

X Financial (NYSE: XYF)

2018 Q4 & Annual Presentation



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X Financial at a glance

A leading technology-driven personal finance company in China

----- serving the vast personal financing demand with a focus on prime borrowers



In fiscal year 2018:

36,913 mn (RMB)

Total loan facilitation amount

2,370,510

Total borrowers

266,581

Total investors

As of December 31, 2018:

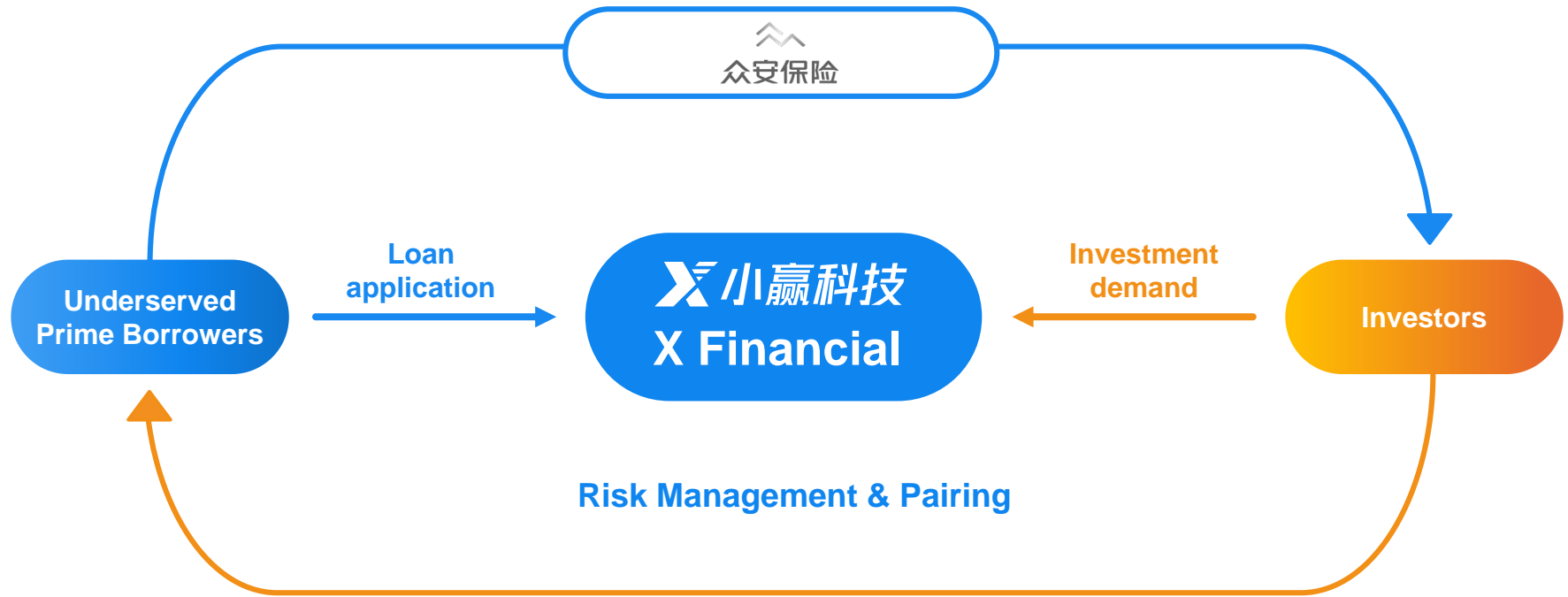
20,849 mn (RMB)

Loan balance

22,968,310

Registered users

Business model



_ Underserved Prime Borrowers



Credit card holders



Micro business owners

_ Investors



Mass affluent individuals

















Corporates

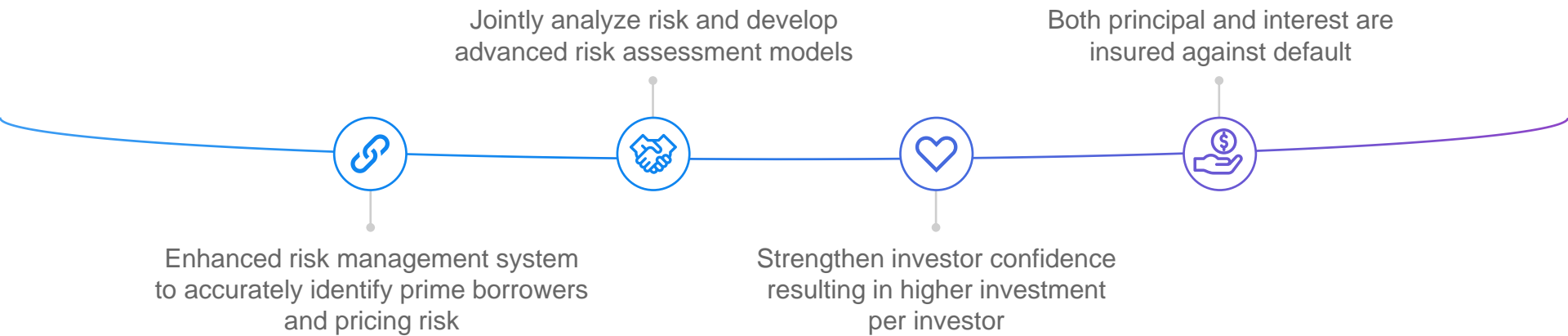
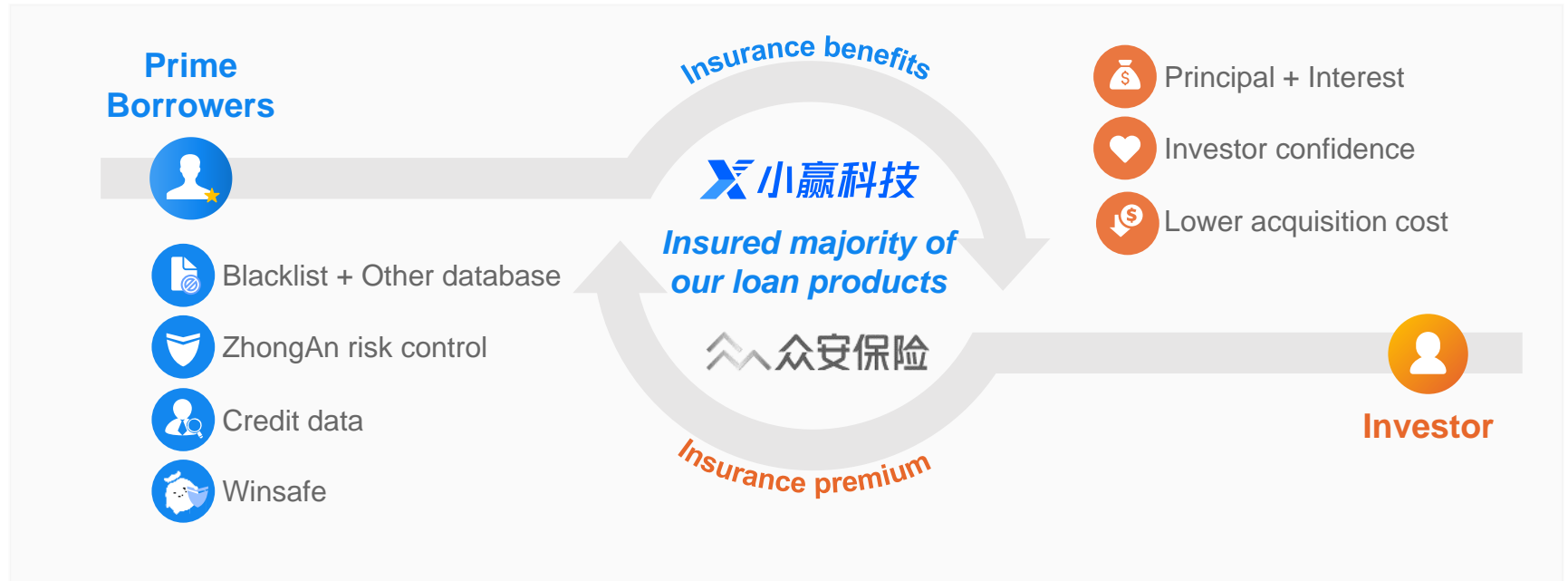


Financial institutions (FIs)

Comprehensive suite of products with attractive features







Loan facilitation	Wide range of age groups	Flexible loan amount catering borrowers' different needs	Flexible tenor meeting borrowers' liquidity needs	Various sources of credit proof reducing collateral needs
 <p>Xiaoying Card Loan</p>	 <p>Early career stage Avg. late 20 – 30s</p>	 <p>RMB2,000 – 60,000</p>	 <p>3, 6, 9, 12 months</p>	
 <p>Xiaoying Preferred Loan</p>	 <p>Small business owners Avg. late 30 – 40s</p>	 <p>RMB100,000 – 200,000</p>	 <p>12 months</p>	
Investment	Mass affluent investors with RMB600,000 -RMB6 million of investable assets	Low investment entry barrier to attract investors	Variety of products catering to investor risk appetite	Enhanced liquidity with transaction facilitation
 <p>Xiaoying Wealth Management</p>	 <p>Mass affluent investors Avg. mid 30</p>	 <p>Starting from RMB100</p>	<p>Insurance P2P Fixed Deposits Sharing Money Market Funds</p>	 <p>Secondary market transfer</p>

Strategic partnership with ZhongAn Insurance



Significant majority of loan products are insured by ZhongAn which significantly enhances consumer confidence

Investment highlights

- 1 Leading industry position with differentiated products benefiting from China's booming personal finance market 
- 2 Rigorous data-driven credit assessment modeling system 
- 3 Superior user experience continuously attracts investors and borrowers 
- 4 Low funding costs **create solid** competitive advantage 
- 5 Strong brand image with continuous promotional campaigns 
- 6 Founded by seasoned entrepreneurs with proven track record 

1. Leading industry position with differentiated products that benefit from China's booming personal finance market



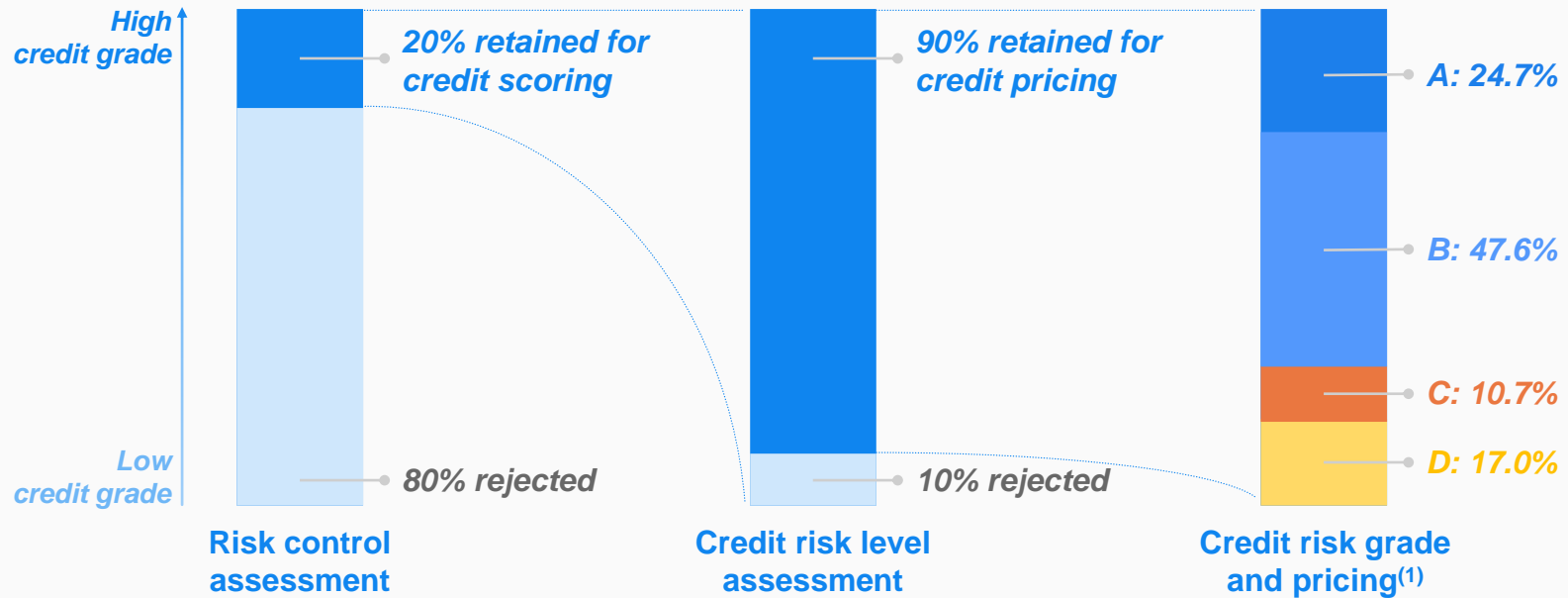
Leading platform among credit card balance transfer products in China



Leading wealth management product on consumer finance marketplaces in China

2.1 Rigorous credit grade modeling system

Illustrative Example for Card Loan

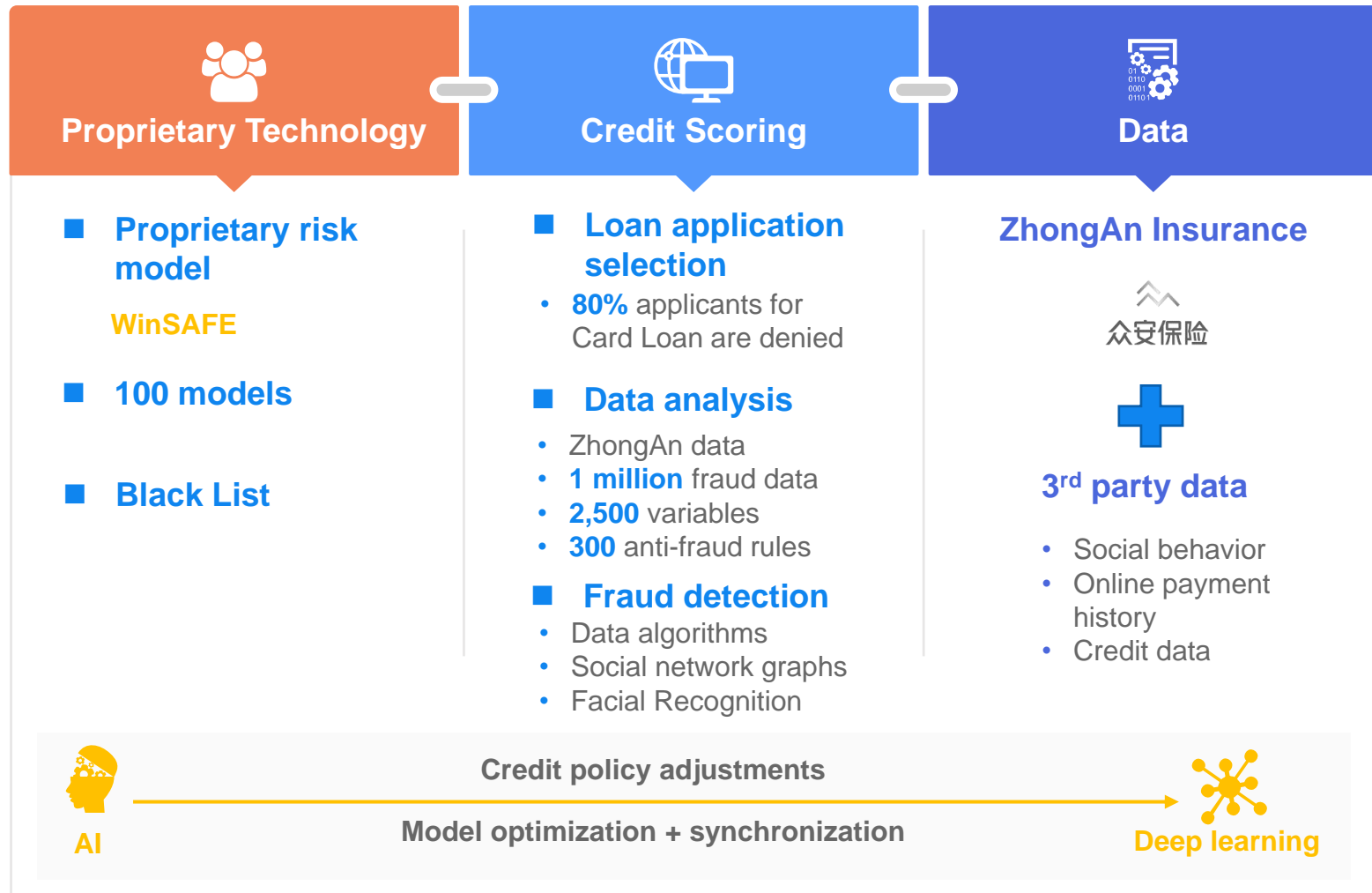


Different credit line for different credit score:

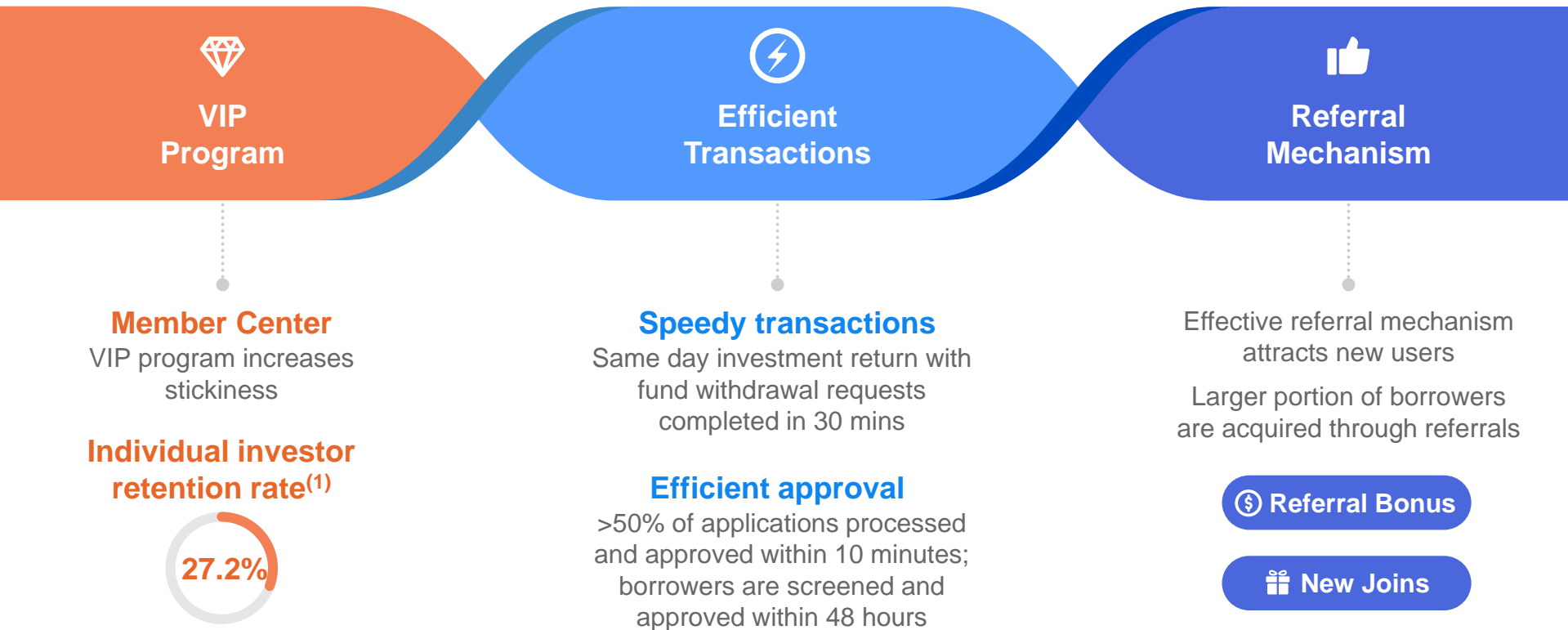


2.2 Technology & data-driven credit assessment

Continuous optimization of credit assessment systems that strengthen risk controls



3. Superior user experience continuously attracts investors and borrowers



(1) As of December 31, 2018

4. Low funding costs creates solid competitive advantage

Low Funding Cost



Individual Investors



Corporate Investors and Institutional Funding Partners

Enlarging
funding
percentage
from
Institutions



Diversified Funding Source and Increasing Funding from Institutions

(1) For three months ended December 31, 2018

5. Strong brand image with continuous promotional campaigns



(1) Source: Deloitte website

6. Seasoned management team



Yue (Justin) Tang

*Founder,
Chairman and CEO*

Co-founder of eLong, one of the first online travel service companies in China

Co-founder of Blue Ridge China, an investment and consulting company



Shaoyong (Simon) Cheng

President

20+ years of experience in risk management in Capital One, HSBC, Bank of Communications, and other FIs across China and US.



Jie (Kevin) Zhang

Chief Financial Officer

17+ years of work experience with 12+ years of experience in auditing

Former CFO of a famous Fintech company



Ding (Gardon) Gao

Chief Technology Officer

Former software architect at Tencent

Deep understanding and extensive experience in IT industry



Kan (Kent) Li

Chief Risk Officer

Formerly in charge of unsecured loan risk

Former manager at Capital One

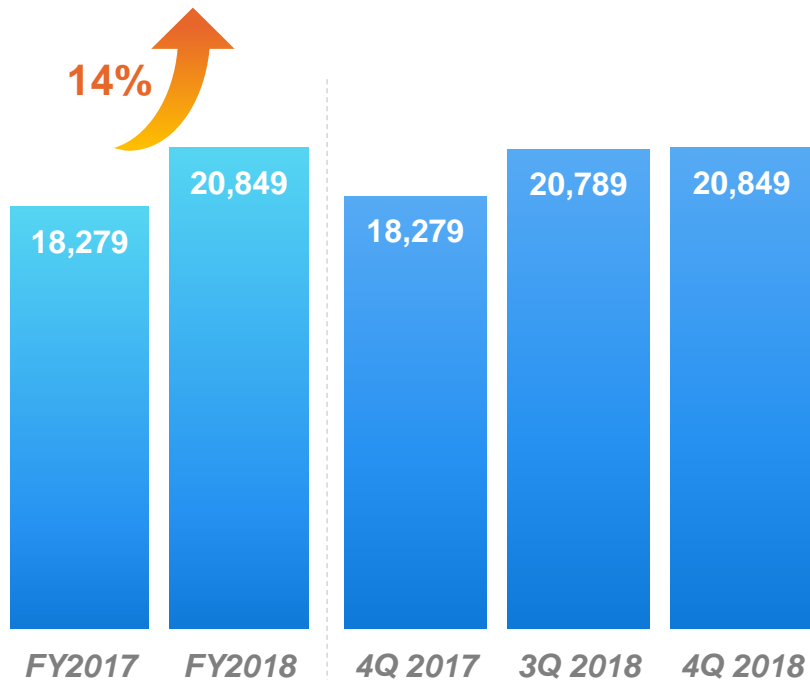


Founded by a seasoned entrepreneur with proven track record and backed by a strong team of financial and technology talent

Solid performance of loan balance and loan facilitation

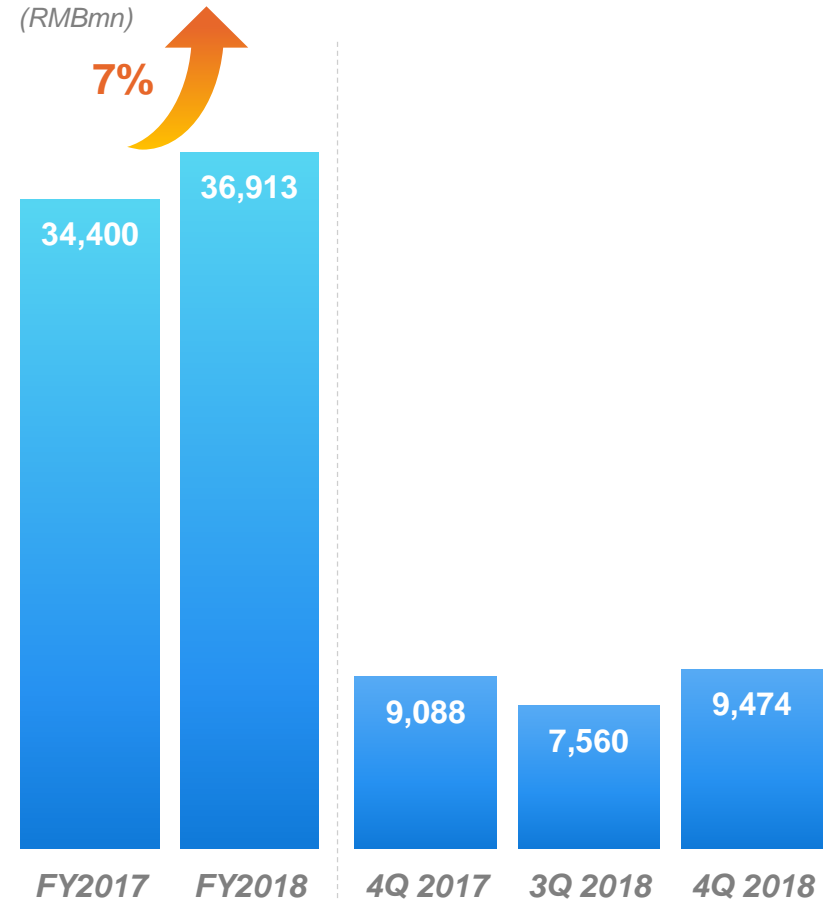
_ Total Outstanding Loan Balance

(RMBmn)



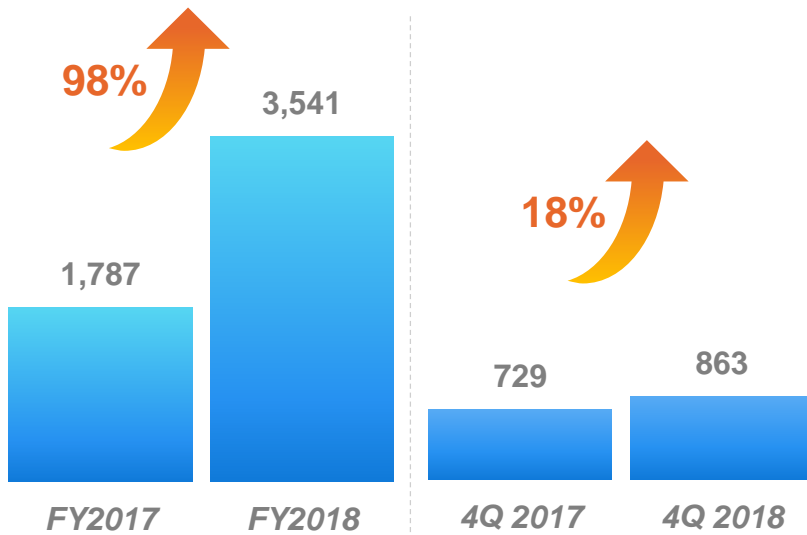
_ Total Loan Facilitation Amount

(RMBmn)

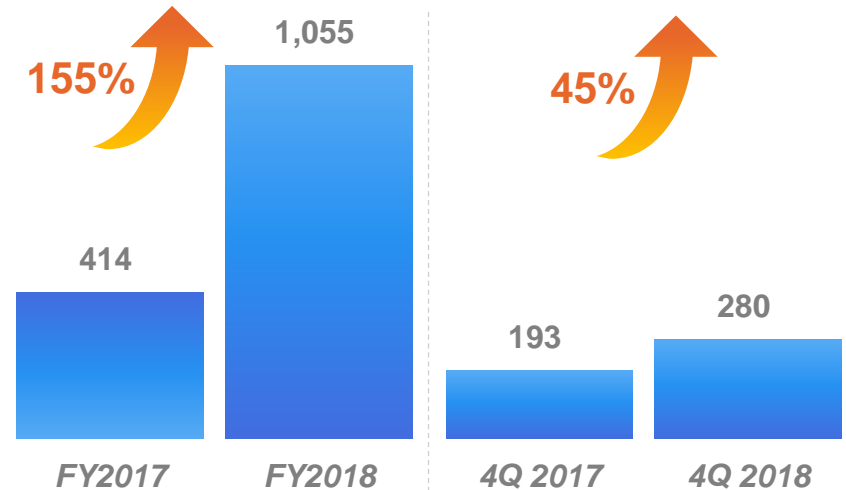


Strong revenue and Non-GAAP net income growth

_ Total Net Revenue (RMBmn)



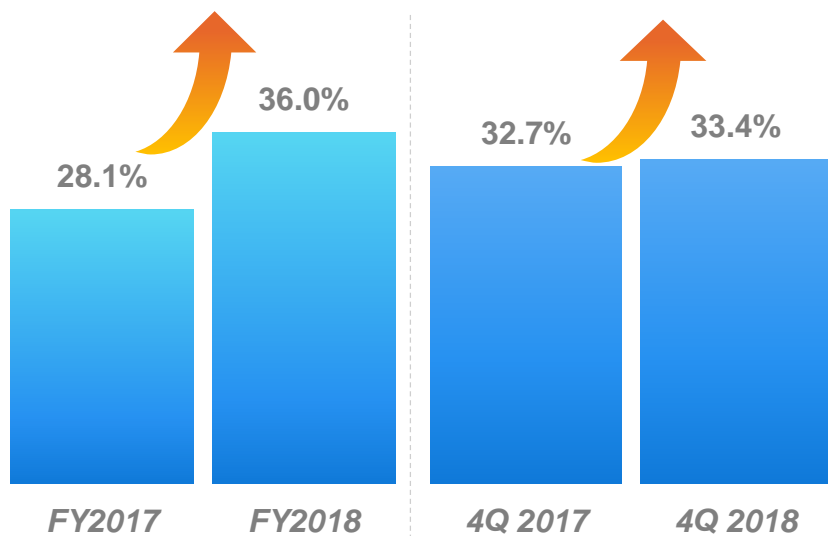
_ Non-GAAP Adj. Net Income / (Loss)⁽¹⁾ (RMBmn)



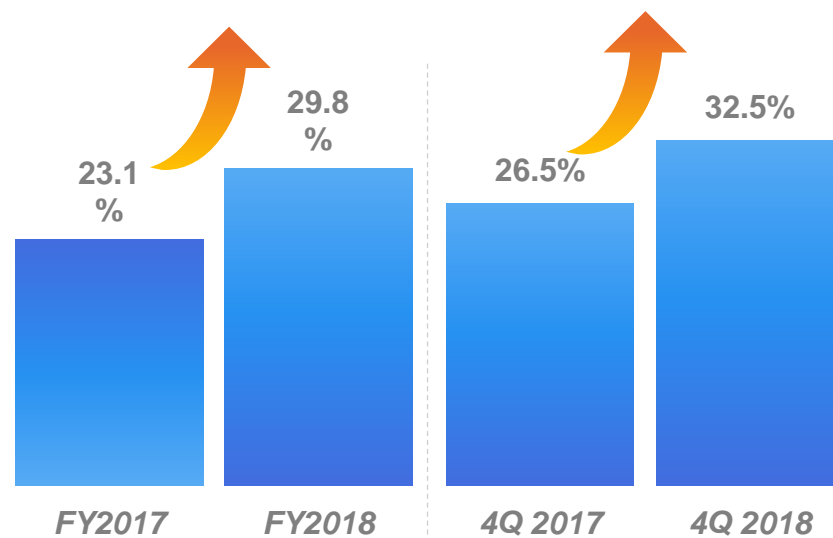
(1) Represents net (loss) / income before share-based compensation expenses

Improving operating efficiency

_ Operating Margin

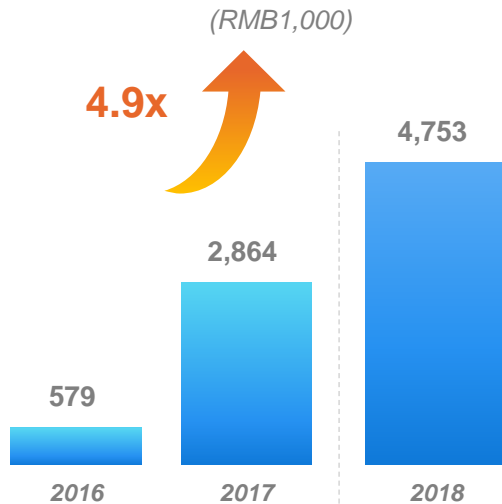


_ Non-GAAP Net Income Margin

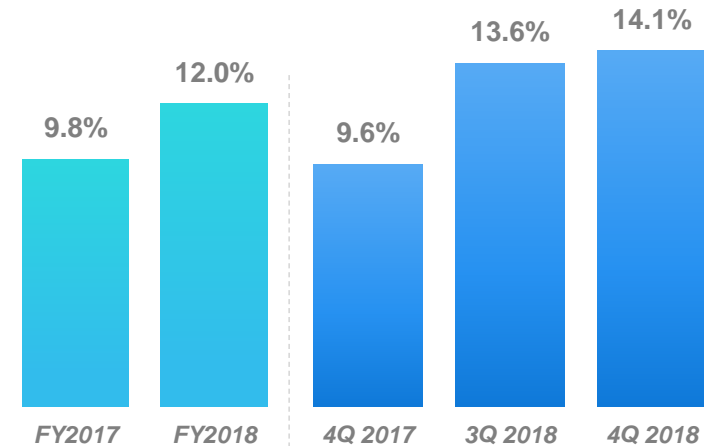


Continuous increase of revenue per person

_ Net Revenue Per Employee



_ Operating Expense % Net Revenue⁽¹⁾



- **Stable operating expense percentage while with intense marketing efforts**

Superior products offering with innovative marketing efforts

- **High value in each employee**

Highly automated risk management system

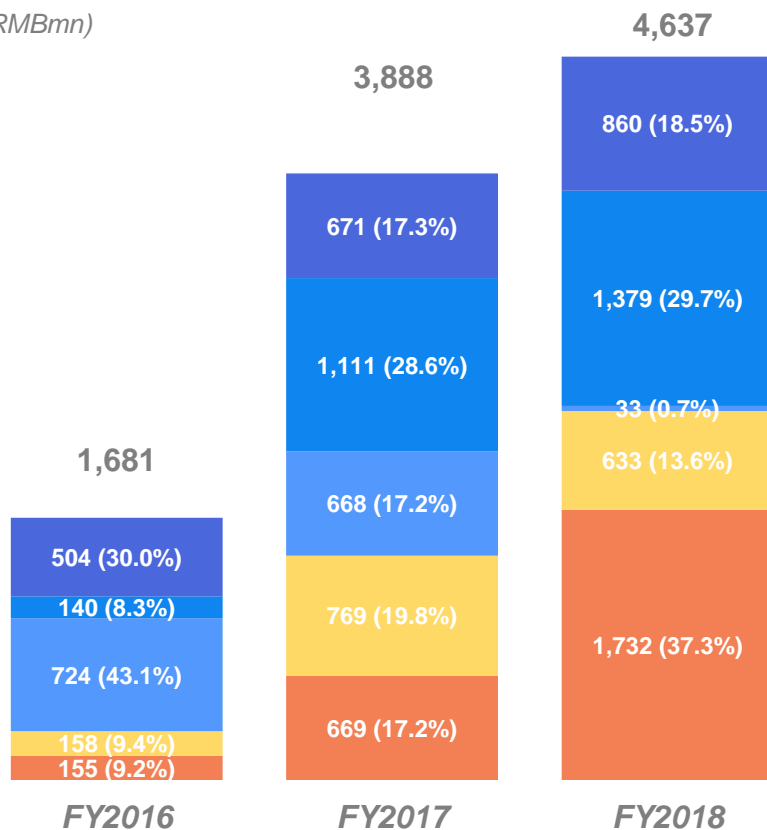
Business model light in capital and labor

(1) Operating expense includes sales marketing expense, as well as general and administrative expense

Outstanding return on equity performance

_ Total Assets

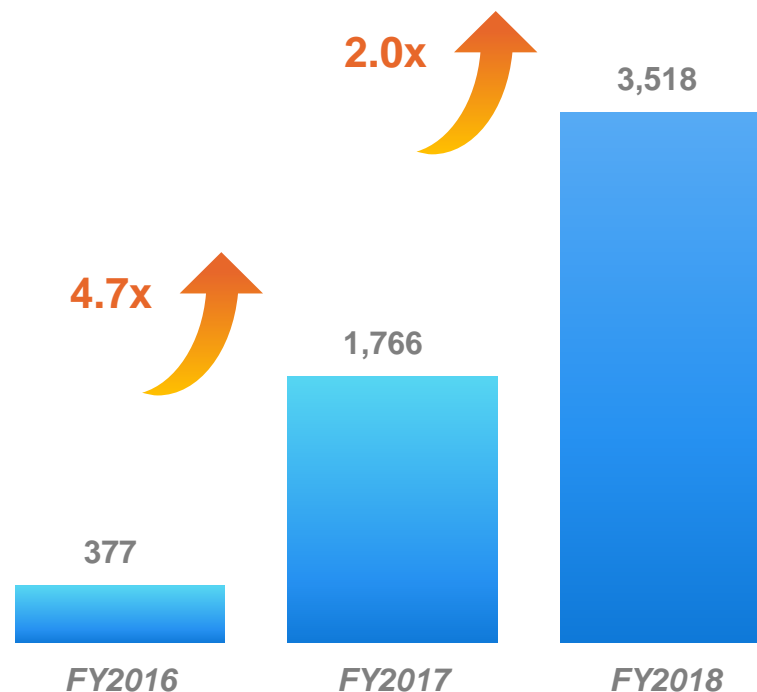
(RMBmn)



- Cash & Cash Equivalents
- Accounts Receivable & Contract Assets
- Loans at Fair Value
- Loans Held for Sale
- Others

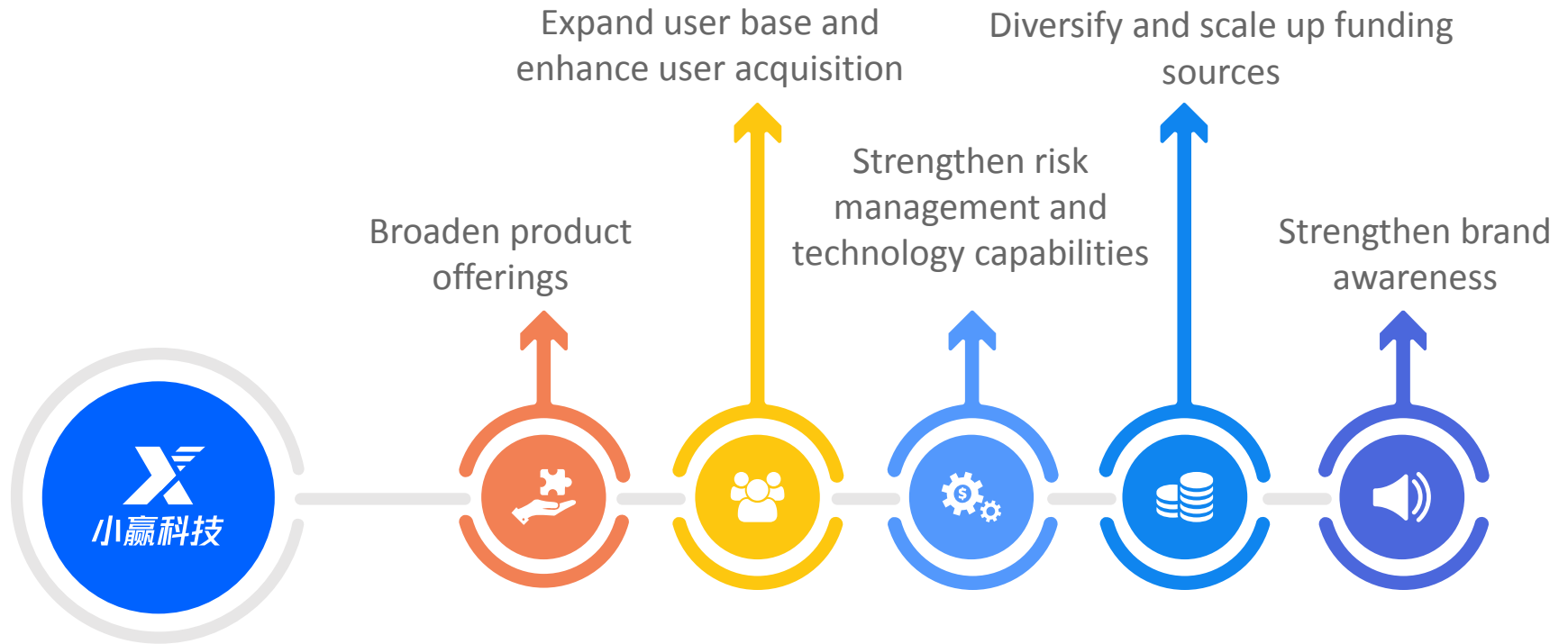
_ Total Equity⁽¹⁾

(RMBmn)



(1) Represents total X Financial shareholders' equity, excluding non-controlling interest in subsidiaries

Our growth strategies



Summary consolidated balance sheet

	As of 12/31/2017	As of 12/31/2018	
	(in RMB1,000)	(in RMB1,000)	(in USD1,000)
Cash and Cash Equivalents	671,361	860,034	125,087
Accounts Receivable & Contract Assets, Net of Allowance for Doubtful Accounts	1,110,948	1,379,293	200,610
Loans Held for Sale	768,638	632,717	92,025
Loans at Fair Value	667,839	33,417	4,860
Total Assets	3,887,695	4,636,970	674,420
Payable to Investors at Fair Value of the Consolidated Trusts	667,081	-	-
Short-term borrowings	-	198,000	28,798
Income tax payable	401,332	358,657	52,164
Deposit Payable to Channel Cooperators	134,262	134,042	19,496
Total Liabilities	2,122,155	1,118,900	162,738
Total X Financial Shareholders' Equity	1,762,328	3,517,023	511,530
Non-Controlling Interests	3,213	1,047	152
Total Equity	1,765,541	3,518,070	511,682

Source: Company audited financial statements

Consolidated income statement

	4Q17	4Q18	
	(in RMB1,000)	(in RMB1,000)	(in USD1,000)
Net Revenues			
Loan Facilitation Service—Direct Model	576,947	760,926	110,672
Loan Facilitation Service—Intermediary Model	65,424	5,925	862
Post-Origination Service	15,908	45,996	6,690
Financing Income	33,996	17,105	2,488
Other Revenue	36,966	32,902	4,785
Total Net Revenue	729,241	862,854	125,497
Operating Costs and Expenses			
Origination and servicing	256,974	327,482	47,630
General and Administrative	42,630	69,635	10,128
Sales and Marketing	27,666	52,445	7,628
Provision for contingent guarantee liabilities	109,087	-	-
Provision for accounts receivable and contract assets	54,788	111,559	16,226
Provision for loan receivable from Xiaoying Housing Loans	-	13,899	2,022
Total operating costs and expenses	491,145	575,020	83,634
Income from operation	238,096	287,834	41,863
Interest income	1,779	221	32
Foreign exchange gain (loss)	(94)	(19)	(3)
Gain on disposal of investment	-	-	-
Change in fair value of financial guarantee derivative	(15,423)	(51,391)	(7,475)
Fair value adjustments related to Consolidated Trusts	(3,385)	1,475	215
Fair value adjustments related to Loans held for sale	-	(3,416)	(497)
Other income (expense), net	(227)	828	120
Income before income taxes and gain (loss) from equity in affiliates	220,746	235,532	34,255
Income tax expense (benefit)	61,394	(3,719)	(541)
Gain (loss) from equity in affiliates	(599)	2,665	388
Net income	158,753	241,916	35,184
Less: net loss attributable to non-controlling interests	292	-	-
Net income attributable to X Financial	158,461	241,916	35,184

Consolidated income statement (cont')

	2017	2018	
	(in RMB1,000)	(in RMB1,000)	(in USD1,000)
Net Revenues			
Loan Facilitation Service—Direct Model	1,231,055	2,957,572	430,161
Loan Facilitation Service—Intermediary Model	302,614	228,272	33,201
Post-Origination Service	50,327	131,243	19,089
Financing Income	130,740	76,104	11,069
Other Revenue	72,199	147,409	21,440
Total Net Revenue	1,786,935	3,540,600	514,960
Operating Costs and Expenses			
Origination and servicing	760,143	1,185,937	172,487
General and Administrative	98,236	220,024	32,001
Sales and Marketing	76,584	205,726	29,922
Provision for contingent guarantee liabilities	182,579	216,364	31,469
Provision for accounts receivable and contract assets	167,700	396,996	57,741
Provision for loan receivable from Xiaoying Housing Loans	-	40,348	5,868
Total operating costs and expenses	1,285,242	2,265,395	329,488
Income from operation	501,693	1,275,205	185,472
Interest income	3,633	4,225	615
Foreign exchange gain (loss)	(479)	10	1
Gain on disposal of investment	1,500	-	-
Change in fair value of financial guarantee derivative	(18,111)	(200,971)	(29,230)
Fair value adjustments related to Consolidated Trusts	(9,751)	12,359	1,798
Fair value adjustments related to Loans held for sale	-	(3,416)	(497)
Other income (expense), net	90	(2,489)	(362)
Income before income taxes and gain (loss) from equity in affiliates	478,575	1,084,923	157,797
Income tax expense (benefit)	138,248	209,921	30,532
Gain (loss) from equity in affiliates	(832)	8,055	1,172
Net income	339,495	883,057	128,437
Less: net loss attributable to non-controlling interests	(780)	(55)	(8)
Net income attributable to X Financial	340,275	883,112	128,445

Reconciliations of GAAP and Non-GAAP results

	4Q17 <i>(in RMB1,000)</i>	4Q18 <i>(in RMB1,000)</i> <i>(in USD1,000)</i>	
Reconciliation of Adjusted Net Income to Net Income			
Net income	158,753	241,916	35,184
Add: Share-based compensation expenses (net of tax of nil)	34,558	38,529	5,604
Adjusted net income (Non-GAAP)	193,311	280,445	40,788

	2017	2018	
	(in RMB1,000)	(in RMB1,000)	(in USD1,000)
Reconciliation of Adjusted Net Income to Net Income			
Net income	339,495	883,057	128,437
Add: Share-based compensation expenses (net of tax of nil)	74,010	171,836	24,993
Adjusted net income (Non-GAAP)	413,505	1,054,893	153,430