

**X Financial (XYF)**  
**Q2 2022 Earnings Conference Call**  
**August 9, 2022, 07:00 AM ET.**

Executives:

Tanya Wen, Investor Relations  
Kent Li, President  
Frank Fuya Zheng, Chief Financial Officer

Analysts

Mason Bourne, AWH Capital

**Presentation**

**Operator:** Hello, and welcome to the X Financial Second Quarter 2022 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. Note this event is being recorded.

I would now like to turn the conference over to Tanya Wen. Please go ahead.

**Tanya Wen:** Thank you, operator. Hello everyone and thank you for joining us today. The Company's results were released earlier today and are available on the Company's IR website at [ir.xiaoyinggroup.com](http://ir.xiaoyinggroup.com).

On the call today from X Financial are Mr. Kent Li, President, and Mr. Frank Fuya Zheng, Chief Financial Officer.

Mr. Li will give a brief overview of the Company's business operations and highlights, followed by Mr. Zheng, who will go through the financials.

They are all available to answer your questions during the Q&A session.

I remind you that this call may contain forward-looking statements under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond the Company's control, which may cause the Company's actual results, performance or achievements to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties and 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 statement as a result of new information, future events, or otherwise, except as required under law.

It is now my pleasure to introduce Mr. Kent Li.

Mr. Li, please go ahead.

**Kent Li:** Hello everyone, we are pleased with our performance this past quarter given the great challenges brought by the significant economic slowdown amid the escalation of COVID-19 containment measures in China. We continued to scale up our loan facilitation volume while improving asset quality quarter-over-quarter. Total loan facilitated and provided during the past quarter maintained steady growth on both a yearly and quarterly basis, exceeding the high end of our forecast. Thanks to our effective risk management system and premium borrower base, we saw a meaningful decrease in the delinquency rate from the previous quarter. We have further demonstrated our business resilience and ability to navigate tough conditions.

During the second quarter, our total loan amount facilitated and provided reached RMB17 billion, representing an increase of 32% year-over-year and 11% quarter-over-quarter. The delinquency rate for all outstanding loans past due for 31-60 days as of June 30, 2022 decreased to 0.93% from 1.31% as of March 31, 2022. While the asset quality of the financial industry as a whole deteriorated during the quarter due to the macro headwinds, we managed to improve our asset quality as we continued to enhance our risk management system. We expect our asset quality to remain stable in the second half of the year.

During the past quarter, we stepped up our efforts to acquire more high-quality borrowers. As a result, our number of active borrowers increased 28% on both a yearly and quarterly basis, and reached a high level of over 1 million in this quarter. We are pleased to see that our products and services have been well received by an extensive and growing user base. This is a testament to our reputation for reliability and it has laid a solid foundation for our future growth. Going forward, we will continue to expand and deepen our cooperation with our institutional funding partners to jointly serve the diverse financing needs of small and micro-businesses and consumers in China.

On the regulatory side, the China Banking and Insurance Regulatory Commission issued the Notice on Strengthening the Management of Commercial Banks' Internet Loan Business to Improve the Quality and Efficiency of Financial Services on July 15, 2022. The new rules affirm the positive role of internet loans, further refine and clarify the requirements for internet loan management, and extend the grace period for the rectification of internet loan operations to June 2023 from July 2022. This initiative aims to promote the stable and healthy development of the internet loan business, and it is part of the government's stimulus strategy to revive the pandemic-hit economy by encouraging more credit to stimulate investments and consumption. This is conducive to the overall development of the financial industry and the extended grace period also gives us more time to explore market opportunities under the new regulation, especially financial services for small and micro-businesses.

Looking ahead, with the COVID-19 pandemic subsiding and the macro economy gradually rebounding, we are cautiously optimistic about our business in the second half of the year. With

an increasingly accommodative environment, we expect to see steady sequential growth in upcoming quarters.

Now I will turn the call to Frank, who will go through our financials.

**Frank Fuya Zheng:** Thank you, Kent, and hello, everyone. Although our top line saw a slight decrease on a quarterly basis as we continued to reduce the total borrowing cost of the borrowers in line with government guidance, we improved our bottom line from the previous quarter. Net income for the second quarter of 2022 improved to RMB186 million from RMB140 million in the previous quarter, and Non-GAAP adjusted net income for the second quarter of 2022 was RMB211 million, representing an increase of 37% quarter-over-quarter. With a more stabilized macroeconomy and a clearer regulatory environment, we expect to see further improvement in financial performance in the future.

During the second quarter, we started to execute our share repurchase program. Going forward, we will continue to keep a close eye on market dynamics, regularly reevaluate how to best use our cash in order to maximize returns for our shareholders.

Now I'd like to brief some financial performance for the second quarter. Please note that all numbers stated are in RMB and rounded up.

Total net revenue decreased by 12% to RMB824 million from RMB932 million in the same period of 2021, primarily due to a decrease in average total borrowing cost of the borrowers; and also partially offset by an increase in the total loan amount facilitated and provided this quarter compared with the same period of 2021.

Origination and servicing expenses increased by 2% to RMB533 million from RMB521 million in the same period of 2021, primarily due to an increase in commission fees resulting from the increased total loan amount facilitated and provided this quarter, and partially offset by a decrease in insurance fee paid to insurance company.

Provision for accounts receivable and contract assets was RMB26 million, compared with RMB25 million in the same period of 2021, primarily due to an increase in accounts receivable from facilitation services as a result of the increase in total loan facilitation amount this quarter compared with the same period of 2021.

Provision for loans receivable was RMB32 million, compared with reversal of provision for loans receivable of RMB1 million in the same period of 2021, primarily due to an increase in loans receivable held by the Company as a result of the increase in total loan amount facilitated and provided this quarter compared with the same period of 2021.

Income from operations was RMB194 million, compared with RMB338 million in the same period of 2021.

Net income was RMB186 million, compared with RMB223 million in the same period of 2021.

Non-GAAP adjusted net income was RMB211 million, compared with RMB242 million in the same period of 2021.

For further financial information, please refer to the earning release on our IR website.

Regarding our Share Repurchase Plan -

On March 30, 2022, we announced that our Board had approved a share repurchase plan under which the Company may repurchase up to US\$15 million worth of its Class A ordinary shares in the form of ADSs until September 2023. As of the end of June 2022, we had repurchased an aggregate of 174 thousand ADSs.

Now for our business outlook -

We expect total loan amount facilitated and provided for the third quarter of 2022 to be between RMB19 billion and RMB20 billion. For the full year of 2022, we expect the increment in total loan amount facilitated and provided to be no less than 25%. This forecast reflects our current and preliminary views, which are subject to changes.

Now, this concludes our prepared remarks, and we'd like to open the call to questions. Operator, please.

## Questions and Answers

**Operator:** Thank you. We will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Mason Bourne with AWH Capital.

**Mason Bourne:** Given your commentary and outlook, it seems like you're a little more positive about the regulatory backdrop. Could you talk about what's driving that?

**Kent Li:** Okay. I'll take the question. Frank, I'll take this one.

**Frank Fuya Zheng:** Yes.

**Kent Li:** I think it's probably more of our assessment about the current environment, rather than the regulatory changes, as you know, because of the COVID-19 impact. I think it's more of the COVID-19 measures impact on the Chinese economy. And right now, there's just out of demand for granting loans and so I think that right now, we are just in more a good position to take advantage of our premium customers and clients. So during the past 3 quarters, we have accumulated enough premium customers, so in the second half of this year, then we are going to benefit from our previous investment. That is why that we can increase the scale.

**Mason Bourne:** Okay. So it sounds like demand is strong. How about the funding side of things, are you seeing maybe some easing of conditions that allows you to lower your funding rate?

**Kent Li:** We do see some lowering on the funding rate, and in our assessment this probably will be temporary and short-term. But at least for the second half of the year, it's going to continue,

that is our assessment is based on and our forecast is based on this also.

**Mason Bourne:** Okay. Thanks. And then lastly, I think your tangible book value is around 11.40 per share. What are your thoughts on the buyback? I know you did some in the quarter, but do you view this as an opportunity attractively to buy back shares at a discount?

**Kent Li:** I think I'm going to leave that to our CFO Frank.

**Frank Fuya Zheng:** Okay. Last open window, we bought -- I know we stated, bought about 174,000 shares, something like that, because our shares trade very thinly. So we actually maximize the orders allowed by the relevant rules for the buyback, and we will continue to do that. And we will explore other ways to buy more shares if the opportunities arise.

**Mason Bourne:** Great, thanks.

**Operator:** (Operator Instructions). This concludes our question-and-answer session. I would like to turn the conference back over to Tanya Wen for any closing remarks. Please go ahead.

**Tanya Wen:** Thank you, everyone, for joining us on the call today. If you haven't got the chance to raise your questions, we will be pleased to answer them through follow-up contacts. We look forward to speaking with you again in the near future. Thank you.

**Operator:** The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.