(SEHK stock code: 2003)

# VCREDIT 2022 Interim Results
# Investor Conference Call Transcript
# August 25, 2022

**Executives:**
Mr. Stephen Liu – Chief Executive Officer
Ms. Hong Bai – Chief Financial Officer
Mr. Ethan Gong – Chief Risk Officer
Ms. Echo Fang – Vice Chief Financial Officer

**MC**:
Good morning, ladies and gentlemen, on behalf of VCREDIT Holdings Limited, I would like to welcome all of you to the Company's 2022 Interim Results Investor Presentation. This presentation will be conducted in English.

First, let me introduce to you the senior executives from the Company here with us today. Mr. Stephen LIU, Chief Executive Officer; Ms. Hong BAI, Chief Financial Officer; Mr. Ethan GONG, Chief Risk Officer; and Ms. Echo FANG, Vice Chief Financial Officer.

For the first part of this call, all participants will be in listen only mode. Mr. Liu will provide an overview of the company's recent performance and highlight. Ms. Bai will present you with more detailed discussion on financial results. After the presentation, the management will take questions from participants.

Now I'd like to take the opportunity to remind you that the company's remark today may include certain forward-looking statements. Number of risk factors beyond its control may cause actual results to differ materially from this forward-looking statement. During this call, the company will present both IFRS and Non-IFRS financial measures. We will also discuss general market condition for the industry, and such information may come from a variety source outside of VCREDIT.
Now I'd like to turn it over to Mr. Liu, Mr. Liu please begin.

**Mr. Stephen Liu**:
Good morning, everyone. I am pleased to report a robust performance in the first half of 2022 which is in line with our expectations. As part of the efforts to counter the spread of the COVID-19 coronavirus from intermittent outbreaks, some cities in China, and Shanghai especially from March to May 2022, experienced lockdowns. Furthermore, risks in China's macro environment

from the pandemic and the deterioration in the real estate sector in 2021 persisted throughout the Period. Our solid performance against these multiple headwinds demonstrates the resilience and flexibility of our operations. We continue to proactively optimize our business strategy and model with evolutionary adaptations to capture and manage market developments and consumer behavioral changes to ensure we remain at the forefront of our industry. Our credit models are constantly undergoing refinements to enhance and maintain our ability to target, engage and retain higher-quality customers, while we at the same time constantly streamline our operations and processes to achieve greater operational efficiency and improved customer experience. As a reflection of our success, although impacted by sterner regulatory pricing caps, we have in terms of both loan origination volume and asset quality achieved an outstanding performance and sustainable business growth. I'm glad to announce that cash dividend of HKD0.10 per share for the interim will be recommended.

Our loan origination volume reached RMB 24.64 billion for the Period, a record high for the Group, representing an increase of 9.4% compared to the six months ended June 30, 2021 (the "Corresponding Period") and an increase of 35.5% compared to the six months ended December 31, 2021. Our outstanding loan balance exceeded RMB 20.49 billion as of June 30, 2022, representing an increase of 31.1% compared to RMB 15.64 billion as of December 31, 2021.

With the uncertainty of China's macro-environment and prevailing regulatory limits on consumer loan interest rates, we continued to retain and expand our higher-quality customer base during the period. To improve customer loyalty and brand awareness and, as part of our refinements and enhancements to our proprietary credit risk models, we have added new multi-dimensional data and cutting-edge algorithms that increase the efficacy of our customer differentiation and assessment. Through cooperation with China's major data service providers, the features in our credit risk models allow us to gain a fuller perspective of applicants' profiles (online & offline). At the same time, we have upscaled our AI-powered collection and customer service system to strengthen our post loan management. With these effective initiatives, we have been able to grow our loan volume and at the same time improve our asset quality. Our first payment delinquency ratio, one of our key leading indicators of asset quality, achieved a new record low of 0.23% for the second quarter of 2022 compared to 0.43% for the fourth quarter of 2021. Meanwhile, our M1-M3 ratio and M3+ ratio also further improved to 2.07% and 2.06%, respectively, by the end of the Period. These outstanding performance metrics display our risk management capabilities that have enabled us to improve our asset quality in spite of the current fluctuating macro environment risks.

On our customer acquisition front, we continue to target higher-quality borrowers. We have maintained the expansion and diversification of our acquisition channels which include online social media, online information feeds, internet search engines and mobile app stores. With our ability to address the credit needs of our growing customers and deliver a superior customer experience, our repeat borrower contribution was ~89% of loan origination volume for the Period which demonstrates ongoing improvement in customer loyalty and retention and the growing strength and visibility of our brand.

Fostering a stable and diversified funding partner base is critical to our business, as is our collaborations with licensed institutions which has been a feature throughout our history. Our funding costs during the Period continued to present a declining trend as we maintain our efforts to optimize our funding structure and ensure sufficient funding supply. We are able to maintain healthy and long-term collaboration with our funding partners because of the value proposition we offer them including efficient risk management and attractive risk-adjusted returns. By the end of the Period, we had established business cooperation with 80 external licensed funding partners, including 19 nationwide joint-stock commercial banks, consumer finance companies and trust institutions. For the Period, the total loan volume facilitated through credit-enhanced structure amounted to RMB 14.35 billion, 58.2% of total loan origination volume in the Period, and total loan volume facilitated through pure loan facilitation structure amounted to RMB 2.87 billion, 11.7% of total loan origination volume in the Period, representing an increase of 104.1% as compared with RMB 1.41 billion for the six months ended December 31, 2021.

With the impact from the COVID-19 pandemic, interest rate limits and the fast-evolving regulatory environment and the ongoing risks within the overall Chinese macro-economy, we see the remainder of 2022 still holds many challenges for our operations, but at the same time will also present many opportunities. We strive to generate increasing value for our shareholders and society. On the regulatory side， we see an increasingly stable policy environment and we expect a healthy industry which will benefit all market participants. Looking ahead into the second half of 2022, we will stay prudent and deliver more value to our customers, shareholders, employees and society.

With that, I would like to pass to our CFO Bai Hong who is going to share with you further on our financial performance. Thank you.

**Ms. Hong Bai**:
Thanks, Stephen. Good morning, everyone. Welcome to our 2022 interim earnings call.

In the interest of time, I will not go through all of the financial line items on this call. Please refer to our earnings release for further details.

As Stephen mentioned, we are delighted to report that we delivered another robust performance for the first half of 2022 despite multiple challenges.

With the ongoing strategy of migrating to better-quality customers driven by the alignments to regulatory window guidance on interest rates and uncertainties from the current fluctuating macro-environment, our total income was RMB 1,582.5 million for the Period, despite an increase in loan origination volume. This represents a decrease of 15.8% as compared to RMB 1,880.0 million for the Corresponding Period, and a slight increase of 0.3% as compared to RMB 1,578.2 million for the six months ended December 31 of last year.

Our fair value loss of loans to customers increased to RMB 303.6 million for the Period, as compared to RMB 129.2 million and RMB 249.8 million for the Corresponding Period and six months ended December 31, 2021, respectively. Our credit impairment loss increased to RMB 68.2 million for the Period, as compared to RMB 32.6 million and RMB 13.1 million for the Corresponding Period and six months ended December 31,2021, respectively, primarily due to an increase in loan volume for the Period, and as loans originated in the second half of 2021 presented relatively higher delinquency due to the effects of the resurgence of COVID19 and the stress in the real estate sector at that time on the Chinese macro-economy. However, with agile risk policies adjustments, our newly originated loans in the Period represented better asset quality which shown in our first payment delinquency metrics. Our first payment default ration in second quarter is low to 0.23%.

In line with the expansion of our loan origination volume, our operating expenses, excluding share-based compensation expenses, increased by 11.4% to RMB 778.6 million for the Period, as compared to RMB 698.8 million for the Corresponding Period, and a decrease of 4.4%, as compared to RMB 814.1 million for the six months ended December 31 of last year, mainly due to improvements in our operating efficiency.

As a result, we recorded net profit and adjusted net profit of RMB 328.0 million and RMB 331.5 million, respectively, for the Period, a decrease of 57.8% and 58.8% as compared to RMB 777.6 million and RMB 805.0 million, respectively, for the Corresponding Period, and a decrease of 18.3% and 18.7%, as compared to RMB 401.7 million and RMB 407.6 million, respectively, for the six months ended December 31, 2021.

Our leverage ratio, which is defined as total loan book divided by equity, kept at a relatively healthy level which currently stands at 5.6 times, which is slightly higher than the end of 2021 mainly driven by larger scale.

In terms of liquidity, we are very mindful for our cash position and the overall liquidity. Our total cash and the cash equivalents are around RMB 1.8 billion for the period.

Looking ahead to the second half of 2022, with the uncertainties of COVID-19 and macro-environment, we will continue a prudent approach and remain cautiously optimistic that our business will continue a healthy growth momentum.

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

**Operator**:
Thank you. We will now poll for question. If you'd like to register for a question, please press star one on your telephone.

Ladies and gentlemen, that is star one to register for question. Thank you. Our first question comes from Mr. Frank Jiang from Credit Suisse.

**Mr. Frank Jiang**:
Hello, thank you management for taking my question. I have two questions. The first is on credit quality, we see that the risk indicators actually improved despite headwinds in the first half. Maybe you can accompany provide more color on detailed measures that's been taken to measure risk during COVID-19 and macro downturn. And the second question is on loan pricing. Can the company provide more color on the progress in terms of lowering the APR to below 24%? Thank you.

**Mr. Stephen Liu**:
Okay, thank you for the question. Let me take the second one and I will leave the first question to be answered by our Risk Officer, Ethan.

About the pricing, again, I remember for the last conference call also mentioned that is the current legal framework in China, the legal cap is 36%. However, through the so-called window instruction from various regulatory bodies, many banks have been instructed to offer consumer loans up to 24%.

So at this moment, in the market, even though the 36% is legal cap, however, it's getting difficult for us to find any party to collaborate for any loan for pricing over 24%. And that's the current situation. That's why I'm saying it's actually a sort of consumer loan pricing tightening. But it's not like absolutely 24% is a must at this moment, but it is a trend.

So for our company's concern that at this moment, we are for the first half, still relatively stable, currently, more than 50% of our loan originated is actually below 24%. We are gradually growing this percentage, and we expect to reach 60+% by the end of this year. And I think the reason is very simple, because we are growing, which actually relatively easy for us to get access to funding with interest rate cap at 24%, while it is getting more difficult for us to get any further funding for who is willing to offer loan at 36%. And that's our understanding about this pricing regulation in China, we will base on our own procedure, and also our own strategy, where we gradually increase the percentage of the lower interest rate business but in a gradual fashion.

Thank you for the first question, and perhaps Ethan you can take over and then that then we'll see if you have any follow up questions.

**Mr. Ethan Gong**:
Okay, sure. So, let me add more details on the methodology that we took to improve the asset portfolio.

Actually, the first question is related to the second question, partially, because we have been always preparing for moving the APR from certain level down to 24% or even further. So, around the end of the last year, throughout the last year, we have been very proactively up with customers.

For example, when we acquire new customers, we always use the lifetime value that we predict as a basis to make a cut off, so, when we did in the second half of last year, we already adjust the methodology of predicting LTV (lifetime value) largely based on IRR 24%. So, which means that some chunk of customers that we used to acquire are not applicable anymore, therefore, we are seeing better and better customers getting into our portfolio and therefore, as a result, we will see that the asset quality has improved during the first half of this year.

And the second big reason that we see improvement of the asset quality was through our frequent and comprehensive modeling refresh and rebuilding. So, among the whole industry, I believe, VCREDIT is one of the companies that, relatively speaking, frequently upgrading and rebuilding credit models, and risk model by itself is critical to tell the difference between credit worthy customers versus not that credit worthy customers. In January this year, we had a major upgrade and as a result of a various testing, we clearly see that the January upgrading is very effective, better differentiated customers asset quality. So, that is another major contribution to the improvement of our risk indicator.

**Ms. Hong Bai**:
I just want to add one more point to why our asset quality is improving. And very importantly to have the agile response to any situation happened, I think that also added a lot of value. And also in our credit risk model, our data kind of cover full aspects of applicants' profile. So, the data is sufficient to really assess customers' profile, so, I think that's also a point helping for the improving asset quality. Thank you.

**Operator**:
Ladies and gentlemen, do you have any question please press star one on your telephone
Seems to be no further question at this point in time.

Would you like to wrap the call?

**MC**:
Thank you. There're no more questions, we will pass the time to management.

**Mr. Stephen Liu**:
Okay, thank you very much for all of you to come to our conference call. I think maybe I can give you a little bit of color on the second half of this year, and actually, one aspect already mentioned that we will gradually shift towards low APR customer segments.

At the same time, I think we have already seen good growth momentum. And the company is currently at roughly RMB 5 billion loan origination a month. So we have a target for the second half of this year in terms of loan origination will be around RMB 30 billion, which is actually increased from what we forecasted about half year ago.

In general, we are quite confident in the current macro environment, even though we are facing many challenges, but the management is still comfortable to further grow the business in a prudent and fully compliant way. That's something I want to add. Thank you very much. Thank you all for coming.

**MC**:
Thank you, Stephen. And thanks again for all the questions and if you have any additional questions that you would like to further follow up with management, please contact the IR department of VCREDIT, you can find the contact information on the Company's website, or you may contact us, Hill+Knowlton Strategies.

Our contact details are in the email that we sent the presentation material. So this concludes the investor presentation. Thank you everyone for tuning in today. You may now disconnect your line. Thank you.