



(SEHK stock code: 2003)

**VCREDIT 2023 Interim Results  
Investor Conference Call Transcript  
August 25, 2023**

**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'd like to welcome all of you to the company's 2023 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 the call, all participants will be in listening-only mode. Mr. Liu will provide you an overview of the Company's recent performance and highlights. Ms. Bai will present you with more detailed discussions on financial results. After the presentation, the management will take questions from participants.

Now, I'd like to take this opportunity to remind you that the company's remarks today may include certain forward-looking statements, number of risk factors beyond its control may cause actual results to differ materially from these statements. During the call, the Company will present both IFRS and Non-IFRS financial measures. We will also discuss general market conditions for the industry. And such information may come from our variety sources outside of VCREDIT.

Now, I'd like to turn it over to Mr. Liu, Mr. Liu please begin.

**Mr. Stephen Liu:**

Thank you. Good morning, everyone. Looking back over the past six months, the macro and operating environments continue to pose challenges. Despite the economy has shown signs of recovery with the full normalization of economic and social operations at the beginning of the year. The overall economic environment and consumer demand remain uncertain. We anticipate a slow recovery in economy and credit demand during the rest of the year. In the first half of 2023 we made unremitting efforts actively enhancing our technological capabilities, optimizing and innovating our business strategies and models. Our performance during this period has demonstrated the resilience and flexibility of our business strategy, commercial model and operations. As a result of our solid performance, we have recommended

a payment of dividend of HK dollar 15 cents per share for the interim period of 2023, subject to the shareholders' approval.

Our loan origination volume reached RMB36.20 billion for the Period, a new record in our history, representing an increase of 46.9% compared to the six months ended June 30 2022, and an increase of 31.4% compared to the six months ended December 31 2022. As of June 30 2023, our outstanding loan balance exceeded RMB31.38 billion, representing a 25.2% increase from RMB25.07 billion as of December 31 2022.

The significant growth in loan volume is attributed to our capability to acquire and retain better quality customers. On the customer acquisition side, we continue to expand high quality customer acquisition channels. We have established cooperation with well-known content platforms, photo editing applications, internet-based logistics platforms, and other premium channels. Through comprehensive user behavior analysis models and refined user segmentation, we are achieving precise targeting for high quality customers. In the first half of 2023, our cumulative registered user has increased by 7.1% compared to the previous period. For existing customers, we continue to focus on refined operations integrating user willingness models to enhance user engagement. As a result, repeat borrowers accounted for 82.1% of the total loan volume in the first half of 2023.

While achieving business growth, we continue to adjust and optimize our risk management framework to address market and user behavior changes. We have continued to refine our multi-source scorecards and risk management policies. By leveraging our models' robust risk identification capabilities, we're able to assess customer's risk levels more accurately. Additionally, during the Period, we have undertaken several impactful model upgrades and tests aimed at achieving our long-term optimal risk management objectives. However, we observed some uptick in asset quality, especially on the short-term indicators, our first payment default rate in the second quarter was 0.64%, higher than the previous quarter. This increase, on one hand, is due to softening macro and micro environment, and on the other hand, it is due to the forward-looking adjustments we made on our collection practices based on regulatory guidelines. While we may face short-term pressure from fluctuations in asset quality, we believe that these necessary changes are aimed at fostering long-term growth and ensuring sustainable operations. Our delinquency ratio remained stable, standing at 2.26% at the end of Q2, which is lower than that in the first quarter.

In the first half of 2023, the global wave of artificial intelligence swept across the world. We believe technology will transform the future. Utilizing artificial intelligence powered by large language models, we have introduced an AI-powered intelligent online consumer service robot, which can facilitate personalized interaction with users, further refining our user interaction experience and improving customer's retention rate. We will consistently explore AI technology and drive the comprehensive digitalization of consumer finance across various aspects.

Fostering a stable and diversified funding partner base is critical to our business. Our funding costs during the Period continued to present a declining trend as we maintained 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 by offering value propositions which includes efficient risk management and attractive risk-adjusted returns. By the end of the Period, we had established the

business cooperation with 96 external licensed funding partners, including 21 nationwide joint-stock commercial banks, consumer finance companies and trust institutions. During this period, we have actively explored diversified forms of cooperation to ensure fund security and compliant operations, while achieving a win-win situation and stable growth for all parties.

While China remains our primary market, we are exploring opportunities in other markets. We have recently launched a consumer finance brand “CreFIT” in Hong Kong, tailored to the local market. This allows us to expand our business presence in Hong Kong market. Furthermore, we've recently entered a SPA to acquire BPG, which is a credit institution registered with the Bank of Portugal. We look forward to achieving a breakthrough in these new endeavors and shall strive for the best returns for our shareholders.

On the regulatory front. In addition to the forward-looking adjustments in loan collection practices, we have also established a Consumer Protection Committee to comprehensively coordinate consumer protection efforts and further strengthening consumer rights protection, and advocating a healthy, fair, transparent and trustworthy consumer environment. Additionally, we have fully implemented the credit agency reform, namely “斷直連”, to better protect consumer privacy and information security. Adhering to the highest level of regulatory compliance and ensuring a sustainable business model has always been and will continue to be our top priority, as well as our core strength.

In the rest of the year, we will continue to strive for a balance between risk and growth and deliver more value to our shareholders.

Now I will turn the call to our CFO, Bai Hong, who will further discuss our financial results. Thank you.

**Ms. Hong Bai:**

Thanks, Stephen. Good morning, everyone. Thanks for taking time to join our interim results conference for year 2023. 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.

We achieved a stable performance, and sustainable business growth in the first half of the 2023.

Our total income was RMB1,917.6 million for the Period, representing an increase of 21.2% as compared to RMB1,582.5 million for the Corresponding Period and an increase of 24.8% as compared to RMB 1,536.8 million for the six months ended December 31, 2022, primarily due to the increase in loan origination volume.

Our fair value losses of loans to customers increased to RMB333.5 million for the Period, as compared to RMB303.6 million and RMB268.2 million for the Corresponding Period, and the six months ended in December 2022, respectively. Our credit impairment losses increased to RMB148.3 million for the Period as compared to RMB68.2 million and RMB61.4 million for the Corresponding Period and the six months ended December of last year, respectively, and this increase is mainly driven by increasing in loan volume generated through our credit-enhanced and pure loan facilitation structures for the Period.

In line with the expansion of our loan origination volume, our operating expenses, excluding share-based compensation expenses, increased by 35.2% to RMB1,052.9 million for the Period, as compared to RMB778.6 million for the Corresponding Period, and an increase of 16.9%, as compared to RMB900.8 million for the six months ended December 31, 2022.

As a result, we recorded net profit and adjusted net profit of RMB302.1 million and RMB303.5 million, respectively, for the Period, an increase of 47.8% and 47.4% as compared to RMB204.5 million and RMB205.9 million, respectively, for the six months ended December 31, 2022.

Our leverage ratio, which is defined as the risk-bearing loan balance divided by the shareholders equity, stands at 6.6 times at the end of June, which is slightly higher than the end of 2022 mainly driven by the growing scale.

In terms of liquidity, our total cash and cash equivalents are around RMB1.3 billion at the end of June and remained at a strong level.

As Stephen mentioned or board also recommended an interim dividend of HK dollar 15 cents per share, which accounted for 22% of our adjusted net profit, subject to shareholders approval.

The macro environment remains complex in the first half of the year, and the pace of recovery is still uncertain. In the rest of year, we will continue our efforts on optimizing our business model, strengthening our risk management and enhancing our technological capabilities. We believe these factors will contribute to the company's resilience in navigating a changing and evolving macro environment, providing support for long-term sustainable growth and profitability.

With that, I'd like to conclude our prepared remarks. Operator, we can now take some questions. Thank you.

**Operator:**

Thank you, ladies and gentlemen. We are now calling for questions. If you wish to ask a question, please press star one. Thank you.

First question comes from Diva from China oriental capital. Thank you.

**Ms. Diva Ding:**

Hello, thanks for sharing. I saw that the company's loan facilitation services have grown very significantly year on year. I'm wondering how this has happened, and will it maintain a similar growth rate in the future? Thank you.

**Mr. Stephen Liu**

Okay, I think the reason for the growth that we demonstrated in the first half of this year was mainly because we actually worked quite relatively aggressively with the ecosystem, the internet platforms like ByteDance, Tencent and Baidu. And we have gained a lot of customers through collaborating with them.

Of course, that also explained why our acquisition costs went up quite a lot in the first half of this year, but I think it's good for our long-term growth.

For our consumer business, I think it is very important to keep acquiring new customers, because the lifetime value of a customer is relatively short compared to a credit card business. It is essential to showcase our capability to acquire customers to maintain a substantial customer base.

Even though 82.1% of our business in the first half of this year came from existing customers. In order to foster further growth, I think we need to acquire more customers. Despite spending a considerable amount of money in the first half of this year, we were still able to significantly expand our business, demonstrating our ability to scale if required. Also, I think this is beneficial for our future.

And having said that, I think the 46.9% growth achieved is quite extraordinary. I don't think we'll be able to repeat that in the next half-year or even next year. But definitely we are able to continue to grow, probably not at that rate. Thank you.

**Operator:**

Next question comes from Ricky from China Brilliance. Thank you.

**Mr. Ricky Tan:**

Let me quickly translate my question. So, what do you think about the impacts from the recent issue of Zhongrong International Trust and also the Zhongzhi Capital? Thank you.

**Mr. Stephen Liu:**

Okay, thank you for the questions.

Firstly, I will say that we have never collaborated with Zhongrong International Trust and Zhongzhi Capital. Although they have approached us previously, we didn't commence any official work with them.

Therefore, we don't have any business dealings with them.

That's the second thing, in my opinion, the current challenge facing trust companies is mainly due to the issues in the property sector. In the past, they had a lot of exposure to this sector. And as a matter of fact, our business in the past was like quite insignificant for any trust company because they had a large exposure to the public sector.

But nowadays, it is increasingly challenging for them to sustain that aspect of their business, and retail investors are not particularly interested in purchasing those trust products.

As a matter of fact, we are benefiting from that situation. For example, give me a feeling like we'll be working with one of the major trust companies. They are focusing on retail investors, since it is difficult for them to find high-quality investment products in the investment grade category. Thus, our program run by trust is becoming very attractive in the market.

Recently they lowered the interest rate for retail investors by over 1%. But still, it's easily oversubscribed, I think the environment in China is changing and the overall funding cost even for the trust program is getting lower and lower. Consequently, I feel like we'll be benefiting from the situation. Thank you.

**Operator:**

Thank you. We have Michelle from Oriental Securities. Thank you.

**Ms. Michelle**

Hi, this is Michelle, from Oriental Securities. I have a question about the company previously announced that it will purchase the Portuguese credit institutions BPG. Does VCREDIT intend to start doing business in Europe? Thank you.

**Mr. Stephen Liu**

Yes, of course.

The BPG is actually a fully licensed commercial bank, registered with the Central Bank of Portugal, while Portugal is a part of the EU.

Currently, we are working with the regulators on a recent submission for obtaining all essential regulatory approvals, including the approval from Bank of Portugal. Also, we need to be endorsed by the ECB of Europe, so that we can carry our business not only in Portugal, but throughout Europe. We are particularly interested in the digital banking business, mainly in consumer credit and wealth management for individuals. After we could successfully conclude this transaction, we plan to expand our business in Europe. Perhaps that's where we begin our business journey, starting from Portugal, but probably later on, we will expand to Spain, and some other countries. Currently, our management is formulating our strategy. But that's definitely our intention.

**Operator:**

Thank you! Ladies and gentleman, please press star one for questions. Thank you.  
No further questions at this point in time.

**MC:**

Thank you, operator, Mr. Liu and Ms. Bai. Thanks again for all the questions from the participants. If you have any additional questions that haven't been answered, please contact the IR department of VCREDIT. And 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've sent out with the presentation materials. This concludes the investor presentation. Thank you everyone for tuning in today. Have a nice day. Goodbye.