<b>1,065</b>	<b>1,562</b>	<b>2,021</b>	<b>3,021</b>
Loan facilitation service fees	2,843	2,919	753	940	1,374	1,878
Post-facilitation service fees	669	923	206	316	433	624
Net interest income & loan provision losses	(15)	63	18	195	57	328
Other revenue	491	377	88	112	157	190
<b>Operating expenses</b>	<b>(2,352)</b>	<b>(2,504)</b>	<b>(596)</b>	<b>(795)</b>	<b>(1,151)</b>	<b>(1,458)</b>
Origination and servicing expenses	(975)	(986)	(235)	(307)	(482)	(571)
Sales and marketing expenses	(788)	(711)	(194)	(215)	(345)	(359)
General and administrative expenses	(424)	(383)	(83)	(103)	(154)	(210)
Research & development expenses	(165)	(318)	(78)	(102)	(153)	(189)
Provision for doubtful accounts	-	(107)	(6)	(68)	(17)	(129)
<b>Operating income<sup>(1)</sup></b>	<b>1,529</b>	<b>1,847</b>	<b>469</b>	<b>767</b>	<b>870</b>	<b>1,563</b>
<i>Operating income margin<sup>(2)</sup></i>	39%	42%	44%	49%	43%	52%
Other income <sup>(3)</sup>	(172)	774	297	46	429	95
Profit before income tax expenses	1,358	2,621	766	813	1,298	1,658
<b>Net profit</b>	<b>1,083</b>	<b>2,470</b>	<b>608</b>	<b>660</b>	<b>1,045</b>	<b>1,364</b>
<i>Net profit margin<sup>(4)</sup></i>	28%	57%	57%	42%	52%	45%

(1) Operating income = operating revenues – total operating expenses.

(2) Operating income margin = (operating revenues – operating expenses) divided by operating revenues

(3) Other income includes (i) Gain from quality assurance fund, (ii) Realized gain from financial guarantee derivatives, (iii) Fair value change of financial guarantee derivatives, (iv) Gain from disposal of a subsidiary, and (v) Other income/(expenses), net.

(4) Net profit margin = Net profit divided by operating revenues.

## Selected balance sheet items

RMB million	As of Dec 31 2017	As of Dec 31, 2018	As of June 30, 2019
Cash and cash equivalents	1,891	1,616	1,429
Restricted cash:	2,393	3,678	4,488
<i>Quality assurance fund</i>	<i>1,059</i>	<i>2,414</i>	<i>3,307</i>
<i>Cash received from investors or borrowers</i>	<i>1,114</i>	<i>905</i>	<i>740</i>
<i>Others</i>	<i>220</i>	<i>359</i>	<i>441</i>
Short-term investments	1,959	1,694	989
Quality assurance fund receivable	1,153	2,064	2,497
Loans receivable, net provision for loan losses	682	2,331	4,034
Accounts receivable	18	812	1,196
<b>Total assets</b>	<b>8,604</b>	<b>13,142</b>	<b>16,496</b>
Payable to platform customers	1,114	905	740
Quality assurance fund payable	2,063	3,819	5,113
Funds payable to investors of consolidated trusts	503	1,506	2,630
<b>Total liabilities</b>	<b>4,921</b>	<b>7,157</b>	<b>9,494</b>
<b>Total shareholders' equity</b>	<b>3,683</b>	<b>5,985</b>	<b>7,002</b>



# Selected statement of cash flow

RMB million	FY2017	FY2018	Q2 2018	Q2 2019
Net cash provided by operating activities	3,409	1,885	152	618
Net cash used in investing activities	(2,451)	(1,447)	716	(853)
Net cash generated in financing activities	2,133	530	(110)	67
Effect of exchange rate changes on cash and cash equivalents	(15)	42	49	16
Net increase/(decrease) in cash and cash equivalents	3,076	1,010	807	(151)
Cash and cash equivalent at beginning of year/period	1,208	4,284	4,040	6,068
Cash and cash equivalent at end of year/period	4,284	5,294	4,847	5,917