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+++ presentation

Operator^ Good day, and thank you for standing by, and welcome to the Yiren Digital First Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, to Mr. Lydia Yu. Thank you. Please go ahead.

Lydia Yu^ Thank you, and welcome to Yiren Digital's First Quarter 2021 Earnings Conference Call. Today's call features the presentation by the Founder, Chairman and CEO of CreditEase and our CEO, Mr. Ning Tang; Our SVP, Ms. Mei Zhao; and our CFO, Ms. Na Mei. Mr. Dennis Cong, our Director, will -- is going to present during the Q&A session.

Before we begin, we would like to remind you that [we will make] statements made under the safe harbor provisions of the U.S. Private Securities Litigation Act of 1995. Such statements are subject to risks, uncertainties and factors that can cause actual results to differ materially from those contained in any such statements. Further information regarding potential risks, uncertainties or factors is included in the company's filings with the U.S. Securities and Exchange Commission. The company does not undertake any obligation to update any forward-looking statements as required under applicable law.

During the call, we will be referring to several non-GAAP financial measures and supplemental measures to review and assess our operating performance. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for financial information prepared and presented in accordance with U.S. GAAP. For information about these non-GAAP measures and reconciliations to GAAP measures, please refer to our earnings press release.

I'll now pass on to Ning for opening remarks.

Ning Tang^ Thank you all for joining us today. With the completion of our business restructuring and spin-off of our legacy business, we have completed our transition to become a leading user-centric digital personal financial management platform. We delivered a solid quarter to start the year, resuming high quality growth and returning to our normal profitability margin level.

As we continue to focus on our strategic transition and business growth, we are constantly building and strengthening our key competitive edges along the way. Firstly, we have accumulated a considerable user base,

with over 5.3 million borrowers and 2.4 million investors, whom we are re-activating, at the same time, we are also continuing to acquire new customers in our served segments through our established networks and partner channels. Secondly, we have been making efforts in technology innovation and building up our data and tech-driven IT systems, coupled with AI, blockchain and cloud computing, to better serve our users and enhance our operation efficiencies; Thirdly, we are enriching and broadening our product portfolio in both credit and wealth management to forge a full spectrum of financial products and services. So through all those moves, we are aiming to fully address our customers' financial needs in every stage of their lives, serving them through both online and offline channels, with products and services ranging from credit to investment and insurance, to help them better spend, better invest and be better protected. This is how we are differentiated, and we believe we are on the right track to continue to expand our business map.

Now I will provide the business update on our wealth management side, and then I'll pass it over to Mei to give an update on our credit business.

Our wealth management business continues to see stable growth. Client assets for investment products reached RMB 10.7 billion as of March 31, 2021, representing an increase of 25% quarter over quarter. Total number of active investors stood at 307,000 as of March 31, 2021, representing an increase of 32% from last quarter. Meanwhile, the number of newly registered users coming from Yiren Wealth's referral program in the first quarter this year grew by 22% from last quarter, indicating increasing trust and loyalty from existing investors in our brand and reputation.

In addition, we are making meaningful achievements in increasing our investors' LTV, in the first quarter of 2021, the number of investors who held more than 2 asset classes on Yiren Wealth grew by 630% from prior year and the average client asset per investor increased by 65% quarter-over-quarter to RMB 85,000.

Next, on to our insurance business, Hexiang Insurance Brokers. The growth momentum remains strong. We expected our product portfolio into life insurance this quarter to fully tap into our customers' insurance needs as well as the roll-out of a new strategic platform initiative, in which leveraging on our insurtech capabilities, we partner with traffic channels to provide scenario-based data-driven product design, digitalized policy administration and distribution services. Using our partnership with a Ski and Snowboard platform as an example, their platform helps users plan their next ski trip, book lessons, purchase equipment and now sees a DAU of around 250,000. We worked with our insurance partner to tailor a personal accident insurance plan specifically for sport-related incidents, and digitized their entire process from customer onboarding to underwriting and claims management, helping them realize an entirely new revenue stream. We will continue to open our platform to an increasing number of channel partners to serve different consumption scenarios.

Last but not least, our digital stock brokerage platform is set for launch in the second quarter, which will offer offshore stock brokerage and financial services to retail investors, bringing additional synergies

to our wealth management business. We note an ongoing trend of household assets in China increasingly being shifted from deposits to money market funds in equity assets including stocks and futures, giving them more attractive yield. In addition, global capital markets are experiencing a sizable structural shift as trading volumes are hitting new highs in 2021 with increasingly strong participation from retail investors. The retail investing phenomena has taken off and accelerating, and our new initiative will allow us to seize the benefits from this market trend. Leveraging client resources and partnerships with CreditEase's ecosystem as well as our strong professional investment capabilities, the platform will target both mass affluent and high net worth customer segments and offer value-added services, including exclusive one-on-one consulting and financial information services.

With that, now I will turn the call over to Mei, who will highlight key updates for our credit business this quarter.

Mei Zhao^ Thanks, Ning, and hello, everyone. I will now provide an update on our credit business.

We continue to see solid business growth in the first quarter of 2021, following 3 consecutive quarters of growth in loan volume, helping us to start the year strong. At the end of the first quarter, Yiren Credit's registered users reached 95.8 million, increasing 8% year-on-year. Total number of the borrowers served in the first quarter reached close to 346 thousands, an increase of 83% quarter-over-quarter. In the first quarter, Yiren Credit's platform facilitated RMB 4.9 billion in loans under loan-facilitation model, an increase of 17% quarter-over-quarter and 565% year-on-year.

We are now focused on 2 key strategic initiatives, which echo what Ning mentioned earlier on our positioning to be a leading user-centric digital personal financial management platform to meet our customers' diverse financial needs through offering a comprehensive suite of financial services.

Firstly, we have been diversifying and enriching our products by constantly broadening our channel partners and now we are covering a growing number of consumption scenarios, including traveling, shopping, social networking, entertainment and education, With a mixed product offering from the secured to unsecured loans with varied ticket sizes and tenors, offering through both online and offline channels, we have established a full credit products matrix to meet our customers' various credit needs. Also, apart from 2C channels, we have also established partnership with 2B companies, such as third-party payment SaaS platforms and tax and financial management platforms, which helped us further drive up our scale. So far, we are working with more than 30 channel partners, and are continuing to expand more external cooperation.

Secondly, we started to work with our Hexiang Insurance Brokers last year to offer life and property insurance products and services to our borrowers to better protect them and their families through both our online platform and offline national network of more than 200 stores, and insurance has now become a new driver of our credit business. Average

premium per policy saw visible growth by 270% from August 2020 to April 2021, driven by increasing cross-sell and up-sell strategies. So you can see that by integrating different business lines, we have built a sophisticated and inter-complimentary ecosystem of financial services.

On the operational front, we continue to achieve cost efficiencies and improve our product's unit economics. For example, we saw further decline in customer acquisition costs as we broaden our product and service offerings, thereby increasing the percentage of loan volume generated by repeat borrowers by 54% from prior quarter.

Lastly, on risk performance, we have been stable and improving credit performance. As of March 31, 2021, the delinquency rate for loans originated that are past due for 15 to 29 days, 30 to 59 days and 60 to 89 days were 0.5%, 0.8% and the 0.6% respectively, recovery in-line to our historical lowest levels. In terms of the risk management, we have improved collection rates through more refined asset management policies, enabling us to stabilize our delinquent rate at a healthy level. As a result, I expect our strong credit performance to continue throughout the year.

With that, I will now pass it to our CFO, Na, who will provide a financial update.

Na Mei^ Thank you, Mei. Hello, everyone. For financial update, I will focus on key items of our business operation and the financial performance only. You can refer to the detailed financial results in our earnings release and IR deck that has been posted on our website.

First, our operational highlights. For our wealth management business, as of March 31, 2021, we have served close to 2.5 million investors, and the total number of active investors in our investment products grew to 307,107, increased 32% quarter-over-quarter. Client assets in our current products increased 25% quarter-over-quarter to RMB 10.7 billion as of March 31, 2021.

On the credit side, loan originations for the quarter was RMB 4.9 billion, representing an increase of 17% quarter-over-quarter. Quarter 1 is our historical slowest quarter due to CNY holiday and we expect volume to further ramp up in the following quarters.

On to our financials. In the first quarter, total revenue increased 7% year-on-year to RMB 1.1 billion, of which 24% came from our wealth management business. Due to the rapid ramp-up in our insurance business, revenue generated from Hexiang Insurance Broker is now shown under "insurance brokerage service" in our in P&L. We have also added a new "financial service" revenue line item which represents revenue auto financing leases.

Total expenses decreased by 17% year-on-year to RMB 0.8 billion. Sales and marketing expense decreased 34% from prior year to RMB 405.2 million, mainly driven by increased operational efficiencies. Our origination and service expense increased 70% from prior year to CNY 174.5 million,

mainly due to an increase in commission expense paid to sales channel as a result of the expanding insurance premiums.

Allowance for contract assets, receivables and others was RMB 141.2 million this quarter, equivalent to 2.9% of loan volume as compared to 0.8% last quarter. Last quarter, we adjusted down the provision rate based on changes in actual collection rates which resulted in an expense write-back, excluding the write-back, provision expenses of last year is 3.3%. The ratio in Q1 2021 was much better compared to last quarter.

Net income for the quarter increased 843% from prior year to RMB 181.2 million.

On the balance sheet side, our cash position remains strong with RMB 2.6 billion of cash and short-term investments as of March 31, 2021. Our strong balance sheet positions us well in the current operating environment and allows us to continue to explore new initiatives and tap into new opportunities.

Finally, on business outlook, for the full year 2021, our forecast remain at the range of RMB 20 to 30 billion for total sales volume of investment products and RMB 20 to 25 billion for total loans facilitated. This forecast reflects our current and preliminary views of the market and operational conditions, which are subject to change.

This concludes our closing remarks. Operator, we are waiting for Q&A.

Operator^ (Operator Instructions) There's no more further questions at this time. I'd like to hand the call back to today's presenters for closing remarks. Please go ahead.

Lydia Yu^ Thank you, everyone, for joining the call today. This concludes our call for this quarter. Thank you.

Operator^ Thank you. You may all disconnect. Have a great day, and goodbye. Take care.