

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2020**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report .....

For the transition period from to to

Commission file number: **001-38652**

**X Financial**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**7-8F, Block A, Aerospace Science and Technology Plaza  
No. 168, Haide Third Avenue, Nanshan District  
Shenzhen, 518067, the People's Republic of China**

(Address of principal executive offices)

**Mr. Frank Fuya Zheng, Chief Financial Officer  
7-8F, Block A, Aerospace Science and Technology Plaza  
No. 168, Haide Third Avenue, Nanshan District  
Shenzhen, 518067, the People's Republic of China**

**Tel: +86-755-8628 2977**

**E-mail: frank.zheng@xiaoying.com**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
<b>American depositary shares, each ADS represents six Class A ordinary shares, par value US\$0.0001 per share*</b>	<b>XYF</b>	<b>The New York Stock Exchange</b>
<b>Class A ordinary shares, par value US\$0.0001 per share **</b>	<b>N/A</b>	<b>The New York Stock Exchange</b>

\* Effective from November 19, 2020, the ratio of ADSs representing the Class A ordinary shares changed from one (1) ADS representing two (2) Class A ordinary shares to one (1) ADS representing six (6) Class A ordinary shares.

\*\* Not for trading, but only in connection with the listing of the American depositary shares on the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**None**

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**None**

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

323,117,943 ordinary shares, comprised of 225,517,943 Class A ordinary shares, par value \$0.0001 per share, and 97,600,000 Class B ordinary shares, par value \$0.0001 per share, as of December 31, 2020

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards † provided pursuant to Section 13(a) of the Exchange Act.

†The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

**(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

## TABLE OF CONTENTS

	<u>Page</u>
<a href="#">INTRODUCTION</a>	ii
<a href="#">FORWARD-LOOKING INFORMATION</a>	iii
<a href="#">PART I</a>	1
<a href="#">ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</a>	1
<a href="#">ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</a>	1
<a href="#">ITEM 3. KEY INFORMATION</a>	1
<a href="#">ITEM 4. INFORMATION ON THE COMPANY</a>	52
<a href="#">ITEM 4A. UNRESOLVED STAFF COMMENTS</a>	87
<a href="#">ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</a>	87
<a href="#">ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</a>	129
<a href="#">ITEM 8. FINANCIAL INFORMATION</a>	130
<a href="#">ITEM 9. THE OFFER AND LISTING</a>	131
<a href="#">ITEM 10. ADDITIONAL INFORMATION</a>	131
<a href="#">ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	141
<a href="#">ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</a>	142
<a href="#">PART II</a>	144
<a href="#">ITEM 13. ITEM DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</a>	144
<a href="#">ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</a>	144
<a href="#">ITEM 15. CONTROLS AND PROCEDURES</a>	144
<a href="#">ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</a>	146
<a href="#">ITEM 16B. CODE OF ETHICS</a>	146
<a href="#">ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</a>	147
<a href="#">ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</a>	147
<a href="#">ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</a>	147
<a href="#">ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</a>	147
<a href="#">ITEM 16G. CORPORATE GOVERNANCE</a>	148
<a href="#">ITEM 16H. MINE SAFETY DISCLOSURE</a>	148
<a href="#">PART III</a>	149
<a href="#">ITEM 17. FINANCIAL STATEMENTS</a>	149
<a href="#">ITEM 18. FINANCIAL STATEMENTS</a>	149
<a href="#">ITEM 19. EXHIBITS</a>	149

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## INTRODUCTION

Unless otherwise indicated, in this annual report on Form 20-F, the following terms shall have the meaning set out below:

- “active borrowers” refers to, for a specified period, borrowers who made at least one transaction during that period on our platform;
- “active individual/corporate investors” refers to, for a specified period, individual/corporate investors who made at least one transaction during that period on our platform; and individual/corporate investors refers to individuals/corporates making investment transactions on the Xiaoying Wealth Management platform;
- “ADSs” refers to American depository shares, each of which represents six Class A ordinary shares, and “ADRs” refers to the American depository receipts that may evidence ADSs;
- “APR” or “annual percentage rate” refers to the percentage number represents the actual annualized cost of borrowing over the term of a loan. The APR for a type of our loan product equals to the annualized actual amount of total interests, service fees and insurance premium divided by total amount of loans we facilitated.
- “AUM” or “assets under management” refers to the total market value of the assets that a financial institution manages on behalf of investors.
- “CAGR” refers to compound annual growth rate;
- “Cayman Companies Act” refers to the Companies Act (As Revised) of the Cayman Islands, as amended;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan;
- “Class A ordinary shares” refers to our Class A ordinary shares, par value \$0.0001 per share, carrying one vote per share;
- “Class B ordinary shares” refers to our Class B ordinary shares, par value \$0.0001 per share, carrying 20 votes per share;
- “high-credit-limit” refers to ticket size of RMB80,000 to RMB600,000;
- “institutional funding partners” refers to our institutional funding sources, including banks, trust companies, microcredit companies and other institutions who funded the loans we facilitated to borrowers;
- “insurance protection” refers to credit insurance provided by insurance companies in partnership with online finance platforms against the default of both the principal and interest;
- “mass affluent investors” refers to investors who hold RMB600,000 to RMB6 million investable assets and their primary goal is to amplify their incomes through investments. Such investors often pursue investments with attractive returns and hold a diversified portfolio of investment products. They are usually receptive to refined and tailored products matching their investment needs;
- “New ZhongAn Model” refers to the revised arrangement with ZhongAn from September 2017 with respect to Xiaoying Credit Loan, which is the major product offered by us after September 2017;
- “NPL” refers to non-performing loan(s);
- “Old ZhongAn Model” refers to the arrangement with ZhongAn prior to September 2017, under which ZhongAn initially reimbursed the loan principal and interest to the investor upon the borrower’s default, where we at our own discretion compensated ZhongAn for a majority of the loan principal and interest default but have not been subsequently collected;

- “ordinary shares” refers to our Class A and Class B ordinary shares, par value US\$0.0001 per share;
- “PBOC CRC” refers to the credit reference center of the People’s Bank of China;
- “prime borrower” refers to an individual having sound credit history, who has credit records with PBOC CRC and usually no late payment record of over 60 days in the previous six months. Based on ZhongAn’s insurance requirement, it provides insurance protection for borrowers who have credit records with PBOC CRC and meet its late payment standards (usually no late payment of more than 60 days in the past six months). In determining whether a prospective borrower is a prime borrower, we will review his or her credit card transaction history, along with our sophisticated risk management review system;
- “RMB” or “Renminbi” refers to the legal currency of China;
- “U.S. dollars,” “US\$,” “\$” or “dollars” refers to the legal currency of the United States;
- “variable interest entities” or “VIEs” refer to Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd, or Beijing Ying Zhong Tong, Shenzhen Xiaoying Technology Co., Ltd., or Shenzhen Xiaoying, Shenzhen Tangren Financing Guarantee Co., Ltd. or Shenzhen Tangren, and Shenzhen Beier Assets Management Co., Ltd., or Shenzhen Beier, which are PRC companies in which we do not have equity interests but whose financial results have been consolidated into our consolidated financial statements in accordance with U.S. GAAP due to our having effective control over, and our being the primary beneficiary of, such entity; and “affiliated entities” are to our VIE, the VIE’s direct subsidiaries under the PRC laws;
- “we,” “us,” “our company,” “our,” or “X Financial” refers to X Financial, a Cayman Islands company, and unless the context requires otherwise, includes its predecessor entities, consolidated subsidiaries and VIEs; and
- “ZhongAn” refers to ZhongAn Online P&C Insurance Co., Ltd., a joint stock limited company with limited liability incorporated in the People’s Republic of China and listed on the Hong Kong Stock Exchange (stock code: 6060), carrying on business in Hong Kong as “ZA Online Fintech P&C.”

Our reporting currency is Renminbi because substantially all of our operations are conducted in China and all of our revenues is denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.5250 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2020. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

#### **FORWARD-LOOKING INFORMATION**

This annual report on Form 20-F contains forward-looking statements that are based on our management’s beliefs and assumptions and on information currently available to us. All statements other than statements of historical facts are forward-looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

You can identify forward-looking statements by terms such as “may,” “could,” “will,” “should,” “would,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “project” or “continue” or the negative of these terms or other similar expressions. The forward-looking statements include, but are not limited to, statements about:

- the PRC consumer finance market;

- our goals and strategies;
- our future business development, financial condition and results of operations;
- expected changes in our revenues, costs or expenditures;
- growth of and competition trends in our industry;
- our expectations regarding demand for, and market acceptance of, our products and services;
- our expectations regarding keeping and strengthening our relationships with borrowers, institutional funding partners and other parties we collaborate with;
- fluctuations in general economic and business conditions in the markets in which we operate; and
- relevant government policies and regulations relating to our industry.

You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to this annual report completely and with the understanding that our actual future results may be materially different from what we expect. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under the heading “Risk Factors” and elsewhere in this annual report. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance.

You should not rely upon forward-looking statements as predictions of future events. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

We would like to caution you not to place undue reliance on these forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in “Item 3. Key Information—3.D. Risk Factors.” Those risks are not exhaustive. We operate in an evolving environment. New risks emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law. You should read this annual report and the documents that we reference in this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**3.A. Selected Financial Data**

The following selected consolidated statement of comprehensive income data for the years ended December 31, 2018, 2019 and 2020 and the selected consolidated balance sheet data as of December 31, 2019 and 2020 have been derived from our audited consolidated financial statements included in this annual report beginning on page F-1. The following selected consolidated statement of comprehensive income for the years ended December 31, 2016 and 2017, and the selected consolidated balance sheet data as of December 31, 2016, 2017 and 2018 have been derived from our audited consolidated financial statements not included in this annual report.

The selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report. The consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Our historical results are not necessarily indicative of our results for any future periods.

**Selected Consolidated Statement of Comprehensive Income Data**

	For the Year Ended December 31,					
	2016 RMB	2017 RMB	2018 RMB	2019 RMB	2020 RMB	US\$
	(in thousands, except for share and per share data)					
<b>Net revenues:</b>						
Loan facilitation service—Direct Model	4,524	1,231,055	2,957,572	1,986,003	1,266,533	194,105
Loan facilitation service—Intermediary Model	176,849	302,614	228,272	238,867	41,373	6,341
Post-origination service	8,188	50,327	131,243	330,695	203,842	31,240
Financing income	30,500	130,740	76,104	408,401	612,863	93,925
Other revenue	10,245	72,199	147,409	124,084	68,347	10,475
<b>Total net revenue</b>	<b>230,306</b>	<b>1,786,935</b>	<b>3,540,600</b>	<b>3,088,050</b>	<b>2,192,958</b>	<b>336,086</b>
<b>Operating costs and expenses:</b>						
Origination and servicing	259,054	760,143	1,185,937	1,634,822	2,071,506	317,472
General and administrative	61,712	98,236	220,024	227,482	179,225	27,468
Sales and marketing	38,211	76,584	205,726	103,158	35,629	5,460
Provision for contingent guarantee liabilities	—	182,579	216,364	7,748	881	135
Provision for accounts receivable and contract assets	8,099	167,700	396,996	241,187	121,485	18,618
Provision for loan receivable from Xiaoying Housing Loans	—	—	40,348	23,431	17,994	2,758
Provision for loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans	—	—	—	37,643	227,210	34,821
Impairment losses on deposits to institutional cooperators:						
Provision for credit losses on deposits to institutional cooperators	—	—	—	—	10,318	1,581
Impairment loss on deposits to institutional cooperators	—	—	—	—	960,000	147,126
Reversal of credit losses for other financial assets	—	—	—	—	(975)	(148)
<b>Total operating expenses</b>	<b>367,076</b>	<b>1,285,243</b>	<b>2,265,395</b>	<b>2,275,471</b>	<b>3,623,273</b>	<b>555,291</b>
<b>Income (loss) from operations</b>	<b>(136,770)</b>	<b>501,693</b>	<b>1,275,205</b>	<b>812,579</b>	<b>(1,430,315)</b>	<b>(219,205)</b>
Interest income (expenses), net	257	3,633	4,225	19,386	21,724	3,329
Foreign exchange gain (loss)	(18)	(479)	10	616	15,399	2,360
Investment income (loss), net	(6,300)	1,500	—	(12,538)	—	—
Change in fair value of financial guarantee derivative	—	(18,111)	(200,971)	(246,372)	(163,670)	(25,084)
Fair value adjustments related to Consolidated Trusts	(4,358)	(9,751)	12,359	64,163	(57,380)	(8,794)
Other income (loss), net	(9)	90	(5,904)	26,081	12,709	1,948
<b>Income (loss) before income taxes and gain (loss) from equity in affiliates</b>	<b>(147,199)</b>	<b>478,575</b>	<b>1,084,923</b>	<b>663,915</b>	<b>(1,601,533)</b>	<b>(245,446)</b>
Income tax benefit (expense)	27,018	(138,248)	(209,921)	93,103	299,878	45,958
Gain (loss) from equity in affiliates, net of tax	—	(832)	8,055	17,458	(6,806)	(1,043)
<b>Net income (loss)</b>	<b>(120,181)</b>	<b>339,495</b>	<b>883,057</b>	<b>774,476</b>	<b>(1,308,461)</b>	<b>(200,531)</b>
Less: net income (loss) attributable to non-controlling interests	(607)	(780)	(55)	200	41	6
<b>Net income (loss) attributable to X Financial</b>	<b>(119,574)</b>	<b>340,275</b>	<b>883,112</b>	<b>774,276</b>	<b>(1,308,502)</b>	<b>(200,537)</b>
Net income (loss) per share—basic	(0.5)	1.3	3.08	2.47	(4.07)	(0.62)
Weighted average number of ordinary shares outstanding—basic	238,095	261,220	286,588	313,758	321,236	321,236
Net income (loss) per share—diluted	(0.5)	1.22	2.91	2.42	(4.07)	(0.62)
Weighted average number of ordinary shares outstanding—diluted	238,095	279,711	303,984	319,747	321,236	321,236
<b>Net income (loss)</b>	<b>(120,181)</b>	<b>339,495</b>	<b>883,057</b>	<b>774,476</b>	<b>(1,308,461)</b>	<b>(200,531)</b>
<b>Other comprehensive income (loss), net of tax of nil:</b>						
Foreign currency translation adjustments	27,872	(24,464)	19,045	14,606	(46,042)	(7,056)
<b>Comprehensive income (loss)</b>	<b>(92,309)</b>	<b>315,031</b>	<b>902,102</b>	<b>789,082</b>	<b>(1,354,503)</b>	<b>(207,587)</b>
Less: comprehensive income (loss) attributable to non-controlling interests	(607)	(780)	(55)	200	41	6
<b>Comprehensive income (loss) attributable to X Financial</b>	<b>(91,703)</b>	<b>315,811</b>	<b>902,157</b>	<b>788,882</b>	<b>(1,354,544)</b>	<b>(207,593)</b>



**Selected Consolidated Balance Sheet Data**

	As of December 31,					
	2016 RMB	2017 RMB	2018 RMB	2019 RMB	2020 RMB	US\$
	(in thousands)					
Cash and cash equivalents	504,215	671,361	1,069,361	1,005,980	746,388	114,389
Restricted cash	484	12,615	208,345	514,323	852,134	130,595
Accounts receivable and contract assets, net	139,856	1,110,948	1,379,293	771,154	413,307	63,342
Loans held for sale	157,552	768,638	632,717	—	—	—
Loans receivable from Xiaoying Credit Loans and Revolving Loans, net	—	—	—	289,553	1,236,026	189,429
Loans at fair value	723,746	667,839	33,417	2,782,333	1,585,732	243,024
Financial guarantee derivative	—	—	358,250	719,962	297,928	45,659
<b>Total assets</b>	<b>1,680,619</b>	<b>3,887,695</b>	<b>4,636,969</b>	<b>8,280,632</b>	<b>7,498,010</b>	<b>1,149,120</b>
Payable to investors at fair value	728,105	667,081	—	3,006,349	1,914,184	293,362
Payable to institutional funding partners	—	—	—	—	1,460,395	223,815
Amounts due to related party	106,646	—	—	—	—	—
Guarantee liabilities	100,661	545,169	20,898	17,475	9,790	1,500
Financial guarantee derivative	—	53,261	—	—	130,442	19,991
Short-term bank borrowings	—	—	198,000	—	350,545	53,723
Deposit payable to channel cooperators	191,495	134,262	134,042	108,923	21,472	3,291
<b>Total liabilities</b>	<b>1,304,118</b>	<b>2,122,154</b>	<b>1,118,901</b>	<b>3,913,527</b>	<b>4,421,966</b>	<b>677,697</b>
<b>Total X Financial shareholders' equity</b>	<b>372,507</b>	<b>1,762,328</b>	<b>3,517,022</b>	<b>4,365,859</b>	<b>3,074,756</b>	<b>471,226</b>
Non-controlling interests	3,993	3,213	1,047	1,247	1,288	197
<b>Total equity</b>	<b>376,501</b>	<b>1,765,541</b>	<b>3,518,069</b>	<b>4,367,106</b>	<b>3,076,044</b>	<b>471,423</b>

**3.B. Capitalization and Indebtedness**

Not applicable.

**3.C. Reason for the Offer and Use of Proceeds**

Not applicable.

**3.D. Risk Factors****Risks Relating to Our Business and Industry**

***We have ceased the P2P operation business, but we cannot assure you that our operations were in full compliance with relevant legal requirements and would not be punished under relevant regulations***

Due to the relatively short history of the online consumer finance industry in China, a comprehensive regulatory framework governing our industry is under development by the PRC government. Before any industry-specific regulations were introduced in mid-2015, the PRC government relied on general and basic laws and regulations for governing the online consumer finance industry, including the PRC Contract Law, the General Principles of the Civil Law of the PRC, and related judicial interpretations promulgated by the Supreme People's Court. See "Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Online Lending Information Services."

Since July 2015, the PRC government and relevant regulatory authorities have issued various laws and regulations governing the online consumer finance industry, including, among others, (i) the Guidelines on Promoting the Healthy Development of Online Finance Industry, or the Guidelines, (ii) the Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries, or the Interim Measures, (iii) the Guidelines on Online Lending Funds Custodian Business, or the Custodian Guidelines, (iv) Guidelines on Information Disclosure of the Business Activities of Online Lending Information Intermediaries, or the Disclosure Guidelines, (v) Notice on Rectification of Cash Loan Business, or Circular 141, (vi) the Notice on the Special Rectification and Inspection of Risk of Online Lending Intermediaries, or Circular 57, (vii) the Notice on Conducting Compliance Inspections of Online Lending Intermediaries, or the Inspection Notice, and (viii) the Compliance Checklist of Online Lending Information Intermediaries, or the Compliance Checklist. See "Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Online Lending Information Services." In December 2018, the relevant PRC regulatory authorities of the P2P lending industry issued the Circular on Making Efforts to Prevent Risk and Classify Online Lending Institutions, or the Circular 175. Circular 175 classifies the online P2P lending marketplaces into six categories, and except for large-scale peer-to-peer direct lending marketplaces that have not demonstrated any high-risk characteristics, which are generally referred to as Normal Marketplaces, other marketplaces, including shell companies with no substantive operation, small-scale marketplaces, marketplaces with high risks and marketplaces on which investors are not fully repaid or that are otherwise unable to operate their businesses, shall exit the peer-to-peer lending industry or cease operation.

The Guidelines formally introduced for the first time the regulatory framework and basic principles governing the online finance industry, including the provision of online lending information services in China. Following the core principles of the Guidelines, the Interim Measures first time introduced a record filing and licensing regime, pursuant to which, online lending information intermediaries shall register with the local financial regulatory authority, update their business scope in their business license to include "online lending information intermediary" and obtain telecommunication business license from the relevant telecommunication regulatory authority after the completion of their registration with the local financial regulatory authority. In order to instruct online lending information intermediaries to rectify their business operations that are deemed as non-compliant with the Guidelines or the Interim Measures, the Interim Measures authorized the local financial regulatory authorities to conduct onsite inspections or inquiries from time to time. In March 2017, one of our consolidated VIEs, Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. received a rectification notice from the Shenzhen Head Office for Special Rectification of Online Finance Risk, which required us to adopt certain rectification measures to certain aspects of our business operations which were not in full compliance with applicable laws and regulations, including the requirements for ceasing to facilitate loans exceeding RMB200,000 for one borrower and setting up custody accounts with qualified banks to better manage clients and funds. We have responded with our rectification plan with a schedule in March 2017 and have undertaken effective measures in response to the authority's request. As of the date of this annual report, we have not received any further rectification notification from the Shenzhen Head Office for Special Rectification of Online Finance Risk related to such rectification plan and measures.

On January 19, 2018, the Shenzhen Head Office for Special Rectification of Online Finance Risk promulgated the Notice Regarding Further Implementing Rectification of Online Lending Information Intermediaries which required that all the online lending information intermediaries in Shenzhen, including one of our consolidated VIEs, Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd., shall close all the business operations that were not in full compliance with the Interim Measures before June 30, 2018. We have further submitted a self-inspection report to the Shenzhen financial regulatory authority regarding the current status on our rectification process on February 2, 2018 pursuant to the Notice Regarding Further Implementing Rectification of Online Lending Information Intermediaries.

In August 2018, the Inspection Notice further clarifies that the compliance inspection under the Interim Measures consists of self-inspection conducted by online lending information intermediaries, inspection conducted by local and national Internet Finance Associations, and verification conducted by the local online lending rectification office, all of which shall be completed by the end of December 2018. The online lending information intermediaries that are in compliance with the applicable rules and regulations then could be allowed to submit the record filing applications as requested by the Interim Measures. Pursuant to the Inspection Notice and the Compliance Checklist, we have further submitted a self-inspection report and certain self-inspection documents to the Shenzhen financial regulatory authority and the Shenzhen Head Office for Special Rectification of Online Finance in October and November 2018 respectively.

As of December 31, 2020, several provincial government agencies or internet financing associations have announced the exit plans of online lending information intermediary institutions in their jurisdictions, among which provincial government agencies in Yunnan, Hebei, Sichuan, Chongqing, Henan, Shandong and Hunan have explicitly announced to clamp down all online lending information intermediary businesses.

As of December 17, 2020, Xiaoying Wealth Management platform's P2P operation business had been cleared and ceased, and the principal and earnings of all individual investors had been fully settled. However, uncertainties still exist in relation to the interpretation and implementation of the relevant laws and regulations relating to P2P operation business. We cannot assure you that we will not be subject to any penalties prescribed in the relevant laws and regulations relating to P2P operation business, although we have already ceased the related business, and if we were punished, our business, financial condition and results of operations may be materially and adversely affected.

***We are in the process of applying for online microcredit business operating license, but we cannot assure you that we can obtain such license eventually.***

We are a Normal Marketplace as defined under Circular 175. Circular 175 also encourages certain Normal Marketplaces to convert into other types of online financing institutions such as online microcredit companies or loan facilitation platforms. In December 2019, the Head Office for Special Rectification of Online Finance Risk and the Head Office for Special Rectification of Peer-to-Peer Online Lending jointly issued Guiding Opinions on Pilot Program of Transforming Peer-to-Peer Lending Information Intermediaries to Microcredit Companies, or Circular 83, which provides fundamental conditions for the transformation of peer-to-peer online lending information intermediaries into microcredit companies.

On November 2, 2020, China Banking and Insurance Regulatory Commission and People's Bank of China published the *Interim Administrative Measures for Online Microcredit Business (Draft for Comment)*, or the Draft Interim Administrative Measures, for public review and comments. Pursuant to the Draft Interim Administrative Measures, "online microcredit business" refers to any microcredit business engaged in by a microcredit company through using big data, cloud computing, mobile internet and other technical means, utilizing internally generated data and information on customer operation, online consumption, online transaction, etc., accumulated via internet platforms as well as other data and information obtained through legitimate channels to analyze and appraise the credit risk of borrowing customers, determine the mode and quota of loans, and complete such processes as loan application, risk review, loan approval, loan granting and loan recovery online. Online microcredit business engaged in by a microcredit company shall mainly be carried out in the provincial-level administrative region to which its place of registration belongs. Without the approval of the banking regulator under the State Council, no microcredit company may carry out online microcredit business across provincial-level administrative regions. The registered capital of a microcredit company which engages in online microcredit business shall not be less than CNY1 billion and shall be one-off paid-up monetary capital. The registered capital of a microcredit company which engages in online microcredit business across provincial-level administrative regions shall not be less than CNY5 billion and shall be one-off paid-up monetary capital. In principle, the balance of single-account online microcredit loans granted to a natural person shall not exceed CNY300,000 or one-third of its average annual income in the last three years, between which the lower one shall be the maximum loan amount; and in principle, the balance of single-account online microcredit loans granted to a legal person or any other organization and its related parties shall not exceed CNY1 million. The Draft Interim Administrative Measures was released for public comment only, there remains substantial uncertainty regarding the Draft Interim Administrative Measures, including with respect to its final content, adoption timeline or effective date. If we were considered that we have engaged in the online microcredit business and the Draft Interim Administrative Measures was issued, we may be subject to various regulatory restriction which may adversely affect our business operations.

As of the date of this annual report, the Shenzhen financial regulatory authority has encouraged us to convert into a nation-wide online microcredit company and one of our consolidated VIEs, Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. has submitted first batch of documents for the conversion. At present, Shenzhen Xiaoying Technology Co., Ltd., one of our VIEs, is filing an online microcredit company application and is supplementing relevant materials in accordance with the requirements of the financial regulatory authority. We have initiated the establishment of the commercial entity of the online microcredit company. However, we cannot assure you whether we will be approved to become a nation-wide online microcredit company and obtain an online microcredit business operating license.

According to the Guidelines on Further Strengthening and Regulating Pilot Access and Auditing of Microcredit Companies (Trial) issued by Shenzhen Financial Services Office in April 2013, or the Trial Guidelines on Microcredit Companies, the Shenzhen financial regulatory authority temporarily restricts certain kinds of the companies including, among others, financing guarantee companies, pawn investment companies or real estate development companies establish the online microcredit business. One of our consolidated VIEs, Shenzhen Tangren, holds the financing guarantee license currently, thus we cannot assure that we are eligible to operate the online microcredit business. However, the interpretation of the Trial Guidelines on Microcredit Companies remains uncertain and it is unclear how it will affect our application for the online microcredit business operating license.

If we are going to practice online microcredit business in the future, we need to obtain the online microcredit business operating license according to the applicable laws. However, we are unable to assure you that we will successfully obtain the license. If we cannot obtain the online microcredit business operating license eventually, our business plan for operating online microcredit business, if any in the future, may be materially and adversely affected.

***If our practice is deemed to violate any PRC laws and regulations, our business, financial condition and results of operations would be materially and adversely affected.***

The PRC regulatory regime with respect to the online individual finance industry is particularly complex and rapidly evolving, and their interpretation and enforcement are subject to significant uncertainties, it results in difficulties in determining whether our existing practices may be interpreted to violate any applicable laws and regulations.

The Guidelines and the Interim Measures prohibit online lending information intermediaries from certain activities, including but not limited to, credit enhancement, illegal fund-raising, and setting up capital pool. The Circular 141 promulgated by the Head Office for Special Rectification of Online Finance Risk and Head Office for Special Rectification of Peer-to-Peer Online Lending on December 1, 2017 further specifies that certain types of cash loan may be subject to inspection and rectification. These types of cash loan have the following four characteristics: lack of specific scenes, designated purposes, targeted users and mortgage. Online lending information intermediaries shall not facilitate such cash loans without designated purposes. It is stipulated in Circular 57 that online lending information intermediary shall cease providing prohibited cash loans after Circular 141 has come into effect and shall gradually reduce the outstanding balance of prohibited cash loans within scheduled timetable in order to complete the record filing as requested by the Interim Measure. We do not believe any of the loan products we facilitate is prohibited under Circular 141 and Circular 57, as none of our products has all of the four characteristics of cash loans as defined under Circular 141. For example, although some of our loan products, such as Xiaoying Credit Loan's credit card cash advance product, are lacking mortgage and specific scenes, we believe they target a specific user base with designated purpose for which the borrowers are required to specify at loan application. However, in the absence of authoritative interpretation of the key requirements or characteristics of cash loan, especially whether the definition of cash loan requires all of the four characteristics or any of the four characteristics, we cannot assure you that our existing practices would not be deemed to violate any relevant laws, rules and regulations that are applicable to our business practices. In addition, Circular 141 requires banking financial institutions that participate in the "cash loan" business to ensure that no third parties will charge borrowers any interest or expenses of loans to borrowers and not to accept any credit enhancement services or other similar services from third parties without qualification to provide guarantee. To comply with Circular 141, we cooperate with certain qualified institutional partners with the financing guarantee license, including Shenzhen Tangren, our consolidated VIE, to provide guarantees for certain loan products we facilitate. Moreover, Circular 141 prohibits banking financial institutions from outsourcing core businesses such as credit examination and risk control. Currently, we only provide initial screening, preliminary credit examination and technical services, but we cannot rule out the possibility that government authorities could consider our services to be in violation of Circular 141. If any of our services are deemed to be in violation of Circular 141, we may be required to cease or modify any such "cash loans" to comply with Circular 141, otherwise we may be ineligible for registration with the local financial regulatory authority, which may materially and adversely affect our business and prospects. While we are closely monitoring the regulatory development, as of the date of this annual report, we have not been informed by any regulatory authorities to cease or modify any of our current products due to violation of any rules with respect to cash loan under Circular 141 or Circular 57.

Given the evolving regulatory environment, there is uncertainty as to how the requirements in the Guidelines, the Interim Measures, the Custodian Guidelines, the Disclosure Guidelines, Circular 57, Circular 141, the Inspection Notice, the Compliance Checklist, Circular 175 and Circular 83 will be interpreted and implemented. See “Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Online Lending Information Service.” To the extent that we are not able to fully comply with these requirements, our business, financial condition and results of operations may be materially and adversely affected. We are unable to predict with certainty the impact, if any, that future legislation, or regulations relating to the online consumer finance industry will have on our business, financial condition and results of operations. Historically, we made adjustments in our business to comply with evolving regulatory requirements. Some of the impacts from change of regulation might not be fully reflected. Furthermore, the growth in popularity of online consumer finance increases the likelihood that the PRC government will seek to further regulate this industry.

In addition to the Guidelines, the Interim Measures, the Custodian Guidelines, the Disclosure Guidelines, Circular 57, Circular 141, the Inspection Notice, the Compliance Checklist, Circular 175 and Circular 83, there are certain other rules, laws and regulations relevant or applicable to the online consumer finance industry, including the PRC Civil Code, and related judicial interpretations promulgated by the Supreme People’s Court. See “Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Loans between Individuals.” The overall regulatory conditions in China would affect our business and financial condition.

As of the date of this annual report, we have not been subject to any material fines or other penalties under any PRC laws or regulations including those governing the online consumer finance industry in China. If our practice is deemed to violate any rules, laws or regulations, we may face injunctions, including orders to cease illegal activities, correction order, condemnation, fines and criminal liability, and may be exposed to other penalties as determined by the relevant government authorities. If such situations occur, our business, financial condition and prospects would be materially and adversely affected.

***We have a limited operating history in a new and evolving market, which makes it difficult to evaluate our future prospects.***

We started to facilitate investment products to individual investors in China in August 2014 and commenced our loan facilitation business in July 2015 and thus have a limited operating history. We have limited experience in most aspects of our business operations, such as loan product offerings, data-driven credit assessment and development of long-term relationships with borrowers, investors and institutional funding partners. We seek to expand the base of prospective borrowers that we serve, which may result in higher delinquency rates of transactions facilitated by us. The delinquency rate for all outstanding loans on our platform that were 31-60 days past due decreased from 2.40% as of December 31, 2019 to 0.79% as of December 31, 2020. In addition, our ability to continuously attract low-cost funding sources is also critical to our business. For example, we have completely ceased accepting funding to our loan products from individual investors since the end of 2019, and currently our primary funding source is our institutional funding partners. As our business develops or in response to competition and regulation, we may continue to introduce new loan products, make adjustments to our existing loan products and our proprietary credit assessment model, or make adjustments to our business operation in general. For example, our product mix changed since our launch of Xiaoying Card Loan in December 2016. In 2016, 0.9% of our total loan facilitation amount were Xiaoying Card Loan, while in 2018, 2019 and 2020, such proportion was 70.5%, 70.2% and 80.3%, respectively. We also have continuously introduced new products almost every year. Any significant change to our business model not achieving expected results may have a material adverse impact on our financial condition and results of operations. Our historical financials during the limited operating history are not indicative of our future trends. As a result, it is difficult to effectively assess our future prospects.

You should consider our business and prospects in light of the risks and challenges we encounter or may encounter given the rapidly evolving market in which we operate and our limited operating history. These risks and challenges include, among other things, our ability to:

- offer personalized and competitive products and services;
- increase the utilization of our products and services by existing borrowers and institutional funding partners as well as new borrowers and institutional funding partners;
- offer attractive service fee rates while driving growth in size and profitability of our business;
- maintain low delinquency rates of loans facilitated by us;
- develop sufficient, diversified, cost-efficient and reputable funding sources;
- maintain and enhance our relationships with our institutional funding partners;
- broaden our prospective borrower base;
- navigate a complex and evolving regulatory environment;
- improve our operational efficiency;
- attract, retain and motivate talented employees to support our business growth;
- enhance our technology infrastructure to support the growth of our business and maintain the security of our system and the confidentiality of the information provided and utilized across our system;
- navigate economic condition and fluctuation; and
- defend ourselves against legal and regulatory actions, such as actions involving intellectual property or privacy claims.

***Failure of other online lending platforms or damage to the reputation of the online consumer finance industry may materially and adversely affect our business and results of operations.***

We operate in the online consumer finance industry, a new and evolving industry. Negative publicity about this industry and the market segment may arise from time to time. Negative publicity about China's consumer finance industry in general may also have a negative impact on our reputation, regardless of whether or not we have engaged in any inappropriate activities. The PRC government has recently instituted specific rules to develop a more transparent regulatory environment for the online consumer finance industry. Any players in China's online consumer finance industry who are not in compliance with these regulations may adversely impact the reputation of the industry as a whole. Negative developments in the consumer finance industry, such as widespread user defaults, fraudulent behavior, the closure of other online consumer finance platforms, or incidents indirectly resulting from the accumulation of large amounts of debt and inability to repay by any particular borrower, may also lead to tightened regulatory scrutiny of the sector and limit the scope of permissible business activities that may be conducted by market players in the consumer finance industry. Moreover, in the ordinary course of our business, we may need to bring lawsuits against certain borrowers for delinquent loans. If courts do not support our claims, such legal proceedings may also negatively impact our reputation and brand image. If any of the foregoing takes place, our business and results of operations could be materially and adversely affected.

***The service fees we charge borrowers may decline in the future due to factors beyond our control and any material decrease in such service fees could harm our business, financial condition and results of operations.***

We generated our revenues from service fees we charged borrowers or institutional funding partners. Any material decrease in our service fees would have a substantial impact on our revenues and profitability. In the event that the amount of service fees we collect from borrowers or institutional funding partners for loans we facilitate decrease significantly in the future, our business, financial condition and results of operations will be harmed. The level of service fees we collect from borrowers or institutional funding partners may also be affected by a variety of factors, including our borrowers' creditworthiness and ability to repay, the competitive landscape of our industry, our access to funding sources of loans we facilitate and regulatory requirements. Our service fees may also be affected by changes in our product and service mix and changes to our borrower engagement initiatives. Our competitors may also offer more attractive fees, which may require us to reduce our service fees to compete effectively. Certain consumer financing solutions offered by traditional financial institutions may provide lower fees than our service fees. Although we do not believe such consumer financing solutions currently compete with our products or target the same underserved consumers in China, such traditional financial institutions may decide to do so in the future, which may have a material adverse effect as to the service fees that we will be able to charge borrowers or institutional funding partners.

In addition, our service fees are sensitive to many macroeconomic factors that are beyond our control, such as inflation, recession, the performance of credit markets, global economic disruptions, unemployment and fiscal and monetary policies. If the service fees we collect from borrowers decrease significantly due to factors beyond our control, our business, financial condition and results of operations will be materially and adversely affected.

Our service fees, to the extent that they are fully or partially deemed as loan interest, may also be subject to the restrictions on interest rates as specified in applicable rules on private lending. Pursuant to the Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases issued by the Supreme People's Court on August 6, 2015 (as amended on August 19, 2020), or the Private Lending Judicial Interpretations, if the services fees that we charge borrowers are considered as loan interest and we are deemed as a lender, and if the sum of the annual interest that lenders charge and our service fees exceed 36%, the portion of the service fees that exceeds the 36% limit is invalid, and even if the borrower has paid the portion of the service fees that exceeds the 36% limit, such borrower may request us to refund the portion of the service fees that exceeds the 36% limit and the PRC courts will uphold such request. In accordance with Circular 141, the overall cost of loans, including the loan interest and other forms of fees charged by the institutions shall be included in an overall annualized interest rate and conform to the restrictions on interest rates as specified in applicable rules on private lending. The Compliance Checklist further specifies that interests and fees collected by any third party collaborator or charged offline shall form part of an overall annualized interest rate. In addition, the online lending information intermediary is also prohibited to deduct loan interest, service fees, administrative fee and deposit from a loan principal in advance. In 2017, the upfront service fees we deducted as prohibited by the Circular 141 and the Compliance Checklist amount to RMB405 million, representing 13.4% of the total consideration paid by borrowers during the same period. We have ceased deducting any service fees from a loan principal in advance and have complied with applicable regulatory requirements since December 7, 2017. On August 19, 2020, the Private Lending Judicial Interpretations was amended by the Supreme People's Court, where a lender claims that corresponding borrower shall pay interest as per the interest rate contractually stipulated, relevant people's court shall uphold such claim, except where the interest rate agreed on by both parties concerned exceeds four times the loan prime rate ("LPR"), for one-year loan when the contract is concluded. "LPR for one-year loan" refers to the LPR for one-year loan to be published on a monthly basis by the National Interbank Funding Center authorized by the People's Bank of China as of August 20, 2019. On December 29, 2020, the Supreme People's Court issued the Official Reply of the Supreme People's Court to the Issues concerning the Scope of Application of the New Judicial Interpretation on Private Lending, or the Official Reply. According to the Private Lending Judicial Interpretations and the Official Reply, for financial institutions and branches engaging in loan business and established upon the approval of the financial regulatory authorities, including but not limited to microcredit company, Private Lending Judicial Interpretations shall not apply to disputes caused by granting loans and relevant financial business. Therefore, currently, there is no clear regulatory guidance on the loan interest ceiling for the loans between the borrowers and the institutional partners.

On March 31, 2021, PBOC issued Announcement 2021 No. 3, or the Announcement 3, to clarify the calculation methodology of annual loan interest rate. Annual loan interest rate shall be the ratio, on an annualized basis, of all the loan-related costs charged on the borrower to the loan principal actually occupied. However, the Announcement 3 does not further interpret the constitution of the costs directly related to the loan. The calculation method is not clearly defined, and we are not sure whether our APR calculation method has fully complied with the regulatory requirements.

None of the loans we facilitated in 2020, had an annualized fee rate exceeding 36%. We have reduced our annualized fee rates of all products which exceeded the 36% limit and have complied with applicable regulatory requirements since December 7, 2017. The annualized fee rates of all new loans that we facilitated since December 7, 2017 are below 36%. As a result, we do not believe that our current service fees and various other fees charged from our borrowers violate these provisions. However, due to the lack of the specific and clear regulatory guidance on the loan interest ceiling and the calculation method, if our current fee level is deemed to be excessive or constitutes usurious loans under any existing or future relevant PRC laws, regulations and rules, parts or all of the fees we collected may be ruled as invalid by the PRC courts, and we may face, among others, regulatory warning, correction order, or be required to reduce the fees and annual interest rate we charge our borrowers. In addition, any future changes on APR ceiling may affect our profitability. If such situations were to occur, our business, financial condition, results of operations and prospects would be materially and adversely affected.

***We face competition in the online consumer finance industry, and, if we do not compete effectively, our results of operations could be harmed.***

The online consumer finance industry in China is highly competitive, and we compete with other sizable online consumer lending marketplaces with a focus on prime borrowers. We also compete with other financial products and companies that attract borrowers, investors, or institutional funding partners. Our competitors may operate different business models, have different cost structures or selectively participate in different market segments. They may ultimately be proven more successful or more adaptable to consumer demand and new regulatory, technological and other developments. Some of our current and potential competitors have significantly more financial, technological, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their product and services offerings. Our competitors may also have longer operating history, more extensive user bases, greater brand recognition and brand loyalty and broader relationships with business partners. Additionally, a current or potential competitor may acquire, or form strategic alliances with, one or more of our competitors. Our competitors may be better at satisfying user demand by developing tailored products, offering attractive service fees, strengthening risk management capabilities, introducing more advanced and effective data analytics technologies, obtaining funding sources at more favorable rates and undertaking more extensive and effective marketing campaigns. Furthermore, more players may enter this market and increase the level of competition. In face of such competition, in order to grow or maintain the amount of loans facilitated to borrowers, we may have to lower our service fees, which could materially and adversely affect our business and results of operations. If we are unable to compete with such companies and meet the need for innovation in our industry, the demand for our products or services could stagnate or substantially decline, which could harm our business and results of operations.

***If we are unable to maintain or increase the amount of loans we facilitate or if we are unable to retain existing borrowers or attract new borrowers, our business and results of operations will be adversely affected.***

The amount of loans facilitated through our platform was RMB36,913 million in 2018, RMB39,441 million in 2019 and RMB29,676 million in 2020. To maintain and increase the amount of loans we facilitate, we must continue to engage our existing borrowers and attract new borrowers, which may be affected by several factors, including our brand recognition and reputation, our products and services offered, our efficiency in engaging prospective borrowers, our ability to convert registered users to borrowers, the effectiveness of our credit analysis and risk management system, our ability to secure sufficient and cost-efficient funding, the service fees we charge borrowers, our borrower experience, the PRC regulatory environment governing our industry and the macroeconomic environment. For example, although we do not believe any of the loan products we currently facilitate is explicitly prohibited in accordance with the requirements under Circular 141 and Circular 57, we have taken rectification measures, including adjusting the annualized fee rates not to exceed 36% and ceasing deducting service fees from a loan principal in advance, to better comply with the applicable requirements.

In addition, we currently collaborate with 179 channel partners to obtain borrowers for our various loan products. In 2019 and 2020, approximately 65% and 68.5% of our active borrowers for Xiaoying Card Loan were engaged through our channel partners. If these channels become less effective or less efficient, if we are unable to continue to use these channels or work with less channel partners, or if we cannot expand our business partner base or work with more business partners, we may not be able to acquire and engage new and existing borrowers efficiently. In addition, we may also impose more stringent borrower qualifications to ensure the quality of the loans we facilitate, which may negatively affect the amount of loans we facilitate. If we are unable to attract borrowers or if borrowers do not continue to use our products and services, we may be unable to increase our amount of loans facilitated and corresponding revenues, and our business and results of operations may be materially and adversely affected.

***We face risks related to natural disasters, public health emergencies, epidemic, pandemics and other outbreaks, which could significantly disrupt our operations.***

We are vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events may give rise to severe interruptions, breakdowns, system failures or Internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide our products and services. Our business could also be adversely affected by the effects of diseases, including Ebola virus disease, Zika virus disease, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome, or SARS, COVID-19 or other epidemics.

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization (the “WHO”) declared the COVID-19 coronavirus outbreak a public health emergency of international concern and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. Our results of operations have been adversely affected by the COVID-19 which harms the Chinese and global economy in general. Our borrowers have been negatively impacted by COVID-19, including healthcare, travel, offline education, franchising, auto/transportation and real estate/home furnishing sectors, may reduce their liquidity to repay the loans, which may materially adversely impact our loan performance, especially during the first half year of 2020. The loan facilitation amount also decreased as our institutional funding partners adjusted their strategies due to pessimistic expectations and we took a more stringent risk policy to address COVID-19 impact. Our delinquency rates for all outstanding loans that are past due for 31-90 days and 91-180 days as of June 30, 2020 were 3.53% and 9.44%, respectively, compared with 6.71% and 7.12%, respectively, as of March 31, 2020, and 4.05% and 5.11%, respectively, as of December 31, 2019. Loans that are delinquent for more than 180 days are excluded in the calculation of delinquency rate by balance, except for Xiaoying Housing Loan. In the early onset of the third quarter, our business was already on track for a steady recovery. In July, our total loan facilitation amount was back to the level in January 2020 before COVID-19, and so were the delinquency rates for outstanding loans. Our delinquency rates for all outstanding loans that are past due for 31-90 days and 91-180 days as of September 30, 2020 were 2.13% and 4.62%, respectively, and further dropped to 1.50% and 2.53%, respectively, as of December 31, 2020. However, the potential impact brought by and the duration of the COVID-19 outbreak are difficult to assess or predict and the full impact of the virus on our operations will depend on many factors beyond our control. While it is unknown how long these conditions will last and what the complete financial effect will be to our company, we are closely monitoring its impact on us. Our business, results of operations, financial conditions and prospects could be materially adversely affected to the extent that COVID-19 harms the Chinese and global economy in general, and the trading price of our ADSs may be adversely affected.

***Our platform requires adequate funding and access to adequate lending capital on terms acceptable to us cannot be assured.***

Our business involves matching of borrowers and funding sources for loans. The growth and success of our future operations depend on the availability of adequate funding to meet borrower demand for loans facilitated on our platform. In 2020, 4.7% of the total funding for loans we facilitated were provided by individual investors, and 95.3% were provided by institutional funding partners. In order to maintain the requisite level of funding for the loans we facilitate to meet borrower demand, we will need to optimize the investor funding composition of our platform and establish long-term collaboration with our institutional funding partners.



However, our cooperation with banking financial institutions may be subject to restrictions stipulated under Circular 141, according to which banking financial institutions shall not receive credit enhancement services offered by any third party that lacks qualifications to provide guarantee, and shall ensure that such third party does not charge fees from borrowers. Under our existing cooperation model with banking financial institutions prior to the promulgation of Circular 141, some of our entities lacking the qualifications to provide guarantee also provide guarantee to certain funding arrangements with banking financial institutions. As a result, our banking financial institution partners may cease our cooperation under such existing business model, which may adversely affect our funding capabilities. In light of this regulatory development, we have reviewed and adjusted our cooperation with banking financial institution partners, such as suspending certain cooperation, to better comply with the regulatory requirements. We ceased the online intermediary model in April 2017. The online intermediary model refers to the initial provision of loans to P2P borrowers using our own funds through an intermediary and subsequent sale of such loans to P2P lenders by us. We gradually reduced the volume of loans facilitated through the offline intermediary model with funding from banking financial institution partners after December 31, 2017 due to regulatory requirement and completely ceased such operations in February 2018. The offline intermediary model refers to the initial provision of loans to borrowers on our platform using our own funds through an intermediary and subsequent sale of such loans to institutional funding partners. We cannot assure you, however, that we will be able to adopt a compliant business model vis-à-vis institutional funding partners in a timely manner, or at all, or that such business model will be sufficiently viable, which in turn may adversely affect our ability to obtain adequate funding to grow our business.

Beginning from late 2018, the local PRC governments gradually slowed down its acceptance and review of the application for the registration as an online lending information intermediary as required under the Interim Measures. We made a gradual shift with respect to funding sources from individual investors to institutional funding partners since early 2019 in response to the enhanced regulatory restrictions in the online consumer financing industry. In late December 2019, the government began to implement a regulatory policy encouraging companies that previously applied for the online lending information intermediary registration to obtain an online microcredit company permit instead. This change in policy has an implication that we will be no longer legally allowed to provide intermediary service to individual investors directly. At the end of 2019, we ceased funding our loan products from our individual investors through Xiaoying Wealth Management platform. We actively expanded institutional funding, such as banks, trust funds, and microcredit companies, and achieved 100% institutional funding for the new loans facilitated by the end of the second quarter of 2020.

***If the provision of services by financial institutional cooperators, such as insurance company and financing guarantee companies, becomes limited, restricted, or is rendered less effective or more expensive, our business may be materially and adversely affected.***

54.36% of the total loan facilitation amount we facilitated in 2020 were covered by the credit insurance products provided by ZhongAn. We also collaborate with various third-party financing guarantee companies who provide guarantee services to protect investors and institutional funding partners from losses. See “Item 4. Information on the Company—4.B. Business Overview—Our Partnership with Financial institutional cooperators.” Although we have entered into a series of agreements relating to our ongoing business cooperation and service arrangement with ZhongAn and other financial institutional cooperators, we cannot assure you that the provisions of services provided by such financial institutional cooperators will be renewed upon expiration of the agreements or continue to remain at the same level or on more favorable terms in the future. If any of such financial institutional cooperators ceases business collaboration with us, it may adversely affect our relationship with our users and institutional funding partners.

In addition, given that Shenzhen Xiaoying and Shenzhen Tangren are both our consolidated VIEs, while we believe our past and current cooperation model with our financial institutional cooperators does not violate any prohibitive rules relating to Online Lending Information Services, including among others, provisions under the Interim Measures that prohibit providing any guarantee to lenders directly or in a disguised form by online lending information intermediaries or provisions under Circular 57 that prohibit setting aside risk reserve funds by online lending information intermediaries to protect investors against default, we cannot assure you that the regulators would hold the same view as ours. See “Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Online Lending Information.” If our agreements with financial institutional cooperators were terminated or to be altered to our disadvantage, our business, results of operations and financial condition will be materially and adversely affected.

The protections offered by our financial institutional cooperators on our loan products significantly enhance the confidence of our institutional funding partners. In addition to those protections, Shenzhen Tangren, our consolidated VIE with the financing guarantee license, currently provides a guarantee for certain loan products we facilitate. When in the event of default, Shenzhen Tangren will compensate those financial institutional cooperators for their payout amount to our investors in accordance with the agreements; however, Shenzhen Tangren’s compensation obligation shall not exceed the financial guarantee service fees collectible by Shenzhen Tangren from all the borrowers for such loans. See also “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Loan Performance—Delinquency Rate by Vintage” for further information. We may consider introducing other funding protection arrangements to our financial institutional cooperators or institutional funding. We cannot assure you that new arrangements would be perceived by them, which may have adverse impact on our business operations. If our financial institutional cooperators cease business collaboration with us, it may adversely affect our relationship with our institutional funding partners, who view on the protection offered by our financial institutional cooperators with importance.

We cannot assure you that our financial institutional cooperator will continue to provide its insurance or guarantee decision opinion, which is based on its credit analysis model, leveraging its resources and access to various databases, including PBOC CRC that is only available to licensed financial institutions. We are working with other partners with financial license on co-developing risk management capabilities. The denial of access to their insurance or guarantee decision opinion may materially and adversely impact our ability to assess the creditworthiness of prospective borrowers in the future. Any deterioration in our risk assessment capabilities may adversely affect the quality of transactions that we facilitate and we may experience higher delinquency rates, which may materially and adversely affect our business, results of operations and financial condition.

***If we are unable to obtain adequate credit insurance under terms or conditions acceptable to us due to changes in the credit insurance regulations in China, our business, financial condition and results of operations would be materially and adversely affected.***

On July 11, 2017, China Insurance Regulatory Commission promulgated the *Interim Measures for the Supervision of Credit Guarantee and Insurance Business*, or the Interim Measures for the Credit Guarantee, pursuant to which the insurance companies carrying out credit insurance businesses, such as ZhongAn, are required to comply with the regulatory requirements on solvency and ensure the overall size of business is appropriate for the capital strength of the company. When carrying out credit insurance business, insurance companies are required to pay particular attention to the underlying risks, fully assess the impact of credit insurance business on the solvency of the company, and duly perform liquidity risk management. The insurance companies have to establish more stringent internal control measures to ensure the compliance of the credit insurance business. Furthermore, the Interim Measures for the Credit Guarantee sets out specific rules regarding insurance companies carrying out credit insurance business via online consumer finance platform, under which the insurance companies shall not cooperate with the online consumer finance platforms that are not in compliance with the applicable laws governing the online consumer finance industry. Depending on the type of credit insurance business and the nature of the policyholder, the balance of self-retained liability of the insurance company cannot exceed the respective limits as set forth in the Interim Measures for Credit Guarantee. In addition, the insurance company is required to request the cooperating online consumer finance platform to publish material information in relation to such cooperative insurance product mutually approved by both parties.

We have cooperated with ZhongAn to develop credit insurance products to secure insurance protection for 54.36% of the total loan facilitation amount we facilitated in 2020. If ZhongAn is unable to continue to provide the credit insurance with same terms and conditions, we may not be able to remain adequate credit insurance for our loan products as before, or may have to incur additional cost in purchasing such insurance from ZhongAn or other insurance companies. If we are unable to obtain adequate credit insurance for our loan products under terms or conditions acceptable to us, our business, financial condition and results of operations would be materially and adversely affected.

***We may be deemed to operate financing guarantee business by the PRC regulatory authorities.***

The State Council promulgated the Regulations on the Supervision and Administration of Financing Guarantee Companies, or Financing Guarantee Rules, on August 2, 2017, which became effective on October 1, 2017. Pursuant to the Financing Guarantee Rules, “financing guarantee” refers to the activities in which guarantors provide guarantee to the guaranteed parties as to loans, bonds or other types of debt financing, and “financing guarantee companies” refer to companies legally established and operating financing guarantee business. According to the Financing Guarantee Rules, the establishment of financing guarantee companies shall be subject to the approval by the competent government department, and unless otherwise stipulated by the state, no entity may operate financing guarantee business without such approval. If any entity violates these regulations and operates financing guarantee business without approval, the entity may be subject to penalties including ban or suspension of business, fines ranging from RMB500,000 to RMB1,000,000, confiscation of illegal gains if any, and if the violation constitutes a criminal offense, criminal liability shall be imposed in accordance with the law. We have cooperated with banks, trust companies, and other institutional funding partners who funded the loans for our borrowers. See “Item 4. Information on the Company—4.B. Business Overview—Our Partnership with Financial Institutional Cooperators.” Under our current business model, some of our entities lacking the qualifications to provide financing guarantee are obligated to repay certain institutional funding partners the full overdue amount in case the borrowers fail to repay, or purchase the creditor’s rights of the underlying loan from certain institutional funding partners under certain circumstances.

In addition, prior to September 2017, we, at our sole discretion, paid ZhongAn for a majority of the loan principal and interest default but have not been subsequently collected through some of our entities lacking qualifications to provide financing guarantee. See “Item 4. Information on the Company—4.B. Business Overview—Our Partnership with Financial Institutional Cooperators.” In 2020, certain amount of deposits paid by Shenzhen Tangren to one of our institutional cooperators was actually provided by Shenzhen Xiaoying Puhui Technology Co., Ltd., a directly wholly owned subsidiary of Beijing WFOE, which were used to compensate for such institutional cooperator’s loss for the amount it had paid under investors’ claims arising from borrowers’ default to repay loans. Due to the lack of further interpretations, the exact definition and scope of “operating financing guarantee business” under the Financing Guarantee Rules is unclear. It is uncertain whether we would be deemed to operate financing guarantee business because of our cooperation model with ZhongAn and other financial institutional cooperators, and our current arrangements with banks, trust companies and other institutional funding partners. As of the date of this annual report, we have not been subject to any fines or other penalties under any PRC laws or regulations related to financing guarantee business. Furthermore, given Shenzhen Xiaoying and Shenzhen Tangren are both our consolidated VIEs, while we believe our past and current cooperation model with ZhongAn and other financial institutional cooperators does not constitute providing any guarantee to lenders directly or in a disguised form by online lending information intermediary under Interim Measures or under Circular 57, we cannot assure you that the regulators would hold the same view as ours. Given the evolving regulatory environment of the financing guarantee business, we cannot assure you that we will not be subject to any fines, penalties or other liabilities, or be required in the future by the relevant governmental authorities to obtain approval or license for financing guarantee business to continue our collaboration with banks, trust companies and other institutional funding partners. If we are required to amend the current model or are no longer able to collaborate with banks, trust companies or other institutional funding partners at all, or become subject to penalties, our business, financial condition, results of operations and prospects could be materially and adversely affected.

For the impact of Circular 141 and Circular 57 on our cooperation with institutional funding partners, see “Item 3. Key Information on the Company—3.D. Risk Factors—Risks Relating to Our Business and Industry—Our platform requires adequate funding and access to adequate lending capital on terms acceptable to us cannot be assured.”

***Failure in our proprietary credit analysis and risk management system may materially and adversely affect our products and service.***

We offer our products and services based on risk assessment conducted by our proprietary credit analysis and risk management system, which is strengthened by our financial institutional cooperators’ insurance or guarantee decision opinion based on their credit analysis models. Our system uses machine learning and modeling techniques to analyze transaction and repayment data from loans that we facilitated and data from applicants and other third-party sources. Even though we have accumulated a large amount of applicant data and extensive credit analysis experience to perform risk management analysis in our system, our credit analysis and risk management system may not be continuously effective as we continue to increase the amount of loans we facilitate, expand our borrower base and broaden our funding channels in the future. If our credit analysis model contains inaccurate assumptions or inefficiencies through model updates, or if the credit data and analysis we obtain are inaccurate or outdated, our credit analysis could be negatively affected, resulting in inaccurate decision.

If we are unable to effectively and accurately assess the credit profiles of applicants based on their credit profiles, we may either be unable to offer attractive service fee rates and products and services to borrowers, or unable to maintain low delinquency rates for loans we facilitate or to attract investors and institutional funding partners. In addition, our credit analysis may not be able to provide more predictive assessments of future borrower behavior and result in better evaluation of our borrower base as compared to our competitors. Furthermore, our risk management model and system may not optimally protect our business against systemic risk. If our proprietary credit analysis and risk management system fails to perform effectively, our business, liquidity and results of operations may be materially and adversely affected.

***If we are unable to maintain low delinquency rates for transactions facilitated by us, our business and results of operations may be materially and adversely affected. Further, historical delinquency rates may not be indicative of future results.***

Our investors and institutional funding partners may experience losses due to borrower defaults. The delinquency rate for all outstanding loans on our platform that were 31-60 days past due decreased from 2.40% as of December 31, 2019 to 0.79% as of December 31, 2020.

Our ability to attract and retain borrowers, investors and institutional funding partners is significantly dependent on our ability to effectively assess a borrower's credit profile and maintain low delinquency rates. To conduct this assessment, we have employed a series of procedures and developed a proprietary credit assessment and decisioning model. Our credit scoring model aggregates and analyzes the personal information submitted by a prospective borrower as well as the data we collect from a number of internal and external sources, and then generates a credit assessment result for the prospective borrower. If our credit scoring model contains programming or other errors or the information provided by borrowers or third parties is incorrect or stale, our loan pricing and approval process could be negatively affected, resulting in misclassified loans or incorrect approvals or denials of loans. If we are unable to effectively and accurately assess the credit profiles of borrowers, we may be unable to maintain low delinquency rates of loans facilitated by our platform.

If widespread defaults were to occur, investors and institutional funding partners may lose confidence in our platform and our financial institutional cooperators may cease business collaboration with us or increase their fees collectible from new borrowers or raise some unfavorable terms in the future, which may materially and adversely affect our business and results of operations. We are required to pay deposits to those financial institutional cooperators and the amount of deposit is separately agreed with each institutional cooperator. In 2020, we witnessed an increase in borrowers' defaulting rates. To maintain the collaborative relationship with one of our financial institutional cooperators and to avoid any material adverse impact on our current business model and future transaction cost, we used deposits amounting to RMB970.0 million to compensate for such institutional cooperator's loss for the amount it had paid under investors' claims arising from borrowers' default to repay loans. We have been expanding cooperation relationships with various financial institutional cooperators to reduce our risk of heavy dependency on certain financial institutional cooperators.

Furthermore, under New ZhongAn Model, for most Xiaoying Card Loans newly facilitated since September 2017 and certain Xiaoying Revolving Loans that are repaid in installments by borrowers, we negotiate the upper limit of Shenzhen Tangren's compensation obligation prospectively at each quarter with ZhongAn based on the expected default rate. Starting from 2020, we enter into a series of arrangements with various external financing guarantee companies, which is similar to "New ZhongAn Model". The portion that we are obligated to pay to those financial institutional cooperators but are not expected to be collected from the borrowers due to the estimated default or prepayment risk in relation to the guarantee fee is recorded in the change in fair value of financial guarantee derivative. Moreover, if the total amount of the compensation paid by those financial institutional cooperators to the insured investors or institutional funding partners exceeds the expected maximum payout amount for certain period, they are entitled to increase their fees collectible from new borrowers, which would impact our results of operations in the event we are unable to pass on such increase to new borrowers. In addition, when the delinquency rates of our loan products increase, we may also need to increase the guarantee fees that we are entitled from new borrowers. In the event we are not able to raise the APR to capture such increase in guarantee fees, our results of operations would be adversely affected. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Loan Performance—Delinquency Rate by Vintage" and "Item 4. Information on the Company—4.B. Business Overview—Our Partnership with Financial Institutional Cooperators—Credit Insurance and Guarantee Services" for more details. Therefore, if we are unable to maintain low delinquency rates for transactions we facilitated, our business and results of operations may be materially and adversely affected.

***The data that we collect may be inaccurate due to inadvertent error or fraud. If we fail to detect inaccurate and false information, the performance of our credit analysis will be compromised, and our business, results of operations and brand and reputation will be negatively impacted.***

We analyze data provided directly by applicants or with their authorization and data from third parties. The data we receive may not accurately reflect an applicant's creditworthiness because such data may be based on outdated, incomplete or inaccurate information due to inadvertent error or fraud. In addition, the completeness and reliability of consumer credit history information in the PRC is relatively limited. The People's Bank of China, or PBOC, has developed and put into use a national personal and corporate credit information database which remains relatively underdeveloped.

The data provided directly by an applicant to us may become outdated and inaccurate, as he or she may have, after providing the data to us:

- become delinquent in the payment of an outstanding obligation;
- defaulted on a pre-existing debt obligation;
- taken on additional debt; or
- sustained other adverse financial events.

We conduct data screening to detect inaccurate information and improve the quality of the data input for our credit analysis model. However, our data screening and anti-fraud systems may be insufficient to accurately detect inaccurate and fraudulent information. Such inaccurate or fraudulent information could compromise the accuracy of our credit analysis and adversely affect the effectiveness of our control over our delinquency rates. We may not be able to recoup funds underlying loans made in connection with inaccurate or fraudulent data, which may materially and adversely affect our results of operations. To better assess a borrower's creditworthiness, we consult our institutional cooperators for their credit analysis and cooperate with third-party credit agencies and databases for credit data of borrowers. However, due to the underdevelopment of an industry-wide information sharing arrangement, we are unable to determine whether applicants have outstanding loans through other online lending platforms at the time when they obtain a loan from us or the aggregate amount borrowed by a borrower through our platform and other online lending platforms. This creates the risk that a borrower may borrow money through us in order to pay off loans on other online lending platforms and vice versa. The additional debt may adversely affect the borrower's creditworthiness generally, and could result in the financial distress or insolvency of the borrower, impairing the borrower's ability to repay the loan and the investor and institutional funding partner's ability to receive repayment of such loan. In addition, if a borrower incurs debt on other online lending platforms in order to repay our loans, the borrower's ability to repay such loans is limited by the availability of funding sources subject to factors beyond the borrower's control, which may adversely affect our results of operations. For example, the release of Circular 141 and Circular 57 in December 2017 tightened industry regulations and resulted in an unexpected short-term volatility of borrower credit performance across our industry. Online lending platforms have ceased extending "cash loans" with the four characteristics as defined under Circular 141 and a number of online lending platforms significantly altered their business models or suspended operations altogether. The impact is relatively more acute on products with short term and small loan balance, such as Xiaoying Card Loans, as borrowers previously used to be able to easily borrow from other online lending platforms to fund their repayment. The release of Circular 141 and Circular 57 led to liquidity shortage for certain borrowers who relied on other lending platforms to repay Xiaoying Card Loans.

In addition, a significant increase in fraudulent activities could negatively impact our brand name and reputation, discourage investors and institutional funding partners from investing in loans on our platform, reduce the amount of loans facilitated to borrowers and make it necessary to take additional steps to reduce fraud risk, which could increase our costs. High profile fraudulent activities could even lead to regulatory intervention, and may divert our management's attention and cause us to incur additional expenses and costs.

Although we have not experienced any material business or reputational harm as a result of fraudulent activities or inaccurate information in the past, we cannot rule out the possibility that inaccurate information or fraudulent activities may materially and adversely affect our business, financial condition and results of operations in the future.

***We may be required to obtain additional value-added telecommunication business licenses.***

PRC regulations impose sanctions on entities for engaging in the provision of telecommunication business of a commercial nature without having obtained a value-added telecommunication business license. If we fail to obtain licenses required for our business, we could be subject to sanctions including corrective orders and warnings from the PRC telecommunication administration authority, fines and confiscation of illegal gains and, in the case of significant infringements, the websites and mobile applications may be ordered to cease operation.

Pursuant to the Interim Measures, we are required to apply for appropriate telecommunication business operation permit, i.e., the value-added telecommunication business license, in accordance with relevant provisions of competent communication departments after we have completed the registration of online lending intermediary with local financial regulatory authority. The local government authority has not yet issued the relevant implementation rules regarding such filing and therefore we cannot assure you we will be able to make the necessary filing or apply for the value-added telecommunication business license. Even if we have obtained the telecommunication business license, we may also be subject to monetary penalty or suspension of operation and rectification by the telecommunication administrations if we fail to operate the business as prescribed in the telecommunication operating licenses, or fail to operate the business as regulated by the telecommunications administration or other regulatory authorities.

Given the evolving regulatory environment of the consumer finance industry and value-added telecommunication business, we cannot rule out the possibility that the PRC communication administration authority or other government authorities will explicitly require any of our consolidated VIEs or subsidiaries of our consolidated VIEs to obtain Internet content provider licenses, or ICP licenses, online data processing and transaction processing licenses, or ODPTP licenses or other value-added telecommunication business licenses, or issue new regulatory requirements to institute a new licensing regime for our industry. If such value-added telecommunication business licenses are required in the future, or a new license regime is introduced or new regulatory rules are promulgated, we cannot assure you that we would be able to obtain any required license or other regulatory approvals in a timely manner, or at all, which would subject us to the sanctions described above or other sanctions as stipulated in the new regulatory rules, and materially and adversely affect our business and impede our ability to continue our operations.

Furthermore, pursuant to the Interim Administrative Provisions on the Operation via Third-party E-commerce Platforms by Securities Investment Funds Sale Institutions effective on March 15, 2013, any third-party e-commerce platform which provides “ancillary services” for online subscription and sale of fund units shall have a valid telecommunication business license issued by competent authority for at least three years before commencing the provision of such ancillary services, otherwise the platform could be subject to administrative orders including rectification and suspension of noncompliant business. The display of money market products administered by qualified asset management institutions on our platforms and the provision of traffic referral service may be deemed by the regulatory authority as providing ancillary services for online subscription and sale of fund units, which require a telecommunication business license that we currently do not hold and may subject us to rectification or suspension of the aforementioned business if so required by the China Securities Regulatory Commission, or the CSRC. Additionally, according to *Guidance on Regulating Asset Management Business of Financial Institutions*, or the Guidance, which was promulgated jointly by the PBOC, China Insurance Regulatory Commission, CSRC and the SAFE on April 27, 2018, only financial institutions, such as banks, trusts, securities, funds, futures, insurance asset management agencies and financial asset investment companies, can operate asset management business. As ancillary services that we currently provide are not “asset management business” as defined in the Guidance or other applicable Laws and Regulations, we do not believe that we would be subject to the Guidance. However, we cannot assure you if the money market products offered by the relevant financial institutions to which we provide the ancillary services will not be ceased pursuant to the Guidance.

Nevertheless, the interpretation and the enforcement of such regulations in the context of online consumer finance industry remains uncertain, and therefore, it is unclear what kind of value-added telecommunication business licenses we should obtain. Given the evolving regulatory environment of the consumer finance industry and value-added telecommunication business, we cannot rule out the possibility that the PRC communication administration authority or other government authorities will explicitly require any of our consolidated VIEs or subsidiaries of our consolidated VIEs to obtain Internet content provider licenses, or ICP licenses, online data processing and transaction processing licenses, or ODPTP licenses or other value-added telecommunication business licenses, or issue new regulatory requirements to institute a new licensing regime for our industry.

In addition, the Telecommunications Regulations promulgated by the State Council and its related implementation rules, including a catalog issued by the Ministry of Industry and Information Technology, or MIIT, categorize various types of value-added telecommunications services. Under the Telecommunications Regulations, e-commerce operator may be required to obtain an online data processing and transaction processing license, or ODPTP license. Our online shopping mall may be required to obtain ODPTP license.

If such value-added telecommunication business licenses are clearly required in the future, or a new license regime is introduced or new regulatory rules are promulgated, we cannot assure you that we would be able to obtain or maintain any required license or other regulatory approvals in a timely manner, or at all, which would subject us to the sanctions described above or other sanctions as stipulated in the new regulatory rules, and materially and adversely affect our business and impede our ability to continue our operations.

***If our products and services do not achieve sufficient market acceptance, our financial condition, results of operations and competitive position will be materially and adversely affected.***

We facilitate various loan products, in particular Xiaoying Credit Loan, to our borrowers. While we intend to broaden the scope of products and services that we offer, we may not be successful in doing so. New products and services must achieve a certain level of market acceptance in order for it to be economically feasible for us to bear the default risks associated with them and recoup our investment costs in developing and bringing them to market. Our existing or new products and services could fail to attain sufficient market acceptance for many reasons, including:

- our failure to predict market demand accurately and supply attractive and increasingly personalized products and services at appropriate prices and in amount that meet this demand in a timely fashion;
- our existing products and services may cease to be popular among current borrowers and institutional funding partners or prove to be unattractive to prospective borrowers and institutional funding partners;
- our failure to assess risk associated with new products and services and to properly price such products and services;
- negative publicity about our products and services or mobile applications' performance or effectiveness;
- critical assessment taken by regulatory authorities that the launch of new products and services and changes to our existing products and services do not comply with PRC laws, regulations or rules applicable to us; and
- the introduction or anticipated introduction of competing offerings by competitors.

If our existing and new products and services do not achieve adequate acceptance in the market, our financial condition, competitive position and results of operations could be harmed.

***Increases in market interest rates could negatively affect the amount of loans facilitated by us and cost of funds provided to borrowers.***

All loans facilitated by us have fixed service fee rates charged by us and interest rates. If prevailing market interest rates rise, the service fee rates and interest rates of loans we facilitate may rise accordingly, and borrowers may be less likely to accept such adjusted terms. If borrowers decide not to use our products because of such an increase in market interest rates, our ability to retain existing borrowers and engage prospective borrowers as well as our competitive position may be severely impaired. If we are unable to effectively manage such market interest rate risk, our business, profitability, results of operations and financial condition could be materially and adversely affected.

***Any harm to our brand or reputation or any negative publicity about the parties that we collaborate with may materially and adversely affect our business and results of operations.***

Enhancing the recognition and maintaining the reputation of our brand is critical to the current performance and future growth of our business and competitiveness, since this initiative affects our ability to better attract and serve consumers and to maintain and expand our relationship with institutional funding partners. Factors that are vital to this objective include our ability to:

- maintain the effectiveness, quality and reliability of our systems;
- provide consumers with satisfactory services;
- engage a large number of quality borrowers with low delinquency rate;
- improve our credit analysis and risk management system;
- effectively manage and resolve user complaints; and
- effectively protect personal information and privacy of users.

Any malicious or otherwise negative allegation made by the media or other parties about our company, including our management, business, compliance with law, financial condition, prospects or our historical business operations, whether with or without merit, could severely hurt our reputation and harm our business and results of operations.

In addition, certain factors that may adversely affect our reputation are beyond our control. Negative publicity about parties that we collaborate with in the operation of our business, including negative publicity about any failure by them to adequately protect the information of their users, to comply with applicable laws and regulations or to otherwise meet required quality and service standards, could also harm our reputation or result in negative perception of the products or services we offer. Although we selectively establish collaboration relationships with reliable third parties, we cannot assure you that they will not conduct any unsatisfactory, inappropriate or illegal actions that will damage our reputation and brand, which consequently could cause our business to be harmed.

***We have obligations to verify information relating to borrowers and detecting fraud. If we fail to perform such obligations to meet the requirements of relevant laws and regulations, we may be subject to liabilities.***

Our business of connecting investors and institutional funding partners with individual borrowers constitutes an intermediary service, and our contracts with investors, institutional funding partners and borrowers are intermediation contracts under the PRC Civil Code. Under the PRC Civil Code, an intermediary that intentionally conceals any material information or provides false information in connection with the conclusion of an intermediation contract, which results in harm to the client's interests may not claim for any service fee for its intermediary services, and is liable for any damage incurred by the client. Therefore, if we fail to provide material information to investors and institutional funding partners and are found to be at fault for failure or deemed failure to exercise proper care, or to conduct adequate information verification or supervision, we could be subject to liabilities as an intermediary under the PRC Civil Code. In addition, the Interim Measures and the Inspection Notice have imposed on online lending information intermediaries, including us, additional obligations to verify the truthfulness of the information provided by or in relation to loan applicants and to actively detect fraud, conduct risk evaluation of lenders, categorize lenders and disclose the risk information on borrowers to the lenders. We leverage a large database of past fraud accounts information and sophisticated rule-based detection technology in detecting fraudulent behaviors. Based on new data collected and fraudulent behaviors detected during our daily business operations, we update our database on a monthly basis. As the Interim Measures are relatively new, it is still unclear to what extent online lending information intermediaries should exercise care in detecting fraud. Although we believe that as an information intermediary, we should not bear the credit risk for investors and institutional funding partners as long as we take reasonable measures to detect fraudulent behaviors, we cannot assure you that we would not be subject to any liabilities under the Interim Measures if we fail to detect any fraudulent behavior. If that were to occur, our results of operations and financial condition could be materially and adversely affected.



***We may face regulatory risk as we indirectly charge our borrowers in the manner that our borrowers are not aware***

Our consolidated VIE, Shenzhen Tangren, and third party financing guarantee companies that we cooperate provide guarantee for a number of loans if our borrowers fail to repay. The financing guarantee companies that we cooperate charge borrowers a guarantee fee, a portion of which will be subsequently paid to us by the financing guarantee companies as the service fee for the intermediary service we provide. Shenzhen Tangren charge borrowers an evaluation service fee, which will be allocated to us as the service fee as well. The Announcement 3 states that all institutions engaged in loan business shall display annual loan interest rate to borrowers in an obvious way when marketing through websites, mobile applications, posters and other channels and that the annual loan interest rate shall be the ratio, on an annualized basis, of all the loan-related costs charged on the borrower to the loan principal actually occupied. According to the Interim Measures, an online lending information intermediary shall agree with lenders and borrowers on the service fee standards and payment. However, our borrowers are not aware of the fact that we actually charge service fees and the manner in which such fees are charged. Therefore, our business practices and the way we collect service fees may be considered by the regulatory authorities as a violation of regulations and we may be subject to administrative penalties. If we were imposed penalties or forced to adjust the way by which we charge fees, there will be an adverse impact on our business, financial condition, and operating results.

***We finance certain loans offered with our own funds, which may subject us to regulatory risks.***

We had partially financed certain undersubscribed loans with our own funds in the past to increase matching rate and enhance borrowers' experiences on our platform. We gradually reduced such practices after August 2016 when the Interim Measures, which prohibits online finance information intermediaries from investing in loans using their own funds unless otherwise stipulated by laws and regulations, was promulgated, and completely ceased such practices in April 2017. As of the date of this annual report, we have not been subject to any fines or other penalties due to the fact that certain historical loans on our platform were partially funded with our own funds before the Interim Measures taking effect but remained outstanding afterwards.

In the past, we initially provided credit using our own funds to our borrowers and subsequently sold the loans including the creditor's rights in the loans to investors on our P2P platform or to institutional funding partners. We completely ceased such practices with investors on our P2P platform in April 2017. We also gradually reduced such practices with banking financial institution partners after December 31, 2017 and completely ceased such practices in February 2018. In our current operation model, certain loans are initially advanced by unaffiliated third parties who will subsequently transfer such loans to us. We, as the intermediary, will when transfer such loans to third parties. Although we do not have the intention to retain the loans at the outset, due to the more stringent regulatory measures, the loan transfers in the market have been less active since 2019, which makes us unable to sell the loans immediately or within a short timeframe after the acquisition of such loans. While we do not believe that such acquired loans from existing lenders are prohibited under the Interim Measures, we cannot assure you that such practice would not be deemed by the PRC authorities as illegal provision of loans to the general public or illegally granting loans without the PBOC's permit, which are prohibited by relevant PRC laws and regulations. If such practices were found to violate the Interim Measures or other relevant PRC laws and regulations, we might be subject to fines, penalties or other liabilities, which could materially and adversely affect our business, financial condition and prospects.

Beginning from late 2018, the local PRC governments gradually slowed down its acceptance and review of the application for the registration as an online lending information intermediary as required under the Interim Measures. We made a gradual shift with respect to funding sources from individual investors to institutional funding partners since early 2019 in response to the enhanced regulatory restrictions in the online consumer financing industry. In late December 2019, the government began to implement a regulatory policy encouraging companies that previously applied for the online lending information intermediary registration to obtain an online microcredit company permit instead. This change in policy has an implication that we will be no longer legally allowed to provide intermediary service to individual investors directly. At the end of 2019, we ceased funding our loan products from our individual investors through Xiaoying Wealth Management platform. We actively expanded institutional funding, such as banks, trust funds, and microcredit companies, and achieved 100% institutional funding for the new loans facilitated by the end of the second quarter of 2020.

***We are subject to risks associated with other parties with which we collaborate. If we cannot effectively cooperate with such other parties or if such other parties fail to perform or provide reliable or satisfactory services, our business, financial condition and results of operations may be materially and adversely affected.***

We collaborate certain third parties across various aspects of our business operation, including user acquisition partners, other institutions from which we obtain information for our credit assessment model and risk management system, guarantee providers for certain loans we facilitated and our cloud computing service provider.

These parties may not be able to provide accurate and complete data, sufficiently or timely perform guarantee obligations over the defaulted loans that we facilitated or provide satisfactory services to us, borrowers, investors and institutional funding partners on commercially acceptable terms or at all. Any failure by these parties to continue with good business operations, comply with applicable laws and regulations, in particular, the relevant laws and regulations in collecting and distribution personal information, or any negative publicity on these parties could damage our reputation, expose us to significant penalties and decrease our total revenues and profitability. Also, if we fail to retain existing or attract new quality parties to collaborate with, our ability to retain existing borrowers, investors and institutional funding partners, engage prospective borrowers, investors and institutional funding partners may be severely limited, which may have a material and adverse effect on our business, financial condition and results of operations. In addition, certain of these other parties that we collaborate with have access to our user data to a limited extent in order to provide their services. If these other parties engage in activities that are negligent, illegal or otherwise harmful to the trustworthiness and security of our products or system, including the leak or negligent use of data, or users are otherwise dissatisfied with their service quality, we could suffer reputational harm and experience a decrease in users, even if these activities are not related to, attributable to or caused by us.

In addition, we offer money market products managed by qualified asset management institutions on our platform and provide traffic referral service. Pursuant to the Compliance Checklist, the online lending information intermediaries shall not provide access to financial products offered by other institutions without a prior regulatory permit and shall not advertise such financial products. Due to the lack of detailed implementation rules to the Compliance Checklist, we cannot assure you that our practice will be not deemed as violation of the Compliance Checklist. We may be required to adjust our business practice and our cooperation with third party institutions may be materially and adversely affected.

***If our ability to collect delinquent loans is impaired, there is any decline or depreciation in the value of collaterals or there is misconduct in payment collection, our business and results of operations might be materially and adversely affected.***

We have implemented internal payment and collection policies and practices designed to optimize the repayment process. We also engage several third-party collection service providers to assist us with payment collection from time to time. However, we may not receive payments as expected on loans that we facilitate. Even though certain of our loan products are secured by borrowers' collaterals, there might be a decline or depreciation in the value of collaterals, which could reduce the amount of proceeds we can get from the collateral in the event of a borrower's default. Upon a borrower's default, we will classify the defaulting borrowers into different risk levels based on the type of loan products, outstanding amount, delinquent days and historical repayment pattern. The third-party collection agencies that we engaged will make phone calls, send text messages, in-person visit and claim lawsuits to the defaulting borrower to request repayment. In particular, the third-party collection agencies that we engage may not possess adequate resource and manpower to collect payment on and service the loans we facilitated.

Moreover, the current regulatory regime for debt collection in the PRC remains unclear. In 2018, we refined and strengthened our administration on collection policies and practices in consideration of the regulatory development with respect to the debt collection in the PRC consumer finance industry. As a result, we may not be able to maintain our efficiency level to collect payments from borrowers and the delinquency rates for our loan products may increase. We cannot assure you that the third party collection personnel will not engage in any misconduct as part of their collection efforts. Any such misconduct by our collection personnel or the perception that our collection practices are considered to be aggressive and not compliant with the relevant laws and regulations in the PRC may result in harm to our reputation and business, which could further reduce our ability to collect payments from borrowers, lead to decrease in the willingness of prospective borrowers to apply for loans or fines and penalties imposed by the relevant regulatory authorities, any of which may have a material adverse effect on our results of operations.

***If we are unable to provide a high-quality user experience, our reputation and business may be materially and adversely affected.***

The success of our business largely depends on our ability to provide a high-quality user experience, which in turn depends on factors such as: (i) our ability to estimate future borrowing requests from our users, (ii) our ability to continue to offer products and services at competitive service fee rates, (iii) our ability to provide a reliable and user-friendly mobile application user interface for users and our ability to further improve and streamline our online loan application and approval process. As of December 31, 2020, substantially all of the transactions were completed through our mobile application. If users are not satisfied with our level of service when we failed to provide sufficient loans to our users, or if our system is severely interrupted or otherwise fails to meet user requests, for example, the users have to wait for days to receive their loan application results or our mobile app is constantly disrupted due to system failure and breakdown, our reputation could be adversely affected and we could fail to maintain user loyalty.

Our ability to provide high-quality user experience also depends on the quality of the products and services provided by our business partners over which we have limited or no control. In the event that a user is dissatisfied with the quality of the products and services provided by our business partners, we do not have any means to directly make improvements in response to user complaints, and our business, reputation, financial performance and prospects could be materially and adversely affected.

In addition, we depend on our user service hotline and WeChat online user service center to provide certain services to our users. If our user service representatives fail to provide satisfactory service, or if waiting time is too long due to the high volume of calls from borrowers at peak times, our brands and user loyalty may be adversely affected. In addition, any negative publicity or poor feedback regarding our user service may harm our brands and reputation and in turn cause us to lose users and market share. As a result, if we are unable to continue to maintain or enhance our user experience and provide a high quality user service, we may not be able to retain users or attract prospective users, which could have a material adverse effect on our business, financial condition and results of operations.

***Failure to manage our liquidity and cash flows may materially and adversely affect our financial condition and results of operations.***

We had positive cash flows from operating activities of RMB5.4 million and RMB600.6 million in 2018, 2019, respectively, and we had a negative cash flow from operating activities of RMB679.2 million (US\$104.1 million) in 2020. We cannot guarantee that we will not have negative cash flows in the future. We collect the service fees on a monthly basis from the borrowers. Inability to collect payments from users, borrowers in particular, in a timely and sufficient manner may adversely affect our liquidity, financial condition and results of operations.

***We may need additional capital to accomplish business objectives, pursue business opportunities, and respond to challenges or unforeseen circumstances, and financing may not be available on terms acceptable to us, or at all.***

Historically, we have issued equity securities to support the growth of our business. As we intend to continue to make investments to support the growth of our business, we may require additional capital to accomplish our business objectives and pursue business opportunities, and respond to challenges or unforeseen circumstances, including developing new products and services, further enhancing our risk management capabilities, increasing our marketing expenditures to improve brand awareness and enhancing our operating infrastructure. Accordingly, we may need to engage in equity or debt financings to secure additional funds. However, additional funds may not be available when we need them, on terms acceptable to us, or at all. In the event that we obtain debt financing, repayment of debt may divert a substantial portion of cash flow, which would reduce funds available for expenses and payment pursuant to other general corporate purposes.

Volatility in the credit markets may also have an adverse effect on our ability to obtain debt financing. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders our ordinary shares. If we are unable to obtain adequate financing or financing on terms satisfactory to us when it is needed, our ability to continue to accomplish our business objectives and pursue business opportunities, and respond to challenges or unforeseen circumstances could be significantly limited, and our business, operating results, financial condition and prospects could be adversely affected.

***Our marketing efforts are critical to our performance and future growth, and if we are unable to promote and maintain our brands in an effective and cost-efficient way, our business and financial results may be harmed.***

We primarily rely on word-of-mouth referral to build our business. Going forward, we intend to promote our brands through marketing. The effectiveness of our marketing efforts are critical to the successful promotion of our brands and our ability to attract borrowers, investors and institutional funding partners. Our efforts to build our brands may cause us to incur significant expenses. These efforts may not result in increased revenue in the immediate future. Even if they do, any increases in revenue may not offset the expenses incurred. If we fail to successfully promote and maintain our brands while incurring substantial expenses, our results of operations and financial condition would be adversely affected, which may impair our ability to grow our business.

***Undetected errors or significant disruption in our IT system, including events beyond our control, could prevent us from offering our products and services, thereby reducing the attractiveness of our products and services and resulting in a loss of borrowers.***

Our business and internal systems rely on software and processes that are highly technical and complex. In addition, our business depends on the abilities of these software and processes to store, retrieve, process and manage large amounts of data. The software and processes on which we rely have contained, and may now or in the future contain, errors or bugs. Some errors may only be discovered after the code has been released for external or internal use.

In addition, in the event of a system outage and physical data loss, our ability to provide products and services would be materially and adversely affected. The reliability, availability and satisfactory performance of our technology and our underlying network infrastructure are critical to our operations, user service, reputation and our ability to attract new and retain existing borrowers, investors and institutional funding partners. Our information technology systems infrastructure is currently deployed and our data is currently maintained on customized computing services in China. Our operations depend on the service provider's ability to protect its and our systems in its facilities against damage or interruption from natural disasters, power or telecommunications failures, air quality issues, environmental conditions, computer viruses or hackers' attempts to harm our systems, criminal acts and other similar events. Moreover, if our arrangement with this service provider is terminated or if there is a lapse of service or damage to their facilities, we could experience interruptions in our service as well as delays and additional expense in providing products and services to our borrowers, investors and institutional funding partners.

Any interruptions or delays in our service, whether as a result of third-party error, our error, natural disasters or security breaches, whether willful or not, could harm our reputation and our relationships with borrowers, investors and institutional funding partners. Additionally, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. We also may not have sufficient capacity to recover all data and services in the event of an outage. These factors could prevent us from processing loan applications and other business operations, damage our brand name and reputation, divert our employees' attention, reduce our revenue, subject us to liability and discourage users from using our products and services, any of which could adversely affect our business, financial condition and results of operations.

***Misconduct, errors and failure to function by our employees and parties we collaborate with could harm our business and reputation.***

We are exposed to the risk of misconduct and errors by our employees and parties that we collaborate with. Our business depends on our employees and/or business partners to interact with users, process large numbers of transactions and support the loan collection process. We could be materially and adversely affected if the transactions were redirected, misappropriated or otherwise improperly executed, if personal information was disclosed to unintended recipients or if an operational breakdown or failure in the processing of transactions occurred, whether as a result of human error, purposeful sabotage or fraudulent manipulation of our operations or systems. It is not always possible to identify and deter misconduct or errors by our employees and other business partners, and the precautions we take to detect and prevent such activities may not be effective in controlling unknown or unmanageable risks or losses. If any of our employees and other business partners misuse or misappropriate funds, commit fraud or other misconduct or fail to follow our rules and procedures when interacting with our users we could be liable for damages and subject to regulatory actions and penalties. We could also be perceived to have facilitated or participated in the illegal misappropriation of funds, documents or data, and therefore be subject to civil or criminal liability. In addition, we have engaged certain third-party service providers for loan collection services. Aggressive practices or misconduct by any of our third-party service providers in the course of collecting loans could damage our reputation.

Any of these occurrences could result in our diminished ability to operate our business, potential liability to users inability to attract users reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations.

***If we are unable to protect the confidential information of our users and adapt to the relevant regulatory framework regarding protection of such information, our business and operations may be adversely affected.***

We have access to, store and process certain personal information and other sensitive data from our users and our business partners, which makes us an attractive target and potentially vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. We have taken steps to protect confidential information that we have access to, and while we have been targeted previously from cybersecurity attacks, none of which were successful or had a material adverse impact to our operations historically. However, because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any accidental or willful security breaches or other unauthorized access to our system could cause confidential user information to be stolen and be used for criminal purposes.

We also face indirect technology, cybersecurity and operational risk relating to the third parties upon whom we rely to facilitate or enable our business activities, including, among others, third-party online payment service providers who manage accounts for funds. Any cyber-attack, computer viruses, physical or electronic break-ins or similar disruptions of such third-party payment service providers could, among other things, adversely affect our ability to serve our users.

Security breaches or unauthorized access to confidential information could expose us to liability related to the loss of information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our relationships with users could be severely damaged, we could incur significant liability and our business and operations could be adversely affected.

In addition, PRC government authorities have enacted a series of laws and regulations in regard of the protection of personal information, under which internet service providers and other network operators are required to comply with the principles of legality, justification and necessity, to clearly indicate the purposes, methods and scope of any information collection and usage, and to obtain the consent of users, as well as to establish a user information protection system with appropriate remedial measures. We have obtained consent from our users to use their personal information within the scope of authorization and we have taken technical measures to ensure the security of such personal information and to prevent any loss or divergence of personal information from. However, there is uncertainty as to the interpretation and application of such laws. If such laws or regulations are to be interpreted and applied in a manner inconsistent with our current policies and practices, changes to the features of our system may be required and additional costs incurred. We cannot assure you that our existing user information protection system and technical measures will be considered sufficient under applicable laws and regulations. If we are unable to address any information protection concerns, or to comply with the then applicable laws and regulations, we may incur additional costs and liability and our reputation, business and operations might be adversely affected. See “Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations on Internet Information Security” for details.

On June 1, 2017, the PRC Cybersecurity Law became effective. The law requires network products and services providers as we are, among other things, to strictly preserve the secrecy of user information they collect and to store within mainland China data that is gathered or produced by such network products and services provider in the country. If we are deemed to have violated the law, potential penalties include, depending on the nature of violation, regulatory warning, correction order, forced shut down of our websites, suspension of operation revocation of business licenses, confiscation of illegal gains, and fines imposed on the company ranging from approximately RMB10,000 to RMB1 million or management personnel ranging from approximately RMB5,000 to RMB1 million.

Due to the relatively new nature of the PRC Cybersecurity Law and the lack of clarification in the statutory law itself as to the circumstances and standard under which the law should apply and violations be found, there are great uncertainties as to the interpretation and application of the law. The law's vagueness in its own statutory language also indicates that the CAC, the designated government enforcement agency, will have broad latitude to direct how the law is interpreted and enforced, thus creating greater uncertainties with regard to the interpretation and application of the law since the government enforcement agency has yet to provide further guidance on the enforcement mechanism of the law. If we are found to have violated the PRC Cybersecurity Law in a government enforcement action, we may face severe penalties that may result in monetary losses, losses of access to assets essential for daily operation of our business or for the continuance of service provision, and temporary or total disruption of our business for an extended period of time. In addition, the finding of a violation of the PRC Cybersecurity Law, even if later repealed, may cause damages to our reputation and our brand name, causing users to lose confidence in our service and to refrain from choosing or continuing to use our products and services. All of these consequences may have a material adverse impact on our business, financial condition and results of operations.

Furthermore, the stringent reporting obligation imposed by the PRC Cybersecurity Law itself, without a finding of violation, may have a material adverse impact on our business and results of operations. As we are obligated by the law to inform our users of any security flaw or vulnerability as they are discovered, users may become wary of the existence or frequency of such reports and lose confidence in the security of our system, thus discouraged from choosing or continuing to use our products and services, even though the security flaws or vulnerabilities are readily fixed and overcome.

***If we fail to implement and maintain an effective system of internal controls over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud.***

Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting. However, in connection with the audits of our consolidated financial statements for the year ended December 31, 2016 and 2017 and as of December 31, 2016 and 2017, we and our predecessor independent registered public accounting firm identified two "material weaknesses" in our internal control over financial reporting and other control deficiencies. As defined in standards established by the PCAOB, a "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses identified related to (1) our lack of sufficient skilled staff with U.S. GAAP knowledge and SEC reporting knowledge for the purpose of financial reporting as well as the lack in formal accounting policies and procedures manual to ensure proper financial reporting in accordance with U.S. GAAP and SEC reporting requirements; and (2) our internal audit function is still in the process of establishing formal risk assessment process and internal control framework. In connection with the audits of our consolidated financial statements for the year ended December 31, 2019 and as of December 31, 2019, we and our successor independent registered public accounting firm identified two additional material weaknesses in our internal control over financing reporting. The two additional material weaknesses identified by us and our auditor related to: (1) the Company did not maintain effective controls over the accounting treatments of new business arrangements, including new Consolidated Trusts related arrangements; and (2) there was not adequate management oversight of accounting activities in relating to certain tax practices to conform to the U.S. GAAP. In connection with the audits of our consolidated financial statements for the year ended December 31, 2020 and as of December 31, 2020, we and our successor independent registered public accounting firm determined that three material weaknesses remain as of December 31, 2020, which related to (1) our lack of sufficient skilled staff with U.S. GAAP knowledge and SEC reporting knowledge for the purpose of financial reporting as well as the lack in formal accounting policies and procedures manual to ensure proper financial reporting in accordance with U.S. GAAP and SEC reporting requirements; (2) our internal audit function is still in the process of establishing formal risk assessment process and internal control framework; and (3) there was not adequate management oversight of accounting activities in relating to certain tax practices to conform to the U.S. GAAP.

We are in the process of implementing a plan to address the material weaknesses, including: hiring skilled financial and accounting staff with U.S. GAAP and SEC reporting experience; providing relevant training to our accounting personnel and establishing internal audit function and audit committee with members who have an appropriate level of financial expertise to oversee our accounting and financial reporting process as well as our internal audit function. We have engaged an independent internal control advisor to assist us to establish the formal risk assessment process and internal control framework, and review the appropriateness and sufficiency of the process to identify and address risk of material misstatement related to U.S. GAAP reporting. We have set up a position, namely financial business partner, who is required to monitor the whole process of the conduct of business and has adequate experiences and qualifications to timely make professional judgements of the accounting treatment of new business arrangements. We have also formalized an accounting manual for the accounting treatment of Consolidation Trusts and required a timely review process from qualified reviewers. We have hired an experienced and qualified tax manager and provided tax related training to our accounting personnel. We have also taken other steps to strengthen our internal control over financial reporting, including formalizing a set of comprehensive U.S. GAAP accounting manual, formalizing risk assessment process and internal control framework. We will continue to implement measures to remediate our internal control deficiencies to comply with Section 404 of the Sarbanes Oxley Act. We expect that we will incur significant costs in the implementation of such measures. However, we cannot assure you that all these measures will be sufficient to remediate our material weakness in time, or at all.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the NYSE. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. Commencing with our fiscal year ending December 31, 2020, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting in our Form 20-F filing for that year, as required by Section 404 of the Sarbanes-Oxley Act. As of the date of this annual report, progress has been made to remediate our internal control deficiencies and remediation measures are to be further implemented and executed. The material weaknesses will not be considered remediated until the applicable remedial processes and procedures have been in place for a sufficient period of time and management has concluded, through testing, that these controls are effective. Our management has concluded that our internal control over financial reporting was ineffective as of December 31, 2020, due to the material weaknesses in internal control over financial reporting identified above. See “Item 15. Controls and Procedures.”

In addition, once we cease to be an “emerging growth company” as the term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. This will require that we incur substantial additional professional fees and internal costs to expand our accounting and finance functions and that we expend significant management efforts. Prior to our initial public offering, we were a private company with limited accounting personnel and other resources with which to address our internal controls and procedures, and we were never required to test our internal controls within a specified period, and, as a result, we may experience difficulty in meeting these reporting requirements in a timely manner.

In addition, our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we are unable to maintain proper and effective internal controls, we may not be able to produce timely and accurate financial statements. If that were to happen, the market price of our ADSs could decline and we could be subject to sanctions or investigations by the NYSE, SEC or other regulatory authorities.

***We may not be able to prevent unauthorized use of our intellectual property, which could harm our business and competitive position.***

We regard our trademarks, domain names, copyrights, know-how, proprietary technologies and similar intellectual properties as critical to our success, and we rely on trademark and trade secret law, confidentiality agreement, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. See “Item 4. Information on the Company—4.B. Business Overview—Intellectual Property” and “Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Related to Intellectual Property.” However, we cannot assure you that any of our intellectual property rights would not be challenged, invalidated, circumvented or misappropriated, or that such intellectual property will be sufficient to provide us with competitive advantages. Because of the rapid pace of technological development, we cannot assure you that all of our proprietary technologies and similar intellectual property will be patented in a timely or cost-effective manner, or at all. Furthermore, parts of our business rely on technologies developed or licensed by other parties, or co-developed with other parties, and we may not be able to obtain or continue to obtain licenses and technologies from these other parties on reasonable terms, or at all.

It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality agreement, invention assignment and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Preventing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial litigation costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. To the extent that our employees or consultants use intellectual property owned by others in their work for us, disputes may arise as to the rights in related know-how and inventions. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.***

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights held by other parties. We may unknowingly infringe on other parties' trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights through our products and services or other aspects of our business. As a result, we may be subject to legal proceedings and claims relating to the intellectual property rights of others from time to time in the future. Holders of such intellectual property rights may seek to enforce such intellectual property rights against us in China, the United States or other jurisdictions. If any infringement claims are brought against us, we may be forced to divert management's time and other resources from our business and operations to defend against these claims, regardless of their merits.

Additionally, the interpretation and application of China's intellectual property right laws and the procedures and standards for protecting trademarks, copyrights, knowhow, proprietary technologies or other intellectual property rights in China are uncertain and still evolving, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we were found to have violated the intellectual property rights of others, we may be subject to liability for our infringement or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. As a result, our business and results of operations may be materially and adversely affected.

***We may be subject to risks related to litigation and regulatory proceedings.***

We may be, and in some instances have been, subject to claims, lawsuits (including class actions and individual lawsuits), regulatory and government investigations, and other proceedings relating to intellectual property, consumer protection, privacy, labor and employment, import and export practices, competition, securities, tax, marketing and communications practices, contracts, commercial disputes and various other matters. We may also be subject to claims or lawsuits for infringement or violation of third-party intellectual property rights. The number and significance of our legal disputes and inquiries have increased as we have grown larger, as our business has expanded in scope and geographic reach, and as our services have increased in complexity.

Moreover, having become a public company has raised our public profile, which may result in increased litigation as well as increased public awareness of any such litigation. In addition, we may be target of securities class action and derivative lawsuits. We will need to defend against such lawsuits, including any appeals, and we may also initiate legal proceedings to protect our rights and interests. There is substantial uncertainty regarding the scope and application of many of the laws and regulations to which we are subject, which increases the risk that we will be subject to claims alleging violations of those laws and regulations. There can be no assurance that we will prevail in any such cases, and any adverse outcome of these cases could have a material adverse effect on our reputation, business and results of operations.



In particular, we will need to defend against the putative shareholder class action lawsuit described in “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Litigation,” including any appeals of such action. We are currently unable to ascertain the possible loss or possible range of loss, if any, associated with the resolution of this lawsuit. The litigation process may utilize our cash resources and divert management’s attention from the day-to-day operations of our company, all of which could materially harm our business. An adverse determination in this lawsuit, including an adverse determination on appeal in this lawsuit, may have a material adverse effect on our financial condition and results of operations.

Regardless of the outcome of any particular claim, lawsuit, investigation, dispute or proceeding, any of these types of legal proceedings can have a material and adverse impact on us due to their costs, diversion of our resources, and other factors. We may decide to settle legal disputes on terms that are unfavorable to us. Furthermore, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that we may not choose to appeal or that may not be reversed upon appeal. In addition, the terms of any settlement or judgment in connection with any legal claims, lawsuits, or proceedings may require us to cease some or all of our operations, or pay substantial amounts to the other party and could materially and adversely affect our business, financial condition and results of operations.

***Mr. Yue (Justin) Tang, our founder, Chairman of the board and Chief Executive Officer, is named in a lawsuit filed by ChinaCast Education Corporation in the United States; there is uncertainty as to the outcome of this lawsuit and its impact on us.***

Mr. Yue (Justin) Tang, our founder, Chairman of the board and Chief Executive Officer, has been named one of the defendants in a lawsuit filed by ChinaCast Education Corporation, or ChinaCast, in the Court of Chancery of the State of Delaware in the United States. Mr. Tang was an independent director of ChinaCast’s board from 2007 until January 2012. ChinaCast’s complaint alleges that certain ChinaCast senior management and directors (including Mr. Yue (Justin) Tang), or Defendants, caused injury to ChinaCast during their tenures, and seeks, among other reliefs, damages of not less than US\$200 million.

ChinaCast specifically alleges that Mr. Tang: (i) breached his fiduciary duty because he knew or should have known of certain fraud and theft that the ChinaCast’s former management purportedly carried out, (ii) failed to ensure that ChinaCast had reasonable information and reporting systems to detect the alleged wrongdoing, (iii) engaged in self-interested transactions with the ChinaCast’s management and (iv) failed to oversee and monitor ChinaCast’s operations.

ChinaCast is seeking a court judgment that the Defendants are jointly and severally liable for the damages and in addition, a court order compelling Defendants to disgorge all compensation and financial benefits they received from ChinaCast.

This lawsuit is currently in the discovery process. Mr. Tang believes that ChinaCast’s allegations are without merit and intends to contest them vigorously. However, it is inherently difficult to predict the length, process and outcome of court proceedings, regardless of its merits, this lawsuit can be time-consuming and can divert Mr. Tang’s attention away from our business. Should ChinaCast prevail in the lawsuit against Mr. Tang, Mr. Tang’s reputation may be harmed and his assets, including his equity interest in us, may be subject to the enforcement actions brought by ChinaCast, which could also have a material and adverse impact on our reputation and operation.

***Any failure by us, institutional funding partners payment service providers or funds custody banks to comply with applicable anti-money laundering and anti-terrorist financing laws and regulations could damage our reputation, expose us to significant penalties, and decrease our revenues and profitability.***

We have adopted and implemented various policies and procedures including internal controls and “know-your-customer” procedures, for preventing money laundering and terrorist financing. In addition, we rely on our institutional funding partners, payment service providers and funds custody bank, in particular the funds custody bank that handles the transfer of funds from lenders to borrowers, to have their own appropriate anti-money laundering policies and procedures. Our institutional funding partners may be subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations and are regulated in that respect by the PBOC. We have adopted commercially reasonable procedures for monitoring our institutional funding partners and payment processors.

We have not been subject to fines or other penalties, or suffered business or other reputational harm, as a result of actual or alleged money laundering or terrorist financing activities in the past. However, our policies and procedures may not be completely effective in preventing other parties from using us, any of our institutional funding partners, or payment service providers as a conduit for money laundering (including illegal cash operations) or terrorist financing without our knowledge. If we were to be associated with money laundering (including illegal cash operations) or terrorist financing activities, our reputation could suffer and we could become subject to regulatory fines, sanctions, or legal enforcement, including being added to any “blacklists” that would prohibit certain parties from engaging in transactions with us, all of which could have a material adverse effect on our financial condition and results of operations. Even if we, our institutional funding partners and payment service providers comply with the applicable anti-money laundering laws and regulations, we, our institutional funding partners and payment service providers may not be able to fully eliminate money laundering and other illegal or improper activities in light of the complexity and the secrecy of these activities. Any negative perception of the industry, such as that which might arise from any failure of other online consumer finance platforms to detect or prevent money laundering activities, even if factually incorrect or based on isolated incidents, could tarnish our image, undermine the trust and credibility we have established, and negatively impact our financial condition and results of operations.

The Guidelines purport to require, among other things, Internet finance service providers to comply with certain anti-money laundering requirements, including the establishment of a user identification program, the monitoring and reporting of suspicious transactions, the preservation of user information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. The PBOC will formulate implementing rules to further specify the anti-money laundering obligations of Internet finance service providers. The Interim Measures require online lending intermediaries to comply with certain anti-money laundering obligations, including verifying user identity, reporting suspicious transactions and keeping identity data and transaction records. The Custodian Guidelines require the anti-money laundering obligation to be included in the fund custodian agreements between an online lending intermediary and custody banks, and the online lending intermediary shall cooperate with funds custody banks to fulfill anti-money laundering obligations. On October 10, 2018, the PBOC, the China Banking and Insurance Regulatory Commission and CSRC together promulgated the Measures for the Anti-money Laundering and Anti-terrorist Finance of Internet Finance, which further specified that, any Internet finance institutions (including online lending intermediary) incorporated upon approval or upon record-filing by applicable regulatory authority, shall report any forms of cash receipts and payments whose transaction value reaches or exceeds RMB 50,000 or foreign currency equivalent of US\$10,000 on a per-transaction or cumulative basis on a given day, within five working days from the date when such transaction takes place. We cannot assure you that the anti-money laundering policies and procedures we have adopted will be deemed to be in compliance with applicable anti-money laundering implementation rules if and when adopted.

***From time to time we may evaluate and potentially consummate strategic investments, acquisitions or international expansion, which could require significant management attention, disrupt our business and adversely affect our financial results.***

We may evaluate and consider strategic investments, combinations, acquisitions or alliances with other businesses or international expansion to further better serve borrowers and enhance our competitive position. These transactions could have a material impact on our financial condition and results of operations if consummated. Even if we are able to identify an appropriate business opportunity, we may not be able to successfully consummate the transaction and, even if we do consummate such a transaction, we may be unable to obtain the benefits or avoid the difficulties and risks of such transaction, which may result in investment losses. In addition, we made certain investments through nominee arrangements where we have appointed nominees as registered shareholders of certain investee companies, as we currently do not qualify under certain regulatory financial requirements to be registered as a shareholder of such investee companies. While we believe such investments and the nominee arrangements reflect the true intentions of us and the respective business partners, and are therefore legal and valid under PRC Civil Code, we cannot assure you that the PRC courts or other regulators would hold the same view as ours, and such investments may not have the same effect as direct shareholding ownership in the investee companies where our nominee shareholders may fail to perform their respective obligations under the nominee arrangements, such as, among others, to vote on the shareholders’ meetings per our instructions, or to transfer all dividends obtained from such companies to us on a timely manner.

Strategic investments, acquisitions or international expansion will involve risks commonly encountered in business relationships, including:

- difficulties in assimilating and integrating the operations, personnel, systems, data, technologies, products and services of the acquired business;
- inability of the acquired technologies, products or businesses to achieve expected levels of revenue, profitability, productivity or other benefits including the failure to successfully further develop the acquired technology;
- difficulties in retaining, training, motivating and integrating key personnel;
- diversion of management's time and resources from our normal daily operations and potential disruptions to our ongoing businesses;
- difficulties in maintaining uniform standards, controls, procedures and policies within the combined organizations;
- difficulties in retaining relationships with our platform users, employees and other partners of the acquired business;
- risks of entering markets in which we have limited or no prior experience;
- regulatory risks, including remaining in good standing with existing regulatory bodies or receiving any necessary pre-closing or post-closing approvals, as well as being subject to new regulators with oversight over the acquired business;
- assumption of contractual obligations that contain terms that are not beneficial to us, require us to license or waive intellectual property rights or increase our risk for liability;
- liability for activities of the acquired business before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities; and
- unexpected costs and unknown risks and liabilities associated with strategic investments or acquisitions.

We may not make any investments, acquisitions or international expansion, or, alternatively, any future investments, acquisitions or international expansion may not be successful, may not benefit our business strategy, may not generate sufficient revenues to offset the associated acquisition costs or may not otherwise result in the intended benefits.

***Our business depends on the continued efforts of our senior management and key technology development personnel. If one or more of our key executives or key technology development personnel were unable or unwilling to continue in their present positions, our business may be severely disrupted.***

Our business operations depend on the continued services of our senior management and key technology development personnel. In particular, Mr. Yue (Justin) Tang, our founder, Chairman and Chief Executive Officer, Mr. Shaoyong (Simon) Cheng, our president, Mr. Ding (Gardon) Gao, our co-founder and Chief Technology Officer, Mr. Frank Fuya Zheng, our Chief Financial Officer and Mr. Kan (Kent) Li, our Chief Risk Officer, are critical to the management of our business and operations and the development of our strategic direction. While we have provided different incentives to our management and key technology development personnel, we cannot assure you that we can continue to retain their services. If one or more of our key executives or key technology development personnel were unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, our future growth may be constrained, our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain qualified personnel. In addition, we have entered into confidentiality and non-competition agreements with our management, there is no assurance that any member of our management team and technology development team will not join our competitors or form a competing business. If any dispute arises between our current or former officers or key technology development personnel and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may be unable to enforce them at all.

***Competition for employees is intense, and we may not be able to attract and retain the qualified and skilled employees needed to support our business.***

We believe our success depends on the efforts and talent of our employees, primarily including technology development, financial products, risk management, general management and sales and marketing. Our future success depends on our continued ability to attract, develop, motivate and retain qualified and skilled employees. It is competitive to attract and retain skilled talent with expertise in technology, risk management, and general management. We may not be able to hire and retain these personnel at compensation levels consistent with our existing compensation and salary structure. Some of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment.

In addition, we invest significant time and resources in the training of our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training their replacements, and the quality of our services and our ability to serve users could diminish, resulting in a material adverse effect to our business.

***If we grant employees stock options or other equity incentives in the future, our net income could be adversely affected.***

We granted incentives and rewards to employees and executives under our share incentive plan. We are required to account for share-based compensation in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation, which generally requires a company to recognize, as an expense, the fair value of stock options and other equity incentives to employees based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. As of December 31, 2020, holders of our outstanding options and other equity incentives were entitled to purchase a total of 59,733,897 ordinary shares. As a result, we incurred share-based compensation expense of RMB80,140,138 (US\$12,282,013) in during the year ended December 31, 2020. If we grant more options or other equity incentives in the future, we could incur significant compensation charges and our results of operations could be adversely affected.

***Increase in labor costs in the PRC may adversely affect our business and results of operations.***

In recent years, the Chinese economy has experienced inflationary and labor costs increases. Average wages are projected to continue to increase. Further, under PRC law we are required to pay various statutory employee benefits, including pension, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments to the statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. We expect that our labor costs, including wages and employee benefits, will continue to increase. If we are unable to control our labor costs or pass such increased labor costs on to our users by increasing the fees of our services, our financial condition and results of operations may be adversely affected.

***We do not have any business insurance coverage for our operations.***

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies in more developed economies. Currently, we do not have any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured business disruptions may result in substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.

***We are subject to the risk of a severe or prolonged downturn in the Chinese or global economy and deterioration of credit profiles of borrowers, which may materially and adversely affect our business and financial condition.***

The global macroeconomic environment is facing challenges, including the economic slowdown in the Eurozone since 2014, potential impact of the United Kingdom's exit from the European Union on January 31, 2020, and the adverse impact on the global economies and financial markets as the COVID-19 outbreak evolved into a worldwide health crisis in 2020. The growth of the PRC economy has slowed down since 2012 compared to the previous decade and the trend may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa and over the conflicts involving Ukraine, Syria and North Korea. There have also been concerns on the relationship among China and other Asian countries and the trade disputes between the United States and China. The ongoing trade tensions between the United States and China may have tremendous negative impact on the economies of not merely the two countries concerned, but the global economy as a whole. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term. If economic conditions deteriorate, we may face increased risk of default or delinquency of borrowers, which will result in lower returns or losses. In the event that the creditworthiness of our borrowers deteriorates or we cannot track the deterioration of their creditworthiness, the criteria we use for the analysis of borrower credit profiles may be rendered inaccurate, and our risk management system may be subsequently rendered ineffective. This in turn may lead to higher default rates and adverse impacts on our reputation, business, results of operations and financial positions.

Economic conditions in China are sensitive to global economic conditions, changes in domestic economic and political policies, and the expected or perceived overall economic growth rate in China. While the economy in China has grown significantly over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing in recent years. Although growth of China's economy remained relatively stable, there is a possibility that China's economic growth may materially decline in the near future. Any severe or prolonged slowdown in the global or PRC economy may materially and adversely affect our business, results of operations and financial condition.

***The offering of our products and services depends on effective use of mobile operating systems and distribution through mobile application stores, which we do not control.***

Our loan products Xiaoying Credit Loan, Xiaoying Revolving Loan and loan facilitation services to other platforms are offered through mobile applications. We may need to devote significant resources to support and maintain of such applications. The mobile applications are dependent on the interoperability of popular mobile operating systems that we do not control, such as Android and iOS. Any changes in such systems that degrade the accessibility of our mobile applications or give preferential treatment to competing products and services could adversely affect the usability of our mobile applications. In addition, we rely upon third-party mobile application stores for users to download our mobile applications. As such, the distribution, operation and maintenance of our mobile applications are subject to application stores' standard terms and policies for application developers.

Our future growth and results of operations could suffer if we experience difficulties in the future in offering our products and services through our mobile applications, or if we face increased costs to distribute our mobile applications. If it becomes increasingly difficult for our users to access and utilize our products and services on their mobile devices, or if the prevailing mobile operating systems do not support our mobile applications, our business and financial condition and operating results may be adversely affected.

***Our operations depend on the performance of the Internet infrastructure and fixed telecommunications networks in China.***

Almost all access to the Internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. We primarily rely on a limited number of telecommunication service providers to provide it with data communications capacity through local telecommunications lines and Internet data centers to host its servers. We may have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's Internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with increasing traffic. We cannot assure you that our cloud computing service provider and the underlying Internet infrastructure and the fixed telecommunications networks in China will be able to support the demand associated with the continued growth in Internet usage. In addition, we have no control over the costs of the services provided by telecommunication service providers which in turn, may affect our costs of using customized cloud computing services. If the prices we pay for customized cloud computing services rise significantly, our results of operations may be adversely affected. Furthermore, if Internet access fees or other charges to Internet users increase, our user traffic may decline and our business may be harmed.

## Risks Relating to Our Corporate Structure

***If the PRC government deems that the contractual arrangements in relation to our consolidated VIEs do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.***

The PRC government regulates telecommunications-related businesses through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership of PRC companies that engage in telecommunications-related businesses. Specifically, foreign investors are not allowed to own more than 50% equity interest in any PRC company engaging in value-added telecommunications businesses (except for e-commerce, domestic multi-party communication, store-and-forward and call center services). The primary foreign investor must also have operating experience and a good track record in providing value-added telecommunications services, or VATS, overseas.

Because we are an exempted company incorporated with limited liability in the Cayman Islands, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly-owned PRC subsidiary, Xiaoying (Beijing) Information Technology Co., Ltd. (小赢(北京)信息技术有限公司), or Beijing WFOE, is a foreign-invested enterprise, or an FIE. To comply with PRC laws and regulations, we conduct our business in China through our consolidated VIEs and their affiliates. Beijing WFOE has entered into a series of contractual arrangements with our consolidated VIEs and their shareholders. For a description of these contractual arrangements, see “Item 4. Information on the Company—4.C. Organizational Structure—Contractual Arrangements with Consolidated VIEs and their Shareholders.”

We believe that our corporate structure and contractual arrangements comply with the current applicable PRC laws and regulations. Our PRC legal counsel is of the opinion that our current ownership structure of the VIEs, the contractual arrangements among our PRC subsidiaries, our consolidated VIEs and its subsidiaries are not in violation of existing PRC laws, rules and regulations; and these contractual arrangements are valid, binding and enforceable in accordance with their terms and applicable PRC laws and regulations currently in effect, except that the pledge of equity in Shenzhen Tangren, which holds a financial guarantee license, and the pledge of equity in Shenzhen Beier would not be deemed validly created until they are registered with the competent administration for market regulation, and we may not be able to register the pledge of equity in Shenzhen Tangren and the pledge of equity in Shenzhen Beier, in which case we must rely on the equity pledge agreement to enforce the pledge. However, as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, and the Telecommunications Regulations and the relevant regulatory measures concerning the telecommunications industry, there can be no assurance that the PRC government authorities, such as the Ministry of Commerce, or the MOFCOM, the MIIT, or other authorities that regulate online consumer finance platforms and other participants in the telecommunications industry, would ultimately take a view that is consistent with the opinion of our PRC legal counsel or agree that our corporate structure or any of the above contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations.

If our corporate structure and contractual arrangements are deemed by the MIIT or the MOFCOM or other regulators having competent authority to be illegal, either in whole or in part, we may lose control of our consolidated VIEs and may have to modify such structure to comply with regulatory requirements. However, there can be no assurance that we can achieve this without material disruption to our business. Further, if our corporate structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking our business and operating licenses;
- levying fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- shutting down our services;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- requiring us to change our corporate structure and contractual arrangements;
- restricting or prohibiting our use of the proceeds from overseas offerings to finance our PRC consolidated VIEs' business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—Our business may be significantly affected by the newly enacted PRC Foreign Investment Law, and its enactment may materially and adversely affect our business and financial condition." Occurrence of any of these events could materially and adversely affect our business and financial condition and results of operations. In addition, if the imposition of any of these penalties or requirements to restructure our corporate structure causes us to lose the right to direct the activities of our consolidated VIEs or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of such VIEs in our consolidated financial statements. If our corporate structure and contractual arrangements are deemed to be illegal by relevant regulators, our business and results of operations would be materially and adversely affected and the price of our ADSs may decline. However, we do not believe that such actions would result in the liquidation or dissolution of our company, our wholly-owned subsidiaries in China or our consolidated VIEs or their subsidiaries. See "Item 4. Information on the Company—4.C. Organizational Structure—Contractual Arrangements with Consolidated VIEs and their Shareholders."

***We rely on contractual arrangements with our consolidated VIEs and their shareholders to operate our business, which may not be as effective as direct ownership in providing operational control and may have potential conflicts of interests with us, which may have a material adverse effect on our business and financial condition.***

We rely on contractual arrangements with our consolidated VIEs and their shareholders to operate our business. For a description of these contractual arrangements, see "Item 4. Information on the Company—4.C. Organizational Structure—Contractual Arrangements with Consolidated VIEs and Their Shareholders." A significant portion of our revenue is attributed to our consolidated VIEs. These contractual arrangements may not be as effective as direct ownership in providing us with control over our consolidated VIEs. If our consolidated VIEs or their shareholders fail to perform their respective obligations under these contractual arrangements, our recourse to the assets held by our consolidated VIEs is indirect and we may have to incur substantial costs and expend significant resources to enforce such arrangements in reliance on legal remedies under PRC law. These remedies may not always be effective, particularly in light of uncertainties in the PRC legal system. Furthermore, in connection with litigation, arbitration or other judicial or dispute resolution proceedings, assets under the name of any of the record holders of equity interest in our consolidated VIEs, including such equity interest, may be put under court custody. As a consequence, we cannot be certain that the equity interest will be disposed pursuant to the contractual arrangement or ownership by the record holder of the equity interest.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing these contractual arrangements, it would be very difficult to exert effective control over our consolidated VIEs, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.”

In connection with our operations in China, we rely on the shareholders of our consolidated VIEs to fulfill by the obligations under such contractual arrangements. The interests of these shareholders in their individual capacities as shareholders of our consolidated VIEs may differ from the interests of our company as a whole, as what is in the best interests of our consolidated VIEs, including matters such as whether to distribute dividends or to make other distributions to fund our offshore requirement, may not be in the best interests of our company. There can be no assurance that when conflicts of interest arise, any or all of these individuals or entities will act in the best interests of our company or that those conflicts of interest will be resolved in our favor. In addition, these individuals and entities may breach or cause our consolidated VIEs and their subsidiaries to breach or refuse to renew the existing contractual arrangements with us.

Currently, we do not have arrangements that address potential conflicts of interest shareholders of our consolidated VIEs may encounter due to their dual roles as shareholders of consolidated VIEs and as beneficial owners of our company. However, we could, at all times, exercise our option under the exclusive call option agreement to cause them to transfer all of their equity ownership in our consolidated VIEs to a PRC entity or individual designated by us as permitted by the then applicable PRC laws. In addition, if such conflicts of interest arise, we could also, in the capacity of attorney-in-fact of the then existing shareholders of our consolidated VIEs as provided under the powers of attorney, directly appoint new directors of our consolidated VIEs. We rely on the shareholders of our consolidated VIEs to comply with PRC laws and regulations, which protect contracts, and to provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and with the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our consolidated VIEs, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

***Our corporate actions will be substantially controlled by Mr. Yue (Justin) Tang, who will have the ability to control or exert significant influence over important corporate matters that require approval of shareholders, which may deprive you of an opportunity to receive a premium for your ADSs and materially reduce the value of your investment.***

Mr. Yue (Justin) Tang, our Chief Executive Officer, beneficially owns all of the Class B ordinary shares issued and outstanding, representing 31.58% of our total issued and outstanding share capital and 89.69% of our aggregate voting power as of March 31, 2021. As a result, he will have the ability to control or exert significant influence over important corporate matters and investors may be prevented from influencing important corporate matters involving our company that require approval of shareholders, including:

- the composition of our board of directors and, through the voting of the board of directors, any determinations with respect to our operations, business direction and policies, including the appointment and removal of officers;
- any determinations with respect to mergers or other business combinations;
- our disposition of all or substantially all of our assets; and
- any change in control.



These actions may be taken even if they are opposed by our other shareholders, including the holders of the ADSs. Furthermore, this concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of the ADSs. As a result of the foregoing, the value of your investment could be materially reduced.

***If the custodians or authorized users of our controlling nontangible assets, including chops and seals, fail to fulfill their responsibilities, misappropriate or misuse these assets, our business and operations may be materially and adversely affected.***

Under PRC law, legal documents for corporate transactions, including agreements and contracts such as the leases and sales contracts that our business relies on, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant local branch of the SAIC. We generally execute legal documents by affixing chops or seals, rather than having the designated legal representatives sign the documents.

We have three major types of chops—corporate chops, contract chops and finance chops. We use corporate chops generally for documents to be submitted to government agencies, such as applications for changing business scope, directors or company name, and for legal letters. We use contract chops for executing leases and commercial contracts. We use finance chops generally for making and collecting payments, including issuing invoices. Use of corporate chops and contract chops must be approved by our legal department and administrative department, and use of finance chops must be approved by our finance department. The chops of our subsidiaries and consolidated VIEs are generally held by the relevant entities so that documents can be executed locally. Although we usually utilize chops to execute contracts, the registered legal representatives of our subsidiaries and consolidated VIEs have the apparent authority to enter into contracts on behalf of such entities without chops, unless such contracts set forth otherwise.

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to the designated key employees of our legal, administrative or finance departments. Our designated legal representatives generally do not have access to the chops. Although we have approval procedures in place and mechanisms to monitor our key employees, including the designated legal representatives of our subsidiaries and consolidated VIEs, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our key employees or designated legal representatives could abuse their authority, for example, by binding our subsidiaries and consolidated VIEs with contracts against our interests, as we would be obligated to honor these contracts if the other contracting party acts in good faith in reliance on the apparent authority of our chops or signatures of our legal representatives. If any designated legal representative obtains misappropriates the chop in an effort to obtain control over the relevant entity, we would need to have a shareholder or board resolution to designate a new legal representative and to take legal actions to seek the return of the chop, apply for a new chop with the relevant authorities, or otherwise seek legal remedies for the legal representative's misconduct. If any of the designated legal representatives obtains, misuses or misappropriates our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources expenses while distracting management from our operations, and our business and operations may be materially and adversely affected.

***Our business may be significantly affected by the newly enacted PRC Foreign Investment Law, and its enactment may materially and adversely affect our business and financial condition.***

On March 15, 2019, the National People's Congress promulgated the PRC Foreign Investment Law, which took effect on January 1, 2020 and replaced the existing laws regulating foreign investment in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. Meanwhile, the Regulations for the Implementation of the Foreign Investment Law, or the FIL Implementations, came into effect on January 1, 2020, which clarified and elaborated the relevant provisions of the Foreign Investment Law.

Since the Foreign Investment Law and the FIL Implementations are newly enacted, there is still uncertainties in relation to its interpretation and implementation. The PRC Foreign Investment Law have revised the definition of "foreign investment" and removed all references to the definitions of "actual control" or "variable interest entity structure" under the 2015 Draft Foreign Investment Law. Instead, the PRC Foreign Investment Law stipulates that foreign investment includes "*foreign investors invest in China through other methods under laws, administrative regulations, or provisions prescribed by the State Council*". Therefore, there are still possibilities that future laws, administrative regulations or provisions of the State Council may deem contractual arrangements as a way of foreign investment. There can be no assurance that our contractual arrangements will not be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Once an entity falls within the definition of foreign investment entity, it may be subject to foreign investment "restrictions" or "prohibitions" set forth in a "negative list" to be separately issued by the State Council later. If a foreign investment entity proposes to conduct business in an industry subject to foreign investment "restrictions" in the "negative list," it must go through a pre-approval process.

If any of the businesses that we operate were in the “restricted” category on the to-be-issued “negative list,” and the enacted version of the PRC Foreign Investment Law and the final “negative list” mandate further actions to be taken by us, such as a pre-approval process, there is no assurance that we can obtain such pre-approval on a timely basis, or at all. Such determination would materially and adversely affect the value of our ADSs, and such further actions required to be taken by us under the newly enacted PRC Foreign Investment Law may materially and adversely affect our business and financial condition. Furthermore, if future laws, administrative regulations or provisions mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all.

In addition, the PRC Foreign Investment Law provide a five-year period for the existing foreign invested enterprises established according to the existing laws regulating foreign investment to maintain their structure and corporate governance after the implementation of the PRC Foreign Investment Law. Thus we may be required to adjust the structure and corporate governance of certain of our PRC entities after the expiration of such period. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

***Contractual arrangements in relation to our variable interest entities, may be subject to scrutiny by the PRC tax authorities and they may determine that we, or our variable interest entities and their subsidiaries, owe additional taxes, which could negatively affect our financial condition and the value of your investment.***

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The PRC enterprise income tax law and regulations require enterprises that conduct related party transactions to prepare transfer pricing documentations to demonstrate the basis of determining the price, the computation methodology and detailed explanations. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm’s length principles after they conducted tax inspection. We may face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our PRC subsidiaries, our variable interest entities and their shareholders were not entered into on an arm’s length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, regulations and rules, and adjust income of our variable interest entities in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by our variable interest entities for PRC tax purposes, which could in turn increase their tax liabilities without reducing the tax expenses of our PRC subsidiaries. Please see Note 12 “Income taxes” to our audited consolidated financial statements. In addition, if a PRC subsidiary requests the shareholders of our variable interest entities to transfer their equity interests at nominal or no value pursuant to these contractual arrangements, such transfer could be viewed as a gift and subject the PRC subsidiary to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on our variable interest entities for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially adversely affected if our variable interest entities’ tax liabilities increase or if they are required to pay late payment fees and other penalties.

Our two subsidiaries and two VIEs received Notices on Tax Inspection and Notices of Obtaining Account Books and Information (together with the Notice on Tax Inspection, “the Inspection Notices”) issued by the First Inspection Bureau of the Shenzhen Municipal Taxation Bureau (“the First Inspection Bureau”) in 2020. However, the Inspection Notices do not provide reasons for the inspection, so that we are not sure why we are subject to the tax inspection. As of the date of this annual report, the First Inspection Bureau has not yet generated a final result to the tax inspection, we cannot ensure whether the result of the tax inspection will be detrimental to us.

## Risks Relating to Doing Business in China

***Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.***

Substantially all of our operations are conducted in the PRC and all of our revenue is sourced from the PRC. Accordingly, our financial condition and results of operations are affected to a significant extent by economic, political and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past three decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and to guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. Our financial condition and results of operations could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the PRC government has implemented in the past certain measures to control the pace of economic growth. These measures may cause decreased economic activity, which in turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our businesses, financial condition and results of operations.

***There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.***

Substantially all of our operations are conducted in the PRC, and are governed by PRC laws, rules and regulations. Our PRC subsidiary and consolidated VIEs are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws, rules and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China. However, China has not developed a fully integrated legal system, and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activities in China or may be subject to significant degrees of interpretation by PRC regulatory agencies. In particular, because these laws, rules and regulations, especially those relating to the Internet consumer finance industry, are relatively new, and because of the limited number of published decisions and the nonbinding nature of such decisions, and because the laws, rules and regulations often give the relevant regulator significant discretion in how to enforce them, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative authorities and courts have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, financial condition and results of operations.

***You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management named in the annual report based on foreign laws.***

We are a company incorporated under the laws of the Cayman Islands, we conduct substantially all of our operations in China, and substantially all of our assets are located in China. In addition, all our senior executive officers reside within China for a significant portion of the time and most are PRC nationals. As a result, it may be difficult for our shareholders to effect service of process upon us or those persons inside China. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Shareholder claims that are common in the United States, including securities law class actions and fraud claims, generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to obtaining information needed for shareholder investigations or litigation outside China or otherwise with respect to foreign entities. Although the local authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such regulatory cooperation with the securities regulatory authorities in the United States have not been efficient in the absence of mutual and practical cooperation mechanism. No organization or individual may provide the documents and materials relating to securities business activities to overseas parties arbitrarily without the consent of the competent securities regulatory authority in China according to the PRC Securities Law. See also “You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law” for risks associated with investing in us as a Cayman Islands company.

According to Article 177 of the PRC Securities Law which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to overseas parties.

***PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiary to liability or penalties, limit our ability to inject capital into our PRC subsidiary or limit our PRC subsidiary's ability to increase their registered capital or distribute profits.***

The SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as “SAFE Circular 75” promulgated by the SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.” SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by the SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

Mr. Yue (Justin) Tang and Mr. Baoguo Zhu completed the SAFE registration pursuant to SAFE Circular 37. We have notified substantial beneficial owners of ordinary shares who we know are PRC residents of their filing obligations. Nevertheless, we may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules, and there is no assurance that the registration under SAFE Circular 37 and any amendment will be completed in a timely manner, or will be completed at all. The failure of our beneficial owners who are PRC residents to register or amend their foreign exchange registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our PRC subsidiary to fines and legal sanctions. Such failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiary and limit our PRC subsidiary's ability to distribute dividends to our company. These risks may have a material adverse effect on our business, financial condition and results of operations.

***PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds of our initial public offering to make loans to our PRC subsidiary and our consolidated VIE, or to make additional capital contributions to our PRC subsidiary.***

In utilizing the proceeds of our initial public offering, we, as an offshore holding company, are permitted under PRC laws and regulations to provide funding to our PRC subsidiary, which are treated as foreign-invested enterprises under PRC laws, through loans or capital contributions. However, loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE and capital contributions to our PRC subsidiary are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System, and registration with other governmental authorities in China.

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or Circular 19, effective on June 1, 2015 and amended on December 30, 2019, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, or Circular 59, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45. According to Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of bank loans that have been transferred to a third party. Although Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign invested enterprise to be used for equity investments within the PRC, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in the PRC in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to grant loans to non-associated enterprises. Violations of SAFE Circular 19 and Circular 16 could result in administrative penalties. Circular 19 and Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from our initial public offering, to our PRC subsidiary, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to any of our consolidated VIEs and their subsidiaries, each a PRC domestic company. Meanwhile, we are not likely to finance the activities of our consolidated VIEs and their subsidiaries by means of capital contributions given the restrictions on foreign investment in the businesses that are currently conducted by our consolidated VIEs and their subsidiaries.

In light of the various requirements imposed by PRC regulations on loans to, and direct investment in, PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiary or any consolidated variable interest entity or future capital contributions by us to our PRC subsidiary. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiary or consolidated VIEs and their subsidiaries when needed. If we fail to complete such registrations or obtain such approvals, our ability to use foreign currency, including the proceeds we received from our initial public offering, and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

***Any failure to comply with PRC regulations regarding employee share incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.***

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies due to their positions as director, senior management or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our directors, executive officers and other employees who are PRC residents and who have been granted options may follow SAFE Circular 37 to apply for the foreign exchange registration before our company becomes an overseas listed company. In February 2012, SAFE promulgated the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, according to which, employees, directors, supervisors and other management members who are PRC residents and non-PRC citizens who reside in China for a continuous period of not less than one year participating in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our directors, executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted options are subject to these regulations. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit the ability to make payment under our share incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprises in China and limit our wholly-foreign owned enterprises' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional share incentive plans for our directors and employees under PRC law.

In addition, the State Administration of Taxation, or the SAT, has issued certain circulars concerning employee share options and restricted shares. Under these circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiary has obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC government authorities.

***We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries to fund offshore cash and financing requirements.***

We are a holding company and rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries, including our wholly-owned PRC subsidiaries and the subsidiaries of the VIE and on remittances from the consolidated VIEs, for our offshore cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, fund intercompany loans, service any debt we may incur outside of China and pay our expenses. When our principal operating subsidiaries or the consolidated VIEs incur additional debt, the instruments governing the debt may restrict their ability to pay dividends or make other distributions or remittances to us. Furthermore, the laws, rules and regulations applicable to our PRC subsidiary and certain other subsidiaries permit payments of dividends only from part of their retained earnings, if any, determined in accordance with applicable PRC accounting standards and regulations.

Under PRC laws, rules and regulations, each of our subsidiaries incorporated in China is required to set aside at least 10% of its net income each year to fund certain statutory reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves, together with the registered capital, are not included in the retained earnings distributable as cash dividends. Furthermore, under PRC law, our wholly-owned PRC subsidiary, which is a wholly foreign-owned enterprise under PRC law, cannot distribute any profits until all of its losses from prior fiscal years have been offset. In accordance with the articles of association of our wholly-owned PRC subsidiary, profit distributions also need to be approved by its executive directors and shareholders before any distribution plan becomes effective. As a result, our subsidiaries incorporated in China are restricted in their ability to transfer a portion of their respective net assets to their shareholders as dividends, loans or advances. In addition, registered share capital and statutory reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each operating subsidiary.

Limitations on the ability of our consolidated VIEs to make remittance to the wholly-foreign owned enterprise and on the ability of our subsidiaries to pay dividends to us could limit our ability to access cash generated by the operations of those entities, including to make investments or acquisitions that could be beneficial to our businesses, pay dividends to our shareholders or otherwise fund and conduct our business.

***We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.***

Under the PRC Enterprise Income Tax Law and its implementing rules, enterprises established under the laws of jurisdictions outside of China with “de facto management bodies” located in China may be considered PRC tax resident enterprises for tax purposes and may be subject to the PRC enterprise income tax at the rate of 25% on their global income. “De facto management body” refers to a managing body that exercises substantive and overall management and control over the production, personnel, accounting books and assets of an enterprise. The State Administration of Taxation issued the Notice Regarding the Determination of Chinese- Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by foreign enterprises or individuals, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises. If we were to be considered a PRC resident enterprise, we would be subject to PRC enterprise income tax at the rate of 25% on our global income. In such case, our profitability and cash flow may be materially reduced as a result of our global income being taxed under the Enterprise Income Tax Law. We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.”

***Dividends paid to our foreign investors and gains on the sale of our ADSs or ordinary shares by our foreign investors may be subject to PRC tax.***

Under the Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends paid to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. In addition, any gain realized on the transfer of shares by such investors is also subject to PRC tax at a rate of 10%, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our ordinary shares or ADSs, and any gain realized from the transfer of our ordinary shares or ADSs, may be treated as income derived from sources within the PRC and may as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends paid to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or ordinary shares by such investors may be subject to PRC tax at a current rate of 20% (which in the case of dividends may be withheld at source). Any PRC tax liability may be reduced under applicable tax treaties or tax arrangements between China and other jurisdictions. If we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether holders of our ADSs or ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends paid to our non-PRC investors, or gains from the transfer of our ADSs or ordinary shares by such investors, are deemed as income derived from sources within the PRC and thus are subject to PRC tax, the value of your investment in our ADSs or ordinary shares may decline significantly.

***We and our existing shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies.***

In October 2017, the State Administration of Taxation issued the Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source, or Bulletin 37, which replaced the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the State Administration of Taxation, on December 10, 2009, and partially replaced and supplemented rules under the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises or Bulletin 7, issued by the State Administration of Taxation, on February 3, 2015 and amended in December 2017. Pursuant to Bulletin 7, an “indirect transfer” of PRC assets, including a transfer of equity interests in an unlisted non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises and any gains from the transfer of such asset by a direct holder, who is a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In the case of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and may consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Pursuant to Bulletin 37, the withholding agent shall declare and pay the withheld tax to the competent tax authority in the place where such withholding agent is located within 7 days from the date of occurrence of the withholding obligation, while the transferor is required to declare and pay such tax to the competent tax authority within the statutory time limit according to Bulletin 7. Late payment of applicable tax will subject the transferor to default interest. Both Bulletin 37 and Bulletin 7 do not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

There is uncertainty as to the application of Bulletin 37 or previous rules under Bulletin 7. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxes if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under Bulletin 37 and Bulletin 7. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist in the filing under Bulletin 37 and Bulletin 7. As a result, we may be required to expend valuable resources to comply with Bulletin 37 and Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

***We are subject to restrictions on currency exchange.***

All of our net income is denominated in Renminbi. The Renminbi is currently convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans, including loans we may secure from our onshore subsidiaries or consolidated VIE. Currently, certain of our PRC subsidiary, may purchase foreign currency for settlement of “current account transactions,” including payment of dividends to us, without the approval of the SAFE by complying with certain procedural requirements. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions. Foreign exchange transactions under the capital account remain subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities. Since a significant amount of our future net income and cash flow will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize cash generated in Renminbi to fund our business activities outside of the PRC or pay dividends in foreign currencies to our shareholders, including holders of our ADSs, and may limit our ability to obtain foreign currency through debt or equity financing for our subsidiaries and consolidated VIEs.



***Fluctuations in exchange rates could result in foreign currency exchange losses and could materially reduce the value of your investment.***

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has started to appreciate slowly against the U.S. dollar, though there have been periods when the U.S. dollar has appreciated against the RMB. On August 11, 2015, the PBOC allowed the Renminbi to depreciate by approximately 2% against the U.S. dollar. Since then and until the end of 2016, the Renminbi has depreciated against the U.S. dollar by approximately 10%. It is difficult to predict how long such depreciation of RMB against the U.S. dollar may last and when and how the relationship between the RMB and the U.S. dollar may change again.

All of our revenue and substantially all of our costs are denominated in Renminbi. We are a holding company and we rely on dividends paid by our operating subsidiaries in China for our cash needs. Any significant revaluation of Renminbi may materially and adversely affect our results of operations and financial position reported in Renminbi when translated into U.S. dollars, and the value of, and any dividends payable on, the ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars we receive from our initial public offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount.

***Proceedings brought by the SEC against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, could result in our inability to file future financial statements in compliance with the requirements of the Exchange Act.***

In December 2012, the SEC instituted administrative proceedings under Rule 102(e)(1)(iii) of the SEC's Rules of Practice against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' audit work papers with respect to certain PRC-based companies under the SEC's investigation.

On January 22, 2014, the administrative law judge, or the ALJ, presiding over the matter rendered an initial decision that each of the firms had violated the SEC's rules of practice by failing to produce audit workpapers to the SEC. The initial decision censured each of the firms and barred them from practicing before the SEC for a period of six months. On February 12, 2014, the Big Four PRC-based accounting firms appealed the ALJ's initial decision to the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the Chinese accounting firms reached a settlement with the SEC whereby the proceedings were stayed. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents would normally be made to the CSRC. The Chinese accounting firms would receive requests matching those under Section 106 of the Sarbanes-Oxley Act of 2002, and would be required to abide by a detailed set of procedures with respect to such requests, which in substance would require them to facilitate production via the CSRC. The CSRC for its part initiated a procedure whereby, under its supervision and subject to its approval, requested classes of documents held by the accounting firms could be sanitized of problematic and sensitive content so as to render them capable of being made available by the CSRC to US regulators.

Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice at the end of four years starting from the settlement date, which was on February 6, 2019. Despite the final ending of the proceedings, the presumption is that all parties will continue to apply the same procedures: i.e. the SEC will continue to make its requests for the production of documents to the CSRC, and the CSRC will normally process those requests applying the sanitisation procedure. We cannot predict whether, in cases where the CSRC does not authorize production of requested documents to the SEC, the SEC will further challenge the four PRC-based accounting firms' compliance with U.S. law. If additional challenges are imposed on the Chinese affiliates of the "big four" accounting firms, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding PRC-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with SEC requirements would substantially reduce or effectively terminate the trading of our ADSs in the United States.

***The audit report included in this annual report was prepared by an auditor who is not inspected by the PCAOB, and as such, you are deprived of the benefits of such inspection. In addition, the adoption of any rules, legislations or other efforts to increase U.S. regulatory access to audit information could cause uncertainty, and we could be delisted if we are unable to meet the PCAOB inspection requirement in time.***

Our auditor, the independent registered public accounting firm that issued the audit reports included elsewhere in this prospectus filed with the U.S. Securities and Exchange Commission, or SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with applicable professional standards. Our auditor is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities.

This lack of PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections, which could cause investors and potential investors in our ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

In addition, as part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, former U.S. President Trump signed into law on December 18, 2020 the Holding Foreign Companies Accountable Act (HFCA Act), which requires the SEC to propose rules within 90 days after its enactment to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges or traded "over the counter" if the auditor of the registrant's financial statements is not subject to PCAOB inspection for three consecutive years after the law becomes effective. On March 24, 2021, the SEC has adopted interim final amendments to implement congressionally mandated submission and disclosure requirements of the HFCA Act. The interim final amendments will apply to registrants that the SEC identifies as having filed an annual report on Forms 10-K, 20-F, 40-F or N-CSR with an audit report issued by a registered public accounting firm that is located in a foreign jurisdiction and that the PCAOB has determined it is unable to inspect or investigate completely because of a position taken by an authority in that jurisdiction. Before any registrant will have to comply with the interim final amendments, however, the SEC must implement a process for identifying such a registrant. Thus, the SEC is currently seeking public comment on this identification process.

Consistent with the HFCA Act, the amendments will require any such identified registrant to submit documentation to the SEC establishing that the registrant is not owned or controlled by a governmental entity in that foreign jurisdiction, and will also require disclosure in a foreign issuer's annual report regarding the audit arrangements of, and governmental influence on, such a registrant. As of the date of this annual report, the SEC is currently seeking public comment on these submission and disclosure requirements. The SEC staff is also currently assessing how best to implement other requirements of the HFCA Act, including the identification process and the trading prohibition requirements.

Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of the ADSs could be adversely affected, and we could be delisted if we are unable to cure the situation to meet the PCAOB inspection requirement in time. It is unclear if and when any of such proposed legislations will be enacted. See “—We could be delisted if our auditor unable to meet the PCAOB inspection requirements in time. The delisting of our ADSs and inability to trade, or the threat thereof, may materially and adversely affect the value of your investment.”

***We could be delisted if we are unable to meet the PCAOB inspection requirements in time. The delisting of our ADSs and inability to trade, or the threat thereof, may materially and adversely affect the value of your investment.***

On December 18, 2020, the Holding Foreign Companies Accountable Act was enacted. In essence, the act requires the SEC to prohibit securities of any foreign companies from being listed on U.S. securities exchanges or traded “over-the-counter” if a company retains a foreign accounting firm that cannot be inspected by the PCAOB for three consecutive years, beginning in 2021. Our independent registered public accounting firm is located in and organized under the laws of the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, and therefore our auditors are not currently inspected by the PCAOB.

The enactment of the Holding Foreign Companies Accountable Act and any additional rulemaking efforts to increase U.S. regulatory access to audit information in China could cause investor uncertainty for affected SEC registrants, including us, and the market price of our ADSs could be materially adversely affected. Additionally, whether the PCAOB will be able to conduct inspections of our auditors in the next three years, or at all, is subject to substantial uncertainty and depends on a number of factors out of our control. If our auditor is unable to meet the PCAOB inspection requirement in time, we could be delisted from the New York Stock Exchange and our ADSs will not be permitted for trading “over-the-counter” either. Such a delisting would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our ADSs. Also, such a delisting would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition and prospects.

#### **Risks Relating to Our Ordinary Shares and ADSs**

***The trading price of the ADSs may be volatile, which could result in substantial losses to you.***

The trading price of our ADSs is likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance, and fluctuation in market prices, of other companies with business operations located mainly in China that have listed their securities in the United States. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies' securities after their offerings, including Internet companies, online retail and mobile commerce platforms and consumer finance service providers, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of the ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009, the second half of 2011 and in 2015, which may have a material and adverse effect on the trading price of the ADSs.

In addition to the above factors, the price and trading volume of the ADSs may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us or our industry;
- announcements of studies and reports relating to the quality of our credit offerings or those of our competitors;
- changes in the economic performance or market valuations of other consumer finance service providers;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the market for consumer finance services;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;
- allegations of a lack of effective internal control over financial reporting resulting in financial; inadequate corporate governance policies, or allegations of fraud, among other things, involving China-based issuers;
- release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs; and
- sales or perceived potential sales of additional ordinary shares or ADSs.

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for the ADSs and trading volume could decline.***

The trading market for the ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades the ADSs or publishes inaccurate or unfavorable research about our business, the market price for our ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs to decline.

***Because we do not expect to pay dividends periodically in the foreseeable future, you may mainly rely on price appreciation of the ADSs for return on your investment.***

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. Although we have declared dividend historically, we do not expect to pay cash dividends periodically in the foreseeable future.

Our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in the ADSs will likely depend mainly upon any future price appreciation of the ADSs. There is no guarantee that the ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in the ADSs and you may even lose your entire investment in the ADSs.

***Substantial future sales or perceived potential sales of the ADSs in the public market could cause the price of the ADSs to decline.***

Sales of the ADSs in the public market, or the perception that these sales could occur, could cause the market price of the ADSs to decline significantly. The total number of ordinary shares outstanding as of March 31, 2021 was 329,117,943 ordinary shares, comprised of 231,517,943 Class A ordinary shares and 97,600,000 Class B ordinary shares. All ADSs representing our ordinary shares will be freely transferable by persons other than our “affiliates” without restriction or additional registration under the U.S. Securities Act of 1933, as amended, or the Securities Act. All of the other ordinary shares outstanding will be available for sale, subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. Any or all of these ordinary shares may be released prior to the expiration of the applicable lock-up period at the discretion of the designated representatives. To the extent shares are released before the expiration of the applicable lock-up period and sold into the market, the market price of the ADSs could decline significantly.

Certain major holders of our ordinary shares will have the right to cause us to register under the Securities Act the sale of their shares, subject to the applicable lock-up periods in connection with our initial public offering. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these ADSs in the public market could cause the price of the ADSs to decline significantly.

***The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct the voting of your Class A ordinary shares underlying your ADSs.***

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of our ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which attach to the Class A ordinary shares underlying your ADSs indirectly by giving voting instructions to the depository in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depository, as holder of the Class A ordinary shares underlying your ADSs. Upon receipt of your voting instructions, the depository may try to vote the Class A ordinary shares underlying your ADSs in accordance with your instructions. If we ask for your instructions, then upon receipt of your voting instructions, the depository will try to vote the underlying Class A ordinary shares in accordance with those instructions. If we do not instruct the depository to ask for your instructions, the depository may still vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise any right to vote with respect to the underlying Class A ordinary shares unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to enable you to withdraw the shares underlying your ADSs and become the registered holder of such shares prior to the record date for the general meeting to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our second amended and restated articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the Class A ordinary shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. Where any matter is to be put to a vote at a general meeting, the depository will notify you of the upcoming vote and to deliver our voting materials to you. We cannot assure you that you will receive the voting material in time to ensure you can direct the depository to vote your shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the shares underlying your ADSs are voted and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

***Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depository will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings in the future and may experience dilution in your holdings.

***You may not receive non-cash distributions if the depository decides it is impractical to make them available to you.***

To the extent that there is a distribution, the depository has agreed to distribute to you the securities or other property it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent.

However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property to you.

***You may be subject to limitations on transfer of your ADSs.***

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

***ADSs holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.***

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depository arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depository opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, by a federal or state court in the City of New York, which has non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before entering into the deposit agreement.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depository in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us and / or the depository. If a lawsuit is brought against us and/or the depository under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depository of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

***Certain judgments obtained against us by our shareholders may not be enforceable.***

We are an exempted company incorporated under the laws of the Cayman Islands. We conduct our operations outside the United States and substantially all of our assets are located outside the United States. In addition, substantially all of our directors and executive officers and the experts named in this annual report reside outside the United States, and most of their assets are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against them in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands, China or other relevant jurisdiction may render you unable to enforce a judgment against our assets or the assets of our directors and officers. For more information regarding the relevant laws of the Cayman Islands and China.

***You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.***

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Cayman Companies Act and the common law of the Cayman Islands. The rights of our shareholders to take action against our directors, actions by our minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands have a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (other than copies of our memorandum and articles of association, our register of mortgages and charges, and copies of any special resolutions passed by the shareholders) or to obtain copies of lists of shareholders of these companies. Our directors will have discretion under our second amended and restated memorandum and articles of association, to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder resolution or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, members of our board of directors or our controlling shareholders than they would as public shareholders of a company incorporated in the United States. For a discussion of significant differences between the provisions of the Cayman Companies Act and the laws applicable to companies incorporated in the United States and their shareholders.

***Our second amended and restated memorandum and articles of association contain anti-takeover provisions that could discourage a third party from acquiring us, which could limit our shareholders' opportunity to sell their shares, including ordinary share represented by ADSs, at a premium.***

We have adopted the second amended and restated memorandum and articles of association which became effective immediately prior to the completion of our initial public offering that contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, including ordinary shares represented by ADS. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of the ADSs may fall and the voting and other rights of the holders of our ordinary shares and the ADSs may be materially and adversely affected. In addition, our amended and restated memorandum and articles of association contain other provisions that could limit the ability of third parties to acquire control of our company or cause us to engage in a transaction resulting in a change of control.

***We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.***

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the NYSE. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

***As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the NYSE corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the NYSE corporate governance listing standards.***

As a Cayman Islands company listed on the NYSE, we are subject to the NYSE corporate governance listing standards. However, NYSE rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NYSE corporate governance listing standards. Currently, we do not plan to rely on home country practice with respect to our corporate governance. However, if we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would enjoy under the NYSE corporate governance listing standards applicable to U.S. domestic issuers.



***There is a significant risk that we were a passive foreign investment company, or PFIC, for 2020 and we may be a PFIC for the current or subsequent taxable years, which could result in adverse U.S. federal income tax consequences to U.S. investors in our ADSs or our ordinary shares.***

In general, a non-U.S. corporation is a PFIC for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the quarterly value of its assets (generally determined on a quarterly basis) consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes interest (and income equivalent to interest), dividends, rents, royalties and gains from financial investments. Cash is generally a passive asset for these purposes. Goodwill (which may be determined by reference to the excess of the sum of the corporation's market capitalization and liabilities over the value of its assets) is an active asset to the extent attributable to business activities that produce active income.

Due to the decrease in our market capitalization and uncertainties as to the proper classification of certain items of our income and assets for purposes of the PFIC rules, there is a significant risk that we were a PFIC for our 2020 taxable year. The proper application of the PFIC rules to us is not clear. For example, it is uncertain whether for purposes of the PFIC rules we should be treated as the owner of the Consolidated Trusts' assets. Although such trusts are consolidated on our financial statements for accounting purposes, based on the manner in which we and the trusts currently operate and the nature of our rights and obligations with respect to the trusts, we believe it is reasonable to treat the trusts' assets (to the extent not attributable to any investment by us in the trusts) as not owned by us for purposes of the PFIC rules, but there can be no assurance in this regard. If the trusts' assets were treated as owned by us for PFIC purposes, we would be a PFIC for our 2020 taxable year. Moreover, the value of our goodwill for 2020 was not a positive amount and it is not entirely clear how the percentage of our active assets should be calculated in such circumstances, and to what extent certain assets shown on our balance sheet should be treated as active for purposes of determining our PFIC status. In addition, it is not entirely clear how the contractual arrangements between us and our VIEs will be treated for purposes of the PFIC rules. Because we exercise effective control over the operation of our VIEs and are entitled to substantially all of their income, we believe it is appropriate to treat the VIEs as owned by us for purposes of the PFIC rules. However, there can be no assurance in this regard and we may be a PFIC for any taxable year if our VIEs are not treated as owned by us for such purposes. For these reasons, there is a significant risk that we were a PFIC for our taxable 2020 year and that we will be a PFIC for our current and future taxable years.

If we are a PFIC for any taxable year during which a U.S. investor owns ADSs or ordinary shares, certain adverse U.S. federal income tax consequences could apply to such U.S. investor. For example, a U.S. investor may be subject to increased tax liabilities and generally will be subject to certain reporting requirements. See "Item 10. Additional Information—10.E. Taxation—U.S. Federal Income Taxation—Passive Foreign Investment Company."

***We will continue to incur increased costs as a result of being a public company, particularly after we cease to qualify as an "emerging growth company."***

Since the completion of our initial public offering, we have incurred significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the NYSE, imposes various requirements on the corporate governance practices of public companies. As a company with less than US\$1,070,000,000 in total annual gross revenue for our last fiscal year, we qualify as an "emerging growth company" pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company's internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have elected to "opt out" of the provision that allow us to delay adopting new or revised accounting standards and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time consuming and costly. After we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. For example, as a result of becoming a public company, we will need to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. We also expect that operating as a public company will make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we will incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company’s securities. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **4.A. History and Development of the Company**

Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd., or Shenzhen Ying Zhong Tong, was incorporated in March 2014 and controlled by Mr. Yue (Justin) Tang. In August 2014, we, through Shenzhen Ying Zhong Tong, began to facilitate investment products to individual investors in China with a variety of terms and rates of return to meet the demand from individual investors. In July 2015, Shenzhen Ying Zhong Tong commenced loan facilitation business to facilitate loan products to borrowers who are underserved by the current traditional financial system in China. In October 2016, entities controlled by Mr. Yue (Justin) Tang, Mr. Baoguo Zhu and other investors incorporated Shenzhen Xiaoying Technology Co., Ltd., or Shenzhen Xiaoying. In December 2016, Shenzhen Xiaoying acquired all of the equity interest in Shenzhen Ying Zhong Tong. In December 2017, we underwent a restructuring in contemplation of our initial public offering. After such restructuring, the shareholders of Shenzhen Xiaoying were changed to Mr. Yue (Justin) Tang, entities controlled by Mr. Yue (Justin) Tang and Mr. Baoguo Zhu.

In March 2015, our co-founders, Mr. Yue (Justin) Tang and Mr. Baoguo Zhu, incorporated Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd, or Beijing Ying Zhong Tong, which is controlled by Mr. Yue (Justin) Tang.

In December 2016, Xi’an Bailu Enterprise Management Co., Ltd., or Xi’an Bailu, incorporated Shenzhen Tangren Financing Guarantee Co., Ltd., or Shenzhen Tangren, a company holding a financing guarantee license. Xi’an Bailu, which holds 100% equity interest in Shenzhen Tangren, is ultimately controlled by Mr Yue (Justin) Tang and two other individuals who are his business partners, while the capital contribution of Shenzhen Tangren paid by Xi’an Bailu was borrowed from Shenzhen Xiaoying.

In January 2015, we incorporated Winning Financial Service Inc. under the laws of the Cayman Islands as our offshore holding company, which later changed its name to X Financial in August 2017. Subsequently, we incorporated YZT (HK) Limited as X Financial's wholly-owned subsidiary and our intermediate holding company to facilitate financing. In October 2015, YZT (HK) Limited incorporated Xiaoying (Beijing) Information Technology Co., Ltd., or Beijing WFOE, as its wholly-owned subsidiary in the PRC, through which we obtained control over Shenzhen Tangren on a series of contractual arrangements entered into on December 16, 2016 when Shenzhen Tangren was formed and Beijing Ying Zhong Tong and Shenzhen Xiaoying (together with Shenzhen Tangren, the VIEs) on a series of contractual arrangements entered into on December 22, 2017, respectively. Such contractual arrangements consist of equity pledge agreements, shareholders' voting rights proxy agreement, spousal consent letter, and exclusive business cooperation agreements, exclusive call option agreements. See "Item 4. Information on the Company—4.C. Organizational Structure—Contractual Arrangements with Consolidated VIEs and their Shareholders" for details.

In September 2018, we completed an initial public offering of 11,763,478 ADSs (including the ADSs sold upon the exercise of the over-allotment option granted to the underwriters), representing 23,526,956 Class A ordinary shares. On September 19, 2018, our ADSs were listed on the New York Stock Exchange under the symbol "XYF."

Our corporate headquarters is located at 7-8F, Block A, Aerospace Science and Technology Plaza, No. 168, Haide Third Avenue, Nanshan District, Shenzhen, 518067, the People's Republic of China. Our telephone number at this address is +86-0755-86282977. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. We maintain a website at <http://ir.xiaoyinggroup.com/> that contains information about our Company, but that information is not part of this report or incorporated by reference herein.

#### **4.B. Business Overview**

##### **Overview**

X financial is a leading online personal finance company in China. We are committed to connecting borrowers on our platform with institutional funding partners. With proprietary big data-driven technology, we have established strategic partnerships with financial institutions across multiple areas of its business operations, enabling us to facilitating loans to prime borrowers under a robust risk assessment and control system.

We offer differentiated products specifically catered to the financing needs of individuals in China, mainly categorized into Xiaoying Credit Loan and Xiaoying Revolving Loan. Xiaoying Credit Loan is a category of online personal credit loan products facilitated through our platform, including Xiaoying Card Loan, Xiaoying Preferred Loan and other unsecured loan products that we introduce from time to time. Xiaoying Card Loan is the major product under Xiaoying Credit Loan, which offers borrowers a combination of small credit line and attractive APR in China. We ceased facilitation of Xiaoying Preferred Loan in October 2019. Xiaoying Revolving Loan is category of products that provide borrowers with a credit limit, enabling borrowers to repay the borrowed amount at any time with an interest-free period or repay by installments. The major product under the category Xiaoying Revolving Loan is Yaoqianhua, initially named as Xiaoying Wallet when it was launched in August 2018.

Our proven risk management and credit assessment capabilities, and the accompanying insurance protection, enable us to attract a diversified and low-cost funding base to support our growth. Before 2020, we had both individual investors and corporate investors on our Xiaoying Wealth Management platform, a platform that was designed for investors who invested in our loan products by providing funding for such loans. At the end of 2019, we ceased funding our loan products from our individual investors through Xiaoying Wealth Management platform. We actively expanded institutional funding and achieved 100% institutional funding for the new loans facilitated by the end of the second quarter of 2020. As of December 17, 2020, the Company had repaid all the outstanding investment principal and interest to individual investors who previously made investments as a P2P investor through Xiaoying Wealth Management platform. In 2018, 88.6% of the total funding for loans we facilitated were provided by individual investors, 9.2% were provided by corporate investors and institutional funding partners, and 2.2% were provided by our own funds. In 2019, 68.1% of the total funding for loans we facilitated were provided by individual investors, 26.6% were provided by corporate investors and institutional funding partners, and 5.3% were provided by our own funds. In 2020, 4.7% of the total funding for loans we facilitated were provided by individual investors, 95.3% were provided by institutional funding partners. In 2018, 2019 and 2020, the overall funding cost for the loans we facilitated was 8.07%, 7.72% and 8.31%, respectively.

Our business model is light in capital and labor commitment, and we believe we manage our transaction and operating costs in an effective way. Benefiting from our superior loan product offerings, strong credit performance and accompanying insurance protection, we continue to expand our user base primarily through referral without incurring significant sales and marketing expenses, resulting in relatively low user acquisition costs. Furthermore, our highly automated risk management system and technology infrastructure enable us to automatically facilitate a large number of transactions simultaneously. In 2018, 2019 and 2020, our net revenue per employee was RMB4,753,000, RMB4,456,000 and RMB4,798,599, respectively, and our general and administrative expenses as a percentage of our total net revenues was 6.2%, 7.4% and 8.3%, respectively.

We utilize data-driven and technology-empowered credit analysis. Our proprietary risk control system, WinSAFE, builds risk profiles of our prospective borrowers upon data from reputable credit information providers employed by traditional financial institutions, augmented by a variety of social and behavioral data from internet and mobile platforms not typically utilized by traditional financial institutions. Leveraging data analysis and machine learning in assessing a borrower's value, repayment capability and propensity, we are able to offer differentiated credit limits to borrowers based on individual credit assessment result. Our rigorous data-driven credit assessment methodology has helped us to achieve a strategic balance between borrower expansion and asset quality control. In 2018, 2019 and 2020, the total loans we facilitated amounted to RMB36,913 million, RMB39,441 million and RMB29,676 million, respectively, while the delinquency rate for all outstanding loans that were 31-60 days past due decreased from 2.40% as of December 31, 2019 to 0.79% as of December 31, 2020.

We benefit from our strategic partnership with various licensed financial institutional cooperators. The protection offered by their credit insurance or financing guarantee on the loans we facilitate significantly enhances our intuitional funding partners' trust in our business. Our risk management system is also strengthened by those financial institutional cooperators' insurance or guarantee decision opinion. Our financial institutional cooperators' credit assessment models are based on information from various databases, including information from PBOC CRC which is only available to licensed financial institutions. Our financial institutional cooperators' insurance or guarantee decision opinion serves as one of the inputs of our comprehensive credit risk management system, along with other behavior and credit information.

We also partner with Baihang Credit, the second licensed individual credit bureau in China, which integrates, saves and processes the data collected from its partner companies and provides information searching and other additional services to its partner companies in return. The cooperation strengthens our credit assessment system and allows us to quickly and accurately assess the creditworthiness of borrowers, target a broader user base for financial services, and reduce the cost of risk management.

We have established a long-term collaboration relationship with institutional funding partners, including banking financial institution partners. Institutional funding partners have become our major funding source for our loan products, as we gradually reduced the funds from individual investors in 2019. We actively expanded institutional funding and achieved 100% institutional funding for the new loans facilitated by the end of the second quarter of 2020.

We generate revenues primarily from the fees we charge for our service of matching investors or institutional funding partners with borrowers (i.e., our loan facilitation service) and for other services we provide over the lifetime of the loan (i.e., our post-origination service and guarantee service). These fees are collected from the borrowers or institutional funding partners. In 2018, our service fee rate (annualized based on original amount of loan principal) of our major loan products ranged from 0.50% to 28.62% and the service fees we charged for loan facilitation services, post-origination services and guarantee services accounted for 90.0%, 3.7% and 0.7%, respectively, of our total net revenues. In 2019, our service fee rate (annualized based on original amount of loan principal) of our major loan products ranged from 0.0% to 24.1% and the service fees we charged for loan facilitation services, post-origination services and guarantee services accounted for 72.0%, 10.7% and 1.8%, respectively, of our total net revenues. In 2020, our service fee rate (annualized based on original amount of loan principal) of our major loan products ranged from 0.00% to 21.39% and the service fees we charged for loan facilitation services, post-origination services and guarantee services accounted for 59.6%, 9.3% and 0.7%, respectively, of our total net revenues.

The total borrowing cost is expressed as APR, the actual annualized cost of borrowing over the term of a loan. The following table sets forth the APR range of our major loan products for the periods indicated.

Loan Product	Year Ended December 31,		
	2018	2019	2020
Xiaoying Credit Loan (1)	9.98%-36.00%	9.67%-36.00%	8.00%~36.00%
Xiaoying Revolving Loan (2)	17%-36%	17%-36%	14.37%~25.27%
Xiaoying Housing Loan	11.50%-12.50%	12.50%-12.50%	—
Loan facilitation services to other platforms (3)	0.50%-9.00%	1.35%-36.00%	4.39%

Note:

- (1) Xiaoying Credit Loan is a category of online personal credit loan products facilitated through our platform, including Xiaoying Card Loan, Xiaoying Preferred Loan and other unsecured loan products that we introduce from time to time. We ceased facilitation of Xiaoying Preferred Loan in October 2019.
- (2) Xiaoying Revolving Loan is category of products that provide borrowers with a credit limit, enabling borrowers to repay the borrowed amount at any time with an interest-free period or repay by installments. The major product under the category Xiaoying Revolving Loan is Yaoqianhua, initially named as Xiaoying Wallet when it was launched in August 2018.
- (3) Different from APR used to express the total borrowing cost for our loan products, the figures set forth in the table represent the service fee range we collect from borrowers referred from other platforms for loans successfully allocated to investors or other funding sources.

Our total net revenue was RMB3,540.6 million in 2018, RMB3,088.1 million in 2019 and RMB2,193.0 million (US\$ 336.1 million) in 2020. We had a net loss of RMB1,308.5 million (US\$200.5 million) in 2020, compared to a net income of RMB774.5 million in 2019.

## Our Borrowers and Loan Products

### Overview

We strategically target the prime borrowers underserved by traditional financial institutions. We believe we set a high standard of credit quality by defining our borrowers as prime borrowers, who we define as an individual having sound credit history, who has credit records with PBOC CRC and usually no late payment record of over 60 days in the previous six months. For the determination of a prime borrower, we review their credit card transaction history, along with our sophisticated risk management review system.

Our differentiated loan product suite addresses the financing needs of our target prime borrower segments. We have two major categories of loan products, Xiaoying Credit Loan and Xiaoying Revolving Loan. Xiaoying Credit Loan consists of Xiaoying Card Loan catering to the credit card holders, Xiaoying Preferred Loan catering to small business owners and other unsecured loan products that we introduce from time to time. Xiaoying Revolving Loan mainly consists of Yaoqianhua (initially named as Xiaoying Wallet) catering to online purchasing users. Xiaoying Housing Loan caters to the property owners. Our Xiaoying Credit Loan and Xiaoying Revolving Loan are unsecured loan products and our Xiaoying Housing Loan is a secured loan product. We also provide loan facilitation services to other platforms.

We facilitated loans to 6,631,570 active borrowers, each of whom made at least one transaction on our platform during the period from the commencement of our loan facilitation business to December 31, 2020. The number of our active borrowers decreased from 2,370,510 in 2018 to 2,152,962 in 2019 and further to 1,663,737 in 2020. The amount of loans we facilitated to borrowers increased from RMB36,913 million in 2018 to RMB39,441 million in 2019 and decreased to RMB29,676 million in 2020. The table below sets forth the breakdown of loan facilitation amount by product for the periods indicated.

Loan Product	Year Ended December 31, 2018		Year Ended December 31, 2019		Year Ended December 31, 2020	
	RMB in millions	%	RMB in millions	%	RMB in millions	%
Xiaoying Credit Loan (1)	32,664	88.5%	29,825	75.6%	24,057	81.1%
Xiaoying Revolving Loan (2)	105	0.3%	4,780	12.1%	5,618	18.9%
Xiaoying Housing Loan (3)	306	0.8%	31	0.1%	—	—
Loan facilitation services to other platforms (4)	3,606	9.8%	4,805	12.2%	1	0.0%
Others (5)	232	0.6%	—	—	—	—
<b>Total</b>	<b>36,913</b>	<b>100.0%</b>	<b>39,441</b>	<b>100.0%</b>	<b>29,676</b>	<b>100.0%</b>

Notes:

- (1) The data set forth herein includes Xiaoying Card Loan, Xiaoying Preferred Loan and other unsecured loan products that we operated during 2020. Xiaoying Card Loan was launched in December 2016. Xiaoying Preferred Loan was launched in November 2015 and was ceased in October 2019.
- (2) The major product under the category Xiaoying Revolving Loan is Yaoqianhua, initially named as Xiaoying Wallet when it was launched in August 2018. We ceased the operation of Yaoqianhua in December 2020.
- (3) Xiaoying Housing Loan was launched in July 2015 and ceased in February 2019.
- (4) We started to provide loan facilitation services to other platforms in December 2015.
- (5) In 2018, we included Yaoqianhua in the category of “others”. Since the business of Yaoqianhua has showed a steady growth, we introduced a new product category of “Xiaoying Revolving Loan” and added Yaoqianhua to this product category in 2019.

Loans that are delinquent for more than 60 days are charged-off and excluded in the outstanding balance, except for Xiaoying Housing Loan. As Xiaoying Housing Loan is a secured loan product and we are entitled to payment by exercising our rights to the collaterals, we do not exclude Xiaoying Housing loan delinquent for more 60 days in the outstanding loan balance. The outstanding balance of loans we facilitated to borrowers decreased from RMB16.1 billion as of December 31, 2019 to RMB13.2 billion as of December 31, 2020. The table below sets forth the breakdown of outstanding loan balance by product as of the dates indicated.

Loan Product	As of December 31, 2019		As of December 31, 2020	
	RMB in millions	%	RMB in millions	%
Xiaoying Credit Loan(1)	13,090	81.5%	12,714	96.2%
Xiaoying Revolving Loan	1,446	9.0%	399	3.0%
Xiaoying Housing Loan	156	1.0%	105	0.8%
Loan facilitation services to other platforms	1,378	8.5%	0	0.0%
Others (2)	0	0.0%	0	0.0%
<b>Total</b>	<b>16,070</b>	<b>100.0%</b>	<b>13,218</b>	<b>100.0%</b>

To make the outstanding loan balance comparable to our peers, we also present the outstanding loan balance excluding loans overdue more than 180 days, except for Xiaoying Housing Loan. The outstanding balance of loans we facilitated to borrowers decreased from RMB20.8 billion as of December 31, 2018 to RMB17.3 billion as of December 31, 2019 and further to RMB13.7 billion as of December 31, 2020. The table below sets forth the breakdown of outstanding loan balance by product as of the dates indicated.

Loan Product	As of December 31, 2018		As of December 31, 2019		As of December 31, 2020	
	RMB in millions	%	RMB in millions	%	RMB in millions	%
Xiaoying Credit Loan(1)	18,345	88.0%	14,230	82.4%	13,075	95.7%
Xiaoying Revolving Loan	42	0.2%	1,503	8.7%	482	3.5%
Xiaoying Housing Loan	465	2.2%	156	0.9%	105	0.8%
Loan facilitation services to other platforms	1,996	9.6%	1,378	8.0%	0	0.0%
Others (2)	1	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>20,849</b>	<b>100.0%</b>	<b>17,267</b>	<b>100.0%</b>	<b>13,662</b>	<b>100.0%</b>

Note:

- (1) We integrated Xiaoying Card Loan and Xiaoying Preferred Loan into one general product category, Xiaoying Credit Loan, in 2018. The data set forth herein includes Xiaoying Card Loan, Xiaoying Preferred Loan and other unsecured loan products that we operated during 2020.
- (2) In 2018, we included Yaoqianhua in the category of “others”. Since the business of Yaoqianhua has showed a steady growth, we introduced a new product category of “Xiaoying Revolving Loan” and added Yaoqianhua to this product category in 2019.

We price the loans we facilitate based on total borrowing cost, which comprises (i) a nominal interest rate that borrowers pay investors or institutional funding partners, (ii) the service fee that we collect from borrowers for our services including our guarantee service, if applicable; for example, under New ZhongAn Model, we would not provide guarantee services for certain of our products, and (iii) the insurance premium paid to insurance company or guarantee service fees paid to financing guarantee companies. The total borrowing cost is expressed as APR, the actual annualized cost of borrowing over the term of a loan. The APR for a type of our loan product is the annualized actual amount of total interests, service fees and insurance premium divided by total amount of loans we facilitated. Borrowers are allowed to have more than one loan outstanding at the same time, but for some types of our products, such as Xiaoying Preferred Loan, borrowers are only allowed to have one loan outstanding of the same product type at any one time. We will evaluate borrowers’ payment history with us and perform credit assessment before approving their applications for additional loans. Delinquent borrowers are not allowed to obtain additional loans. We also set the maximum cumulative loan amount that one borrower can obtain based on the credit assessment result of such borrower and ensure the total outstanding balance of loans, together with any approved additional loans, under the amount limit when reviewing a borrower’s loan applications.

The transaction process on our platform provides our borrowers with a streamlined and standardized process of loan application and funding with step-by-step instructions including the following stages:

- First stage: an applicant submits loan application with their PRC identity card information, bank card information and mobile phone number.
- Second stage: verification of the applicant's information through our authentication technologies and multiple databases upon the authorization by the applicant.
- Third stage: the first credit assessment of the applicant by our propriety risk control model and the second credit assessment of the applicant by our financial institutional cooperators' risk control model.
- Fourth stage: approval of loan application, loan listing and the disbursement of funds to borrowers after the credit assessment of our institutional funding's risk control model.

After the completion of funding, we also provide servicing and collection services. The transaction process varies in certain stages for different loan products. The details of transaction process for Xiaoying Credit Loan, Xiaoying Revolving Loan and Xiaoying Housing Loan are described below, respectively.

### ***Xiaoying Credit Loan***

Considering that both Xiaoying Card Loan and Xiaoying Preferred Loan are unsecured online personal credit loan products, in 2018 we integrated those two products with similar features into one general product category, Xiaoying Credit Loan, to improve management efficiency. We have ceased the facilitation of Xiaoying Preferred Loan since October 2019. We may introduce other unsecured loan products from time to time under the category of Xiaoying Credit Loan.

### ***Xiaoying Card Loan***

Launched in December 2016, Xiaoying Card Loan, primarily a credit card balance transfer product, is our flagship product targeting prime borrowers.

#### *Borrowers*

Xiaoying Card Loan's target borrowers are primarily credit card holders who are in the early stages of their careers with insufficient credit lines granted by traditional credit card issuers, and they choose Xiaoying Card Loan to supplement their credit lines to fulfill their consumption needs. In 2020, Xiaoying Card Loan's borrowers were mostly in their late-twenties or early-thirties.

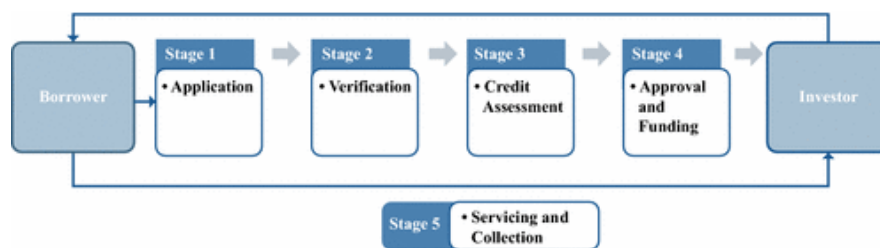
#### *Products*

We offer Xiaoying card loan in amounts ranging from RMB2,000 to RMB80,000 with terms of three, six, nine and 12 installments. Borrowers usually repay the principal and interest accrued based on the original principal amount in equal monthly installments, provided that, prior to December 7, 2017, we deducted part of the service fees from the loan principal in advance and received the remaining service fees paid by borrowers in equal monthly installments. In October 2017, we introduced a new loan product "Xiaoying Professional Loan" to credit card holders who have been assigned with the highest credit grade by our risk management system and require long-term liquidity and large-amount capital. Xiaoying Professional Loan has a term of one to three years. Borrowers of this product can repay at any time after three months of origination and all monthly service fees for the remaining period is waived upon termination. We considered Xiaoying Professional Loan as one of our other products and determined that the volume of this product in 2017 was immaterial. We started to operate and manage Xiaoying Professional Loan under Xiaoying Card Loan since January 1, 2018. In 2018, 2019 and 2020, the APR of Xiaoying Card Loan paid by borrowers was 29.80%, 29.73% and 21.9%.

We facilitated 2,746,293, 1,919,735 loans and 2,462,468 loans for Xiaoying Card Loans in 2018, 2019 and 2020, respectively. The total loan amount of Xiaoying Card Loan we facilitated increased from RMB26,011 million in 2018 to RMB27,702 million in 2019 and further increased RMB23,841 million in 2020. The average loan amount per transaction was RMB9,471 in 2018, RMB14,430 in 2019 and RMB9,682 in 2020. The outstanding balance of Xiaoying Card Loan we facilitated to borrowers increased from RMB11,631 million as of December 31, 2019 to RMB12,615 million as of December 31, 2020.

### Transaction Process

We facilitate substantially all of Xiaoying Card Loan through mobile application which is a simple, secure and convenient loan application process. The following diagram illustrates a simplified transaction process of Xiaoying Card Loan:



#### Stage 1: Application

Applicants of Xiaoying Card Loan must first register a user account by providing requested personal details, including mobile phone number and PRC identity card information. With the applicant’s authorization, the PRC identity card will be automatically captured and recognized by our authentication module through Optical Character Recognition, or OCR technology. Applicants are also required to do specific poses facing the front camera of their phones to complete automatic biometric recognition. When the registered users choose their desired loan amount and term of a loan product, they are required to further provide additional information including credit card information, current residential addresses, contacts and debit card information used for monthly repayment.

#### Stage 2: Verification

Upon submission of a completed application, we verify each applicant’s information using multiple authentication technologies and internal and external databases, including, among others, face scanning and OCR technology, the internal and industry blacklist provided by third-party database and the mobile activities of the applicant, to identify and screen for fraudulent applications. See “—Risk Management” for details.

#### Stage 3: Credit Assessment

Once an applicant’s information is input into our proprietary risk control system, WinSAFE, we will conduct credit assessment based on our database. We will also send the identity information of the applicant to our financial institutional cooperators and receive their credit opinion on insurance or guarantee based on their credit analysis model. We will, in accordance with our own risk management strategies, embed such credit opinion on insurance or guarantee into our risk management model for determining and assigning each applicant a credit grade. Such credit grade is a comprehensive credit level reflecting our prediction of the applicant’s likelihood of future delinquency, considering multiple factors, among others, the applicant’s ability to fund repayment obligations. We continue to optimize our risk management model as we modify and identify more effective proxies to estimate an applicant’s income level. We constantly incorporate new information into our credit assessment process with our own accumulated data as well as external third party collaboration such as other online lending platforms to better evaluate the overall indebtedness of the applicant and his or her likelihood to repay our loans with loans from other platforms. Credit grade will not be adjusted until the same applicant applies for another loan, when the repayment history of all the existing loans will be added into the risk model to determine the credit grade for the new loan application. See “—Risk Management” for a detailed description of WinSAFE and other aspects of our risk management.



#### Stage 4: Approval and Funding

Following the credit assessment, we may (i) approve the loan application, (ii) approve the loan subject to modification of the loan amount, or (iii) decline the loan application. Applicants are notified of the results.

Once the applicant's loan application is approved, we may send the application and our decision opinion to institutional funding partners for their credit assessment. Once a loan is fully subscribed after the credit assessment of our institutional funding's risk control model, funds are transferred to the borrower's custody account. The borrower will enter into related agreements for funding.

#### Stage 5: Servicing and Collection

We provide repayment reminder services through in-app notifications, SMSs or phone calls by our service representatives before the due date for each scheduled repayment. We collect a penalty fee from a defaulting borrower on a daily basis for past due loan principal.

We establish a score model to differentiate the risk level of a defaulting borrower based on the type of loan products, outstanding amount, delinquent days and historical repayment pattern. We adopt various approaches, including text messages, phone calls and other legitimate actions to request repayment of the delinquent loan balance and accrued interests and default charges.

We outsource most of our collection services to third-party collection agencies and we require them to use our serving and collection system and comply with our guidelines and standards. We also monitor the performance of such third-party collection agencies to ensure appropriate collection methods and practices through KPI monitoring, phone call recording playback, site visits, complaint call playback, internal training, as well as assessments.

#### *Borrower Acquisition and Retention*

Xiaoying Card Loan is very attractive to prime borrowers who are credit cardholders looking for a combination of large credit line and attractive APR. Supported by our advanced credit analytics, we are able to deliver a superior user experience through user-friendly loan application process, efficient credit decisioning, and speedy remittance, which in turn enables us to expand our borrower base. We also advertise our loan products and loan facilitation services through online channels, including our website and mobile application and cooperation with search engines, app stores, third-party apps and WeChat self-media public accounts.

We continue to provide existing borrowers with convenient lending services to enhance borrower stickiness. For borrowers with good transaction history, we may raise their loan limit, offer discounted service fees and a better referral program.

#### *Xiaoying Preferred Loan*

Launched in November 2015, Xiaoying Preferred Loan is a high-credit-limit unsecured personal loan product. We have strategically ceased the facilitation of Xiaoying Preferred Loan since October 2019 due to the high cost of its servicing and collection and the related risks. Xiaoying Preferred Loan's target borrowers were primarily self-employed business owners with established credit record who have liquidity and capital needs for daily operations.

As for loans that were previously funded by investors of Xiaoying Wealth Management platform, the credit line primarily ranged from RMB100,000 to RMB200,000. As for loans funded by our institutional funding partners, the credit line could be up to RMB600,000. Borrowers usually repaid the principal and interest accrued based on the original principal amount in equal monthly installments. In 2018 and 2019, the APR of Xiaoying Preferred Loan paid by borrowers was 17.96% and 17.51%, respectively.

We facilitated 36,982 and 19,457 loans of Xiaoying Preferred Loans in 2018 and 2019, respectively. The loan amount of Xiaoying Preferred Loan we facilitated decreased from RMB6,653 million in 2018 to RMB2,115 million in 2019. The average loan amount per transaction was RMB179,886 in 2018 and RMB108,720 in 2019. The outstanding balance of Xiaoying Preferred Loan we facilitated to borrowers was RMB1,452 million as of December 31, 2019 to compare with nil as of December 31, 2020.

### ***Xiaoying Revolving Loan***

In August 2018, we introduced Xiaoying Revolving Loan (mainly including Yaoqianhua, which was previously named as Xiaoying Wallet), which is an evolving loan product for online purchases and mobile payments. Borrowers are able to use Xiaoying Revolving Loan to have a credit limit, and they can repay the borrowed amount at any time, enjoying an interest-free period of up to 7 or 32 days depending on a user's rating. Borrowers are also able to choose to repay by 3, 6, 10 or 11 monthly installments through Xiaoying Revolving Loan.

We ceased the operation of Yaoqianhua in December 2020 and currently we do not have any other new loan product under the category of Xiaoying Revolving Loan. We facilitated 273,375, 12,194,632 and 13,357,630 loans of Xiaoying Revolving Loan in 2018, 2019 and 2020. The total loan amount of Xiaoying Revolving Loan we facilitated was RMB105 million in 2018, RMB4,780 million in 2019 and RMB5,618 million in 2020. The outstanding balance of Xiaoying Revolving Loan we facilitated to borrowers decreased from RMB1,446 million as of December 31, 2019 to RMB399 million as of December 31, 2020.

### ***Xiaoying Housing Loan***

In July 2015, we started to facilitate Xiaoying Housing Loan, a home equity loan product secured by properties owned by borrowers. Xiaoying Housing Loan's target borrowers are primarily small business owners holding properties with short-term liquidity and capital needs for daily operations and consumption. Since February 2019, we have strategically ceased the facilitation of Xiaoying Housing Loan due to the time-consuming foreclosure process of underlying collateral for defaulted loans.

Xiaoying Housing Loan was offered in a large credit line ranging from RMB100,000 to RMB10,000,000 with collateral of properties. Xiaoying Housing Loan was funded by institutional funding partners, thus it is not subject to the upper limits on the outstanding loan balance under applicable laws regulating online lending information services. See "Regulation—Regulations Relating to Online Lending Information Services". We primarily offer loan products with an average term of six months and borrowers usually make monthly repayments of interests accrued on the original principal amount followed by a lump sum payment of the principal upon maturity. In 2018, 2019, the APR of Xiaoying Housing Loan paid by borrowers was 11.86%, 12.5%, respectively.

The number of Xiaoying Housing loan facilitated in 2018, 2019 and 2020 was 220, 19 and nil, respectively, which represents the total number of transactions of loan facilitation during the relevant period. The total loan amount of Xiaoying Housing Loan we facilitated was RMB306 million in 2018, RMB31 million in 2019 and nil in 2020. The average loan amount per transaction was approximately RMB1.4 million in 2018, RMB1.6 million in 2019 and nil in 2020. The outstanding balance of Xiaoying Housing Loan we facilitated to borrowers decreased from RMB156 million as of December 31, 2019 to RMB105 million as of December 31, 2020. We facilitated Xiaoying Housing Loan through offline channels in China. Borrowers of Xiaoying Housing Loan entered into an entrusted guarantee agreement and a security agreement with Shenzhen Tangren under which the borrower payed fees to Shenzhen Tangren for providing guarantee to the investor or institutional funding partners of Xiaoying Housing Loan and established mortgage in its real properties as a security for Shenzhen Tangren's guarantee services. Shenzhen Tangren is our consolidated VIE with financing guarantee license which has provided guarantee to Xiaoying Housing Loan since September 2017. Prior to that, some of our entities provided such guarantee.

### ***Loan Facilitation Services to Other Platforms***

In December 2015, we started to cooperate with selected financial technology companies and facilitate loan products designed by them to their referred borrowers. Such loans have terms primarily ranging from one to three months. Through such cooperation, we have expanded our borrower acquisition channels.

In 2020, we cooperated with 1 financial technology companies. The total loan amount we facilitated for other platforms was RMB3,606 million in 2018, RMB4,805 million in 2019, and RMB1 million in 2020. We have ceased to facilitate loans for other platforms since the second half of the year. The outstanding balance of loans we facilitated for other platforms was RMB1,378 million as of December 31, 2019 compare with nil as of December 31, 2020.

We carefully select the financial technology companies for cooperation based on various factors including their business model and performance, financial condition, experiences of the management team, risk control capabilities, compliance and reputation in accordance with our systemic cooperative admission policies. Those selected financial technology companies conduct their credit analysis and approval before referring borrowers from their platforms to us. In addition, we conduct separate identity verification to decline those borrowers with high risks under our risk management system. We collect service fees from borrowers referred from the selected financial technology companies for loans successfully allocated to investors or institutional funding partners, and the average service fee rate was 2.94% in 2018, 2.93% in 2019 and 4.39% in 2020.

We require the selected financial technology companies to provide credit enhancements on the loans facilitated to the borrowers referred to us, including compensating us and/or purchasing back such loans if they are in default. Depending on the credit ability and business performance of those financial technology companies and the historical default rate of the borrowers they referred to us, we may also require them to pay us a deposit, ranging from 2% to 10% of the amount of principal of loans we facilitated, from which we are entitled to deduct if they fail to compensate the defaulted loans referred to us. In general, we monitor the outstanding balance of loans we facilitated to the borrowers referred from the financial technology companies on a daily basis. We will require the financial technology companies to make contribution if the deposit amount falls below the agreed percentage (i.e., 2% to 10%) of the amount of loan principals we facilitated. Each of the financial technology companies we cooperated with is required to pay the deposit prior to fund transfer and the outstanding balance of the deposit that we received from them was RMB21.5 million as of December 31, 2020.

### **Our Investors and Institutional Funding Partners**

We used to provide investment products to individual investors on our Xiaoying Wealth Management platform. We ceased accepting new investment in our loan products from individual investors on the Xiaoying Wealth Management platform at the end of 2019. In December 2020, we fully repaid the investment principals and interest to all of the individual investors who invested in our loan products on the Xiaoying Wealth Management platform. Individual investors are still able to purchase other financial products, including money market products and insurance products, on our Xiaoying Wealth Management platform.

Since early 2019, the Company began the transformation of its business model from a P2P platform to a platform that focuses on the facilitation of its institutional funding partners to provide loans to borrowers. The change was initiated primarily in response to the rapidly evolving regulations in China, including requirements to reduce loan balance, investor count and fees for the P2P business. In 2018, 88.6% of the total funding for loans we facilitated were provided by individual investors, 9.2% were provided by corporate investors and institutional funding partners, and 2.2% were provided by our own funds. In 2019, 68.1% of the total funding for loans we facilitated were provided by individual investors, 26.6% were provided by corporate investors and institutional funding partners, and 5.3% were provided by our own funds. In 2020, 4.7% of the total funding for loans we facilitated were provided by individual investors, 95.3% were provided by institutional funding partners.

In connection with our collaboration with institutional funding partners, we have jointly established effective risk control management system. We work with various financial institutional cooperators, such as insurance company and financing guarantee companies to provide insurance or guarantee covering loans funded by institutional funding partners, which enhances the funding partners' confidence and enables us to obtain funding sources at favorable terms.

In light of the regulatory update, we have reviewed and adjusted our cooperation with banking financial institution partners, such as suspending certain cooperation, to better comply with the regulatory requirements. We ceased the online intermediary model in April 2017. We gradually reduced the volume of loans facilitated through the offline intermediary model with funding from banking financial institution partners after December 31, 2017 due to regulatory requirement and completely ceased such operations in February 2018. We continue the operations through the offline intermediary model with funding from other partners to the extent permitted under applicable laws and regulations. Those institutional funding partners may invest their funds in the loans facilitated under direct model and/or intermediary model, depending on their investment strategies.

## **Our Partnership with Financial Institutional Cooperators**

54.36% of the total loan facilitation amount we facilitated in 2020 were covered by ZhongAn's credit insurance, which protect funding providers against default for both the principal and interest. We monitor ZhongAn's financial condition and credit quality periodically through public information disclosed as required by PRC regulatory authorities since its establishment in October 2013 and by Hong Kong Stock Exchange since its listing in September 2017. According to PRC regulatory standard and as disclosed in the quarterly information of solvency margin ratio published by ZhongAn, the integrated risk rating of ZhongAn was "A" foreach quarter of 2020. As disclosed in ZhongAn's 2020 annual report and 2019 annual report, ZhongAn's comprehensive solvency margin ratio was 600%, 502% and 560% as of December 31, 2018, 2019 and 2020, respectively.

We have also established cooperation with high-quality financing guarantee companies who provide guarantee services to protect investors and institutional funding partners from losses. All of them have at least AA credit rating issued by rating companies including China Lianhe Credit Rating Co., Ltd., China Chengxin Credit Management Co., Ltd. and Shenzhen Lianhe Credit Information Service Co., Ltd.. Our financing guarantee partners provide guarantee services covering both the North China and South China areas, most of which have a registered capital of more than RMB1 billion.

### ***Credit Insurance and Guarantee Services***

Prior to September 2017, ZhongAn provided credit insurance to substantially all the loans we facilitated. ZhongAn initially reimbursed the loan principal and interest to the investor upon the borrower's default. In order to maintain stable business relationship with ZhongAn, we would then at our sole discretion, compensate ZhongAn for substantially all the loan principal and interest default but have not been subsequently collected.

From September 2017, we revised the arrangement with ZhongAn on substantially all of the Xiaoying Credit Loans (referred to as the "New ZhongAn Model"). Starting from 2020, we enter into a series of arrangements with various external financing guarantee companies, which is similar to "New ZhongAn Model". According to those arrangements, in addition to credit insurance or guarantee protection, Shenzhen Tangren, our consolidated VIE with the financing guarantee license, also provides a guarantee for certain loans we facilitate to protect investors against defaults for both the principal and interest. Shenzhen Tangren will compensate those financial institutional partners for the amount they had paid under investors' claims arising from defaults by borrowers; however, Shenzhen Tangren's compensation obligation shall not exceed the financial guarantee service fees Shenzhen Tangren collectible from all the borrowers for such loans. The arrangements also clarify that in case of any adjustment to the guarantee service fee rate Shenzhen Tangren collectible from borrowers, the total guarantee service fees Shenzhen Tangren collectible from all borrowers will change accordingly and the upper limit of Shenzhen Tangren's compensation obligation will also change in accordance with such adjustment.

### ***Deposit Arrangement***

Starting from November 2019, we enter into a series of deposit arrangements with financing institutional cooperators. We are required to pay deposits to those financial institutional cooperators monthly or in accordance with an agreed payment schedule. The amount of deposit is separately agreed with each institutional cooperator, usually calculated by multiplying the outstanding loan balance on the reconciliation date by an agreed percent rate ("the standard amount"). The agreed percent rate may be adjusted from time to time. If the balance of the deposits exceeds the standard amount or supplementary payment of deposit is needed, the financial institutional cooperators shall refund the excess part to us or we shall make supplementary payment of deposit in accordance with an agreed payment schedule.

### ***Cooperation on Technology***

We cooperate with financial institutional cooperators in technology development. The risk decisioning system established by our financial institutional cooperators which is based on their credit analysis model, leveraging its resources and access to various databases, including PBOC CRC that is only available to licensed financial institutions. provide assistant services to our risk decisioning process. Such services include product management, business monitoring and management risk policies. In addition to our financial institutional cooperators' decision and input, we also incorporate other credit and fraud related data and models to complete our full credit evaluation.

### ***Cooperation on Technology***

We cooperate with ZhongAn Information Technology Service Co., Ltd., or ZhongAn Technology, a subsidiary of ZhongAn, in technology development. The risk decisioning system established by ZhongAn Technology provides assistant services to our risk decisioning process. Such services include product management, business monitoring and management risk policies. Meanwhile, based on our business and management needs, we engage ZhongAn Technology to provide customized development services for risk decisioning system and other technology development services.

### **Custodian Bank and Third-Party Payment Service Providers**

We have engaged Citic AIBank Corp. (“AIBank”) to provide fund custody services for our platform. The investors’ funds and borrowers’ funds loaned through our platform are in the custody accounts managed by AIBank. The custodian bank provides fund custodian services including settlement, accounting, clearing services and safeguarding online lending capital to Xiaoying Wealth Management platform.

We cooperate with third-party payment service providers for the payment, settlement and clearance of the proceeds of the loans for our borrowers and investors. In choosing the third-party payment agent, we take into consideration numerous criteria, including network infrastructure, security measures, reliability, information technology capabilities and experience.

### **Risk Management**

We have adhered to the principal of “Respect Risk” in our operations since our establishment. Leveraging its extensive knowledge and in-depth insights in risk management from years of working experiences with large and reputable financial institutions, our risk management team has developed comprehensive risk management system, policies and measures covering data collection and reprocess, development and upgrading of risk control system, fraud detection and credit scoring and pricing.

The three core elements of our risk management are data, technology and management. We base our credit assessment on rigorous quantitative analysis. We have developed our proprietary risk control system, WinSAFE, on the foundations of traditional consumer banking risk management modules with reputable credit information and big data generated from mobile internet to manage the risk in our daily operation.

#### ***Data Collection and Reprocessing***

Sufficient and high-quality data is the foundation for effective risk management. We collect data that is directly provided and authorized for our use by the user and from multiple third-party data providers. We cooperate with third-party credit agencies for credit data of borrowers. Moreover, we accumulate data from social activities, including but not limited to, social circles, website activities, mobile behavior and contact information. All the data collected by our internal team enables us to build up a comprehensive credit database to analyze user data from both traditional consumer finance data and the big data generated from mobile internet relating to users’ social behavior and spending pattern that are typically ignored by traditional financial institutions.

We take advantage of our accumulated massive data and have established a comprehensive profile of each user containing over 2,500 variables covering traditional consumer banking data and the big data generated from mobile internet, providing the solid base for our credit assessment and decision-making and differentiating us from other consumer finance companies who may only have data in certain areas. We utilize various data reprocessing technology such as data smoothing algorithm and social network graphic to ensure the reliability and accuracy of data and perform in-depth data analysis.

#### ***Risk Control System and Models***

We have independently developed our proprietary risk control system, WinSAFE, which is our decision center and is able to carry out thousands of testing simultaneously. Based on data collection, processing and analytics, through our WinSAFE system, we continue to fine-tune mobile lending credit policy through numerous tests each month to achieve best risk returns. The two major components of our risk management procedures are risk assessment model optimization and credit policy adjustments.

The risk assessment model optimization maintains over 100 models primarily including logistics regression and machine learning models that are employed at different stages for different products. Each model performs the function independently but operates in close synchronization with each other, enabling WinSAFE to effectively analyze a borrower's value, payment capability and payment attitude to accurately evaluate the borrower's credit worthiness. Apart from the traditional numerical variables, we also convert unorthodox inputs, such as human behavior, social relationships and mobile activities, into numerical covariates through complex algorithms. The credit policy adjustments is established through lifetime value of the users and rigorous stress tests to achieve a balance between business volume and profitability with an emphasis on business resiliency. We continuously modify and incorporate new information into our credit policy, such as economic environment, user clientele change and new testing results. The models are updated daily or regularly to match the business development through machine learning with traditional modeling, providing an increasingly accurate indicator of default risk with the increasing availability of data.

Currently, through our continuous optimization, WinSAFE is able to process data through the processes from loan application to approval and is able to make decisions within ten minutes for over half of Xiaoying Card Loan, providing instant feedback that the mobile users are in desire of and strengthening our risk control and fully automatic decision-making capability.

### ***Fraud Detection***

We utilize internal and third-party databases and authentication technologies, including face scanning and OCR verification of identity cards and bank cards, to verify and authenticate the identity of the applicant and the submitted application information. We effectively implement over 300 anti-fraud rules and use our multiple-source database containing various internal and industry blacklists and multiple-dimension tagging system to detect the probability of individual and group fraud.

Leveraging our in-depth data analysis of the comprehensive data we have collected, we assess the applicant's payment capability and payment attitude. We adopt over 2,500 variables in credit assessment and crosscheck with a blacklist of over 1,000,000 fraud data. Utilizing big data, we apply various analytical processes, such as machine learning, deep learning, graphical analysis, to identify credit risks and potential fraudulent behavior of each applicant and build and optimize our credit assessment model.

When our risk control system receives an application, we will send the applicant's insurance or guarantee application to our financial institutional cooperators and will receive the insurance or guarantee decision opinion from those financial institutional cooperators based on their credit analysis. We will, in accordance with our own risk management strategies, embed such assessment results into our risk management models for decisioning.

### ***Credit Scoring and Pricing***

Our advanced credit analytics enable us to identify and reject approximately 80% of the Xiaoying Card Loan applicants due to their credit profile and fraud concerns. For the remaining applicants, we offer differentiated credit pricing and credit limits to those prime borrowers based on individual credit grades. Based on our prediction of the applicant's likelihood of future delinquency and his/her profile, our risk management system assigns a credit grade to each remaining Xiaoying Card Loan applicant, with risk level A representing the lowest risk, risk level D representing the highest risk. Such credit grade is a comprehensive credit level generally determined based on the grouping of an applicant's basic information, credit history and behavior data, including personal identity information, education background, consumption and social network behavior, and insurance or guarantee decision opinion from our financial institutional cooperators. Credit grade is determined at the time of a loan application and will not be adjusted until the borrower applies for another loan, when the repayment history of all the existing loans will be added into the risk model to determine the credit grade for the new loan application. In addition to the individual specification attaching to the credit grade for each applicant, from time to time, we adjust the overall standard of each credit risk level based on market conditions and our risk management policies when we believe necessary.

Different from our credit grade model for Xiaoying Card Loan, we adopt a rule-based credit assessment and pricing system with manual review for the applicants of our Xiaoying Preferred Loan and Xiaoying Housing Loan. For Xiaoying Preferred Loan, other than focusing on reviewing the applicants' credit assessment result based on our database and the insurance or guarantee decision opinion from our financial institutional cooperators, we also review property ownership, insurance policies or provident funds. In terms of Xiaoying Housing Loan, we focus on assessing the value of the collateral properties provided by the applicants.

We review and modify our segmented pricing from time to time, taking into consideration not only the borrower credit risk but also other factors, such as market interest rates, adequacy of investor protection mechanism and competition in the market.

### ***Risk Management Team***

Our risk management committee is the highest decision-making authority in terms of risk management, comprised of our Chief Executive Officer, Mr. Yue (Justin) Tang, our President, Mr. Shaoyong (Simon) Cheng, and our Chief Risk Officer, Mr. Kan (Kent) Li. Our risk management committee is responsible for making decisions on the principles, core terms and model for each project.

Our strong risk management team is led by our President, Mr. Shaoyong (Simon) Cheng, who has more than 20 years of experience in risk management in the United States and China and previously served at Capital One, HSBC and Bank of Communications, and our Chief Risk Officer, Mr. Kan (Kent) Li, who has extensive work experience in risk management and previously served at Capital One. Our team members have extensive experiences and in-depth insights in risk management from their working experiences with reputed financial institutions such as HSBC, JPMorgan, China Construction Bank, Ping An and Everbright. Leveraging on the most advanced technique and risk control capability, our risk management team has established an effective risk control system applied in the online lending business.

We have established comprehensive policies and processes to ensure the effectiveness of our risk management in daily operations. Our risk management team engages in various risk management activities, including approving the launch of any new product and screening and selecting our business partners with sound risk management system. All the decisions by our risk management team shall only be made based on rigorous quantitative analysis of real data.

### **Our Technology and IT Infrastructure**

#### ***Technology System***

We believe our technology and IT infrastructure are a competitive advantage and an important reason that borrowers, investors and institutional funding partners utilize our platform. Key features of our technology and IT infrastructure include:

#### ***Abundant Mobile Internet Data***

We collected a large amount of borrowers' credit and behavioral data. The substantial volume of data in the system enables us to build a comprehensive credit profile for each borrower.

#### ***Advanced Computing Technology***

We adopt innovative risk pricing models for the accumulation of credit data for loan facilitation platform.

#### ***User-friendly Mobile Applications***

We have independently developed the mobile applications for borrowers of Xiaoying Card Loan, Xiaoying Revolving Loan and investors of Xiaoying Wealth Management, respectively. The mobile applications enable users to access our platform at any time and at any location to make transactions in a convenient way.

The mobile application of Xiaoying Card Loan and Xiaoying Revolving Loan adopts the OCR identity verification technology (ID card, face, bank card) for borrowers to complete the verification. We also incentivize the borrowers to recommend the application to their friends by issuing coupons as discounts to the service fee.

We have completely ceased the investment in loans on our Xiaoying Wealth Management platform, while individual investors are still able to purchase other financial products, including money market products and insurance products, on our Xiaoying Wealth Management platform.

### ***Data and Transaction Security and Stability***

We collect and store a large amount of user data, including mobile phone numbers, identification card numbers, bank card numbers and borrowing information in our database. We take the privacy of our users and security of their information seriously, and have implemented a strict internal user data security management policy and to protect our users' confidential information. The policy establishes user's authorization to data usage, data and information classification, approval procedures and access rights for confidential information and data. We require written records of each of our employee's access and retrieval of the data and monitor the process.

We adopt remote backup technology and have built up a disaster recovery structure of "two locations, three centers." In addition, we back up our core business database daily on dedicated backup servers. We have implemented a data-backup policy to ensure the safety of our data.

### ***Research and Development***

Our technology development personnel have extensive experience with leading internet, online consumer finance and mobile commerce and financial technology companies, and focuses on the following that support our long-term business growth:

- Maintaining and strengthening all of our platform and application system, including but not limited to: main website, mobile applications, back-stage system, proprietary data and credit analysis systems, payment system and big data system;
- Ensuring our technology system is well established, reviewed, tested and continuously strengthened; and
- Organizing and participating in the industry seminars, exploring relevant cutting-edge technologies.

### **Brand, Sales and Marketing**

Our general marketing efforts are designed to build brand awareness and reputation and to attract and retain borrowers, investors and institutional funding partners. We believe reputation and word-of-mouth marketing drive continued organic growth in borrower base. As a supplement, we use offline network channel and online marketing initiatives to promote our brand and products. For example, we work with several advertising companies to promote our mobile applications with internet companies through online advertisements. We also cooperate with media and organize branding events to enhance our brand awareness.

### **Users Service**

To better serve our users, we have independently developed a comprehensive user service system. We provide user service from 9:00 a.m. to 6:00 p.m. through our user service hotline in the weekdays and also provide online user service from 9:00 a.m. to 10:00 p.m. every day through our website, mobile applications and WeChat public account. Our user service personnel are responsible for answering calls for our user service hotlines, responding to queries in emails, as well as providing online user service support. To monitor the quality of our user services, each inquiry made by our users will be recorded and reviewed on a selective basis.

### **Intellectual Property**

We regard our trademarks, domain names, copyrights, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on trademark and trade secret law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. We have registered 80 trademarks in the PRC and 4 trademarks under application in the PRC. We are the registered holder of 104 domain names. We also have 48 copyrights for our proprietary techniques in connection with our systems. We have 14 patents under application in the PRC.

### **Competition**

The consumer finance industry in China is highly competitive and we compete with other sizable consumer lending marketplaces with a focus on prime borrowers. We also compete with other financial products and companies that attract borrowers, investors, institutional funding partners or all.



With respect to borrowers, we compete directly with those marketplaces offering credit card balance transfer loans, including Kakadai, HuaBei, ShengBei and LaKaLa, and those offering high-credit-limit unsecured loans, including Ping An Puhui and Dashu. We also compete with traditional financial institutions, including credit card issuers, consumer finance business units in commercial banks and other consumer finance companies.

With respect to institutional funding partners, we primarily compete with other online consumer finance marketplaces offering multiple types of investment products, wealth management centers and traditional banks in China. Our key competitors include Lufax and Yirendai.

As evidenced by our market leadership, we believe that we are able to compete effectively for borrowers, investors and institutional funding partners by leveraging our competitive advantages including our strategic positioning to target the prime borrower segment, comprehensive product offerings, superior user experience on our platform, effectiveness of our risk management, our partnership with various business partners, and the strength and reputation of our brands.

## **Insurance**

We provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. We also provide additional commercial medical insurance coverage for our key management. We do not maintain business interruption insurance, general third-party liability insurance, product liability insurance or key-man insurance. We consider our insurance coverage to be sufficient for our business operations in China and in line with market practice.

## **Regulation**

This section sets forth a summary of the most significant laws, rules and regulations that affect our business activities in the PRC or our shareholders' rights to receive dividends and other distributions from us.

### ***Regulations Relating to Foreign Investment***

On March 15, 2019, the National People's Congress promulgated the PRC Foreign Investment Law, which became effective on January 1, 2020 and replaced the existing laws regulating foreign investment in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. Meanwhile, the Regulations for the Implementation of the PRC Foreign Investment Law came into effect on January 1, 2020, which clarified and elaborated the relevant provisions of the PRC Foreign Investment Law. The organization form, organization and activities of foreign-invested enterprises shall be governed, among others, by the PRC Company Law and the PRC Partnership Enterprise Law. Foreign-invested enterprises established before the implementation of the PRC Foreign Investment Law may retain the original business organization and so on within five years after the implementation of this Law. The Foreign Investment Law and the Implementation Regulations do not mention the relevant concept and regulatory regime of VIE structures.

The PRC Foreign Investment Law is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the PRC Foreign Investment Law, "foreign investment" refers to investment activities directly or indirectly conducted by one or more natural persons, business entities, or otherwise organizations of a foreign country (collectively referred to as "foreign investor") within China, and the investment activities include the following situations: (i) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within China; (ii) a foreign investor acquires stock shares, equity shares, shares in assets, or other similar rights and interests of an enterprise within China; (iii) a foreign investor, individually or collectively with other investors, invests in a new project within China; and (iv) investments in other means as provided by laws, administrative regulations, or the State Council.

According to the PRC Foreign Investment Law, foreign investments are entitled to pre-entry national treatment and subject to negative list management system. The pre-entry national treatment means that the treatment given to foreign investors and their investments at the stage of investment access is no lower than that of domestic investors and their investments. The negative list management system means that the state implements special administrative measures for foreign investment in specific fields. Foreign investors shall not invest in any forbidden fields stipulated in the negative list and shall meet the conditions stipulated in the negative list before investing in any restricted fields. Foreign investors' investment, earnings and other legitimate rights and interests within the territory of China shall be protected in accordance with the law, and all national policies on supporting the development of enterprises shall equally apply to foreign-invested enterprises.

Investment activities in the PRC by foreign investors are governed by the Catalog of Industries for Encouraging Foreign Investment, or the Catalog, which became effective on January 27, 2021, and the Special Administrative Measures (Negative List) for Foreign Investment Access, or the Negative List promulgated by the MOC, which became effective on July 23, 2020 and has been amended from time to time by the MOC and the National Development and Reform Commission. It sets out the industries in which foreign investments are prohibited or restricted. Foreign investors will not make investments in prohibited industries, while must satisfy certain conditions stipulated in the Negative List for investment in restricted industries. According to the Negative List, the proportion of foreign investment in entities engaged in value-added telecommunication services (excluding e-commerce, domestic multi-party communications services, store-and-forward services, and call center services) shall not exceed 50%.

Among others, the state guarantees that foreign invested enterprises participate in the formulation of standards in an equal manner and that foreign-invested enterprises participate in government procurement activities through fair competition in accordance with the law. Further, the state shall not expropriate any foreign investment except under special circumstances. In special circumstances, the state may levy or expropriate the investment of foreign investors in accordance with the law for the needs of the public interest. The expropriation and requisition shall be conducted in accordance with legal procedures and timely and reasonable compensation shall be given.

The *Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (2016 revision)*, which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016, require foreign-invested value-added telecommunications enterprises in China to be established as Sino-foreign equity joint ventures with the foreign investors owning no more than 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprises operating the value-added telecommunications business in China must demonstrate a good track record and sound experience in operating a value-added telecommunications business, provided that qualified foreign investors must obtain prior approvals from the MIIT and the MOFCOM or their authorized local counterparts, for its commencement of value-added telecommunication business in China.

*Circular of the Ministry of Industry and Information Technology on Removing the Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-commerce) Business*, or Circular 196, which was promulgated on June 19, 2015, provides that foreign investors are permitted to invest up to 100% of the registered capital in a foreign-invested telecommunication enterprise engaging in the operation of online data processing and transaction processing (E-commerce). However, foreign investors are only permitted to invest up to 50% of the registered capital in a foreign-invested telecommunication enterprise that engages in the operation of Internet information services. While Circular 196 permits foreign ownership, in whole or in part, of online data and deal processing businesses (E-commerce), a sub-set of value-added telecommunications services, it is not clear whether our marketplace lending platform will be deemed as online data and deal processing.

In July 2006, the MIIT issued the *Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business*, or the MIIT Notice, pursuant to which, for foreign investor invest in telecommunications service business in China, a foreign-invested telecommunications enterprise must be established, and such enterprise must hold a telecommunications businesses operation license. Furthermore, under the MIIT Notice, domestic telecommunications enterprises may not rent, transfer or sell a telecommunications business operation license to foreign investors in any form, nor may they provide any resources, premises, facilities or other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MIIT Notice, a foreign-invested value-added telecommunication service operator (or its shareholders) shall legally own the Internet domain names and registered trademarks used for its business operation.

Due to the above restrictions and requirements, we conduct our value-added telecommunications businesses through Shenzhen Yingzhongtong Financial Information Service Co., Ltd., one of the subsidiaries of our consolidated VIEs.

### ***Regulations Relating to Value-Added Telecommunication Services***

The *Telecommunications Regulations of the PRC*, or the Telecommunications Regulations, promulgated by the State Council on September 25, 2000 and amended on July 29, 2014 and February 6, 2016, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations distinguish “basic telecommunications services” from “value-added telecommunications services. The basic telecommunications services provider who provides public network infrastructure, public data transmission and basic voice communications services shall obtain a Basic Telecommunications Service Operating License, and the value-added service provider who provides telecommunications and information services provided through the public network infrastructure shall obtain a Value-added Telecommunications Service Operating License, or VATS License. A catalogue was issued as an attachment to the Telecommunications Regulations to categorize telecommunications services as either basic or value-added. The current catalogue, as most recently updated on June 6, 2019, categorizes online information services and online data processing and transaction processing services as value-added telecommunications services. Internet content provider may be required to obtain an Internet content provider license, or ICP license, and e-commerce operator may be required to obtain an online data processing and transaction processing license, or ODPTP license.

On July 3, 2017, the MIIT promulgated the *Administrative Measures on Telecommunications Business Operating Licenses*, under which, a commercial operator of value-added telecommunications services must first obtain the VATS License, from the MIIT or its provincial level counterparts, otherwise such operator might be subject to sanctions including corrective orders and warnings from the competent administration authority, fines and confiscation of illegal gains and, in the case of significant infringements, the websites may be ordered to close

On August 17, 2016, the China Banking Regulatory Commission, or the CBRC (one of the predecessors of the China Banking and Insurance Regulatory Commission), the MIIT, the Ministry of Public Security and the State Internet Information Office jointly issued the *Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries*, or the Interim Measures. Pursuant to the Interim Measures, online lending information service providers shall apply for VATS License in accordance with relevant rules issued by competent telecommunication authority after completing the filing records to local financial regulators. However, the relevant implementation rules regarding such filing is yet to be issued therefore currently we are not able to make the necessary filing and then to apply for the VATS License. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We may be required to obtain additional value-added telecommunication business licenses”.

### ***Regulations Relating to Online Lending Information Services***

On July 18, 2015, the *Guidelines on Promoting the Healthy Development of Online Finance Industry*, or the Guidelines, were jointly promulgated by ten PRC regulatory agencies, including the PBOC, the MIIT and the CBRC. The Guidelines set out definition of online peer-to-peer lending as direct loans between individuals through an online platform, which is under the supervision of the CBRC, and governed by the PRC Contract Law, the General Principles of the Civil Law of the PRC, and related judicial interpretations promulgated by the Supreme People’s Court. Pursuant to the Guidelines, an online peer-to-peer lending information services provider shall specify its nature as an information intermediary that provides information services to facilitate the lending between borrowers and lenders, rather than offer credit enhancement services or engage in illegal fund-raising.

On April 13, 2016, the *Notice on the Implementation Plan of the Special Rectification of Peer-to-peer Online Lending Risk*, or the Notice, was issued by the China Bank Regulatory Commission, or the CBRC, which reiterated the requirements set out in the Guideline and further clarified the activities online peer-to-peer lending information service providers are prohibited to engage in.

The Interim Measures define online peer-to-peer lending as direct loans between peers, including nature persons, legal persons or organizations, through online platforms, which is in line with the definition of “online peer-to-peer lending” in the Guideline. Pursuant to the Interim Measures, companies engaged in the online lending information intermediary business shall only provide financial information services to borrowers and lenders for the purpose of facilitating their direct lending. Online lending information service providers shall complete registration with local financial regulatory authority and obtain appropriate telecommunication business license in accordance with relevant rules issued by competent telecommunication authority. The Interim Measures also require the online lending information service providers to substantially cover “online lending information intermediary” in its business scope filed with the local registration regulatory authority.

According to the Interim Measures, online lending information providers shall, depending on the risk management capability, set upper limits on the outstanding loan balance of a single borrower borrowed both on one online lending platform and across all online lending platforms. In the case of natural persons, the balance of loan borrowed on one online lending platform shall not exceed RMB200,000, and the aggregated balance of loan borrowed across all platforms shall not exceed RMB1 million; in the case of legal persons or organizations, the limit for the outstanding loan balance on one platform and across all platforms shall be RMB1 million and RMB5 million respectively.

The Interim Measures stipulate that online lending information service providers shall not directly or indirectly engage in certain prohibited actions, including but not limited to, (i) self-financing, (ii) accepting or gathering funds of lenders, (iii) providing any guarantee to lenders directly or in a disguised form, (iv) issuing financial products to raise fund or acting as an agent to sell financial products, (v) splitting or fractionalizing the term of any financing product, (vi) asset securitization, (vii) falsifying or exaggerating the truthfulness and earnings of financing products or concealing the defects and risks of financing products, (viii) extending loans.

With respect to the online lending information service providers established prior to the implementation of the Interim Measures, which have not been in full compliance with the applicable requirements of the Interim Measures, the competent local financial regulatory department provide those not in full compliance with applicable requirements of the Interim Measures, a grace period of twelve months, within which such platforms shall rectify any violation against the Interim Measures and comply with all applicable requirements in the Interim Measures.

According to the Interim Measures, online lending information providers are subject to sanctions or penalties by local financial regulatory authorities or other competent authorities if found to be in violation of any applicable laws and regulations or relevant regulatory provisions relating to online lending information services. The sanctions and penalties include supervisory inquiry, regulatory warning, correction order, condemnation, credit record modification, fine up to RMB30,000, and criminal liabilities where applicable.

On November 30, 2016, the CBRC, the MIIT and State Administration for Industry and Commerce, or the SAIC, jointly issued the *Guidance on the Administration of Registration of Online Lending Information Intermediaries*, or the Registration Guidelines, which provides the general filing rules for online lending intermediaries, and delegates the filing authority to local financial authorities. The Registration Guidelines, sets forth that online lending intermediaries are approved locally. Under the general filing procedures for online lending intermediaries, before an filing application is submitted to local financial regulators, the online lending intermediaries may be required to: (i) rectify any breach of applicable regulations as required by local financial regulators; and (ii) apply to the Industry and Commerce Administration Department to amend or register such entity's the business scope.

The CBRC also authorizes local financial regulators to make detailed implementation rules regarding filing procedures. However, relevant local financial regulators are also in the process of making such implementation rules, which may require us to complete filing records under such future requirements within a grace period.

On February 22, 2017, the CBRC released the *Guidelines on Online Lending Funds Custodian Business*, or the Custodian Guidelines, which set out requirements on the fund custodian services for online lending information intermediaries. The Custodian Guidelines define custodian as commercial banks qualified for providing depository services for online lending information providers and specify the criteria for qualification. Pursuant to the Custodian Guideline, an online lending information service provider may only enter into fund depository agreement with one custodian for the funds of lenders and borrowers held by it, and shall segregate the funds of lenders, borrowers and the proprietary funds of online lending information service providers in separate accounts. For any online lending information service providers and custodian operating prior to the implementation of the Custodian Guideline, which are not in full compliance with the Custodian Guidelines, they are required to rectify any violation of the Custodian Guideline within a six-month grace period starting from the issuance of the Custodian Guideline.

On August 23, 2017, the CBRC further issued the *Guidelines on Information Disclosure of the Business Activities of Online Lending Information Intermediaries*, or the Disclosure Guidelines, which clarified the disclosure obligation of online lending information service providers. Pursuant to the Disclosure Guidelines, online lending information service providers shall set a special column of information disclosure on the eye-catching locations of its official website and all other available internet channels, such as mobile applications and WeChat official accounts to disclose certain information, including, among other things (i) basic information of the online lending information service provider, such as its registration information, organization information, and financial data; (ii) transaction related information, such as the total notional and number of transactions matched through the online lending information platform; and (iii) any event that could result in a material adverse effect on the operations of online lending information providers. The Disclosure Guidelines also require online lending information service providers to record all the disclosed information and retain such information for no less than five years from the date of the disclosure. For any online lending information service providers are not in full compliance with the Disclosure Guidelines, they are required to rectify any violation of the Custodian Guideline within a six-month grace period upon issuance of the Disclosure Guideline.

On July 4, 2017, Financial Development and Service Office of the People's Government of Shenzhen published a discussion draft on the proposed *Administrative Measures on the Registration of Shenzhen based Online Lending Information Intermediary*, or the Proposed Administrative Measures, for public review and comments. The Proposed Administrative Measures set out detailed requirements and procedures for the registration of online lending information service providers, which, including, among others, to require the online lending information providers to implement robust network security protection system, select a qualified commercial bank that has a branch in Shenzhen as its fund custodian institution and opened the custodian accounts for online lending in its Shenzhen branch, and employ at least three senior executives with more than five years' experience in the financial industry holding bachelor degrees or above. The public review and comments for the Proposed Administrative Measures has now concluded, but it is still uncertain when the draft will become effective and whether the definitive version would have substantial changes from the draft.

On December 1, 2017, the *Notice on Rectification of Cash Loan Business*, or Circular 141, was promulgated by the Head Office for Special Rectification of Online Finance Risk and the Head Office for Special Rectification of Peer-to-Peer Online Lending. In accordance with Circular 141, cash loan, which is characterized by the lack of specific scenes, designated purposes, targeted users and mortgage may be inspected and rectified. Circular 141 further specifies that the overall cost of loan, including among others, the loan interest and other forms of fees, charged by the institutions shall be subject to the restrictions on interest rates as specified in applicable rules on private lending. In addition, Circular 141 provides that banking financial institutions shall not receive credit enhancement services offered by any third party that lacks qualifications to provide guarantee, and shall ensure such third party not to charge fees from borrowers.

Moreover, pursuant to Circular 141, an online lending information provider shall not (i) provide online lending intermediary services for the lending whose interest rate violates the regulatory requirement, (ii) deduct the interest, service fee, administrative fee and deposit from a loan principal in advance, or set high overdue interest, overdue fine payment or default interest; (iii) outsource core business such as user information collection, information screening, credit assessment, and account opening to any third party; (iv) assist the banking financial institutions to participate in peer-to-peer online lending; (v) assist to match the loans for students or any borrower unable to repay; (vi) provide online lending intermediary services for loans used for purchasing real property, or any loan without specific usage of funds.

On December 8, 2017, the Head Office for Special Rectification of Peer-to-Peer Online Lending issued the *Notice on the Special Rectification and Inspection of Risk of Online Lending Intermediaries*, or Circular 57, providing further clarification on several matters in connection with the rectification and registration of online lending information intermediaries, including, among other things:

Requirements to qualify for registration. Circular 57 sets forth certain requirements for online lending intermediary to qualify for the registration, including, among others, an online lending intermediary (i) shall cease conducting any thirteen prohibited actions regulated in the Interim Measures or exceeding the individual lending amount upper limit as stipulated in the Interim Measures after August 24, 2016, and shall fully eliminate the outstanding balance of such non-compliance products offered before August 24, 2016; (ii) shall cease offering the down payment loan for purchasing real property, campus loan or cash loan, and gradually reduce the outstanding balance of the abovementioned loan within certain timetable; and (iii) set up custody accounts with qualified banks that have passed certain testing and evaluation procedures run by the Head Office for Special Rectification of Peer-to-Peer Online Lending to hold user funds. For the online lending intermediaries that are unable to accomplish the rectification and registration but are continuing to participate in the online lending business, the relevant authorities shall subject such online lending intermediaries to administrative sanctions, including but not limited to revoking the operation license for telecommunication service, shutting down the websites, ceasing the entire business and forbidding the financial institutions to provide any financial service to such online lending intermediaries.

Requirements relating to the timing of the registration. The local governmental authorities shall complete inspection and registration with the following timetable: (i) completion of registration for major online lending information intermediaries by the end of April 2018; (ii) with respect to online lending information intermediaries with substantial outstanding balance of those loans prohibited under the relevant laws and regulations and difficulties to timely eliminate all those balance, the full elimination of such balance and registration shall be completed by the end of May 2018; (iii) with respect to those online lending information intermediaries with complex and extraordinary circumstances and substantial difficulties to complete rectification, the ‘relevant work’ shall be completed by the end of June 2018.

Requirements relating to the transfer of creditor’s rights. The low-frequency transfer of creditor’s rights among lenders shall be regarded as legitimate, while transfer of creditor’s rights by means of, (i) quasi-asset securitization services or in form of packaged assets, securitized assets, trust assets or fund shares, (ii) “super-lender” mode where the executives or related parties of the online lending intermediary enter into a loan agreement with a borrower, and then transfer the creditor’s rights of such loan to the actual lender through online lending platform; (iii) connecting with the current and regular financial products, shall be deemed as illegal.

In August 2018, the Notice on Conducting Compliance Inspections of Online Lending Intermediaries, or the Inspection Notice, and the Compliance Checklist of Online Lending Information Intermediaries, or the Compliance Checklist, were promulgated by the Head Office for Special Rectification of Peer-to-Peer Online Lending, on the basis of Interim Measures, Custodian Guidelines, Disclosure Guidelines, Circular 141 and Circular 57. According to the Inspection Notice, the compliance inspection, which consists of self-inspection conducted by online lending information intermediaries, inspection conducted by local and national Internet Finance Associations, and verification conducted by the local online lending rectification office, shall be completed by the end of December 2018. The online lending information intermediaries that are in compliance with the applicable rules and regulations could be granted access to the information disclosure system and the product registration system, and subject to certain conditions, such online lending information intermediaries are allowed to submit the filing applications.

The Compliance Checklist sets forth 108 inspection items. The main focuses of the compliance inspection under the Inspection Notice and the Compliance Checklist are, including among others, whether the online lending information intermediaries (1) conduct any business other than the information intermediary business, such as the credit intermediary business, (2) form any capital pool, or advance any funds to users; (3) finance for themselves directly or indirectly; (4) provide guarantee to lenders or promise full repayment of principal and interest; (5) provide promise of guaranteed redemption; (6) conduct risk evaluation of lenders and categorize lenders; (7) fully disclose risk information of the borrowers to the lenders; (8) strictly follow the principle of spreading money across small amount loans; (9) raise funds by offering wealth management products on their own or through their affiliates; (10) attract investors or lenders by means of high profits or other methods. However, the specific standards and procedures for the access to the information disclosure system and the product registration system and the application procedures of P2P registration will be subject to further notice.

In December 2018, the relevant PRC regulatory authorities of the P2P lending industry issued the Circular on Making Efforts to Prevent Risk and Classify Online Lending Institutions (“Circular 175”), in which the regulatory authorities, for the first time, classified the online P2P lending marketplaces into six categories: (i) marketplaces on which investors are not fully repaid or that are otherwise unable to operate their businesses and under investigation of the public security department, (ii) marketplaces that have been unable to operate their businesses but are not under investigation of the public security department, (iii) shell companies with zero loan balance or loan origination for more than three months and marketplaces that no longer facilitate loan application and investment, or are otherwise not in operation, (iv) small-scale marketplaces, (v) marketplaces with high risks, and (vi) Normal Marketplaces. Pursuant to Circular 175, the scope of the rectification of online lending institution shall be limited to institutions which have entered into the Data Submission System of Online Security Centre, and any institutions out of this scope shall be treated as illegal fund raising. We submitted our application materials for the P2P registration, to the Shenzhen Financial Services Office, our competent authority, in April 2018, and we have entered into the Data Submission System of Online Security Centre since November 2018. According to Circular 175, for the institutions in the Data Submission System of Online Security Centre, only Normal Marketplaces are allowed to continue to operate in the P2P lending industry. As of the date of this annual report, we have not received any notice that we have been classified as high-risk characteristics and we do not believe we would fall into categories (i) to (v) above. Although Circular 175 does not require Normal Marketplaces to exit the industry or shut down and imposes minimum restrictions, such as control the existing size and number of investors, on Normal Marketplaces, we may be encouraged by PRC government authorities to convert into other types of online financing institutions such as online microcredit companies or loan facilitation platforms, and we have already started taking various measures, such as expanding cooperation with institutional partners, in order to reduce the adverse impact on our business volume. If we were encouraged or required to change the type of business we operate, our business, financial condition and results of operation might be materially and adversely affected. However, due to the un-clarification of Circular 175, there is a risk that applicable regulatory authorities interpret the regulations differently than we do. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We have ceased the P2P operation business, but we cannot assure you that our operations were in full compliance with relevant legal requirements and would not be punished under relevant regulations.”

Requirements relating to risk reserve funds. The online lending information intermediaries shall cease setting aside additional fund as risk reserve funds, and shall gradually reduce the existing scale of risk reserve funds. In addition, the online lending information intermediaries are encouraged to seek third parties to provide guarantee to lenders.

We have taken considerable measures to comply with the Interim Measures, the Custodian Guidelines, Circular 141, Circular 57, the Inspection Notice, the Compliance Checklist and other laws and regulations applicable to our business operations. For example, we have selected qualified banks to deposit the funds of lenders and borrowers and manage our own funds separately from the funds of lenders and borrowers, enhanced the risk disclosures of online lending on our platform, and set up systematic rules on cooperating with business partners to realize the isolation of risks. However, given that detailed regulations and guidance in the area of online lending information services are yet to be promulgated, we cannot be certain that our existing practices would not be deemed to violate any existing or future rules, laws and regulations. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We have ceased the P2P operation business, but we cannot assure you that our operations were in full compliance with relevant legal requirements and would not be punished under relevant regulations.”

In January 2019, the Head Office for Special Rectification of Peer-to-Peer Online Lending and the Head Office for Special Rectification of Online Finance Risk jointly issued the *Notice on Further Proceed with Compliance Inspection of P2P Online Lending and Follow-up Work*, which stipulates P2P online lending platform passed the inspections by the administrative authorities shall provide real time data step by step.

In September 2019, the Head Office for Special Rectification of Peer-to-Peer Online Lending and the Head Office for Special Rectification of Online Finance Risk jointly issued the Circular of Strengthening the Construction of Credit Support System of Online Lending, as reported, which encourages operating peer-to-peer online lending institutions connect to credit reporting system, including the professional agency of basic database for financial credit information (i.e. the Credit Reference Center of the People’s Bank of China), Baihang Credit and etc, cracking down malicious debt evasion behaviors of non-operating peer-to-peer online lending entities, increasing the punishment of discredited enterprise and strengthening publicity and public opinion guidance.

### ***Regulations Relating to Microcredit Business***

Chinese regulators also encourage Normal Marketplace under Circular 175 to transform into online microcredit companies. In late December, 2019, the Head Office for Special Rectification of Online Finance Risk and the Head Office for Special Rectification of Peer-to-Peer Online Lending jointly issued Guiding Opinions on Pilot Program of Transforming Peer-to-Peer Lending Information Intermediaries to Microcredit Companies, or Circular 83, which provides detailed guidelines for the conversion of peer-to-peer online lending information intermediaries into microcredit companies from the following aspects: (i) compliance requirement; (ii) qualified shareholders and management team; (iii) the feasibility of the transforming plan; and (iv) with strong financial technology and be capable to online operation requirement. However, uncertainties still exist in relation to the interpretation and implementation of Circular 83.

On September 7, 2020, the China Banking and Insurance Regulatory Commission issued the *Circular on Strengthening the Supervision and Administration of Microcredit Companies*, or the Microcredit Circular. The Microcredit Circular provides that the microcredit companies shall mainly operate the lending business and shall act in accordance with the requirements regarding the loan concentration, loan purposes, fund management, debt collection and disclosure. Local authorities shall enhance supervision and administration of the establishment of the microcredit companies and suspend newly-incorporated microcredit companies from engaging in the Internet microcredit business and other inter-provincial business.

On November 2, 2020, China Banking and Insurance Regulatory Commission and People's Bank of China published the *Interim Administrative Measures for Online Microcredit Business (Draft for Comment)*, or the Draft Interim Administrative Measures, for public review and comments. Pursuant to the Draft Interim Administrative Measures, "online microcredit business" refers to any microcredit business engaged in by a microcredit company through using big data, cloud computing, mobile internet and other technical means, utilizing internally generated data and information on customer operation, online consumption, online transaction, etc., accumulated via internet platforms as well as other data and information obtained through legitimate channels to analyze and appraise the credit risk of borrowing customers, determine the mode and quota of loans, and complete such processes as loan application, risk review, loan approval, loan granting and loan recovery online. Online microcredit business engaged in by a microcredit company shall mainly be carried out in the provincial-level administrative region to which its place of registration belongs. Without the approval of the banking regulator under the State Council, no microcredit company may carry out online microcredit business across provincial-level administrative regions. The registered capital of a microcredit company which engages in online microcredit business shall not be less than CNY1 billion and shall be one-off paid-up monetary capital. The registered capital of a microcredit company which engages in online microcredit business across provincial-level administrative regions shall not be less than CNY5 billion and shall be one-off paid-up monetary capital. In principle, the balance of single-account online microcredit loans granted to a natural person shall not exceed CNY300,000 or one-third of its average annual income in the last three years, between which the lower one shall be the maximum loan amount; and in principle, the balance of single-account online microcredit loans granted to a legal person or any other organization and its related parties shall not exceed CNY1 million. The Draft Interim Administrative Measures was released for public comment only, there remains substantial uncertainty regarding the Draft Interim Administrative Measures, including with respect to its final content, adoption timeline or effective date.

### ***Regulation Relating to Money Market Funds***

According to the *Administrative Measures on Supervision of Money Market Funds* issued by the CSRC and the PBOC on December 17, 2015 and became effective on February 1, 2016, a fund manager or fund sales institution shall not carry out the sales of money market funds in cooperation with any internet institution or other institution engaged in the promotion or the sale, subscription or redemption of units of funds or other relevant business without adequate qualification for fund sales business registered with the CSRC.

The money market products we facilitated on Xiaoying Wealth Management platform are provided by certain qualified business partners of us pursuant to the Administrative Measures on Supervision of Money Market Funds, and we do not carry out any of the sale, subscription or redemption of any money market products on our Xiaoying Wealth Management platform by ourselves. Thus, we believe we are not subject to the above mentioned regulations in China.

### ***Regulations Relating to Loans between Individuals***

On May 28, 2020, the National People's Congress approved the PRC Civil Code, which came into effect on January 1, 2021 and repealed the PRC Contract Law and the General Principles of the Civil Law of the PRC. The PRC Civil Code confirms the validity of loan agreement between individuals and provides that a loan agreement becomes effective when an individual lender provides loan to an individual borrower provided that the interest rates charged under the loan agreement do not violate the applicable provisions of the PRC laws and regulations.

Pursuant to the *Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases* issued by the Supreme People's Court on August 6, 2015, or the Private Lending Judicial Interpretations, which came into force on September 1, 2015, in the event that loans are made through an online lending information intermediary platform and the platform only provides intermediary services, courts shall dismiss any claim concerned against the platform demanding the repayment of loans by the platform as a guarantor.



Pursuant further to the PRC Private Lending Judicial Interpretations, PRC courts shall uphold any interest rate below 24% as agreed between borrowers and lenders; as to the loans with annual interest rate between 24% and 36%, if the interest rate has been paid to the lender, so long as the interest payment does not damage or pose any threat to the state, the community or any third party, PRC courts will not support borrower's request for the return of the excess interest payment; if the annual interest rate agreed exceeds 36%, the agreement on the excess part of the interest shall be invalid, and PRC courts shall support any claim against the return of the excess part of the interest payment.

On August 4, 2017, the Supreme People's Court issued the *Several Opinions on Further Strengthening the Judicial Work in the Finance Sector*, according to which if an online lending information intermediary and a lender attempt to evade the upper limit to the legally protected interest by charging part of interest rate as intermediary fees or other service fees, such arrangements shall be deemed as invalid. In addition, PRC courts shall support the borrower's claim to reduce the overall annual interest rate to 24%, on the basis that the aggregate amount of interest, compound interest, default interest, liquidated damages and other fees claimed by the lender is overly high.

On August 19, 2020, the Private Lending Judicial Interpretations was amended by the Supreme People's Court, pursuant to which where a lender claims that corresponding borrower shall pay interest as per the interest rate contractually stipulated, relevant people's court shall uphold such claim, except where the interest rate agreed on by both parties concerned exceeds four times the LPR for one-year loan when the contract is concluded. "LPR for one-year loan" refers to the LPR for one-year loan to be published on a monthly basis by the National Interbank Funding Center authorized by the People's Bank of China as of August 20, 2019. On December 29, 2020, the Supreme People's Court issued the Official Reply of the Supreme People's Court to the Issues concerning the Scope of Application of the New Judicial Interpretation on Private Lending, or the Official Reply. According to the Private Lending Judicial Interpretations and the Official Reply, for financial institutions and branches engaging in loan business and established upon the approval of the financial regulatory authorities, including but not limited to microcredit company, Private Lending Judicial Interpretations shall not apply to disputes caused by granting loans and relevant financial business.

Apart from the above, pursuant to the PRC Civil Code, a creditor's rights under a loan agreement is assignable to a third party, provided that the debtor is notified before such assignment takes effect for the debtor. Upon due assignment of the creditor's rights, the assignee is entitled to the creditor's rights and the debtor must perform the relevant obligations under the agreement for the benefit of the assignee.

### ***Regulations Relating to Guarantee***

On March 8, 2010, CBRC, NDRC, MIIT, MOFCOM, PBOC, SAIC and Ministry of Finance of PRC promulgated the *Tentative Administrative Measures for Financing Guarantee Companies*, or the Tentative Administrative Measure. The Tentative Administrative Measures require an entity or individual to obtain a prior approval from the relevant regulatory body to engage in the financing guarantee business, and defines "financing guarantee" as an activity whereby the guarantor and the creditor, such as a financial institution in the banking sector, agree that the guarantor shall bear the guarantee obligations in the event that the secured party fails to perform its financing debt owed to the creditor.

On August 2, 2017, the State Council issued Regulations on the Supervision and Administration of Financing Guarantee Companies, or the Financing Guarantee Rules. The Financing Guarantee Rules defines financing guarantee as activities whereby guarantors provide guarantee for the borrowing of funds, issuance of bonds and other debt financing activities of the guaranteed parties, and financing guarantee companies refer to limited liability companies or companies limited by shares that are duly established and engage in financing guarantee business. Pursuant to the Financing Guarantee Rules, the establishment of a financing guarantee company shall be subject to the approval of the relevant regulatory authority. In the event that a company commences financing guarantee business without first obtaining relevant approval, the company will be ordered by the regulatory authority to cease financing guarantee business, be imposed a fine from RMB 500,000 up to RMB 1,000,000, have its illegal gains confiscated, and be investigated for criminal liabilities.

We might be deemed as providing guarantee on some of the loans formed offline between institutional funding partners and the borrowers. However, given the lack of further interpretations, the exact definition and scope of “operating financing guarantee business” under the Financing Guarantee Rules is unclear, we cannot be certain that our existing practices will not be determined to violate any existing or future rules, laws and regulations. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We may be deemed to operate financing guarantee business by the PRC regulatory authorities.”

### ***Regulations Relating to Anti-Money Laundering***

The *PRC Anti-Money Laundering Law*, which became effective in January 2007, sets forth the principal anti-money laundering requirements applicable to financial institutions as well as non-financial institutions with anti-money laundering obligations, including the adoption of precautionary and supervisory measures, establishment of various systems for client identification, retention of clients’ identification information, and transactions records, and reports on large transactions and suspicious transactions. According to the *PRC Anti-Money Laundering Law*, financial institutions subject to the *PRC Anti-Money Laundering Law* include banks, credit unions, trust investment companies, stock brokerage companies, futures brokerage companies, insurance companies and other financial institutions as listed and published by the State Council, while the list of the non-financial institutions with anti-money laundering obligations will be published by the State Council. The PBOC and other governmental authorities issued a series of administrative rules and regulations to specify the anti-money laundering obligations of financial institutions and certain non-financial institutions, such as payment institutions. However, the State Council has not promulgated the list of the non-financial institutions with anti-money laundering obligations.

The Guidelines jointly released by ten PRC regulatory agencies in July 2015, purport, among other things, to require Internet finance service providers to comply with certain anti-money laundering requirements, including the establishment of a user identification program, the monitoring and reporting of suspicious transactions, the preservation of user information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. The PBOC will formulate implementing rules to further specify the anti-money laundering obligations of Internet finance service providers.

Pursuant to the Interim Measures, an online lending intermediary shall perform the anti-money laundering obligations by verifying client identity, reporting suspicious transactions, keeping identity data and transaction records, etc. In addition, the Custodian Guidelines requires that the anti-money laundering obligation be included in the fund custodian agreements between an online lending intermediary and the commercial bank acting as the depository, and the online lending intermediary shall fulfill and cooperate with depository to fulfill anti-money laundering obligations. The Measures for the Anti-money Laundering and Anti-terrorist Finance of Internet Finance, promulgated on October 10, 2018, further specified that, any Internet finance institutions (including online lending intermediary) incorporated upon approval or upon record-filing by applicable regulatory authority, shall report any forms of cash receipts and payments whose transaction value reaches or exceeds RMB 50,000 or foreign currency equivalent of USD 10,000 on a per-transaction or cumulative basis on a given day, within five working days from the date when such transaction takes place.

We have adopted and implemented various policies and procedures, such as internal controls and “know-your-customer” procedures, for anti-money laundering purposes. However, our policies and procedures may not be completely effective in preventing other parties from using us for money laundering without our knowledge. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Any failure by us, institutional funding partners payment service providers or funds custody banks to comply with applicable anti-money laundering and anti-terrorist financing laws and regulations could damage our reputation, expose us to significant penalties, and decrease our revenues and profitability.”

### ***Regulations Relating to Illegal Fund-Raising***

Raising funds by entities or individuals from the general public must be conducted in strict compliance with applicable PRC laws and regulations to avoid administrative and criminal liabilities. The *Measures for the Banning of Illegal Financial Institutions and Illegal Financial Business Operations* promulgated by the State Council in July 1998 amended in January 2011, and the *Notice on Relevant Issues Concerning the Penalty on Illegal Fund-Raising* issued by the General Office of the State Council in July 2007 explicitly prohibit illegal public fund-raising. The main features of illegal public fund-raising include: (i) illegally soliciting and raising funds from the general public by means of issuing stocks, bonds, lotteries or other securities without obtaining the approval of relevant authorities, (ii) promising a return of interest or profits or investment returns in cash, properties or other forms within a specified period of time, and (iii) using a legitimate form to disguise the unlawful purpose.

To further clarify the criminal charges and punishments relating to illegal public fund-raising, the Supreme People's Court promulgated the *Judicial Interpretations to Issues Concerning Applications of Laws for Trial of Criminal Cases on Illegal Fund-Raising*, or the Illegal Fund-Raising Judicial Interpretations, which came into force in January 2011. The Illegal Fund-Raising Judicial Interpretations provide that a public fund-raising will constitute a criminal offense related to "illegally soliciting deposits from the public" under the PRC Criminal Law, if it meets all the following four criteria: (i) the fund-raising has not been approved by the relevant authorities or is concealed under the guise of legitimate acts; (ii) the fundraising employs general solicitation or advertising such as social media, promotion meetings, leafletting and short message service, or SMS, advertising; (iii) the fundraiser promises to repay, after a specified period of time, the capital and interests, or investment returns in cash, property in kind and other forms; and (iv) the fund-raising targets the general public as opposed to specific individuals. Pursuant to the Illegal Fund-Raising Judicial Interpretations, an offender that is an entity will be subject to criminal liabilities, if it illegally solicits deposits from the general public or illegally solicits deposits in disguised form (i) with the amount of deposits involved exceeding RMB1,000,000, (ii) with over 150 fund-raising targets involved, or (iii) with the direct economic loss caused to fund-raising targets exceeding RMB500,000, or (iv) the illegal fund-raising activities have caused baneful influences to the public or have led to other severe consequences. An individual offender is also subject to criminal liabilities but with lower thresholds.

In addition, an individual or an entity who has aided in illegal fund-raising from the general public and charges fees, including but not limited to agent fees, rewards, rebates and commission, would constitute an accomplice of the crime of illegal fund-raising. In accordance with the *Opinions of the Supreme People's Court, the Supreme People's Procurator and the Ministry of Public Security on Several Issues concerning the Application of Law in the Illegal Fund-Raising Criminal Cases*, administrative proceedings for determining the nature of illegal fund-raising activities is not a prerequisite procedure for the initiation of criminal proceeding concerning the crime of illegal fund-raising, and the administrative departments' failure in determining the nature of illegal fund-raising activities does not affect the investigation, prosecution and trial of cases concerning the crime of illegal fund-raising.

On December 21, 2020, the State Council promulgated the Regulations for the Prevention and Handling of Illegal Fund-raising, or the Illegal Fund-raising Regulations, which will become effective as of May 1, 2021. The Illegal Fund-raising Regulations stipulates that Internet information service providers shall strengthen the management of information published by users, and shall not produce, reproduce, publish or spread information on suspected illegal fund-raising practices. If any information on suspected illegal fund-raising practices is found, relevant records shall be kept and reported to the authority handling illegal fund-raising. Competent authorities in charge of telecommunications shall shut down websites established and mobile applications developed for illegal fund-raising and other Internet applications in accordance with the law.

We have taken measures to avoid conducting any activities that are prohibited under the illegal-funding related laws and regulations. For example, we managed the funds of lenders, borrowers and the proprietary funds of us in separate accounts by entering into fund depository agreement with a qualified bank.

#### ***Regulations on Mobile Internet Applications Information Services***

Mobile Internet applications and the Internet application store are especially regulated by the *Administrative Provisions on Mobile Internet Applications Information Services*, or the APP Provisions, which was promulgated by the Cyberspace Administration of China or the CAC on June 28, 2016 and entered into force on August 1, 2016. The APP Provisions regulate the APP information and the APP store service providers, and the CAC and local offices of cyberspace administration are responsible for the supervision and administration of nationwide or local APP information respectively.

The APP information service providers shall acquire relevant qualifications in accordance with laws and regulations and fulfill the information security management obligations as follows: (1) shall authenticate the identity information of the registered users including their mobile telephone number and other identity information under the principle that mandatory real name registration at the back-office end, and voluntary real name display at the front-office end; (2) shall establish and perfect the mechanism for the protection of users' information, and follow the principle of legality, rightfulness and necessity, indicate expressly the purpose, method and scope of collection and use and obtain the consent of users while collecting and using users' personal information; (3) shall establish and perfect the mechanism for the examination and management of information content, and in terms of any information content released that violates laws or regulations, take such measures as warning, restricting the functions, suspending the update and closing the accounts as the case may be, keep relevant records and report the same to relevant competent authorities; (4) shall safeguard users' right to know and to make choices when users are installing or using such applications, and shall neither start such functions as collecting the information of users' positions, accessing users' contacts, turning on the camera and recording the sound, or any other function irrelevant to the services, nor forcefully install any other irrelevant applications without prior consent of users when noticed expressly; (5) shall respect and protect the intellectual properties and shall neither produce nor release any application that infringes others' intellectual properties; and (6) shall record the users' log information and keep the same for 60 days.

We have established necessary mechanisms and adopted data encryption and protection technology in our mobile application to ensure the collection, protection and storage of user information are in compliance with the requirements of the APP Provisions in all material aspects.

### ***Regulations on Internet Information Security***

In 1997, the Ministry of Public Security has promulgated measures that prohibit use of the internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. If an internet information service provider violates these measures, the Ministry of Public Security and the local security bureaus may revoke its operating license and shut down its websites.

Internet information in China is regulated and restricted from a national security standpoint. The Standing Committee of the National People's Congress, or the SCNPC, has enacted *the Decisions on Maintaining Internet Security* on December 28, 2000 and further amended on August 27, 2009, which may subject violators to criminal punishment in China for any effort to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights.

The *PRC Cybersecurity Law* was promulgated by the SCNPC on November 7, 2016 and became effective on June 1, 2017. Under this regulation, network operators, including online lending information service providers, shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services, and take all necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

We have, in accordance with relevant provisions on network security of the PRC, established necessary mechanisms to protect information security, including, among others, adopting necessary network security protection technologies such as anti-virus firewalls, intrusion detection and data encryption, keeping record of network logs, and implementing information classification framework.

### ***Regulations on Privacy Protection***

The *Several Provisions on Regulating the Market Order of Internet Information Services*, issued by the MIIT in December 2011, provide that, an internet information service provider may not collect any user personal information or provide any such information to third parties without the consent of a user. An internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An internet information service provider is also required to properly maintain the user personal information, and in case of any leak or likely leak of the user personal information, online lending service providers must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

In addition, pursuant to the *Decision on Strengthening the Protection of Online Information* issued by the SCNPC in December 2012 and the *Order for the Protection of Telecommunication and Internet User Personal Information* issued by the MIIT in July 2013, any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes.

The *Guidelines* jointly released by ten PRC regulatory agencies in July 2015 purport, among other things, to require Internet finance service providers to improve technology security standards, and safeguard user and transaction information. The Guidelines also prohibit Internet finance service providers from illegally selling or disclosing users' personal information. Pursuant to the *Ninth Amendment to the Criminal Law* issued by the SCNPC in August 2015, which became effective in November 2015, any Internet service provider that fails to fulfill the obligations related to Internet information security administration as required by applicable laws and refuses to rectify upon orders is subject to criminal penalty for the result of (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client's information; (iii) any serious loss of criminal evidence; or (iv) other severe situation, and any individual or entity that (i) sells or provides personal information to others in a way violating the applicable law, or (ii) steals or illegally obtain any personal information is subject to criminal penalty in severe situation.

Pursuant to the PRC Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual that needs to obtain personal information of others shall obtain such information legally and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others. Furthermore, information processors shall not divulge or tamper with personal information collected or stored by them; without the consent of a natural person, information processors shall not illegally provide personal information of such person to others, except for information that has been processed so that specific persons cannot be identified and that cannot be restored. In addition, an information processor shall take technical measures and other necessary measures to ensure the security of the personal information that is collected and stored and to prevent the information from being divulged, tampered with or lost; where personal information has been or may be divulged, tampered with or lost, the information processor shall take remedial measures in a timely manner, inform the natural person concerned in accordance with the provisions and report the case to the relevant competent department.

Furthermore, the Interim Measures require online lending information service providers to reinforce the management of lenders' and borrowers' information, so as to ensure the legitimacy and security regarding the collection, processing and use of lenders' and borrowers' information. Also, online lending information service providers should keep confidential the lenders' and borrowers' information collected in the course of their business, and should not use such information for any other purpose except for services they provide without approval of lenders or borrowers.

We have obtained consent from users to collect and use their personal information in providing consumer finance service. While we have taken measures to protect the personal information that we have access to, our security measures could be breached resulting in the leak of such confidential personal information. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. See "Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—If we are unable to protect the confidential information of our users and adapt to the relevant regulatory framework regarding protection of such information, our business and operations may be adversely affected."

#### ***Regulations Related to Intellectual Property***

The SCNPC and the State Council have promulgated comprehensive laws and regulations to protect trademarks. The *Trademark Law of the PRC*, or the PRC Trademark Law, promulgated on August 23, 1982 and most recently amended on November 1, 2019 and the *Implementation Regulation of the PRC Trademark Law* issued by the State Council on August 3, 2002 and amended on April 29, 2014 are the main regulations protecting registered trademarks. The Trademark Office under the State Administration of Industry and Commerce administrates the registration of trademarks on a "first-to-file" basis, and grants a term of ten years to registered trademarks.

The *PRC Copyright Law*, adopted in 1990 and revised in 2001, 2010 respectively, with its implementation rules adopted on August 8, 2002 and revised in 2011 and 2013 respectively, and the *Regulations for the Protection of Computer Software* as promulgated on December 20, 2001 and amended in 2011 and 2013 provide protection for copyright of computer software in the PRC. Under these rules and regulations, software owners, licensees and transferees may register their rights in software with the National Copyright Administration Center or its local branches to obtain software copyright registration certificates.

The MIIT, promulgated the *Administrative Measures on Internet Domain Name*, or the Domain Name Measure on August 24, 2017 to protect domain names. According to the Domain Name Measures, domain name applicants are required to duly register their domain names with domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

We have adopted necessary mechanisms to register, maintain and enforce intellectual property rights in China. However, we cannot assure you that we can prevent our intellectual property from all the unauthorized use by any third party, neither can we promise that none of our intellectual property rights would be challenged any third party. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We may not be able to prevent unauthorized use of our intellectual property, which could harm our business and competitive position.”

### ***Regulations Related to Employment***

The *PRC Labor Law*, or the Labor Law, which was promulgated by the SCNPC in July 1994, became effective in January 1995, and was most recently amended in December 2018. The *PRC Labor Contract Law*, or the Labor Law Contract Law, which took effect on January 1, 2008 and was amended on December 28, 2012. Pursuant to the Labor Law and the *Labor Contract Law*, employers must execute written employment contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. Violations of the PRC Labor Law and the Labor Contract Law may result in the imposition of fines and other administrative sanctions, and serious violations may constitute criminal offences.

On December 28, 2012, the PRC Labor Contract Law was amended with effect on July 1, 2013 to impose more stringent requirements on labor dispatch. Under such law, dispatched workers are entitled to pay equal to that of full-time employees for equal work, but the number of dispatched workers that an employer hires may not exceed a certain percentage of its total number of employees as determined by the Ministry of Human Resources and Social Security. Additionally, dispatched workers are only permitted to engage in temporary, auxiliary or substitute work. According to the *Interim Provisions on Labor Dispatch* promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of dispatched workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and dispatched workers). The Interim Provisions on Labor Dispatch require employers not in compliance with the PRC Labor Contract Law in this regard to reduce the number of its dispatched workers to below 10% of the total number of its employees prior to March 1, 2016.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. The enterprise may be ordered to pay the full amount within a deadline if it fails to make adequate contributions to various employee benefit plans and may be subject to fines and other administrative sanctions.

### ***Regulations Relating to Foreign Exchange***

#### ***Regulations on Foreign Currency Exchange***

Under the *PRC Foreign Currency Administration Rules* promulgated on January 29, 1996 and last amended on August 5, 2008 and various regulations issued by the State Administration of Foreign Exchange, or the SAFE, and other relevant PRC government authorities, payment of current account items in foreign currencies, such as trade and service payments, payment of interest and dividends can be made without prior approval from SAFE by following the appropriate procedural requirements. By contrast, the conversion of RMB into foreign currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires prior approval from SAFE or its local office.

On February 13, 2015, SAFE promulgated the *Circular on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment*, or the SAFE Circular No. 13, effective from June 1, 2015 and amended on December 30, 2019, which cancels the requirement for obtaining approvals of foreign exchange registration of foreign direct investment and overseas direct investment from SAFE. The application for the registration of foreign exchange for the purpose of foreign direct investment and overseas direct investment may be filed with qualified banks, which, under the supervision of SAFE, may review the application and process the registration.

*The Circular of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise*, or the SAFE Circular No. 19, was promulgated on March 30, 2015, became effective on June 1, 2015 and was further amended on December 30, 2019. According to the SAFE Circular No. 19, a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. *The Circular of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts*, the SAFE Circular No. 16 was promulgated and became effective on June 9, 2016. According to the SAFE Circular No. 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Circular No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Circular No. 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

On January 26, 2017, SAFE promulgated the *Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification*, or Circular No. 3, which stipulates several capital control measures with respect to the outbound remittance of profits from domestic entities to offshore entities, including (i) banks must check whether the transaction is genuine by reviewing board resolutions regarding profit distribution, original copies of tax filing records and audited financial statements, and (ii) domestic entities must retain income to account for previous years' losses before remitting any profits. Moreover, pursuant to Circular 3, domestic entities must explain in detail the sources of capital and how the capital will be used, and provide board resolutions, contracts and other proof as a part of the registration procedure for outbound investment.

#### *Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents*

SAFE issued the *Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles*, or the SAFE Circular 37, which became effective in July 2014, to replace the *Circular of the State Administration of Foreign Exchange on Issues Concerning the Regulation of Foreign Exchange in Equity Finance and Roundtrip Investments by Domestic Residents through Offshore Special Purpose Vehicles*, or the SAFE Circular 75 to regulate foreign exchange matters in relation to the use of special purpose vehicles, or SPVs, by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China. SAFE Circular 37 defines a SPV as an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, while "round trip investment" is defined as direct investment in China by PRC residents or entities through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. SAFE Circular 37 stipulates that, prior to making contributions into an SPV, PRC residents or entities be required to complete foreign exchange registration with SAFE or its local branch. In addition, SAFE promulgated the *Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment* in February 2015, as amended in December 2019, which amended SAFE Circular 37 and became effective on June 1, 2015, requiring PRC residents or entities to register with qualified banks rather than SAFE in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

PRC residents or entities who had contributed legitimate onshore or offshore interests or assets to SPVs but had not obtained registration as required before the implementation of the SAFE Circular 37 must register their ownership interests or control in the SPVs with qualified banks. An amendment to the registration is required if there is a material change with respect to the SPV registered, such as any change of basic information (including change of the PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, and mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular 37 and the subsequent notice, or making misrepresentation on or failure to disclose controllers of the foreign-invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign-invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject PRC residents or entities to penalties under PRC foreign exchange administration regulations. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiary to liability or penalties, limit our ability to inject capital into our PRC subsidiary or limit our PRC subsidiary’s ability to increase their registered capital or distribute profits.”

#### ***Regulations Relating to Stock Incentive Plans***

SAFE promulgated the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, or the Stock Incentive Plan Notice, in February 2012, replacing the previous rules issued by SAFE in March 2007. Pursuant to the Stock Incentive Plan Notice and other relevant rules and regulations, PRC residents participating in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and follow certain other procedures. Participants of a stock incentive plan who are PRC residents must conduct the SAFE registration and other procedures with respect to the stock incentive plan through a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution appointed by the PRC subsidiary. In addition, the PRC agent is required to update the relevant SAFE registration should there be any material change to the stock incentive plan, the PRC agent or other material changes. The PRC agent must, on behalf of the PRC residents who have the right to exercise the employee stock options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee stock options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents prior to distribution to such PRC residents.

We have adopted a share incentive plan, under which we have the discretion to award incentives and rewards to eligible participants. See “Item 6. Directors, Senior Management and Employees—6.B. Compensation—Share Incentive Plan.” We have advised the recipients of awards under our Share Incentive Plan to handle relevant foreign exchange matters in accordance with the Stock Incentive Plan Notice. However, we cannot guarantee that all employee awarded equity-based incentives can successfully register with SAFE in full compliance with the Stock Incentive Plan Notice. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—Any failure to comply with PRC regulations regarding employee share incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.”

#### ***Regulations Relating to Dividend Distribution***

Distribution of dividends of foreign investment enterprises are mainly governed by the PRC Company Law promulgated in January 2006 and last amended in October 2018 and the Wholly Foreign-owned *Enterprise Law* promulgated in April 1986 and amended in September 2016 and its implementation regulations. The Wholly Foreign-owned Enterprise Law was replaced by the PRC *Foreign Investment Law* on January 1, 2020. Under these regulations, foreign investment enterprises in the PRC may distribute dividends only out of their accumulative profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, no less than 10% of the accumulated profits of the foreign investment enterprises in the PRC are required to be allocated to fund certain reserve funds each year unless these reserves have reached 50% of the registered capital of the enterprises. A PRC company is not permitted to distribute any profits until any losses from previous fiscal years have been offset.



Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year. Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from Xiaoying (Beijing) Information Technology Co., Ltd., which is a wholly foreign-owned enterprise incorporated in China, to fund any cash and financing requirements we may have. Limitation on the ability of our consolidated VIEs to make remittance to the wholly-foreign owned enterprise and on the ability of our wholly-foreign owned enterprise to pay dividends to us could limit our ability to access cash generated by the operations of those entities. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries to fund offshore cash and financing requirements.”

### **Regulations Related to Taxation**

#### *Dividend Withholding Tax*

In March 2007, the National People’s Congress enacted the *Enterprise Income Tax Law* which became effective on January 1, 2008 and last amended on December 29, 2018. According to Enterprise Income Tax Law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the *Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates*, issued on January 29, 2008 and supplemented and revised on February 29, 2008, and the *Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income*, which became effective on December 8, 2006 and applicable to income derived in any year of assessment commencing on or after April 1, 2007 in Hong Kong and in any year commencing on or after January 1, 2007 in the PRC, such withholding tax rate may be lowered to 5% if a Hong Kong enterprise is deemed the beneficial owner of any dividend paid by a PRC subsidiary by PRC tax authorities and holds at least 25% of the equity interest in that particular PRC subsidiary at all times within the 12-month period immediately prior to the distribution of the dividends. Furthermore, pursuant to the Announcement on Issues concerning “Beneficial Owners” in Tax Treaties issued on February 3, 2018 by the SAT, when determining the status of “beneficial owners”, a comprehensive analysis may be conducted through materials such as articles of association, financial statements, records of capital flows, minutes of board of directors, resolutions of board of directors, allocation of manpower and material resources, the relevant expenses, functions and risk assumption, loan contracts, royalty contracts or transfer contracts, patent registration certificates and copyright certificates, etc. However, even if an applicant has the status as a “beneficiary owner”, if the competent tax authority finds necessity to apply the principal purpose test clause in the tax treaties or the general anti-tax avoidance rules stipulated in domestic tax laws, the general anti-tax avoidance provisions shall apply. On October 14, 2019, SAT promulgated the *Administrative Measures for Non-Resident Taxpayers to Enjoy Treatment under Treaties*, or SAT Circular 35, which became effective on January 1, 2020. SAT Circular 35 provides that non-PRC resident enterprises are not required to obtain pre-approval from the relevant tax authorities in order to enjoy the reduced withholding tax. Instead, non-PRC resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and include necessary forms and supporting documents in the tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities.

#### *Enterprise Income Tax*

In December 2007, the State Council promulgated the *Implementing Rules of the Enterprise Income Tax Law*, or the Implementing Rules, which became effective on January 1, 2008 and amended on April 23, 2019. The Enterprise Income Tax Law and its relevant Implementing Rules (i) impose a uniform 25% enterprise income tax rate, which is applicable to both foreign invested enterprises and domestic enterprises (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules and (iii) introduces new tax incentives, subject to various qualification criteria.

The Enterprise Income Tax Law also provides that enterprises organized under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered PRC resident enterprises and therefore be subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Rules further define the term “de facto management body” as the management body that exercises substantial and overall management and control over the production and operations, personnel, accounts and properties of an enterprise. If an enterprise organized under the laws of jurisdiction outside China is considered a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, it would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income. Second, a 10% withholding tax would be imposed on dividends it pays to its non-PRC enterprise shareholders and with respect to gains derived by its non-PRC enterprise shareholders from transfer of its shares.

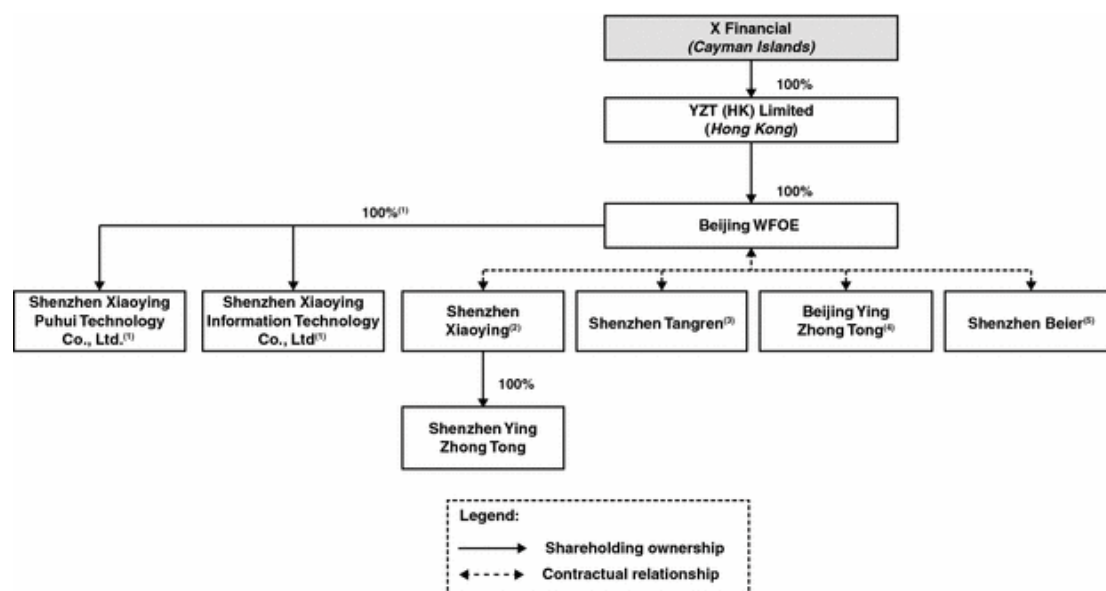
On October 17, 2017, the State Administration of Taxation issued the *Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source*, or the Bulletin 37, as amended in June 2018, which replaced the *Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises*, or Circular 698, issued by the State Administration of Taxation, on December 10, 2009, and partially replaced and supplemented rules under the *Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises*, or the Bulletin 7, issued by the State Administration of Taxation, on February 3, 2015 and last amended in December 2017. Under Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Pursuant to Bulletin 37, the withholding party shall declare and pay the withheld tax to the competent tax authority in the place where such withholding party is located within 7 days from the date of occurrence of the withholding obligation. Both Bulletin 37 and Bulletin 7 do not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—We and our existing shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies.”

#### *Value-Added Tax*

In November 2011, the Ministry of Finance and the State Administration of Taxation promulgated the *Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax*, or the Pilot Plan. In March 2016, the Ministry of Finance and the State Administration of Taxation further promulgated the *Notice on Fully Promoting the Pilot Plan for Replacing Business Tax by Value-Added Tax, as amended from time to time*. Pursuant to the Pilot Plan and the relevant notice, VAT at a rate of 6% is generally imposed, on a nationwide basis, on the revenue generated from the provision of service in lieu of business tax in the modern service industries. VAT of a rate of 6% applies to revenue derived from the provision of some modern services. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the modern services provided.

#### **4.C. Organizational Structure**

The following diagram illustrates our corporate structure as of the date of this annual report. It omits certain entities that are immaterial to our results of operations, business and financial condition and also omits certain trusts we consolidate (see “Item 5. Operating and Financial Review and Prospects—5.A. Operating Results—Critical Accounting Policies, Judgments and Estimates, Consolidated Trusts”). The relationships between, on the one hand, each of Beijing Ying Zhong Tong, Shenzhen Tangren, and Shenzhen Xiaoying, and on the other, Beijing WFOE as illustrated in this diagram are governed by contractual arrangements and do not constitute equity ownership.



- (1) In December 2017, Beijing WFOE acquired 100% of the equity interest held by Shenzhen Xiaoying in Shenzhen Xiaoying Puhui Technology Co., Ltd. and Shenzhen Xiaoying Information Technology Co., Ltd.
- (2) Mr. Yue (Justin) Tang, Mr. Baoguo Zhu and entities controlled by Mr. Yue (Justin) Tang hold 42.9838%, 11.3381% and 45.6781% of equity interest in Shenzhen Xiaoying, respectively.
- (3) Xi'an Bailu holds 100% equity interest in Shenzhen Tangren.
- (4) Mr. Yue (Justin) Tang and Mr. Baoguo Zhu holds 88.6619% and 11.3381% of the equity interest in Beijing Ying Zhong Tong, respectively.
- (5) Shenzhen Gamma Capital Management Co., Ltd. holds 100% equity interest in Shenzhen Beier.

#### Contractual Arrangements with Consolidated VIEs and Their Shareholders

Due to PRC legal restrictions on foreign ownership and investment in, among other areas, valued-added telecommunications, similar to all other entities with foreign incorporated holding company structures operating in our industry in China, currently conduct these activities mainly through our VIEs and its subsidiaries over which we exercise effective control through contractual arrangements among our VIEs and its shareholders.

The contractual arrangements allow us to:

- exercise effective control over our VIEs;
- receive substantially all of the economic benefits of our VIEs; and
- have an exclusive call option to purchase all or part of the equity interest in and/or assets of our VIEs when and to the extent permitted by laws.

As a result of these contractual arrangements, we are the primary beneficiary of the VIEs and their subsidiaries and, therefore, have consolidated the financial results of the VIEs and their subsidiaries in our consolidated financial statements in accordance with U.S. GAAP.

- the ownership structure of the VIEs currently are in compliance with PRC laws or regulations currently in effect; and
- the contractual arrangements among the VIEs and the shareholders of the VIEs, governed by PRC law currently are valid and binding under PRC law, and will not result in any violation of applicable PRC laws or regulations currently in effect, except that the pledge of equity in Shenzhen Tangren, which holds a financial guarantee license, and the pledge of equity in Shenzhen Beier would not be deemed validly created until they are registered with the competent administration for market regulation, and we may not be able to register the pledge of equity in Shenzhen Tangren and the pledge of equity in Shenzhen Beier, in which case we must rely on the equity pledge agreement to enforce the pledge.

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiaries, the VIEs and the shareholder(s) of the VIEs and their spouses.

***Agreements that provide us with effective control over the VIEs***

***Shareholders' Voting Rights Proxy Agreements.*** Pursuant to the Shareholders' Voting Right Proxy Agreements among Beijing WFOE, each of the VIEs and the shareholders of each of the VIEs. These shareholders irrevocably authorize Beijing WFOE or any person(s) designated by Beijing WFOE to act as his or her attorney-in-fact to exercise all of his or her rights as a shareholder of the VIEs, including, but not limited to, the right to convene shareholders' meetings, vote and sign any resolution as a shareholder, appoint directors and other senior executives to be appointed and removed by the shareholder, the right to sell, transfer, pledge and dispose of all or a portion of the shares held by such shareholder, and other shareholders voting rights permitted by the Articles of Association of each VIE. For the agreements among Beijing WFOE, each of the VIEs other than Shenzhen Beier, and their shareholders, the power of attorney will remain in force for ten years. Unless a thirty-day notice is given by Beijing WFOE, these agreements shall be automatically renewed for another one year upon the expiration. The agreement among Beijing WFOE, Shenzhen Beier and its shareholder does not specify its effective term.

***Spousal Consent Letters.*** Spouse of each individual shareholder of each of the VIEs has each signed a spousal consent letter. Under the spousal consent letters, each signing spouse unconditionally and irrevocably gives up his or her rights to such shares and any associated economic rights or interests to which he or she may be entitled pursuant to applicable laws and undertakes not to make any assertion of rights to such shares and the underlying assets. Each signing spouse agrees and undertakes that he or she will take all necessary actions to ensure the proper perform of the contractual arrangements, and will be bound by the contractual arrangements in case he or she obtains any equity of the VIEs due to any reason.

***Equity Pledge Agreements.*** Pursuant to the Equity Pledge Agreements among Beijing WFOE, each of the VIEs and the shareholders of each of the VIEs, those shareholders have pledged 100% equity interest in the VIEs to Beijing WFOE to guarantee the performance by the VIEs and its shareholders of their obligations under the Shareholders' Voting Rights Proxy Agreements, the Equity Pledge Agreements and the Exclusive Business Corporation Agreements. If the VIEs or those shareholders breach their contractual obligations under these agreements, Beijing WFOE, as pledgee, will have the right to dispose of the pledged equity interests in the VIEs and will have priority in receiving the proceeds from such disposal. Those shareholders also agree that, unless the contractual obligations as defined in the Equity Pledge Agreements are fully performed by them or the secured debts under the Equity Pledge Agreements are paid in full (whichever later), they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. We have completed the registration of the pledge of equity interests in Beijing Ying Zhong Tong and Shenzhen Xiaoying with the competent administration for market regulation. As of the date of this annual report, the pledge of equity interest in Shenzhen Tangren and the pledge of equity interest in Shenzhen Beier have not been registered with the competent administration for market regulation and we may not be able to register the pledge of equity in Shenzhen Tangren and the pledge in of equity Shenzhen Beier.

***Agreements that allow us to receive economic benefits from the VIEs***

***Exclusive Business Cooperation Agreements.*** Pursuant to the Exclusive Business Cooperation Agreements among Beijing WFOE and each of the VIEs, Beijing WFOE or its designated person has the exclusive right to provide the VIEs with technical support, consulting and other services in return for fees based on 100% total consolidated profit of the VIEs after making up any cumulative loss (if any) of the VIEs and its affiliated companies and setting of the working capital, operational costs, taxes and other statutory contributions required. Without Beijing WFOE's prior written consent, the VIEs may not accept any services subject to these agreements from any third party. Beijing WFOE has the right to determine the service fee to be charged to the VIEs under these agreements by considering, among other things, the complexity of the services, the time that may be spent for providing such services, as well as the commercial value and specific content of the service provided. Beijing WFOE will have the exclusive ownership of all intellectual property rights created as a result of the performance of these agreements. For the agreements between Beijing WFOE and each of the VIEs other than Shenzhen Beier, unless Beijing WFOE terminates these agreements in advance, these agreements will remain effective for ten years. Unless agreed by both parties in writing, these agreements shall be automatically renewed for another ten year upon its expiration. The agreement between Beijing WFOE and Shenzhen Beier will remain effective permanently, unless early terminated by Beijing WFOE in writing pursuant to this agreement or otherwise required by PRC laws.

**Agreements that provide us with the option to purchase the equity interests in the VIEs**

**Exclusive Call Option Agreements.** Pursuant to the Exclusive Call Option Agreements among Beijing WFOE, each of the VIEs and their shareholders, their shareholders irrevocably granted Beijing WFOE or any third party designated by Beijing WFOE an exclusive option to purchase all or part of their equity interests in the VIEs at the lowest price permitted by applicable PRC laws. Those shareholders further undertake that they will neither create any pledge or encumbrance on their equity interests in the VIEs, nor transfer, gift or otherwise dispose of their equity interests in the VIEs to any person other than Beijing WFOE or its designated third party. Without Beijing WFOE or its designated third party's prior written consent, those shareholders agree not to, among other things, amend its articles of association, increase or decrease the registered capital, permit the VIEs to enter into transactions which materially and adversely affect the VIEs' assets, liabilities, business operations, equity interests and other legal interests, or merge with any other entities or make any investments, or distribute dividends. For the agreements among Beijing WFOE, each of the VIEs other than Shenzhen Beier, and their shareholders, these agreements will remain effective for ten years. Unless notified by Beijing WFOE, the parties to these agreements shall extend the term of these agreements for another ten years. The agreement among Beijing WFOE, Shenzhen Beier and its shareholder does not specify its effective term.

**4.D. Property, Plant and Equipment**

Our corporate headquarters are located in Shenzhen, where we lease an area of approximately 5,800 square meters as of the date of this annual report. We also lease office space of approximately 1,400 square meters in Beijing and office space of approximately 800 square meters in Shanghai. We lease our premises from third parties under operating lease agreements. We believe that we will be able to obtain adequate facilities, principally through leasing, to accommodate our future expansion plans.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

You should read the following discussion together with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements about our business and operations. Our actual results may differ materially from those we currently anticipate as a result of many factors, including those we describe under "Item 3.D. Risk Factors" and elsewhere in this annual report on Form 20-F.

**5.A. Operating Results**

**Impact of COVID-19**

Our results of operations have been adversely affected by the COVID-19 which harms the Chinese and global economy in general. Our borrowers have been negatively impacted by COVID-19, including healthcare, travel, offline education, franchising, auto/transportation and real estate/home furnishing sectors, may reduce their liquidity to repay the loans, which may materially adversely impact our loan performance, especially during the first half year of 2020. The loan facilitation amount also decreased as our institutional funding partners adjusted their strategies due to pessimistic expectations and we took a more stringent risk policy to address COVID-19 impact. Our delinquency rates for all outstanding loans that are past due for 31-90 days and 91-180 days as of June 30, 2020 were 3.53% and 9.44%, respectively, compared with 6.71% and 7.12%, respectively, as of March 31, 2020, and 4.05% and 5.11%, respectively, as of December 31, 2019. Loans that are delinquent for more than 180 days are excluded in the calculation of delinquency rate by balance, except for Xiaoying Housing Loan. In the early onset of the third quarter, our business was already on track for a steady recovery. In July, our total loan facilitation amount was back to the level in January 2020 before COVID-19, and so were the delinquency rates for outstanding loans. Our delinquency rates for all outstanding loans that are past due for 31-90 days and 91-180 days as of September 30, 2020 were 2.13% and 4.62%, respectively, and further dropped to 1.50% and 2.53%, respectively, as of December 31, 2020.

We have also provided additional credit losses for accounts receivable and contract assets, other current assets and loans receivables in the year ended December 31, 2020, due to the impact of COVID-19, other economic conditions and other factors. There are still uncertainties of COVID-19's future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of COVID-19, possibility of a second wave in China, the development and progress of distribution of COVID-19 vaccine and other medical treatment, the potential change in user behavior, especially on internet usage due to the prolonged impact of COVID-19, the actions taken by government authorities, particularly to contain the outbreak, stimulate the economy to improve business condition, almost all of which are beyond the Company's control. As a result, certain of our estimates and assumptions, including the allowance for credit losses, require significant judgments and carry a higher degree of variabilities and volatilities that could result in material changes to our current estimates in future periods.

As of December 31, 2020, we had cash and cash equivalents and restricted cash of RMB1,598.5 million (US\$255.0 million). We believe this level of liquidity is sufficient to successfully navigate an extended period of uncertainty.

## **Key Factors Affecting Our Results of Operations**

### ***Economic Conditions and Regulatory Environment in China***

The demand for personal finance services from prime borrowers depends on the overall economic conditions in China. General economic factors, including the interest rate environment and unemployment rates, may have impacts on borrowers' willingness to seek loans. For example, significant increases in interest rates could lead to prospective borrowers to defer obtaining loans as they wait for interest rates to decrease. Additionally, a slowdown in the economy, resulting in a rise in unemployment rate and possibly a decrease in real income, may affect individuals' level of disposable income. This may affect borrowers' repayment capability and their willingness to seek loans, which may potentially affect the delinquency rates.

The regulatory environment for the online personal finance industry in China is developing and evolving, creating both challenges and opportunities that could affect our financial performance. Due to the relatively short history of online personal finance industry in China, a comprehensive regulatory framework governing our industry is under development by the PRC government. See "Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry" for details. While new laws and regulations or changes to existing laws and regulations could make facilitating loans to borrowers more difficult or expensive, or making such loan products more difficult for investors or institutional funding partners to accept or on terms favorable to us, these events could also provide new product and market opportunities. Since some of the regulations were promulgated in late 2017 and August 2018, the impact on our business might not be fully reflected.

### ***Size of Borrower Base and Engagement***

Our revenues are dependent on our ability to acquire new borrowers and retain existing borrowers. The size of our borrower base directly affects the total amount of loans we facilitate and in turn the service fees that we collect. The number of active borrowers on our platform increased from 2,370,510 borrowers in 2018 to 2,152,962 borrowers in 2019 and decreased to 1,663,737 borrowers in 2020, of which 1,833,513, or 77.3%, 1,437,143, or 66.8% and 1,000,714, or 60.1%, were new borrowers, respectively. In 2018, 2019 and 2020, we have facilitated RMB36,913 million, RMB39,441 million RMB29,676 million of loans on our platform, respectively. The loan facilitation amount also decreased as we took a more stringent risk policy to address COVID-19 impact. We are a leading player in the online credit card balance transfer. To date, we rely on our comprehensive suite of products and attractive fee rates to acquire new borrowers. We also utilize various marketing efforts to attract and retain borrowers. Our new borrower acquisition cost of each borrower for our loan products was RMB180 in 2018, RMB294 in 2019 and further to RMB366 in 2020. A change in our ability to attract or retain borrowers, or a change in the acquisition cost of such borrowers, may potentially affect our revenue and profitability.

### ***Product Mix and Pricing***

Our revenue and profitability are subject to the terms of our loan products, including the rate of service fees charged, loan durations and the size of loan products. To cater our loan products to each prime borrower segment, within each product category, we specify the amount of service fees per transaction considering the type, size and duration of the loan product. Loan products of longer duration and larger size generally correspond to higher service fees. We assign a credit assessment result to each prospective borrower leveraging on our proprietary credit scoring model, based on an applicant's basic information, credit history and behavior data and assign a credit line. Going forward, we also expect to assign differentiated fee rates based on the credit assessment result of an applicant. The service fee rate variation depend on various factors in the competitive market and our adjustment in pricing will impact our revenues and profitability, as most of our revenues are generated from the service fee.

Moreover, the mix of our product offering also affects our profitability. Xiaoying Card Loan is the most profitable product facilitated on our platform due to its higher service fee rate compared to our other products. As we plan to expand the business scale of Xiaoying Card Loan, we expect revenue contribution from Xiaoying Card Loan will continue to increase in the future and enhance our profitability.

### ***Ability to Maintain Effective Risk Management***

Our ability to effectively assess the credit risk of borrowers and classify borrowers into appropriate risk profiles impacts our ability to attract and retain borrowers and institutional funding partners, both of which directly relate to users' confidence in our platform. The delinquency rate for all outstanding loans on our platform that were 31-60 days past due decreased from 2.40% as of December 31, 2019 to 0.79% as of December 31, 2020. The primary reasons for a general trend of decreases include (i) the change in the product mix; (ii) the proactive adjustment of our risk policies in response to the evolving environment; and (iii) our improved ability to attract and retain more borrowers with better credit score. We intend to optimize our fraud detection capabilities, improve accuracy of our credit scoring model and enhance our collection effectiveness on a continuing basis through the combination of our big-data analytical capabilities and the increasing amount of data we accumulate through our operations. See "Item 4. Information on the Company—4.B. Business Overview—Risk Management" for details.

### ***Ability to Maintain Stable Funding Sources and Diversify and Expand Our Funding Channels***

Our revenue is dependent on our ability to maintain stable funding sources and diversify and continuously expand our funding sources. At present, we have achieved 100% institutional funding for new loans facilitated through our platform, including banking financial institutions. The availability of funds affects our liquidity and the amount of transactions that we will be able to facilitate. In 2018, 88.6% of the total funding for loans we facilitated were provided by individual investors, 9.2% were provided by corporate investors and institutional funding partners, and 2.2% were provided by our own funds. In 2019, 68.1% of the total funding for loans we facilitated were provided by individual investors, 26.6% were provided by corporate investors and institutional funding partners, and 5.3% were provided by our own funds. In 2020, 4.7% of the total funding for loans we facilitated were provided by individual investors, 95.3% were provided by institutional funding partners.

The amount of funds invested by institutional funding partners significantly increased in 2020. Our collaboration with institutional funding partners affects our ability to secure sufficient and stable funding sources. The interest charged by the institutional funding partners that we collaborate impacts our pricing strategy and profitability. In light of the requirements under Circular 141 and Circular 57 promulgated in December 2017, we have reviewed and adjusted our cooperation with banking financial institution partners, such as suspending certain cooperation, to better comply with the applicable regulatory requirements. However, as we have strong funding capabilities to attract and retain various institutional funding partners, we believe adjustment in our cooperation with banking financial institution partners would not have any material and adverse impact on our business operations.

### ***Relationship with Financial Institutional cooperators***

Our collaboration with financial institutional cooperators is an important factor affecting our results of operations. We benefit from the protection of credit insurance or guarantee service which is provided by our financial institutional cooperators to investors or institutional funding in the event of borrower's default. 54.36% of the total loan facilitation amount we facilitated in 2020 were covered by ZhongAn's credit insurance, a listed company on Hong Kong Stock Exchange since September 2017, whose integrated risk rating was "A" for each quarter of 2020. All of our financing guarantee partners have at least AA credit rating issued by rating companies including China Lianhe Credit Rating Co., Ltd., China Chengxin Credit Management Co., Ltd. and Shenzhen Lianhe Credit Information Service Co., Ltd.. Our financing guarantee partners provide guarantee services covering both the North China and South China areas, most of which have a registered capital of more than RMB1 billion. Our financial institutional cooperators' strong brand recognition in China assists us in expanding our investor or institutional funding base at reasonable expenses.

We also collaborate with those financial institutional cooperators to strengthen our capabilities on risk management, given that we can get their insurance or guarantee decision opinion. Our financial institutional cooperators' credit assessment models are based on information from various databases, including PBOC CRC that is only available to licensed financial institutions. In addition to our financial institutional cooperators' decision and input, we also factor in many layers of other decision variables to create a more comprehensive and accurate profile of the borrowers' creditworthiness. See "Item 4. Information on the Company—4.B. Business Overview—Our Partnership with Financial Institutional Cooperators " for details. Changes to our arrangement with financial institutional cooperators in credit insurance or guarantee services, credit assessment and other aspects of our business could affect our investors' confidence, the growth of our business and our profitability. In addition to our financial institutional cooperators' insurance or guarantee protection, Shenzhen Tangren, our consolidated VIE with the financing guarantee license, currently provides a guarantee for certain loan products we facilitate, when in the event of default, Shenzhen Tangren will compensate those financial institutional cooperators for substantially all the loan principal and interest default but have not been subsequently collected. Shenzhen Tangren's compensation obligation is capped at a certain percentage of the principal at loan facilitation as pre-agreed with them, which will not be more than the contractual guarantee fee collectible from the borrower by us across the entire portfolio. We may consider introducing other funding protection arrangements. We cannot assure you that new arrangements would be perceived by our financial institutional cooperators or institutional funding partners, which may have adverse impact on our business operations.

## Loan Performance

### *Delinquency Rate by Balance*

We define delinquency rate as the balance of the outstanding principal and accrued outstanding interest for loans that were 31 to 60 days past due as a percentage of the total balance of outstanding principal and accrued outstanding interest for the loans we facilitated as of a specific date. Loans that are delinquent for more than 60 days are charged-off and excluded in the calculation of delinquency rate by balance, except for Xiaoying Housing Loan. As Xiaoying Housing Loan is a secured loan product and we are entitled to payment by exercising our rights to the collaterals, we do not exclude Xiaoying Housing loan delinquent for more 60 days from the calculation of delinquency rate by balance. The following table provides the delinquency rates for all outstanding loans on our platform and by major products as of the respective dates indicated.

	December 31,	
	2019	2020
<b>Delinquent for 31-60 days</b>		
All outstanding loans	2.40%	0.79%
Xiaoying Credit Loan	2.69%	0.73%
Xiaoying Revolving Loan	2.05%	2.54%
Xiaoying Housing Loan	0.00%	0.00%
Loan facilitation services to other platforms	0.01%	0.00%



To make the delinquency rate by balance comparable to our peers, we also define the delinquency rate as the balance of the outstanding principal and accrued outstanding interest for loans that were 31 to 90 and 91 to 180 days past due as a percentage of the total balance of outstanding principal and accrued outstanding interest for the loans we facilitated as of a specific date. Loans that are delinquent for more than 180 days are excluded in the calculation of delinquency rate by balance, except for Xiaoying Housing Loan. The following table provides the delinquency rates for all outstanding loans on our platform and by major products as of the respective dates indicated.

	<b>Delinquent for</b>	
	<b>31 - 90 days</b>	<b>91 - 180 days</b>
<b>December 31, 2018</b>		
All outstanding loans	3.54%	5.28%
Xiaoying Credit Loan	3.98%	5.94%
Xiaoying Revolving Loan	7.28%	3.89%
Xiaoying Housing Loan	0.55%	2.02%
Loan facilitation services to other platforms	0.10%	0.03%
<b>December 31, 2019</b>		
All outstanding loans	4.05%	5.11%
Xiaoying Credit Loan	4.56%	5.92%
Xiaoying Revolving Loan	3.29%	2.51%
Xiaoying Housing Loan	0.00%	0.76%
Loan facilitation services to other platforms	0.02%	0.00%
<b>December 31, 2020</b>		
All outstanding loans	1.50%	2.53%
Xiaoying Credit Loan	1.38%	2.10%
<b>December 31, 2018</b>		
Xiaoying Revolving Loan	4.93%	14.34%
Xiaoying Housing Loan	0.00%	0.00%
Loan facilitation services to other platforms	0.00%	0.00%

The delinquency rate for all outstanding loans on our platform that were 31-60 days past due decreased from 2.40% as of December 31, 2019 to 0.79% as of December 31, 2020. The delinquency rate for all outstanding loans on our platform that were 31-90 days past due increased from 3.54% as of December 31, 2018 to 4.05% as of December 31, 2019 and then decreased to 1.50% as of December 31, 2020 and the delinquency rate for all outstanding loans on our platform that were 91-180 days past due decreased from 5.28% as of December 31, 2018 to 5.11% as of December 31, 2019 and further to 2.53% as of December 31, 2020. The primary reasons for a general trend of decreases include (i) the change in the product mix; (ii) the proactive adjustment of our risk policies in response to the evolving environment; and (iii) our improved ability to attract and retain more borrowers with better credit score.

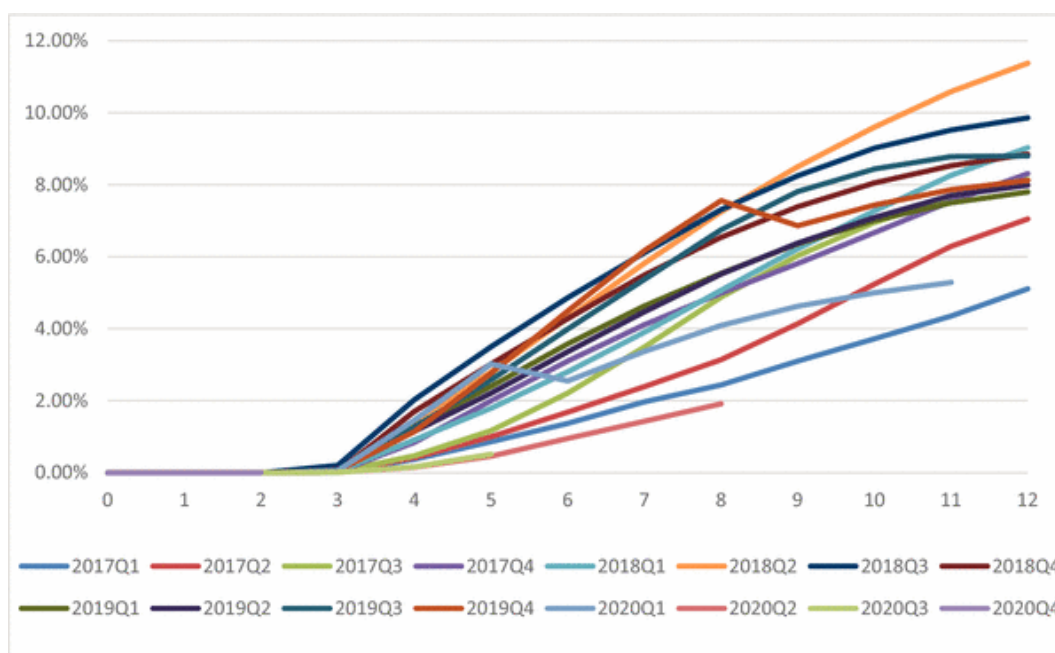
### ***Delinquency Rate by Vintage***

We refer to loans facilitated during a specified time period as vintage. We define vintage delinquency rate as (i) the total amount of principal for all loans in vintage that becomes delinquent, less (ii) the total amount of recovered past due principal for all loans in the same vintage, and divided by (iii) the total amount of initial principal for all loans in such vintage. Loans that have been charged-off are included in the calculation of vintage delinquency rates. Our delinquency rate by vintage would impact our financial statements of operations in the following aspects:

- ZhongAn provides credit insurance to the loans we facilitated. Under Old ZhongAn Model, in order to maintain stable business relationship with ZhongAn, we would then, subject to our sole discretion, compensate ZhongAn for substantially all the loan principal and interest default but have not been subsequently collected. Therefore, the delinquency rates of our loan products directly impacted our financial statements prior to September 2017. For example, the increase in delinquency rates would cause (i) increase in guarantee liabilities, which primarily represents voluntary payment to be made to ZhongAn and (ii) decrease in recognized revenue from facilitation and post-origination services. For more details of revenue recognition, see “Item 5. Operating and Financial Review and Prospects—5.A. Operating Results—Critical Accounting Policies, Judgments and Estimates—Revenue Recognition.”
- Under New ZhongAn Model (i) for Xiaoying Preferred Loans newly facilitated since September 2017, ZhongAn is fully liable for the borrower’s credit risk; and (ii) for most Xiaoying Card Loans newly facilitated since September 2017 and certain Xiaoying Revolving Loans that are repaid in installments by borrowers, borrowers are required to enter into a guarantee agreement and an insurance agreement with us and ZhongAn, respectively, to pay the guarantee fee and insurance fee to the respective party at a pre-agreed rate. Upon borrower’s default, ZhongAn reimburses the full loan principal and interest to the investor first, and has the right to recourse to both the borrower and us, but our obligation at any time is capped at a certain percentage of the principal at loan facilitation as pre-agreed with ZhongAn. Such cap is the lower of (1) total amount of guarantee fees contractually required to be collected from the borrowers for such loans facilitated during the current period on an aggregated basis, and (2) a certain percentage of the total principal of the loans facilitated stated in an annualized manner, as pre-agreed with ZhongAn, which will be negotiated prospectively at each quarter between the two parties based on the expected default rate. The contractual guarantee fees in (1) is not influenced by default or early repayment of borrowers. The portion that we are obligated to pay to ZhongAn but are not expected to be collected from the borrowers due to the estimated default or prepayment risk in relation to the guarantee fee is recorded in the change in fair value of financial guarantee derivative. Moreover, if the total amount of the insurance compensation paid by ZhongAn to the insured investors exceeds the expected maximum payout amount for certain period, ZhongAn is entitled to increase the insurance premium collected from new borrowers, which would impact our results of operations in the event we are unable to pass on such increase to new borrowers. In addition, when the delinquency rates of our loan products increase, we may also need to increase the guarantee fees that we are entitled from new borrowers. In the event we are not able to raise the APR to capture such increase in guarantee fees, our results of operations would be adversely affected. For more details of revenue recognition, see “Item 5. Operating and Financial Review and Prospects—5.A. Operating Results—*Provision for Accounts Receivable and Contract Assets* Critical Accounting Policies, Judgments and Estimates—Revenue Recognition.”
- In addition, we have elected the fair value option for the loan assets and liabilities of the Consolidated Trusts that otherwise would not have been carried at fair value. We estimate the fair value of loans and payable using a discounted cash flow valuation methodology by discounting the estimated future net cash flows using an appropriate discount rate. We will consider, among others, the estimated default rate and collection rate of the loans, when estimating the future net cash flows. As a result, the increase in the delinquency rates of our loan products would have adverse impact on the fair value of loans of the Consolidated Trusts.

### Delinquency Rate by Vintage of Xiaoying Credit Loan

The following chart displays the historical cumulative 91-day plus past due delinquency rates by loan origination vintage for all continuing Xiaoying Credit Loan facilitated through our platform up to December 31, 2020, excluding the Xiaoying Professional Loan with a term of two to three years and the Xiaoying Preferred Loan with a term of three years.



The change in such delinquency rate of Xiaoying Credit Loan was primarily due to the proactive adjustment of our risk policies in response to the evolving environment and our improved ability to attract and retain more borrowers with better credit score.

### Funding

We used to obtain funding directly from individual investors and corporate investors where they can invest in loans listed on our Xiaoying Wealth Management platform by choosing the loan products with their desired term and interest rate. Currently we obtain funding from institutional funding partners such as banks and trust companies.

In 2018, 88.6% of the total funding for loans we facilitated were provided by individual investors, 9.2% were provided by corporate investors and institutional funding partners, and 2.2% were provided by our own funds. In 2019, 68.1% of the total funding for loans we facilitated were provided by individual investors, 26.6% were provided by corporate investors and institutional funding partners, and 5.3% were provided by our own funds. In 2020, 4.7% of the total funding for loans we facilitated were provided by individual investors, 95.3% were provided by institutional funding partners.

## Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods presented. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of our future trends.

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
<b>Net revenues</b>							
Loan facilitation service—							
Direct Model	2,957,572	83.6%	1,986,003	64.3%	1,266,533	194,105	57.8%
Loan facilitation service-							
Intermediary Model	228,272	6.4%	238,867	7.7%	41,373	6,341	1.9%
Post-origination service	131,243	3.7%	330,695	10.7%	203,842	31,240	9.3%
Financing income	76,104	2.1%	408,401	13.2%	612,863	93,925	27.9%
Other revenue	147,409	4.2%	124,084	4.0%	68,347	10,475	3.1%
<b>Total net revenue</b>	<b>3,540,600</b>	<b>100.0%</b>	<b>3,088,050</b>	<b>100.0%</b>	<b>2,192,958</b>	<b>336,086</b>	<b>100.0%</b>
<b>Operating costs and expenses:</b>							
Origination and servicing	1,185,937	33.6%	1,634,822	52.9%	2,071,506	317,472	94.4%
General and administrative	220,024	6.2%	227,482	7.4%	179,225	27,468	8.2%
Sales and marketing	205,726	5.8%	103,158	3.3%	35,629	5,460	1.6%
Provision for contingent							
guarantee liabilities	216,364	6.1%	7,748	0.3%	881	135	0.0%
Provision for accounts							
receivable and contract							
assets	396,996	11.2%	241,187	7.8%	121,485	18,618	5.5%
Provision for loan receivable							
from Xiaoying Housing							
Loans	40,348	1.1%	23,431	0.8%	17,994	2,758	0.8%
Provision for loans receivable							
from Xiaoying Credit							
Loans and Xiaoying							
Revolving Loans	—	—	37,643	1.2%	227,210	34,821	10.4%
Impairment losses on deposits to							
institutional cooperators:							
Provision for deposits to							
institutional cooperators	—	—	—	—	10,318	1,581	0.5%
Impairment loss on deposits to							
institutional cooperators	—	—	—	—	960,000	147,126	43.8%
Credit losses for other financial							
assets	—	—	—	—	(975)	(148)	0.0%
<b>Total operating expenses</b>	<b>2,265,395</b>	<b>64.0%</b>	<b>2,275,471</b>	<b>73.7%</b>	<b>3,623,273</b>	<b>555,291</b>	<b>165.2%</b>
<b>Income (loss) from operations</b>	<b>1,275,205</b>	<b>36.0%</b>	<b>812,579</b>	<b>26.3%</b>	<b>(1,430,315)</b>	<b>(219,205)</b>	<b>(65.2)%</b>
Interest income (expense), net	4,225	0.1%	19,386	0.6%	21,724	3,329	1.0%
Foreign exchange gain	10	0.0%	616	—	15,399	2,360	0.7%
Investment income (loss), net	—	—	(12,538)	(0.4)%	—	—	—
Change in fair value of							
financial guarantee							
derivative	(200,971)	(5.7)%	(246,372)	(8.0)%	(163,670)	(25,084)	(7.5)%
Fair value adjustments related							
to Consolidated Trusts	12,359	0.3%	64,163	2.1%	(57,380)	(8,794)	(2.6)%
Other income (loss), net	(5,904)	0.2%	26,081	0.8%	12,709	1,948	0.6%
Income (loss) before income							
taxes and gain (loss) from							
equity in affiliates	1,084,923	30.6%	663,915	21.5%	(1,601,533)	(245,446)	(73.0)%
Income tax benefit (expense)	(209,921)	(5.9)%	93,103	3.0%	299,879	45,958	13.7%
Gain (loss) from equity in							
affiliates, net of tax	8,055	0.2%	17,458	0.6%	(6,806)	(1,043)	(0.3)%
<b>Net income (loss)</b>	<b>883,057</b>	<b>24.9%</b>	<b>774,476</b>	<b>25.1%</b>	<b>(1,308,460)</b>	<b>(200,531)</b>	<b>(59.6)%</b>

## Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

### Net Revenues

The following table sets forth the breakdown of our net revenues, both in absolute amount and as a percentage of our total net revenues, for the periods presented:

	For the Year Ended December 31,				
	2019		2020		
	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)				
<b>Net revenues</b>					
Loan facilitation service—Direct Model	1,986,003	64.3%	1,266,533	194,105	57.8%
Loan facilitation service—Intermediary Model	238,867	7.7%	41,373	6,341	1.9%
Post-origination service	330,695	10.7%	203,842	31,240	9.3%
Financing income	408,401	13.2%	612,863	93,925	27.9%
Other revenue	124,084	4.0%	68,347	10,475	3.1%
<b>Total net revenue</b>	<b>3,088,050</b>	<b>100.0%</b>	<b>2,192,958</b>	<b>336,086</b>	<b>100.0%</b>

#### *Loan Facilitation Service-Direct Model and Loan Facilitation Service-Intermediary Model*

Loan facilitation service fee under the direct model decreased from RMB1,986.0 million in 2019 to RMB1,266.5 million (US\$194.1 million) in 2020, primarily due to a decline in total loan facilitation amount as a result of a more stringent risk policy put in place to address impact of COVID-19 when compared with 2019.

Loan facilitation service fee of the intermediary model in 2020 was RMB41.4 million (US\$6.3 million), compared with RMB238.9 million in 2019, primarily due to the fact that substantially all of the institutional funding partners invested their funds in the loans facilitated under direct model and/or trust model, depending on their investment strategies.

#### *Post-origination Service*

Post-origination service fee decreased from RMB330.7 million in 2019 to RMB203.8 million (US\$31.2 million) in 2020 due to the cumulative effect of decreased amount of loans facilitated during the year. Revenues from post-origination services are recognized on a straight-line basis over the term of the underlying loans as the services are being provided.

#### *Financing Income*

Financing income increased significantly from RMB408.4 million in 2019 to RMB612.9 million (US\$93.9 million) in 2020 as a result of an increase in average loan balances held by the Company. These loans do not qualify for sales accounting, and the service fees are recognized as financing income over the life of the underlying financing using the effective interest method.

#### *Other Revenue*

Other revenue decreased from RMB124.1 million in 2019 to RMB68.3 million (US\$10.5 million) in 2020, primarily attributable to a decrease in penalty fees for late or early repayment and commission fees for introducing borrowers to other platforms.

### Operating Expenses

The following table sets forth our operating expenses, both in absolute amount and as a percentage of our total revenues, for the periods presented.

	For the Year Ended December 31,					
	2019		2020			
	RMB	%	RMB	US\$	%	
(in thousands, except for percentages)						
<b>Operating costs and expenses:</b>						
Origination and servicing (1)	1,652,221	53.5%	2,071,506	317,472	94.4%	
General and administrative (1)	210,083	6.8%	179,225	27,468	8.2%	
Sales and marketing	103,158	3.3%	35,629	5,460	1.6%	
Provision for contingent guarantee liabilities	7,748	0.3%	881	135	0.0%	
Provision for accounts receivable and contract assets	241,187	7.8%	121,485	18,618	5.5%	
Provision for loan receivable from Xiaoying Housing Loans	23,431	0.8%	17,994	2,758	0.8%	
Provision for loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans	37,643	1.2%	227,210	34,821	10.4%	
<b>Impairment losses on deposits to institutional cooperators:</b>						
Provision for deposits to institutional cooperators	—	—	10,318	1,581	0.5%	
Impairment loss on deposits to institutional cooperators	—	—	960,000	147,126	43.8%	
Credit losses for other financial assets	—	—	(975)	(148)	0.0%	
<b>Total operating expenses</b>	<b>2,275,471</b>	<b>73.7%</b>	<b>3,623,273</b>	<b>555,291</b>	<b>165.2%</b>	

Note (1): To better reflect the origination and servicing expenses incurred in connection with the loans facilitated through the Consolidated Trusts, the management fees paid to third-party trust companies, amounting to RMB62.4 million compared with RMB17.4 million in 2019, have been reclassified from general and administrative expenses to origination and servicing expenses. The comparative figures have been reallocated to conform with the current period's classification.

#### *Origination and Servicing Expenses*

Origination and servicing expenses increased from RMB1,652.2 million in 2019 to RMB2,071.5 million (US\$317.5 million) in 2020, mainly due to an increase in collection expenses resulting from a more active policy taken to address the impact of COVID-19 and an increase in interest expense related to financing income. The increase was also effected by the insurance cost occurred during the year. For certain loans that were newly facilitated in 2020, our institutional funding partners are required to enter into an insurance agreement with ZhongAn to pay the insurance premiums. To attract institutional funding and maintain a relatively low funding cost, we at our sole discretion paid the insurance premiums for our institutional funding partners.

#### *General and Administrative Expenses*

General and administrative expenses decreased from RMB210.1 million in 2019 to RMB179.2 million (US\$27.5 million) in 2020, mainly due to a decrease in share-based compensation expenses.

#### *Sales and Marketing Expenses*

Sales and marketing expenses decreased from RMB103.2 million in 2019 to RMB35.6 million (US\$5.5 million) in 2020, mainly due to a reduction in promotional and advertising expenses since the outbreak of COVID-19.

#### *Provision for Contingent Guarantee Liabilities*

Provision for contingent guarantee liabilities decreased from RMB7.7 million in 2019 to RMB0.9 million (US\$0.1 million) in 2020, because there was no deterioration in the estimated default rates of the loans subject to guarantee liabilities facilitated in prior periods.

#### *Provision for Accounts Receivable and Contract Assets*

Provision for accounts receivable and contract assets decreased from RMB241.2 million in 2019 to RMB121.5 million (US\$18.6 million) in 2020, primarily due to the combined effect of (i) a significant decrease in accounts receivable from facilitation services and post-origination services as a result of the decline in total loan facilitation amount in 2020; and (ii) a decrease of the average estimated default rate of 2020 compared with that of 2019, resulting from the recovery of Chinese economy in the second half of 2020 which offset the increasing impact COVID-19 brought to default rates during the first half year of 2020.

#### *Provision for loan receivable from Xiaoying Housing Loans*

Provision for loan receivable from Xiaoying Housing Loans were RMB23.4 million and RMB18.0 million (US\$2.8 million) during the year ended December 31, 2019 and 2020, respectively. In order to accelerate the collection process, we sold certain defaulted loans to third party companies at a discount in 2019 and 2020, transferring the creditor's right as well as the right to the underlying collateral. We have applied a discounted cash flow methodology to measure the value of loan receivables and recognized as collectable amount. The provision for loan receivables from Xiaoying Housing Loans is determined by the expected amount that we are unable to collect. We also instituted proceedings to collect the payout amount from collaterals.

#### *Provision for loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans*

Provision for loan receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans increased from RMB 37.6 million in 2019 to RMB227.2 million (US\$34.8 million) in 2020, primarily due to an increase in loans facilitated under intermediary model (Non-Trust Model). Such loans were transferred to external investors with recourse to the Group, which did not qualify for sale accounting, and therefore were subject to impairment assessment in the Group's consolidated financial statements.

#### *Impairment losses on deposits to institutional cooperators*

We collaborate with a number of institutions that provide guarantee or insurance for loans facilitated by us. We are required to pay deposits to such institutional cooperators and the amount of deposit is separately agreed with each institutional cooperator. To maintain the collaborative relationship with one of our institutional cooperator and to avoid any material adverse impact on our current business model and future transaction cost, we used deposits amounting to approximately RMB970 million to compensate for such institutional cooperator's loss for the amount it had paid under investors' claims arising from borrowers' default to repay loans. We also assumed the right of subrogation and related rights against the defaulting borrowers which were sold to a third party with the consideration of RMB10.0 million. We have recognized above loss of RMB960 million as impairment of the deposits and has also provided an allowance for impairment of RMB10.3 million for the potential losses of the remaining deposits in 2020.

#### *Change in Fair Value of Financial Guarantee Derivative*

Change in fair value of financial guarantee derivative decreased from RMB246.4 million in 2019 to RMB163.7 million (US\$25.1 million) in 2020, primarily due to the decline of the estimated net default rate and the decrease of the estimated payment to financial institutional cooperators based on the pre-agreed cap from RMB2,270.6 million in 2019 to RMB1,796.4 million in 2020.

#### *Fair Value Adjustment Related to Consolidated Trusts*

Fair value adjustment related to the Consolidated Trusts consists of the net change in the fair value of loans and payables to investors in the Consolidated Trusts. We recorded income of fair value adjustments related to Consolidated Trusts of RMB64.2 million in 2019, compared with a loss of fair value adjustments related to Consolidated Trusts of RMB57.4 million (US\$8.8 million) in 2020.

#### *Income Tax Benefit (Expense)*

Income tax benefit in 2020 was RMB299.9 million (US\$46.0 million), compared with income tax benefit of RMB93.1 million in 2019, primarily due to an increase net operating losses that can be carried forward to future years.

**Net Income (Loss)**

As a result of the foregoing, our net loss in 2020 was RMB1,308.5 million (US\$200.5 million), compared with net income of RMB774.5 million in 2019.

**Year Ended December 31, 2019 Compared to Year Ended December 31, 2018****Net Revenues**

The following table sets forth the breakdown of our net revenues, both in absolute amount and as a percentage of our total net revenues, for the periods presented:

	For the Year Ended December 31,			
	2018		2019	
	RMB	%	RMB	%
Net revenues				
Loan facilitation service—Direct Model	2,957,572	83.6%	1,986,003	64.3%
Loan facilitation service—Intermediary Model	228,272	6.4%	238,867	7.7%
Post-origination service	131,243	3.7%	330,695	10.7%
Financing income	76,104	2.1%	408,401	13.2%
Other revenue	147,409	4.2%	124,084	4.0%
<b>Total net revenue</b>	<b>3,540,600</b>	<b>100.0%</b>	<b>3,088,050</b>	<b>100.0%</b>

*Loan Facilitation Service-Direct Model and Loan Facilitation Service-Intermediary Model*

Loan facilitation service fee under the direct model decreased from RMB2,957.6 million in 2018 to RMB1,986.0 million in 2019. The decrease was primarily due to (i) our gradual shift in funding from individual investors to institutional funding partners since early 2019 in response to the enhanced regulatory restrictions in the online consumer financing industry, as a result of which more loans were funded by institutional funding partners through newly established Consolidated Trusts where the revenue associated with such Consolidated Trusts were recorded as financing income over the life of the underlying loans using the effective interest method instead of being recognized at which time the facilitation service is considered completed, and (ii) a decrease in the loan facilitation amount of Xiaoying Credit Loan as a percentage of our total loan facilitation amount from 88.5% in 2018 to 75.6% in 2019, the service fee rates of which are generally higher than other products.

Loan facilitation service fee of the intermediary model increased by 4.6% from RMB228.3 million in 2018 to RMB238.9 million in 2019. The increase was mainly attributable to an increase in the total volume of products offered under the intermediary model.

*Post-origination Service*

Post-origination service fee increased significantly from RMB131.2 million in 2018 to RMB330.7 million in 2019 due to our shift in strategy to focus on collection service to enhance effectiveness. Revenues from post-origination services are recognized on a straight-line basis over the term of the underlying loans as the services are being provided.

*Financing Income*

Financing income increased significantly from RMB76.1 million in 2018 to RMB408.4 million in 2019 as a result of the increased number of newly established Consolidated Trusts administered by unrelated third-party trust companies that were offered to investors through our Consolidated Trust business.

*Other Revenue*

Other revenue decreased from RMB 147.4 million in 2018 to RMB124.1 million (US\$17.8 million) in 2019, primarily attributable to a decrease in penalty fees for late or early repayment.



## Operating Expenses

The following table sets forth our operating expenses, both in absolute amount and as a percentage of our total revenues, for the periods presented.

	For the Year Ended December 31,			
	2018		2019	
	RMB	%	RMB	%
	(in thousands, except for percentages)			
Operating costs and expenses:				
Origination and servicing	1,185,937	33.6%	1,634,822	52.9%
General and administrative	220,024	6.2%	227,482	7.4%
Sales and marketing	205,726	5.8%	103,158	3.3%
Provision for contingent guarantee liabilities	216,364	6.1%	7,748	0.3%
Provision for accounts receivable and contract assets	396,996	11.2%	241,187	7.8%
Provision for loan receivable from Xiaoying Housing Loans	40,348	1.1%	23,431	0.8%
Provision for loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans	—	—	37,643	1.2%
<b>Total operating expenses</b>	<b>2,265,395</b>	<b>64.0%</b>	<b>2,275,471</b>	<b>73.7%</b>

### Origination and Servicing Expenses

Origination and servicing expenses increased from RMB1,185.9 million in 2018 to RMB1,634.8 million in 2019, mainly due to an increase in collection expenses and customer acquisition costs for the growing business during 2019, and an increase in interest expense related to loans facilitated through the Consolidated Trusts.

### General and Administrative Expenses

General and administrative expenses increased from RMB220.0 million in 2018 to RMB227.5 million in 2019, mainly due to an increase in management fee paid to third-party trusts companies amounting to RMB15.6 million, an increase in labor costs amounting to RMB3.8 million and an increase of insurance of liabilities of board of directors amounting to RMB6.3 million, which was partially offset by a decrease in consulting service fees.

### Sales and Marketing Expenses

Sales and marketing expenses decreased from RMB205.7 million in 2018 to RMB103.2 million in 2019, mainly due to a reduction in promotional and advertising expenses.

### Provision for Contingent Guarantee Liabilities

Provision for contingent guarantee liabilities decreased from RMB 216.4 million in 2018 to RMB7.7 million in 2019, because there was no deterioration in the estimated default rates of the loans subject to guarantee liabilities facilitated in prior periods.

### Provision for Accounts Receivable and Contract Assets

Provision for accounts receivable and contract assets decreased from RMB397.0 million in 2018 to RMB241.2 million in 2019, primarily due to a decrease in accounts receivable and contract assets which was in line with an increase in the proportion of net revenue generated by the loans facilitated through the Consolidated Trusts as the associated revenue is recorded under financing income and recognized over time and the corresponding receivables would be settled monthly.

### Provision for loan receivable from Xiaoying Housing Loans

Provision for loan receivable from Xiaoying Housing Loans were RMB40.3 million and RMB23.4 million during the year ended December 31, 2018 and 2019, respectively. In order to accelerate the collection process, we transferred the creditors' rights of certain defaulted loans as well as the underlying collateral rights to third party companies at a discount in 2018 and 2019. We have applied a discounted cash flow methodology to measure the value of loan receivables and recognized as collectable amount, the allowance for loan receivables from Xiaoying Housing Loans is determined by expected amount that is unable to collect by us. We also institute proceedings to collect the payout amount from collaterals.

*Provision for loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans*

Provision for loan receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans in 2019 was RMB37.6 million. Due to the more stringent regulatory measures, the assets transfers in the online lending market has been less active than the previous year. As of December 31, 2019, we reassessed our intent and ability to transfer the loans based on the loan transfer record in 2019, and decided to reclassify loans held for sale to loans receivables from Xiaoying Credit Loans and Xiaoying Revolving loans.

***Change in Fair Value of Financial Guarantee Derivative***

Change in fair value of financial guarantee derivative increased from RMB201.0 million in 2018 to RMB246.4 million in 2019, as the financial guarantee derivative are recorded under New ZhongAn Model since September 2017 and the estimated payment to ZhongAn based on the pre-agreed cap increased from RMB1,784.8 million in 2018 to RMB2,270.6 million in 2019.

***Fair Value Adjustment Related to Consolidated Trusts***

Fair value adjustment related to the Consolidated Trusts consists of the net change in the fair value of loans and payables to investors in the Consolidated Trusts. We recorded income of fair value adjustments related to Consolidated Trusts of RMB12.4 million and RMB64.2 million for the year ended December 31, 2018 and 2019, respectively.

***Income Tax Benefit (Expense)***

Income tax benefit was RMB93.1 million in 2019, compared with an income tax expenses of RMB209.9 million in 2018. The decrease was primarily due to one of our major consolidated subsidiaries qualifying as a software enterprise in early May 2019, which entitles it to a tax exemption for the tax filing of 2018 and the preferential tax rate of 12.5% from 2019 to 2021.

***Net Income***

As a result of the foregoing, our net income decreased from RMB883.1 million in 2018 to RMB774.5 million in 2019.

## Discussion of Key Balance Sheet Items

The following table sets forth selected information from our consolidated balance sheet as of December 31, 2018, 2019 and 2020. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report.

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
<b>Assets</b>				
Cash and cash equivalents	1,069,361	1,005,980	746,388	114,389
Restricted cash	208,345	514,323	852,134	130,595
Accounts receivable and contract assets, net	1,379,293	771,154	413,307	63,342
Short-term investment	—	—	6,000	920
Loans receivable from Xiaoying Credit Loans and Revolving Loans, net	—	289,553	1,236,026	189,429
Loan receivable from Xiaoying Housing Loans, net	128,101	89,536	47,490	7,278
Loans held for sale	632,717	—	—	—
Loans at fair value	33,417	2,782,333	1,585,732	243,024
Deposits to institutional cooperators, net	—	518,720	907,923	139,145
Prepaid expenses and other current assets	115,193	707,450	403,776	61,882
Financial guarantee derivative	358,250	719,962	297,928	45,659
Amount due from related party	20,000	—	—	—
Deferred tax assets, net	346,648	465,441	605,656	92,821
Long-term investments	287,223	292,142	295,615	45,305
Property and equipment, net	23,215	20,139	11,137	1,707
Intangible assets, net	28,400	35,127	37,440	5,738
Other non-current assets	6,806	68,772	51,458	7,886
<b>Total Assets</b>	<b>4,636,969</b>	<b>8,280,632</b>	<b>7,498,010</b>	<b>1,149,120</b>
<b>Liabilities</b>				
Payable to investors at fair value	—	3,006,349	1,914,184	293,362
Payable to institutional funding partners	—	—	1,460,395	223,815
Guarantee liabilities	20,898	17,475	9,790	1,500
Financial guarantee derivative	—	—	130,442	19,991
Short-term borrowings	198,000	—	350,545	53,723
Accrued payroll and welfare	93,464	63,649	34,781	5,330
Other tax payable	134,129	58,087	73,077	11,201
Income tax payable	312,238	340,995	75,917	11,635
Deposit payable to channel cooperators	134,042	108,923	21,472	3,291
Accrued expenses and other current liabilities	178,702	274,440	323,748	49,617
Other non-current liabilities	—	42,300	27,615	4,232
Deferred tax liabilities	47,428	1,309	—	—
<b>Total Liabilities</b>	<b>1,118,901</b>	<b>3,913,527</b>	<b>4,421,966</b>	<b>677,697</b>

*Accounts receivable and contract assets, net.* Accounts receivable and contract assets consist primarily of the service fees earned from our customers. Our accounts receivable and contract assets decreased by 46.4% from RMB771.1 million as of December 31, 2019 to RMB413.3 million (US\$63.3 million) as of December 31, 2020, primarily due to a decline in total loan facilitation amount as a result of a more stringent risk policy put in place to address impact of COVID-19 when compared with 2019 and our strategy of accelerating the collection of outstanding account receivables. Our accounts receivable and contract assets decreased by 44.1% from RMB1,379.3 million as of December 31, 2018 to RMB771.1 million as of December 31, 2019.

*Loans receivable from Xiaoying Credit Loans and Revolving Loans, net.* For those loans that the Group provides credits to borrowers using its own fund but fail to have certain marketing plans to transfer, or those transfer of loans that fails to meet to criteria of true sale under ASC 860 (see accounting policy under “Sale and Transfers of Financial Instruments”), they are accounted for as loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans. Our loans receivable from Xiaoying Credit Loans and Revolving Loans increased from RMB289.6 million as of December 31, 2019 to RMB1,236.0 million as of December 31, 2020, primarily due to an increase in loans facilitated under intermediary model (Non-Trust Model) that were not yet transferred to external investors in a transaction qualifying for sale accounting.

*Loans held for sale.* Loans held for sale consist of loans facilitated through the intermediary model that have not yet been transferred to institutional funding partners at the period end, which are accounted for as held for sale as we do not have intention to retain such loans. Our loans held for sale decreased from RMB632.7 million as of December 31, 2018 to nil as of December 31, 2019. As of December 31, 2019, we reclassified loans held for sale to loans receivables from Xiaoying Credit Loans and Xiaoying Revolving loans after reassessing our intent and ability to transfer these loans.

*Loans at fair value.* Loans at fair value consist primarily of the loans underlying our Consolidated Trusts. Our loans at fair value decreased from RMB2,782.3 million as of December 31, 2019 to RMB1585.7 million (US\$243.0 million) as of December 31, 2020, primarily due to the termination of a portion of the Consolidated Trusts administered by unrelated third-party trust companies that were offered to investors through our Consolidated Trust business. Our loans at fair value increased significantly from RMB33.4 million as of December 31, 2018 to RMB2,782.3 million as of December 31, 2019.

*Deposits to institutional cooperator.* Deposits to cooperators relate to the pledged cash to our financial institutional cooperators and the amount of deposit is separately agreed with each institutional cooperator. The deposits paid to our financial institutional cooperators increased from RMB518.7 million as of December 31, 2019 to RMB907.9 million (US\$139.1 million) as of December 31, 2020. As one of the risk management measures, our financial institutional cooperators started to request deposits from us since November, 2019.

*Prepaid expenses and other current assets.* Prepaid expenses and other current assets decreased from RMB707.5 million as of December 31, 2019 to RMB403.8 million (US\$61.9 million) as of December 31, 2020, primarily due to the repayment of earnings rights associated with loan assets, amounting to RMB120 million and the decrease of prepaid expenses to various service providers from RMB160.7 million as of December 31, 2019 to RMB56.4 million as of December 31, 2020. Prepaid expenses and other current assets increased significantly from RMB115.2 million as of December 31, 2018 to RMB1,226.2 million as of December 31, 2019.

*Payable to institutional funding partners.* As a result of the failure of satisfying the criteria of true sale under ASC 860, the corresponding considerations received from the institutional funding partners were recorded in "Payable to institutional funding partners" in the consolidated balance sheet. The considerations received by the Group were determined based on the outstanding loan balances on the transaction dates. As the Group entitles them to receive a fixed interest rate in the loans which the institutional funding partners purchased, an accrued interest expenses payable to them was also recorded in "Payable to institutional funding partners" in the consolidated balance sheet. Payable to institutional funding partners was RMB1,460.4 million (US\$223.8 million) as of December 31, 2020 compared with nil as of December 31, 2019.

*Payable to investors at fair value.* Our payable to investors at fair value were RMB3,006.3 million and RMB1,914.2 million (US\$293.4 million) as of December 31, 2019 and 2020 respectively, primarily due to the termination of a portion of the Consolidated Trusts administered by unrelated third-party trust companies that were offered to investors and institutional funding partners through our Consolidated Trust business. Our payable to investors and institutional funding partners at fair value of the Consolidated Trusts were nil and RMB3,006.3 million as of December 31, 2018 and 2019 respectively.

*Guarantee liabilities.* Guarantee liabilities primarily represent our constructive obligation to make future payments under Old ZhongAn Model. Our guarantee liabilities decreased from RMB17.5 million as of December 31, 2019 to RMB9.8 million (US\$1.5 million) as of December 31, 2020, primarily due to the change in the estimated default rates of the loans subject to guarantee liabilities facilitated in prior periods. Our guarantee liabilities decreased from RMB20.9 million as of December 31, 2018 to RMB17.5 million as of December 31, 2019.

*Financial Guarantee Derivative.* For most of newly facilitated Xiaoying Card Loans and Xiaoying Revolving Loans, our exposure is limited to the contractual guarantee fee that we cannot collect under the agreement from the borrower as a result of default or prepayment but are still obligated to compensate ZhongAn/ financial guarantee companies based on the contractual guarantee fee up to the pre-agreed cap. The derivative liability is increased by the guarantee fees collected from the borrowers upon receipt as we expect all the fees to be ultimately paid to ZhongAn/ financial guarantee companies. When we settle the guarantee liability through performance of the guarantee by making payments to ZhongAn/ financial guarantee companies, we record a corresponding deduction to the derivative liability. As of December 31, 2019 and 2020, financial guarantee derivatives related to ZhongAn has an asset position of RMB719,962,262 and RMB297,928,065 (US\$ 45,659,474) respectively, primarily due to the time lag between the payments to ZhongAn and the collection of monthly guarantee service fees from borrowers. As of December 31, 2019 and 2020, the cumulative amount paid to ZhongAn was greater than the cumulative monthly guarantee service fees collected from borrowers. However, the total amount paid to ZhongAn was still within the pre-agreed Cap with ZhongAn. The excess is expected to be fully collected from the borrowers during the remaining term of the underlying loans. As of December 31, 2020, financial guarantee derivatives related to financial guarantee companies has a liability position of RMB130,442,111 (US\$19,991,128). As of December 31, 2018 and 2019, financial guarantee derivative had an asset position of RMB358.3 million and RMB720.0 million respectively. The increase in the derivative asset position was primarily due to an increase of the pre-agreed Cap with ZhongAn, which on the other hand resulted in decrease of the net revenue and accounts receivable, so as to maintain the APR in an acceptable range to attract and retain borrowers. The pre-agreed Cap was determined based on the market price and negotiated after a certain period of observation of the industry environment and economic risk to Company. As of December 31, 2018 and 2019, the cumulative amount paid to ZhongAn was greater than the cumulative monthly guarantee service fees collected from borrowers. However, the total amount paid to ZhongAn was still within the pre-agreed Cap with ZhongAn. The excess is expected to be fully collected from the borrowers during the remaining term of the underlying loans.

*Deposit payable to channel cooperators.* Deposit payable to channel cooperators represents the deposit paid to us from our channel cooperators which refer borrowers to investors on our platform or our insertional funding partners. Our deposit payable to channel cooperators decreased from RMB108.9 million as of December 31, 2019 to RMB21.5 million (US\$3.3 million) as of December 31, 2020. Our deposit payable to channel cooperators decreased by 18.7% from RMB134.0 million as of December 31, 2018 to RMB108.9 million as of December 31, 2019.

## **Inflation**

Since our inception, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2018, 2019 and 2020 were increases of 1.9%, 4.5% and 2.5%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

## **Taxation**

### *Cayman Islands*

We are incorporated in the Cayman Islands. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

### *Hong Kong*

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profit tax at a rate of 16.5%. No Hong Kong profit tax has been levied as we did not have assessable profit that was earned in or derived from the Hong Kong subsidiary during the periods presented. Hong Kong does not impose a withholding tax on dividends.

### *China*

Our subsidiaries and consolidated VIEs established in the PRC are subject to an income tax rate of 25% in the years presented. As stipulated by the Taxation Law of PRC, (i) one subsidiary became qualified enterprises to enjoy the preferential income tax rate of 15% from 2018 to 2019; (ii) one VIE in Shenzhen became qualified enterprises to enjoy the preferential income tax rate of 15% from 2018 to 2020; and (iii) one of our major consolidated subsidiaries was certified as software enterprise in early May 2019 to enjoy the preferential income tax rate of 12.5% from 2019 to 2021.

We are subject to value added tax, or VAT, at a rate of 6% on the services we provide to borrowers, investors and institutional funding partners, and at a rate of 13% on the commodities we sold on our online shopping mall, less any deductible VAT we have already paid or borne. We are also subject to surcharges on VAT payments in accordance with PRC law. VAT has been phased in since May 2012 to replace the business tax that was previously applicable to the services we provide. During the periods presented, we were not subject to business tax on the services we provide.

Dividends paid by our wholly foreign-owned subsidiary in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%.

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.”

### **Critical Accounting Policies, Judgments and Estimates**

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) disclosure of contingent assets and liabilities at the end of each reporting period and (iii) the reported amounts of revenues and expenses during each reporting period. We continually evaluate these estimates and assumptions based on historical experience, knowledge and assessment of current business and other conditions, expectations regarding the future based on available information and reasonable assumptions, which together form a basis for making judgments about matters not readily apparent from other sources. The use of estimates is an integral component of the financial reporting process, though actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on the judgment of our management.

#### ***Revenue recognition***

We provide services as an online marketplace connecting borrowers and investors or institutional funding partners primarily through the use of two business models. The major products offered by us include Xiaoying Credit Loan and Xiaoying Revolving Loan. Xiaoying Credit Loan mainly consists of Xiaoying Card Loan and Xiaoying Preferred Loan products. The major product under the category Xiaoying Revolving Loan is Yaoqianhua which was previously named as Xiaoying Wallet. Revenue is the transaction price we expect to be entitled to in exchange for the promised services in a contract in the ordinary course of our activities and is recorded net of value-added tax. The services to be accounted for include loan facilitation service, post-origination service (e.g. cash processing and collection services) and guarantee service.

The direct model involves matching borrowers with investors or institutional funding partners who directly fund the credit drawdowns to the borrowers. We have determined that we are not the legal lender or borrower in the loan origination and repayment process, but act as an intermediary to bring the lender and the borrower together. Therefore, we do not record the loans receivable or payable arising from the loans facilitated between the investors or institutional funding partners and borrowers on our platform.

The intermediary model involves us initially providing credit to borrowers using our own funds through an intermediary and subsequently selling the loans, including all of the creditor rights in the loans to external investors or institutional funding partners on our platform within a short period of time.

Loans we facilitate typically have a term of less than 1 year. For each loan facilitated either through the direct model or intermediary model, we charge a service fee, which is payable by the borrower, for all three services provided. No application fee is charged to borrowers or investors or institutional funding partners. According to the contractual agreement with borrowers, upon the inception of the loan, we have the unconditional right to the entire service fee regardless of whether subsequent post-origination or guarantee services are provided by us or timing of repayment of the loan. Since September 2017, for certain Xiaoying Card Loans facilitated, the borrower can early repay the loans with a portion of the monthly service fees for the remaining period being waived.

In order to be more competitive by providing a certain level of assurance to the investors or institutional funding partners, for certain loans facilitated by our platform, either borrowers or institutional investors or institutional funding partners are required to directly sign a credit insurance agreement with ZhongAn to protect investors against the risk of borrower default.

In 2016 and during the period from January to September 2017, substantially all of the loans facilitated by our platform are insured by ZhongAn. We did not have direct contractual obligation to the investors for defaulted principal and interest during that period. We entered into a strategic cooperation agreement with ZhongAn pursuant to which ZhongAn provided insurance to the investors for the loans facilitated by us and reimbursed the loan principal and interest to the investor upon borrower's default. During the aforementioned period, in order to maintain a stable business relationship with ZhongAn, although not contractually obligated by the agreement with ZhongAn, we at our sole discretion paid ZhongAn for substantially all the defaulted loan principal and interest but have not been subsequently collected. We also provided direct guarantee to investors on certain loan products via our consolidated entities. We are compensated for this reimbursement from the contractual service fees collected from the borrowers. Given that we at our sole discretion are responsible for the uncollected claims paid, we effectively took on substantially all of the losses incurred by the investors due to borrowers' default, we deemed the guarantee as a guarantee service to the investors and recognized a stand ready obligation for its guarantee exposure in accordance with ASC Topic 460, *Guarantees*.

Under New ZhongAn Model, for most Xiaoying Card Loans newly facilitated since September 2017 and certain Xiaoying Revolving Loans that are repaid in installments by borrowers, borrowers are required to enter into a guarantee agreement and an insurance agreement with us and ZhongAn, respectively, to pay the guarantee fee and insurance fee to the respective party at a pre-agreed rate, or borrowers are required to enter into a guarantee agreement with us to pay the guarantee fee at a pre-agreed rate while at the same time, it is the institutional investors who enter into an insurance agreement with ZhongAn and we voluntarily pay the insurance fee to ZhongAn. Upon borrower's default, ZhongAn reimburses the full loan principal and interest to the investor or institutional funding partners first, and has the right to recourse to both the borrower and us, but our contractual obligation at any time is limited to a cap (the "Cap") which is the lower of (1) total amount of guarantee fees contractually required to be collected from the borrowers for such loans facilitated during the current period on an aggregated basis, and (2) a certain percentage of the total principal of the loans facilitated stated in annualized manner, as pre-agreed with ZhongAn (the "Rate"). The contractual guarantee fees in (1) is not influenced by default or early repayment of borrowers. We have no obligation or intention to compensate ZhongAn for any losses in excess of the contractual obligation. The Rate will be negotiated prospectively at each quarter between the two parties based on the expected default rate. As such, the actual loss in excess of the Cap was absorbed by ZhongAn. ZhongAn ultimately bears substantially all of the credit risk. Our exposure in this arrangement is limited to the default and prepayment risk in relation to the guarantee fee when we cannot collect the guarantee fee under the agreement with the borrower on an individual basis but is still obligated to compensate ZhongAn up to the Cap on a pool basis. We evaluated the guarantee arrangement pursuant to ASC Topic 815 and concluded that the arrangement meets the definition of a derivative and that it is not eligible for the guarantee scope exception. Therefore, the guarantee is recognized as a derivative/asset liability at fair value and is not accounted for pursuant to ASC Topic 460 or 450.

Under New ZhongAn Model, for most Xiaoying Preferred Loan products newly facilitated since September 2017, the borrowers are required to enter into an insurance agreement with ZhongAn only at a rate set by ZhongAn. No separate guarantee agreement is signed by the borrower with us and no additional guarantee fee is charged from the borrower. Upon borrower's default, ZhongAn reimburses the full loan principal and interest to the investor or institutional funding partners. We collect the defaulted amount from borrowers on behalf of ZhongAn but has no obligation and it is no longer our intention to compensate ZhongAn for the defaulted loan principal and interest not subsequently collected in the future. ZhongAn is fully liable for all the borrower's credit risk associated with the defaulted principal and interest of the loan. Therefore for these loans, we provide loan facilitation and post-origination services but no longer provides guarantee service. We do not record guarantee liabilities associated with these loans or related account receivables from guarantee services. Under the Direct Model, the total transaction price is directly allocated to the facilitation service and post-origination service. Under the Intermediary—non-trust model, upon transfer of the loan to third party investors, we recognize the difference between (1) the proceeds received from the investors and accounts receivable and (2) the carrying value of the loan as a gain of sale, which effectively represents the service fees earned from facilitation of the loans under Intermediary Model, as the "Loan facilitation service—Intermediary Model" in the consolidated statements of comprehensive income (loss).

For certain loans that were newly facilitated in 2020, the institutional funding partners as policyholder and insured party are required to enter into an insurance agreement with ZhongAn to pay the insurance premiums. To attract institutional funding and maintain a relatively low funding cost, we at our sole discretion paid the insurance premiums. The borrowers are still required to enter into a guarantee agreement with us to pay the guarantee fee at a pre-agreed rate. The obligation/ credit risk/ exposure of us and ZhongAn to compensate the defaulted loans has no change with "New ZhongAn Model".

Starting from 2020, we enter into a series of arrangements with various external financing guarantee companies, which is similar to “New ZhongAn Model” with limited exposure to compensate these financing guarantee companies based on the contractual guarantee fee up to the pre-agreed cap when borrowers’ default occur.

#### *Direct model*

We have early adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified ASC 606 on January 1, 2017 and have elected to apply it retrospectively for the year ended December 31, 2016. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To achieve that core principle, we apply the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

We determine our customers to be both the investors borrowers and the investors or institutional funding partners. We consider the loan facilitation service, guarantee service and post-origination service as three separate services, of which, the guarantee service is accounted for in accordance with ASC Topic 460, *Guarantees*. While the post-origination service is within the scope of ASC Topic 860, the ASC Topic 606 revenue recognition model is applied due to the lack of definitive guidance in ASC Topic 860. The loan facilitation service and post-origination service are two separate performance obligations under ASC 606, as these two deliverables are distinct in that customers can benefit from each service on its own and our promises to deliver the services are separately identifiable from each other in the contract.

We determine the total transaction price to be the service fees which are chargeable from the borrowers or institutional funding partners, including the guarantee fees charged by us under the separate guarantee agreement with the borrowers for certain type of Xiaoying Card Loan that are newly facilitated since September 2017. Our transaction price includes variable consideration in the form of prepayment risk for certain products. We reflect, in the transaction price the prepayment risk and estimates variable consideration for these contracts using the expected value approach on the basis of historical information and current trends of the prepayment percentage of the borrowers. The transaction price is allocated amongst the guarantee service, if any, and two performance obligations.

We first allocate the transaction price to the guarantee liabilities, if any, that is recognized in accordance with either (1) ASC Topic 460, *Guarantees* which requires the guarantee to be measured initially at fair value based on the stand-ready obligation, or (2) ASC Topic 815 which requires the guarantee to be measured initially and subsequently at fair value. Then the remaining considerations are allocated to the loan facilitation services and post-origination services using their relative standalone selling prices consistent with the guidance in ASC 606. For certain loans facilitated since September 2017, the total transaction price is allocated to the facilitation service and post-origination service. We do not have observable standalone selling price information for the loan facilitation services or post-origination services because we do not provide loan facilitation services or post-origination services on a standalone basis. There is no direct observable standalone selling price for similar services in the market that is reasonably available to us. As a result, the estimation of standalone selling price involves significant judgment. We use an expected cost plus margin approach to estimate the standalone selling prices of loan facilitation services and post origination services as the basis of revenue allocation. In estimating its standalone selling price for the loan facilitation services and post-origination services, we consider the cost incurred to deliver such services, profit margin for similar arrangements, customer demand, effect of competitors on our services, and other market factors.



For each type of service, we recognize revenue when (or as) the entity satisfies the service/performance obligation by transferring a promised good or service (that is, an asset) to a customer. Revenues from loan facilitation are recognized at the time a loan is originated between the investor and borrower and the investor or institutional funding partner and the principal loan balance is transferred to the borrower, at which time the facilitation service is considered completed. Revenues from post-origination services are recognized on a straight-line basis over the term of the underlying loans as the services are provided. Revenues from guarantee services are recognized at the expiry of the guarantee term when there had been no defaults. Except for certain loan products offered since September 2017, the collection of service fees is not conditional on the provision of subsequent post-origination or guarantee services.

#### *Intermediary model*

Starting from 2018, we cooperate with several microcredit companies who use their own funds to provide credit to borrowers first. We provide facilitation and post-origination services for these loans and receive service fees from borrowers. These microcredit companies transfer their rights as creditors shortly to SPVs controlled by us at the price of the carrying amount of the outstanding loan principal balance and accumulated accrued interest not paid by the borrowers as of the day on which the creditor's rights are legally transferred to SPVs. The SPVs usually further transfer their creditor's rights to third party investors or institutional funding partners in a short period at the price of the carrying amount of the outstanding loan principal balance and the accumulated accrued interest not paid by the borrowers as of the day on which the creditor's rights are legally transferred to investors or institutional funding partners. We account the relevant interest and service fees received from the borrowers as the financing income and the fee charged by the microcredit companies, which is proportionate to the loans facilitated as the origination and servicing cost in its consolidated financial statements.

Under the intermediary business model, we provide the funds that are loaned to borrowers and agree to take predominantly all the risk arising from potential breaches of agreement by the borrowers receiving financing.

We provide financing to borrowers on our platform and the loans are initially recorded on the consolidated balance sheet as loans held for sale or loans receivable from Xiaoying credit loans and Xiaoying revolving loans. These loans carry the same insurance/ guarantee agreement with external institutional co-operators as loans facilitated under the direct model, which is attached to the loan and transfers along with the loan. We also charge service fees in the same manner as loans facilitated under the direct model.

#### Intermediary Model—Non-Trust Model

The transfer of loans (including the creditor rights) to external investors or institutional funding partners not involving trust structure is accounted for as a true sale under ASC 860 (see accounting policy under "Sales and Transfers of Financial Instruments"). Upon sale, we record a guarantee liability in accordance with ASC 460 in relation to the on-going guarantee services to be provided to the investors or institutional funding partners, consistent with the loans facilitated under the direct model. We continue to provide post-origination services to the loans subsequent to their sale in the same manner as we service the loans facilitated under the direct model. No additional service fee is charged. Similar to the loans facilitated under the direct model, we charge and collect service fees from the borrowers in relation to the transferred loans on a monthly basis. The difference between (1) the proceeds received from the investors or institutional funding partners and accounts receivable and contract assets (see accounting policy under "Accounts receivable and contract assets and allowance for uncollectible accounts receivable and contract assets") and (2) the sum of the carrying value of the loans and the fair value of the guarantee liability is recognized as a gain of sale, which effectively represents the service fees earned from facilitation of the loans under intermediary model, as the "Loan facilitation service—Intermediary Model" in the consolidated statements of comprehensive income (loss). For certain loans facilitated since September 2017, given that we no longer provide guarantee services and we do not record any guarantee liabilities associated with those loans or related account receivable from guarantee services, the gain of sale is the difference between (1) the proceeds received from the investors or institutional funding partners and accounts receivable and (2) the carrying value of the loan. The subsequent accounting for post-origination service and guarantee services is consistent with that for loans facilitated under the direct model.

Loans that were not yet transferred to external investors or institutional funding partners or have been transferred but such transaction does not qualify for sale accounting was recorded in "Loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans" in the consolidated balance sheets.

## Intermediary Model—Trust Model

The transfer of loans to institutional funding partners under the intermediary model often involves transferring the loans to a trust formed and operated by unrelated third party trust companies. We consolidate such trusts under the VIE model. We also elect to apply fair value option to these loans at the date of origination. Loans transferred to Consolidated Trusts do not qualify for sales accounting as the transfer is to a consolidated subsidiary. The loans are recorded as “Loans at fair value” in the consolidated balance sheets. We recognize as revenue under “financing income” the service fees and interests charged to the borrowers over the lifetime of the loans using effective interest method.

The online intermediary model ceased in April 2017 and the offline intermediary model with funding from banking financial institution partners ceased in February 2018 to comply with the promulgated regulatory requirements. We continue the operations through the offline intermediary model with funding from other partners to the extent permitted under applicable laws and regulations.

### *Contract balance*

We did not enter into contracts with customers that were greater than one year for substantially all products for the year ended December 31, 2018, 2019 and 2020. We historically did not record any contract liabilities for both 2019 and 2020 and did not record any contract asset prior to September 2018. For certain Xiaoying Card Loan products facilitated since September 2017, the borrower can early repay the loans in which case a portion of the monthly service fees for the remaining period is waived. We do not have unconditional right to the consideration at the loan inception and record a corresponding contract asset when recognizing revenue from facilitation service. The contract asset will not be reclassified to a receivable given that the right to invoice and the payment due date is the same date. During 2020, we determined that the consideration for these loan products to no longer be probable that substantially all of the consideration will be collected from our customers, therefore no contract assets were recognized. Revenue for these loan products are recognized when the collection of consideration becomes probable.

### *Incentives to investors*

To expand its market presence, we provide incentives to investors in a variety of forms that either reduces the amount of investment required to purchase financial products or entitle them to receive higher interest rates in the products they purchase. During the relevant incentive program period, we set certain thresholds for the investor to qualify to enjoy the incentive. Such incentives are accounted for as a reduction of revenue in accordance with ASC 606.

### *Financing Income*

Financing income consists primarily the financing fees we charge for the loans facilitated through the Consolidated Trusts, including interest income and service fees generated from providing loan facilitation, guarantee and post-origination services to the investors and institutional funding partners of the Consolidated Trusts and are recorded as revenue over the life of the underlying financing using the effective interest method.

Financing income also includes financing fees, including interest income and service fee, from loans held for sale and loans receivables from Xiaoying Credit Loan and Xiaoying Revolving Loan that have not yet been transferred to external investors or institutional funding partners or have been transferred but such transaction does not qualify for sale accounting under the Intermediary Model.

### *Other revenue*

Other revenue primarily includes penalty fees for loan prepayment and late payment, administration fee for transferring loans between investors on our platform, commission fees for introducing borrowers to other platforms and commission fees from Xiaoying Online Mall. The penalty fees, which are fees paid to us, will be received as a certain percentage of past due amounts in the case of late payments or a certain percentage of interest over the prepaid principal loan amount in the case of prepayment. Penalty fees are contingency-based variable considerations and constrained by the occurrence of delinquency or prepayment. They are recognized when the uncertainty associated with the variability is resolved, that is, when the underlying event occurs. The administration fees for transferring loans between investors and commission fees for introducing borrowers to other platforms are recognized when the obligation is fulfilled and is confirmed by the other platforms.

Xiaoying Online Mall launched in March 2019 is a product that provides loan installments to our individual customers enabling them to purchase goods online. The loan installment revenue is recognized as loan facilitation revenue and post origination revenue. The gross amount of product sales and related costs or the net amount earned is recorded as commissions. We were evaluated as an agent and its obligation is to facilitate third parties in fulfilling their performance obligation for specified goods or services, revenues should be recognized in the net amount for the amount of commission which we earn in exchange for arranging for the specified goods or services to be provided by other parties. Revenue is recorded net of value-added taxes.

#### *Sales and Transfers of Financial Instruments*

Sales and transfers of financial instruments are accounted under authoritative guidance for the transfers and servicing of financial assets and extinguishment of liabilities. Specifically, a transfer of a financial asset, a group of financial assets, or a participating interest in a financial asset is accounted for as a sale only if all the following conditions are met:

1. The financial assets are isolated from the transferor and its consolidated affiliates as well as its creditors;
2. The transferee or beneficial interest holders have the right to pledge or exchange the transferred financial assets; and
3. The transferor, its consolidated affiliates included in the financial statements being presented, or its agents do not maintain effective control of the transferred asset. A transferor's effective control over the transferred financial assets includes, but is not limited to, any of the following:
  - a. An agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity.
  - b. An agreement, other than through a cleanup call that provides the transferor with both of the following: (i) The unilateral ability to cause the holder to return specific financial assets. (ii) A more-than-trivial benefit attributable to that ability; and
  - c. An agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

Under the intermediary model, we, through our Intermediary, facilitates credits to borrowers and subsequently transfers the loans (including the creditor rights) to third party investors or institutional funding partners at face value within a short period of time. When the loan (including the creditor rights) is transferred, the transferee becomes the direct counterparty to the borrower and the legal record holder of the loan upon transfer. The transfer is accounted for as a sale, when (1) the transferred loans are considered legally isolated from the assets of us and its creditors even in the bankruptcies under the PRC laws and regulations, (2) the investors or institutional funding partners (transferees) can freely pledge or exchange the transferred loans, and (3) we do not maintain effective control over the transferred loans. The cash flows related to the origination and transfer of these loans are presented as "Origination of loans held for sale" and "Sale of loans held for sale", respectively, within operating cash flows in the consolidated statement of cash flows. When a transfer does not qualify for sale accounting, e.g. when the Group sells loans with recourse to the Group, the transferred financial asset remains in the statement of financial position and a financial liability is recognized for any consideration received.

For certain loans facilitated through the intermediary model, borrowers are required to pledge properties to one of our consolidated VIE entities (other than the intermediary or the SPV conducting the facilitation and transfer of the loan) as collateral for the guarantee that we are providing to ZhongAn against borrower's default. It is a separate arrangement with different counterparties from the loan provided by us. While the creditor's right of the loan is transferred to third party investors or institutional funding partners, the lien remains under our name and in security for us agreeing to provide the guarantee to ZhongAn. The holding of the lien does not affect the creditor's right in the loan being fully transferred. Provided all aforementioned conditions under sales accounting are met, the transfer of such loans with collateral are accounted for as a sale.

### **Guarantee Arrangement**

We have guarantee service which is directly and indirectly provided to the investors or institutional funding partners. If a borrower defaults, the investor is compensated for the defaulted principal and interest. Under Old ZhongAn Model, in order to maintain stable business relationship with ZhongAn, we, although not contractually obligated, at our own discretion compensated ZhongAn for substantially all the loan principal and interest default but have not been subsequently collected. At the inception of each loan, we recognize the guarantee liability at fair value in accordance with ASC 460-10, which incorporates the expectation of potential future payments under the guarantee and takes into both non-contingent and contingent aspects of the guarantee. Subsequent to the loan's inception, the guarantee liability is composed of two components: (i) ASC Topic 460 component; and (ii) ASC Topic 450 component. The liability recorded based on ASC Topic 460 is determined on a loan by loan basis and it is reduced when we are released from the underlying risk, i.e. as the loan is repaid by the borrower or when the investor or institutional funding partners is compensated in the event of a default. This component is a stand-ready obligation which is not subject to the probable threshold used to record a contingent obligation. When we are released from the stand-ready liability upon expiration of the underlying loan, we record a corresponding amount as "Other revenue" in the consolidated statement of comprehensive income. The other component is a contingent liability determined based on probable loss considering the actual historical performance and current conditions, representing the obligation to make future payouts under the guarantee liability in excess of the stand-ready liability, measured using the guidance in ASC Topic 450. The ASC Topic 450 contingent component is determined on a collective basis and loans with similar risk characteristics are pooled into cohorts for purposes of measuring incurred losses. The ASC 450 contingent component is recognized as part of operating expenses in the consolidated statement of comprehensive income. At all times the recognized liability (including the stand-ready liability and contingent liability) is at least equal to the probable estimated losses of the guarantee portfolio.

The guarantee liability recorded at loan inception was estimated based on our expected payouts and also incorporating a markup margin. The expected future payouts were estimated based on expected default rates and collection rates for each product type, taking into consideration of historical loss experiences for both contingent and noncontingent elements. The collection rate, if applicable, also incorporates the proceeds from liquidation of underlying collateral that would be expected to cover the payouts under the guarantee. The expected future payouts take into account missed payments initially compensated by ZhongAn within two business days from borrowers' payment due date.

The approximate term of the guarantee service correlates directly with the term of the loan product. As such, for predominantly all loans, the approximate term for guarantee service is for a period of 12 months or less.

Under New ZhongAn Model, we no longer record any guarantee liability in accordance with ASC Topic 460 for substantially all Xiaoying Preferred Loans. For most Xiaoying Card Loans newly facilitated since September 2017 and certain Xiaoying Revolving Loans that are repaid in installments by borrowers, our exposure is limited to the contractual guarantee fee that we cannot collect under the agreement from the borrower as a result of default or prepayment but are still obligated to compensate ZhongAn based on the contractual guarantee fee up to the Cap. The Cap is the lower of (1) total amount of guarantee fees contractually required to be collected from the borrowers for such loans facilitated during the current period on an aggregated basis, and (2) a certain percentage of the total principal of the loans facilitated stated in annualized manner, as pre-agreed with ZhongAn (the "Rate"). The contractual guarantee fees in (1) is not influenced by default or early repayment of borrowers. We will be notified by email for any subsequent adjustments to the Rate from ZhongAn at every quarter and no separate written agreement is needed for execution for such adjustments. The Rate will also be negotiated prospectively between ZhongAn and us based on the expected default rate. See accounting policy in Revenue Recognition. The financial guarantee is accounted for as a credit derivative under ASC 815 because the financial guarantee scope exemption in ASC 815-10-15-58 is not met. The derivative is remeasured at each reporting period. The change in fair value of the derivative is recorded as a change in fair value of financial guarantee derivatives in the consolidated statements of comprehensive income (loss). The derivative is increased by the guarantee fees collected from the borrowers upon receipt as we expect all the fees to be ultimately paid to ZhongAn. When we settle the guarantee through performance of the guarantee by making payments to ZhongAn, we then record a corresponding deduction to the derivative.

We use discounted cash flow model to value these financial guarantee derivatives at inception and subsequent valuation dates. This discounted cash flow model incorporates assumptions such as the expected delinquency rates, prepayment rate and discount rate. The expected delinquency rate and prepayment rate is estimated by taking into consideration of historical loss experiences. The discount rate is determined based on the market rates. For the loans facilitated during September to December 2018, we estimated at inception that the prepayment risk be immaterial.

From 2018, we entered into a series of arrangements with various external asset management companies to provide guarantee service for an identified portfolio of loans facilitated on the Company's platform and engages directly with the borrowers and investors on the platform. Throughout the loan term, borrowers pay the guarantee fee directly to the asset management companies. Upon the default of the borrower, the asset management companies directly compensate the investors and obtains the creditor's rights of the loans. As a result, no guarantee liabilities have been recorded by us for the loan portfolio that are guaranteed by the asset management companies. We co-operate with selected Fintech and other financial companies by connecting the borrowers referred by those companies to investors on our platform. Though it is the selected companies who provide credit enhancements on the loans facilitated to the borrowers, since 2019 we have decided to voluntarily provide guarantee service to the investors from our platform for reputational maintenance, if any indication of operational deterioration is found among these selected companies.

Starting from 2020, we enter into a series of arrangements with various external financing guarantee companies, which is similar to our new ZhongAn model with limited exposure to compensate these financing guarantee companies based on the contractual guarantee fee up to the pre-agreed cap when borrowers' default occur.

### ***Consolidation of Variable Interest Entity***

As foreign-invested companies engaged in internet value-added businesses are subject to stringent requirements compared with Chinese domestic enterprises under the current PRC laws and regulations, our PRC subsidiary, Beijing WFOE, and its subsidiaries, as foreign-invested companies, do not meet all such requirements and therefore none of them is permitted to engage in such business in China. Therefore, we elected to conduct such business in China through Shenzhen Xiaoying, Beijing Ying Zhong Tong, Shenzhen Tangren, Shenzhen Beier and their subsidiaries (VIEs), which are PRC domestic companies beneficially owned by us.

Since we do not have any equity interests in the VIEs in order to exercise effective control over their operations, through Beijing WFOE, we have entered into a series of contractual arrangements with the VIEs and their shareholders, pursuant to which we are entitled to receive effectively all economic benefits generated from the VIEs. The call option agreements and voting rights proxy agreement provide us effective control over the VIEs, while the equity interest pledge agreement secure the equity owners' obligations under the relevant agreements. Because we have both the power to direct the activities of the VIEs that most significantly affect their economic performance and the right to receive substantially all of the benefits from the VIEs, we are deemed the primary beneficiary of the VIEs. Accordingly, we have consolidated the financial statements of the VIEs. The aforementioned contractual agreements are effective agreements between a parent and a consolidated subsidiary, neither of which is accounted for in the consolidated financial statements (i.e., a call option on subsidiary shares under the call option agreement or a guarantee of subsidiary performance under the equity pledge agreement) or are ultimately eliminated upon consolidation (i.e., service fees under the exclusive business cooperation).

We believe that our contractual arrangements with Shenzhen Xiaoying, Beijing Ying Zhong Tong, Shenzhen Tangren and Shenzhen Beier (collectively known as the "VIEs") are in compliance with PRC law and are legally enforceable. However, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. The interests of the shareholders of the VIEs may diverge from that of our company, which may potentially increase the risk that they would seek to act contrary to the contractual terms.

### ***Consolidated Trusts***

As part of our efforts to develop new product offerings for investors and institutional funding partners, we established a business relationship with certain trusts which were administered by third-party trust companies. The trusts were set up to invest solely in the loans facilitated by us on its platform to provide returns to the beneficiaries of the trusts through interest payments made by the borrowers. Both direct model and intermediary model are adopted for these trusts. Under direct model, loans are originated from trusts to borrowers while under intermediary model, we typically provide credit to the borrowers through an intermediary first and then transfers the loans to the trusts, which issue beneficial interests to the investors and institutional funding partners. We determine to consolidate these trusts as we are the primary beneficiary, due to the following reasons: 1. We have the power to direct the operating activities of the trusts; 2. We absorb or enjoys the potential residual losses or returns of these trusts. Under intermediary model, the transfer of loans to the Consolidated Trusts are not eligible for sale accounting because the trust is consolidated and the loan transfer is considered an intercompany transaction. We further elected to apply fair value option to the loans (at the date of origination) and liabilities to investors and institutional funding partners to emphasize the relevancy of the accounting information of its consolidated financial statements. That is, the loans are continued to be recorded on our consolidated balance sheets as loans held for investment under "Loans at fair value" and the proceeds received from the investors and institutional funding partners are recorded as trust liabilities under "Payable to investors at fair value".

### ***Allowance for credit losses***

We have the following financial assets or liabilities that are subject to credit losses assessment: accounts receivable and contract assets, loans receivable from Credit Loans and Revolving Loans, loans receivable from Housing Loans, deposits to institutional cooperators, prepaid expenses and other current assets, and guarantee liabilities.

#### *Before the adoption of Accounting Standards Codification (“ASC”) 326 on January 1, 2020*

We assessed the creditworthiness and collectability of the credit assets mainly based on historical defaults and other factors surrounding the credit risk of the borrowers. The profile of the borrowers is similar under each product therefore the Group applies a consistent credit risk management framework to the entire portfolio of borrowers under each product. For individual customers where there is an observable indicator of impairment such as fraud, a specific allowance is provided. The credit loss allowance for loan receivable from Xiaoying Housing Loans is assessed based on the present value of the expected amount to be collected from the exercise of the collateral right. The Group evaluates and adjusts its credit loss allowances or guarantee liabilities on a quarterly basis or more often as necessary.

#### *After the adoption of ASC 326 on January 1, 2020*

Effective January 1, 2020, we adopted Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This guidance replaces the existing “incurred loss” methodology, and introduces a forward-looking expected loss approach referred to as a current expected credit losses (“CECL”) methodology. Under the incurred loss methodology, credit losses are recognized only when the losses are probable of having been incurred. The CECL methodology requires that the full amount of expected credit losses for the lifetime be recorded at the time the financial asset is originated or acquired, and adjusted for changes in expected lifetime credit losses subsequently, which requires earlier recognition of credit losses.

Under the CECL methodology, the Allowance for credit losses consists of quantitative and qualitative components. The Group’s quantitative component of the Allowance for credit losses is model based and utilizes a forward-looking macroeconomic forecast in estimating expected credit losses. The Group’s qualitative component of the Allowance for credit losses considers (i) the uncertainty of forward-looking scenarios based on the likelihood and severity of a possible recession as another possible scenario; (ii) certain portfolio characteristics, such as portfolio concentration and collateral coverage; and (iii) model limitations as well as idiosyncratic events.

### ***Income taxes***

Current income taxes are provided for in accordance with the laws of the relevant tax authorities.

Deferred income taxes are provided using assets and liabilities method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized to the extent that these assets are more likely than not to be realized. In making such a determination, the management consider all positive and negative evidence, including future reversals of projected future taxable income and results of recent operation. Deferred tax assets are then reduced by a valuation allowance through a charge to income tax expense when, in the opinion of management, it is more like than not that a portion of or all of the deferred tax assets will not be realized.

We account for uncertainty in income taxes recognized in the consolidated financial statements by applying a two-step process to determine the amount of the benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If the tax position is deemed more-likely-than-not to be sustained (defined as a likelihood of more than fifty percent of being sustained upon an audit, based on the technical merits of the tax position), the tax position is then assessed to determine the amount of benefits to recognize in the consolidated financial statements. The amount of the benefits that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes. We did not recognize any income tax due to uncertain tax position or incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2016, 2017 or 2018.

#### ***Fair value adjustments related to Consolidated Trusts***

We have elected the fair value option for the loan assets and liabilities of the Consolidated Trusts that otherwise would not have been carried at fair value. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition. We estimate the fair value of loans and payable using a discounted cash flow valuation methodology by discounting the estimated future net cash flows using an appropriate discount rate. The future net cash flows are estimated based on contractual cash flows, taking into consideration of estimated delinquency rate, prepayment rate and collection rate of the loans, and the pre-determined rate of our guarantee exposure for certain products. Changes in fair value of loans and payable to investors and institutional funding partners are reported net as recorded in “Fair value adjustments related to Consolidated Trusts” in the consolidated statement of comprehensive income.

#### ***Share-Based Compensation***

Share-based payment transactions with employees, such as stock options and restricted stock units, are measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straightline basis in the consolidated statements of income over the period during which the employee is required to perform service in exchange for the award.

A summary of options and restricted stock units we granted as of December 31, 2020 are as below:

- On January 25, 2015, our then sole director approved a share incentive plan for the purpose of providing incentives and rewards to employees and executives who contribute to the success of our operations and granted 13,843,645 stock options. On June 29, 2015, our then sole director granted 630,000 stock options to certain employees, directors and officers. On May 3, 2016, our then sole director granted 7,425,000 stock options to certain employees, directors and officers. The stock options expire 10 years from the date of grant and vest over a period from three to four years.
- On October 11, 2017, we granted 16,616,000 stock options to certain employees and senior management. The options granted have exercise prices from US\$0.04 to US\$4.01 per share. A portion of the stock options can only vest in the year 2021 whereas the remaining portion is vested ratably each on the first, second, third and fourth anniversary from the vesting commencement date. Share-based compensation of RMB437.3 million relating to the grant will be recognized on a straight-line basis over the vesting periods from two to four years.
- On April 30, 2018, we granted 841,054 stock options to certain employees and senior management. The exercise price of the options granted was US\$4.01 per share. The stock option is vested ratably each on the first, second, third and fourth anniversary from the vesting commencement date. Share based compensation relating to this grant will be recognized on a straight-line basis over the vesting period from 3.6 to 4 years.
- On May 9, 2018, we granted 40,000,000 stock options to certain senior management. The exercise price is the offering price per share of our initial public offering which is US\$4.75. Such stock options are eligible to vest, in whole or in part, when the market capitalization milestone as well as the targeted adjusted net earnings are achieved subsequent to our initial public offering. We determine the service inception date to be May 9, 2018 and the grant date to be the date of our listing on New York Stock Exchange. The offering price per share of our initial public offering was used to determine the fair value of ordinary shares at grant date to estimate the share-based compensation expense. The total share-based compensation expense of RMB16,210,135 (US\$2,357,666) was recognized over a five-year period from the service inception date on a straight line basis. The share-based compensation expense recognized upon our initial public offering was RMB 9,163,461 (US\$1,332,770).

- On October 31, 2018, we granted 475,000 stock options to certain employees, directors and officers. The stock options shall expire 10 years from the date of grant and vest over a period from three to four years.
- On April 15, 2019, the Board of Directors of X Financial granted 150,000 of restricted stock units to certain directors. The restricted stock units shall vest over a period from two to three years. The restricted stock units have no expiration period.
- On April 30, 2019, we granted 155,000 stock options to certain employees. The stock options shall expire 10 years from the date of grant and vest over a period from three to four years.
- On November 20, 2019, the Board of Directors of X Financial granted 1,789,400 of restricted stock units to certain employees. The restricted stock units shall expire 10 years from the date of grant and vest over a period from three to four years.
- On August 13, 2019 and November 20, 2019, the Board of Directors decided to cancel 1,500,000 and 250,000 of unvested options of certain senior managements and concurrently granted 1,500,000 and 250,000 of restricted stock units as replacement awards to the senior managements.
- On January 21, 2020, the Board of Directors of X Financial granted 4,600,000 of restricted stock units to certain employees and officers. The restricted stock units shall expire 10 years from the date of grant and vest over a period from three to four years.
- On April 30, 2020, the Board of Directors of X Financial granted 673,300 of restricted stock units to certain employees. The restricted stock units shall expire 10 years from the date of grant and vest over a period from three to four years.
- On October 31, 2020, the Board of Directors of X Financial granted 550,000 of restricted stock units to certain employees. The restricted stock units shall expire 10 years from the date of grant and vest over a period from three to four years. A summary of option activity during the years ended December 31, 2018, 2019 and 2020 are presented below:

	Number of Options	Exercise Price RMB	Remaining Contractual	Intrinsic value of options
Outstanding, as of January 1, 2018	38,259,645	0.27 - 27.02	7.07 - 9.78	1,156,955,666
Granted	41,316,054	25.42 - 30.27	—	—
Forfeited	2,109,000	0.27 - 30.27	—	—
Outstanding, as of December 31, 2018	77,466,699	0.27 - 30.27	6.07-9.83	457,386,371
Vested and expected to vest as of December 31, 2018	77,466,699	0.27 - 30.27	6.07-9.83	457,386,371
Exercisable as of December 31, 2018	20,053,395	0.27 - 25.42	6.07-9.33	283,464,132

	Number of Options	Exercise Price RMB	Remaining Contractual	Intrinsic value of options
Outstanding, as of January 1, 2019	77,466,699	0.27 - 30.27	6.07 - 9.83	457,386,371
Granted	155,000	31.96	—	—
Exercised	14,007,474	0.27 - 10.71	—	—
Forfeited/Cancelled	3,452,998	0.27 - 31.96	—	—
Outstanding, as of December 31, 2019	60,161,227	0.27 - 31.96	5.07-9.33	74,834,115

	Number of Options	Exercise Price RMB	Remaining Contractual	Intrinsic value of options
Vested and expected to vest as of December 31, 2019	60,161,227	0.27 - 31.96	5.07-9.33	74,834,115
Exercisable as of December 31, 2019	9,959,062	0.28 - 25.42	5.07-9.33	30,925,254

	Number of Options	Exercise Price RMB	Remaining Contractual	Intrinsic value of options
Outstanding, as of January 1, 2020	60,161,227	0.27-31.96	5.07-9.33	74,834,115
Granted	—	—	—	—
Exercised	2,009,564	0.27	—	—
Forfeited/Cancelled	5,953,060	0.27-31.96	—	—
Outstanding, as of December 31, 2020	52,198,603	0.27-31.96	4.07-8.33	19,538,815
Vested and expected to vest as of December 31, 2020	52,198,603	0.27-31.96	4.07-8.33	19,538,815
Exercisable as of December 31, 2020	8,301,673	0.27-31.96	4.07-8.33	13,364,215



A summary of restricted share units activity during the year ended December 31, 2019 and 2020 is presented below:

	Number of Restricted Shares	Weighted-Average Grant-Date Fair Value RMB
Outstanding, as of January 1, 2019	—	—
Granted	3,689,400	8.21
Vested	49,998	17.60
Forfeited	—	—
Outstanding, as of December 31, 2019	3,639,402	8.21
	Number of Restricted Shares	Weighted-Average Grant-Date Fair Value RMB
Outstanding, as of January 1, 2020	3,639,402	8.21
Granted	5,823,300	5.65
Vested	631,680	8.61
Forfeited	1,295,728	6.16
Outstanding, as of December 31, 2020	7,535,294	6.49

We used the Binomial model to estimate the fair value of the options granted on the respective grant dates with assistance from independent valuation firms. The fair value per option was estimated at the date of grant. The Group determined the fair value of RSUs based on its stock price on the date of grant.

For the years ended December 31, 2018, 2019 and 2020, we recorded compensation expenses of RMB 171.8 million, RMB157.1 million and RMB80.1 million (US\$12.3 million), respectively, for the stock options and restricted stocks granted to our employees. As of December 31, 2018, 2019 and 2020, we had 77,466,699, 60,161,227 and 52,198,603 stock options outstanding, respectively. As of December 31, 2018, 2019 and 2020, there was RMB426.0 million, RMB232.1 million and RMB85.8 million(US\$13.1 million) of total unrecognized compensation expense related to unvested stock options granted, respectively. As of December 31, 2020, such cost was expected to be recognized over a weighted average period of 1.87 years.

As of December 31, 2020, there was RMB33.5 million (US\$5.1 million) of total unrecognized compensation expense related to unvested restricted shares granted. As of December 31, 2020 that cost is expected to be recognized over a weighted-average period of 2.62 years.

**Recent Accounting Pronouncements**

The recent accounting pronouncements that are relevant to us are included in note 2 to our audited consolidated financial statements, which are included in this annual report.

**5.B. Liquidity and Capital Resources**

To date, we have financed our operations primarily through cash generated by operating activities and proceeds from issuance and sales of our shares. As of December 31, 2018, 2019 and 2020, we had RMB1,069.4 million, RMB1,006.0 million and RMB746.4 million (US\$114.4 million), respectively, in cash and cash equivalents. In September 2018, we completed an initial public offering of 11,763,478 ADSs (including the ADSs sold upon the exercise of the over-allotment option granted to the underwriters), representing 23,526,956 Class A ordinary shares, resulting in net proceeds to us of approximately US\$103.9 million. Our cash and cash equivalents solely consist of cash on hand. We believe that our current cash and cash equivalents and our anticipated cash flows from operations and financing activities will be sufficient to meet our anticipated working capital requirements and capital expenditures for next 12 months. We may, however, need additional capital in the future to fund our continued operations. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand at the time, we may seek to issue equity or debt securities or obtain credit facilities. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that might restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

**Cash Flows and Working Capital**

The following table sets forth a summary of our cash flows for the periods presented:

	<b>For the Year Ended December 31,</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>	
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
	<b>(in thousands)</b>			
<b>Summary Consolidated Cash Flows Data:</b>				
Cash provided by (used in) operating activities	5,354	600,567	(679,235)	(104,097)
Cash provided by (used in) investing activities	412,871	(3,079,781)	(3,704,848)	(567,793)
Cash provided by financing activities	181,789	2,711,188	4,490,712	688,232
Net increase in cash and cash equivalents, and restricted cash	593,731	242,597	78,220	11,987
Cash and cash equivalents, and restricted cash at beginning of year	683,976	1,277,707	1,520,303	232,997
Cash and cash equivalents, and restricted cash at year end	1,277,707	1,520,303	1,598,523	244,984

**Operating Activities**

Cash used in operating activities was RMB679.2 million (US\$104.1 million) in 2020. In 2020, the difference between our cash used in operating activities and our net loss of RMB1,308.5 million (US\$200.5 million) in 2020 resulted mainly from the impairment loss of deposits of institutional cooperators of RMB960 million (US\$147.1 million), the change of financial guarantee derivatives due to the lag between payments to ZhongAn and other financing guarantee companies and the collection of monthly guarantee derivative of RMB388.8 million (US\$59.6 million), the decrease of accounts receivable and contract assets of RMB220.8 million (US\$33.8 million), the provision for loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans of RMB227.2 million (US\$34.8 million), which were partially offsets by (i) the increase of deposits to institutional cooperators of RMB1,369.5 million (US\$209.9 million), and (ii) the decrease of income tax payables of RMB265.1 million (US\$40.6 million).

Cash provided by operating activities was RMB600.6 million in 2019. In 2019, the difference between our cash provided by operating activities and our net income of RMB774.5 million in 2019 resulted mainly from the change in fair value of financial guarantee derivative of RMB246.4 million and provision for accounts receivable and contract assets of RMB241.2 million, which were partially offset by (i) the decrease in financial guarantee derivative of RMB608.1 million due to the lag between payments to ZhongAn and the collection of monthly guarantee service fees from borrowers, and (ii) the decrease in prepaid expenses and other current assets due to the deposits paid to our financial institutional cooperators and our investments in earnings rights associated with loan assets.

Cash provided by operating activities was RMB5.4 million in 2018. In 2018, the difference between our cash provided by operating activities and our net income of RMB883.1 million resulted mainly from the change in fair value of financial guarantee derivative of RMB201.0 million and provision for accounts receivable and contract assets of RMB397.0 million, which were partially offset by (i) the decrease in guarantee liabilities of RMB524.3 million due to New Zhongan Model and business cooperation with Jiangxi Ruijing, (ii) the decrease in financial guarantee derivative of RMB612.5 million due to the time lag between the payments to ZhongAn and the collection of monthly guarantee service fees from borrowers, and (iii) the increase in accounts receivable and contract assets of RMB665.3 million due to the increase of loan transactions.

### ***Investing Activities***

Cash used in investing activities was RMB3,704.8 million (US\$567.8 million) in 2020, which was primarily attributable to sale and collection of loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans and principal collection of loans at fair value of RMB9,762.5 million (US\$1,496.2 million) and the collection of loans' earnings rights from a related party, partially offset by principal payment of loans at fair value and origination of loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans of RMB5,952.5 million (US\$912.3 million).

Cash used in investing activities was RMB3,079.8 million in 2019, which was primarily attributable to principal payment of loans at fair value of RMB5,646.7 million, partially offset by principal collection of loans at fair value of RMB2,961.9 million.

Cash provided by investing activities was RMB412.9 million in 2018, which was primarily attributable to the principal collection of loans at fair value of RMB744.4 million, partially offset by the purchase of long term investments of RMB225.0 million.

### ***Financing Activities***

Cash provided by financing activities was RMB4,490.7 million (US\$688.2 million) in 2020, which was attributable to cash receipt from investors related to loans at fair value and institutional funding partners of RMB7,244.9 million (US\$1,110.3 million) and proceeds from short-term bank borrowings of RMB511.5 million (US\$78.4 million), which was partially offset by cash paid to investors related to loans at fair value and to institutional funding partners of RMB3,105.3 million (US\$475.9) and repayment of short-term bank borrowings of RMB161 million (US\$24.7 million).

Cash provided by financing activities was RMB2,711.2 million in 2019, which was attributable to cash receipt from investors — Consolidated Trusts of RMB4,313.1 million and proceeds from short-term bank borrowings of RMB203 million, which was partially offset by cash paid to investors — Consolidated Trusts of RMB1,306.7 million and repayment of short-term bank borrowings of RMB401 million.

Cash provided by financing activities was RMB181.8 million in 2018, which was attributable to proceeds from initial public offering of RMB713.1 million and short-term bank borrowings of RMB198.0 million, which was partially offset by cash paid to investors — Consolidated Trusts of RMB696.8 million.

### **Holding Company Structure**

X Financial is a holding company with no material operations of its own. We conduct our operations primarily through our Beijing WFOE and its subsidiaries, variable interest entities and its subsidiaries in China. As a result, X Financial's ability to pay dividends depends upon dividends paid by Beijing WFOE. If Beijing WFOE or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiary in China is permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and variable interest entities is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, each of our subsidiaries may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at its discretion, and our variable interest entity may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our Beijing WFOE has not paid dividends and will not be able to pay dividends until it generates accumulated profits and meet the requirements for statutory reserve funds.

### 5.C. Research and Development

We have focused on and will continue to invest in our technology system, which supports all key aspects of our online platform and is designed to optimize for scalability and flexibility.

### 5.D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2020 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial condition.

### 5.E. Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2020.

### 5.F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, including interest payments, as of December 31, 2020:

	Payment Due by Period				
	Total	Less than 1 year	1-2 years	2-3 years	More than 3 years
<b>Contractual Obligations:</b>					
Operating lease obligations (1)	51,158	21,291	16,765	4,754	8,348

Note:

(1) Operating lease obligations represent our obligations for office premises, which include all future cash outflows under ASC Topic 842, Leases. Please see “Leases” under Note 2 to our audited consolidated financial statements

Other than those shown above, we did not have any significant capital and other commitments, long-term obligations, or guarantees other than the guarantees provided to investors and institutional funding partners for certain loan products as of December 31, 2020.

### 5.G. Safe harbor

See “Forward-Looking Information.”

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****6.A. Directors and Senior Management**

The following table sets forth the name, age and position of each of our directors and executive officers as of the date of this annual report.

<b>Name</b>	<b>Age</b>	<b>Position/Title</b>
Yue (Justin) Tang	50	Chief Executive Officer, Chairman
Shaoyong (Simon) Cheng	51	President, Director
Ding (Gardon) Gao	34	Chief Technology Officer, Director
Frank Fuya Zheng	54	Chief Financial Officer
Kan (Kent) Li	47	Chief Risk Officer
Shengwen Rong	52	Independent Director
Zheng Xue	50	Independent Director
Longgen Zhang	56	Independent Director

*Mr. Yue (Justin) Tang* is our founder, Chief Executive Officer and Chairman of our board of directors. Mr. Tang is responsible for our overall business strategies and operation. Before starting our company, Mr. Tang co-founded eLong.com, an online travel service company in China in 1999. From 2006 to 2014, Mr. Tang was the founder and managing partner of Blue Ridge China, an investment and consulting company. Mr. Tang received a bachelor's degree in business administration from Concordia College.

*Mr. Shaoyong (Simon) Cheng* has served as our President since October 2017 and our Director since December 2017. Mr. Cheng joined us in 2015. Prior to serving as our President, Mr. Cheng served as our Chief Risk Officer from 2015 to 2017. Prior to that, Mr. Cheng served as deputy General Manager in charge of retail lending management at Bank of Communications, senior credit risk manager at HSBC North America and HSBC Asia Pacific. Mr. Cheng also served as head of CEO office and head of business banking at Hang Seng Bank China Limited, and manager at Capital One. Mr. Cheng received a bachelor's degree and a master's degree in engineering and a bachelor's degree in economics from Tsinghua University, a master's degree in industrial engineering and an MBA degree from University of Southern California.

*Mr. Ding (Gardon) Gao* is a co-founder of the Company. He has served as our Chief Technology Officer since April 2014 and our Director since December 2017. Mr. Gao joined us in 2014. Prior to that, Mr. Gao served as software architect from 2010 to 2014 at Tencent Holdings Limited. Mr. Gao received a bachelor's degree in management of information system from Dalian Maritime University.

*Mr. Frank Fuya Zheng* has served as our Chief Financial Officer since August 24, 2020. From 2008 to 2012, Mr. Zheng was the Chief Financial Officer of Cogo Group, Inc., a company previously listed on NASDAQ that provided customized module design solutions and manufactured electronic products in China. Mr. Zheng was also a director of the same company from 2005 to 2012. Since April 2020, Mr. Zheng was an independent director of Lianluo Smart Limited (NASDAQ: LLIT), as well as chairman of the audit committee and a member of the compensation and nomination committee. From 2018 to 2019, Mr. Zheng was an independent director of ChinaCache International Holdings Ltd. Mr. Zheng also served as an independent director of Yingde Gases Group Company (02168.HK) from 2009 to 2017. Mr. Zheng received a bachelor's degree in Business Administration majoring in accounting from the City University of New York in 1994.

*Mr. Kan (Kent) Li* has served as our Chief Risk Officer from November 2017. Mr. Li joined us in 2015. Prior to serving as our Chief Risk Officer, Mr. Li served as a division director in charge of unsecured loan risk from 2015 to 2017. Prior to that, he served as a manager at Capital One from September 2008 to November 2015. Mr. Li received his bachelor's degree and master's degree in economics from Southwestern University of Economics and Finance.

*Mr. Shengwen Rong* has served as our independent director since September 2018. From February 2017 to September 2018, Mr. Rong served as the Senior Vice President and then the Chief Financial Officer at Yixia Technology Co., Ltd. Prior to that, Mr. Rong served as the Chief Financial Officer at Quixey, Inc. from 2015 to 2016, the Chief Financial Officer at UCWeb from 2012 to 2014, and the Chief Financial Officer at Country Style Cooking Restaurant Chain Co., Ltd, an NYSE-listed company, from 2010 to 2012. Currently, Mr. Rong serves as an independent director of Qudian Inc. (NYSE: QD). Mr Rong is a Certified Public Accountant in the United States. Mr. Rong received a bachelor's degree in international finance from Renmin University, a master's degree in accounting from West Virginia University and an MBA degree from University of Chicago Booth School of Business.

*Mr. Zheng Xue* has served as our independent director since September 2018. Since August 2011, Mr. Xue has served as an independent director at Yingli Solor (YGE). Mr. Xue served as the Chief Financial Officer of China Music Corporation from 2015 to 2017, the Chief Financial Officer of Lightinthebox Inc. from 2011 to 2014, partner at Softbank China & India Fund from 2008 to 2010, the Chief Financial Officer of Target Media from 2005 to 2007, and the Chief Financial Officer of eLong Inc. from 2003 to 2005. Mr. Xue received a bachelor's degree in physics from University of Illinois and an MBA degree from University of Chicago.

Mr. Longgen Zhang has served as our independent director since September 2018. Since January 2018, Mr. Zhang has served as the Chief Executive Officer at Daqo New Energy Corp., an NYSE-listed company, and an independent non-executive director at ZZ Capital International Limited, a company listed on the HKEx's Main Board. Since May 2014, Mr. Zhang has served as a director at JinkoSolar Holding Co., Ltd., an NYSE-listed company. Mr. Zhang served as the Chief Financial Officer at JinkoSolar Holding Co., Ltd. from 2008 to 2014, and the Chief Financial Officer and director at Xinyuan Real Estate Co., Ltd., an NYSE-listed company, from 2006 to 2008. Mr. Zhang received a master's degree in professional accounting from New Texas A&M University and a master's degree in business administration from New Texas A&M University.

## **6.B. Compensation**

### **Compensation**

For the fiscal year ended December 31, 2020, the aggregate cash compensation and benefits that we paid to our directors and executive officers was approximately RMB2.8 million (US\$0.4 million). No pension, retirement or similar benefits have been set aside or accrued for our executive officers or directors. We have no service contracts with any of our directors providing for benefits upon termination of employment.

### **Employment Agreements and Indemnification Agreements**

We have entered into employment agreements with our executive officers. Each of our executive officers is employed for a specified time period, which will be automatically extended unless either we or the executive officer gives prior notice to terminate such employment. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts of the executive officer, including but not limited to the commitments of any serious or persistent breach or non-observance of the terms and conditions of the employment, conviction of a criminal offense other than one which in the opinion of the board does not affect the executive's position, willful, disobedience of a lawful and reasonable order, misconducts being inconsistent with the due and faithful discharge of the executive officer's material duties, fraud or dishonesty, or habitual neglect of his or her duties. An executive officer may terminate his or her employment at any time with not less than one-month prior written notice.

Each executive officer has agreed to hold, both during and after the employment agreement expires or is earlier terminated, in strict confidence and not to use or disclose to any person, corporation or other entity without written consent, any confidential information. Each executive officer has also agreed to assign to our company all his or her inventions, improvements, designs, original works of authorship, formulas, processes, compositions of matter, computer software programs, databases, mask works, concepts and trade secrets which the executive officer may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of the executive officer's employment with us that are either related to the scope of the employment or make use of the resources of the company. In addition, all executive officers have agreed to be bound by non-competition and non-solicitation restrictions set forth in their agreements. Specifically, each executive officer has agreed to devote all his or her working time and attention to our business and use best efforts to develop our business and interests. Moreover, each executive officer has agreed not to, for a certain period following termination of his or her employment or expiration of the employment agreement: (i) carry on or be engaged, concerned or interested directly or indirectly whether as shareholder, director, employee, partner, agent or otherwise carry on any business in direct competition with us, (ii) solicit or entice away any of our user, client, representative or agent, or (iii) employ, solicit or entice away or attempt to employ, solicit or entice away any of our officer, manager, consultant or employee.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for two years following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, users or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination, without our express consent.

We have entered into indemnification agreements with our directors and executive officers, pursuant to which we will agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being such a director or officer.

## Share Incentive Plan

The 2015 Global Share Option Plan (the “Share Incentive Plan”) was adopted by our then sole director on January 25, 2015, and amended and restated as the Amended and Restated 2015 Global Share Incentive Plan by our board of directors on May 9, 2018.

The purpose of the Share Incentive Plan is to enhance our ability to attract and retain the best available personnel for positions of substantial responsibility and to promote the value of our company, by providing such persons an opportunity to acquire or increase a direct interest in our operations and future success. The maximum aggregate number of ordinary shares which may be issued pursuant to all awards under the Share Incentive Plan is 95,849,500 ordinary shares. The ordinary shares subject to the Share Incentive Plan may be authorized but unissued or reacquired ordinary shares.

The following paragraph summarize the terms of the Share Incentive Plan.

*Share reserve.* The maximum aggregate number of ordinary shares that will be subject to award and sold under the Share Incentive Plan is 95,849,500 shares. During the term of this Plan, we will at all times reserve and keep available such number of ordinary shares as will be sufficient to satisfy the requirements of the Share Incentive Plan. If an award expires or becomes unexercisable without having been exercised in full, the ordinary shares unvested which were subject thereto will become available for future grant or sale under the Share Incentive Plan. Ordinary shares used to pay the exercise price of an award or to satisfy the tax withholding obligations related to an award will become available for future grant or sale under the Share Incentive Plan.

*Administration.* The Share Incentive Plan will be administered by (A) our board of directors; or (B) where a committee has been established in our company, the committee (in either event, the “Administrator”). These administrative powers include, but are not limited to, approving forms of award documents, determining the terms and conditions of any award granted, determining the fair market value of an ordinary share, prescribing, amending and rescinding rules and regulations relating to the Share Incentive Plan and modifying and amending each award.

*Types of Awards.* The Share Incentive Plan permits the grants of stock options, SARs, restricted stock, RSUs, performance awards, deferred awards and other share-based awards.

- *Stock Options.* A stock option is a right to purchase ordinary shares at a future date at a specified exercise price. Stock options that are intended to qualify as incentive stock options must meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended. The per share exercise price of a stock option (except in the case of substitute awards) will be determined by the Administrator at the time of grant but will be no less than one hundred percent of the fair market value per ordinary share on the date of grant, subject to certain exceptions. No stock option will be exercisable more than ten years from the grant date, except that the Administrator may generally provide for an extension of such ten-year term in the event the exercise of the stock option would be prohibited by law on the expiration date. In the case of an incentive stock option granted to an employee who has owned ordinary shares representing more than ten percent of the voting power of all classes of ordinary shares of the company or any parent or subsidiary, the per share exercise price will be no less than one hundred ten percent of the fair market value per ordinary share on the date of grant, and the term of the incentive stock option will be five years from the date of grant or such shorter term as may be provided in the award document.
- *SARs.* A SAR represents a right to receive, in cash or ordinary shares, upon exercise by a participant or settlement, the excess of (i) the fair market value of one ordinary share on the date of exercise or settlement over (ii) the exercise price of the right on the date of grant, or if granted in connection with an option, on the date of grant of the option. The per share exercise price for the ordinary shares to be issued pursuant to the exercise of a SAR (except in the case of substitute awards) will be determined by the Administrator, but will be no less than one hundred percent of the fair market value per ordinary share on the date of grant. The Administrator will determine the date on which each SAR may be exercised or settled and the expiration date of each SAR. However, no SAR will be exercisable more than ten years from the grant date.

- *Restricted Stock.* Restricted stock is an award of ordinary shares of our common stock that are subject to restrictions on transfer and a substantial risk of forfeiture.
- *RSU.* An RSU represents a right to receive the value of one ordinary share, subject to specified vesting and other restrictions.
- *Performance Awards.* Performance awards, which may be denominated in cash or ordinary shares, will be earned upon the satisfaction of performance conditions specified by the Administrator. These performance criteria may be measured on an absolute (e.g., plan or budget) or relative basis, may be established on a corporate-wide basis or with respect to one or more business units, divisions, subsidiaries or business segments, and may be made relative to an index or other acceptable objective and quantifiable indices. The Administrator may specify that any other award shall constitute a performance award by conditioning the right of a participant to exercise the award or have it settled, and the timing thereof, upon achievement or satisfaction of such performance conditions as may be specified by the Administrator.
- *Deferred Awards.* The Administrator is authorized to grant awards denominated in a right to receive ordinary shares on a deferred basis.
- *Other Share-Based Awards.* The Administrator is authorized to grant other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, ordinary shares or factors that may influence the value of ordinary shares.

*Eligibility.* Equity incentive awards may be granted to employees, directors, consultants or any other person providing services to the company, or any parent, subsidiary or affiliate of the company.

*Term of Plan.* The Share Incentive Plan became effective upon its initial adoption by our then sole director on January 15, 2015. Unless sooner terminated by the board of directors, the Share Incentive Plan will continue in effect for a term of ten years from the later of (a) the effective date of the Share Incentive Plan, or (b) the earlier of the most recent board of directors or shareholder approval of an increase in the number of ordinary shares reserved for issuance under the Share Incentive Plan, which occurred on May 9, 2018 in connection with the approval of the resolutions effecting the amendment and restatement of the Share Incentive Plan.

*Termination of Service.* The Administrator will determine the effect of a termination of service on outstanding awards, including whether the awards will vest, become exercisable, settle or be forfeited.

*Adjustment upon Merger or Change in Control.* In the event of a merger or a change of control, except as otherwise provided in the applicable award agreement, the Administrator may provide for the treatment of each outstanding award without a Plan participant's consent, including without limitation, that

- Awards will be assumed, or substantially equivalent awards be substituted, by the acquiring or succeeding corporation (or an affiliate thereof) with appropriate adjustments as to the number and kind of shares and prices;
- Upon written notice to a participant, the participant's awards will terminate upon or immediately prior to the consummation of such merger or change in control;
- Outstanding awards will vest and become exercisable, realizable or payable, or restrictions applicable to an award will lapse, in whole or in part prior to or upon consummation of such merger or change in control;
- The awards will terminate in exchange for an amount of cash and/or property, if any, equal to the amount that would have been attained upon the exercise of such awards or realization of the participant's rights as of the date of the occurrence of the transaction (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction the Administrator determines in good faith that no amount would have been attained upon the exercise of such awards or realization of the participant's rights, then such award may be terminated by the company without payment), or such awards will be replaced with other rights or property selected by the Administrator in its sole discretion; or
- Any combination of the foregoing.



**Amendment and Termination.** Our board of directors may amend, alter, suspend, discontinue or terminate the Share Incentive Plan. The Administrator may also amend, alter, suspend, discontinue or terminate, or waive any conditions or rights under, any outstanding award. However, subject to the adjustment provision and change in control provision, any such action by the Administrator that would materially adversely affect the rights of a holder of an outstanding award may not be taken without the holder’s consent, except to the extent that such action is taken to cause the Share Incentive Plan to comply with applicable laws, stock market or exchange rules and regulations, or accounting or tax rules and regulations, or to impose any “clawback” or recoupment provisions on any awards in accordance with the Share Incentive Plan.

On January 25, 2015, we granted 13,843,645 stock options to employees and executives. On June 29, 2015, we granted 630,000 stock options to certain employees, directors and officers. On May 3, 2016, we granted 7,425,000 stock options to certain employees, directors and officers. On October 11, 2017, we granted 16,616,000 stock options to certain employees and senior management. On April 30, 2018, we granted 841,054 stock options to certain employees and senior management. On May 9, 2018, we granted 40,000,000 stock options to certain senior management. The exercise price of such 40,000,000 stock options is US\$4.75, the offering price per share of our initial public offering, and such options have become exercisable upon the completion of our initial public offering and in accordance with the vesting schedule, which is specified in the relevant award agreement. On October 31, 2018, we granted 475,000 stock options to certain employees. On April 15, 2019, we granted 150,000 restricted stock units to certain directors, which are subject to the vesting schedule specified in the relevant award agreement. On April 30, 2019, we granted 155,000 stock options to certain employees. On November 20, 2019, we granted 1,789,400 restricted stock units to certain employees. On August 13, 2019 and November 20, 2019, the Board of Directors decided to cancel 1,500,000 and 250,000 of unvested options of certain senior managements and concurrently granted 1,500,000 and 250,000 of restricted stock units as replacement awards to the senior managements.

On January 21, 2020, we granted 4,600,000 restricted stock units to certain employees and officers.  
On April 30, 2020, we granted 673,300 restricted stock units to certain employees.  
On October 31, 2020, we granted 550,000 restricted stock units to certain employees.

The table below summarizes, as of the date of this annual report, the awards we have granted to our directors and executive officers.

Name	Position	Ordinary Shares Underlying Options Awarded	Option Exercise Price	Grant Date	Option Expiration Date
Yue (Justin) Tang	Chief Executive Officer and Director	3,803,645	US\$ 0.04	January 25, 2015	January 24, 2025
		30,000,000	US\$ 4.75	May 9, 2018	May 8, 2023
Shaoyong (Simon) Cheng	President and Director	*	US\$ 0.04	May 3, 2016	May 2, 2026
		*	US\$ 0.04	October 11, 2017	October 10, 2027
		*	US\$ 4.75	May 9, 2018	May 8, 2023
			US\$ 0	January 21, 2020	January 19, 2030
Ding (Gardon) Gao	Chief Technology Officer and Director	*	US\$ 0.04	January 25, 2015	January 24, 2025
		*	US\$ 0.04	October 11, 2017	October 10, 2027
		*	US\$ 4.75	May 9, 2018	May 8, 2023
Frank Fuya Zheng	Chief Financial Officer	*	US\$ 0	October 31, 2020	October 30, 2030
Kan (Kent) Li	Chief Risk Officer	*	US\$ 0.04	May 3, 2016	May 2, 2026
		*	US\$ 1.575	October 11, 2017	October 10, 2027
		*	US\$ 4.75	May 9, 2018	May 8, 2023
			US\$ 0	January 21, 2020	January 19, 2030
Shengwen Rong	Independent Director	*	US\$ 0	April 15, 2019	—
Zheng Xue	Independent Director	*	US\$ 0	April 15, 2019	—
Longgen Zhang	Independent Director	*	US\$ 0	April 15, 2019	—

\* Less than 1% of our total outstanding shares.

For discussions of our accounting policies and estimates for awards granted pursuant to the Share Incentive Plan, see “Item 5. Operating and Financial Review and Prospects—5.A. Operating Results—Critical Accounting Policies, Judgments and Estimates—Share-based compensation.”

## **6.C. Board Practices**

### **Board of Directors**

Our board of directors consists of six directors. A director is not required to hold any shares in our company to qualify to serve as a director. The Corporate Governance Rules of the NYSE generally require that a majority of an issuer's board of directors must consist of independent directors. However, the Corporate Governance Rules of the NYSE permit foreign private issuers like us to follow "home country practice" in certain corporate governance matters. We rely on this "home country practice" exception and do not have a majority of independent directors serving on our board of directors.

Our board of directors may exercise all the powers of our company to borrow money, mortgage or charge its undertaking, property and uncalled capital, and to issue debentures, bonds and other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third-party.

A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with our company is required to declare the nature of his interest at a meeting of our directors. A director may vote in respect of any contract, proposed contract, or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered.

We have no service contracts with any of our directors providing for benefits upon termination of employment. See "Item 6.B. Directors, Senior Management and Employees—Compensation."

### **Board Committees**

We have established an audit committee, a compensation committee and a nominating and corporate governance committee under our board of directors. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

#### ***Audit Committee***

Our audit committee consists of three directors, namely Shengwen Rong, Longgen Zhang and Zheng Xue, and is chaired by Shengwen Rong. Our board of directors has determined that each of the three directors satisfy the "independence" requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Section 303A of the Corporate Governance Rules of the NYSE. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things: selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;

- setting clear hiring policies for employees or former employees of the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- reviewing and approving all related-party transactions;
- discussing the annual audited financial statements with management and the independent auditors;
- discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- reviewing with management and the independent auditors related-party transactions and off-balance sheet transactions and structures;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives;
- reviewing policies with respect to risk assessment and risk management;
- reviewing our disclosure controls and procedures and internal control over financial reporting;
- reviewing reports from the independent auditors regarding all critical accounting policies and practices to be used by our company;
- establishing procedures for the receipt, retention and treatment of complaints we received regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- periodically reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time; and
- meeting separately, periodically, with management, the internal auditors and the independent auditors.

#### ***Compensation Committee***

Our compensation committee consists of three directors, namely Longgen Zhang, Shengwen Rong and Zheng Xue, and is chaired by Longgen Zhang. Our board of Directors has determined that each of the three directors satisfy the “independence” requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Section 303A of the Corporate Governance Rules of the NYSE. Our compensation committee assists the board in reviewing and approving the compensation structure of our executive officers, including all forms of compensation to be provided to our executive officers. The compensation committee is responsible for, among other things:

- reviewing and approving the compensation for our senior executives;
- reviewing and evaluating our executive compensation and benefits policies generally;
- reporting to our board of directors periodically;
- evaluating its own performance and reporting to our board of directors on such evaluation;
- periodically reviewing and assessing the adequacy of the compensation committee charter and recommending any proposed changes to our board of directors; and
- such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

### ***Nominating and Corporate Governance Committee***

Our nominating and corporate governance committee consists of three directors, namely Zheng Xue, Shengwen Rong and Longgen Zhang, and is chaired by Zheng Xue. Our board of Directors has determined that each of the three directors satisfy the “independence” requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Section 303A of the Corporate Governance Rules of the NYSE. The nominating and corporate governance committee assists the board in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- identifying and recommending to the board of directors qualified individuals for membership on the board of directors and its committees;
- evaluating, at least annually, its own performance and reporting to the board of directors on such evaluation;
- overseeing compliance with the corporate governance guidelines and code of business conduct and ethics and reporting on such compliance to the board of directors; and
- reviewing and assessing periodically the adequacy of its charter and recommending any proposed changes to the board of directors for approval.

### **Duties of Directors**

Under Cayman Islands law, our directors have a fiduciary duty to our company to act honestly, in good faith and with a view to our best interests. Our directors also owe to our company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our second amended and restated memorandum and articles of association, as amended and re-stated from time to time. Our company has the right to seek damages if a duty owed by our directors is breached. In limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached. You should refer to “Description of Share Capital—Differences in Corporate Law” for additional information on our standard of corporate governance under Cayman Islands law.

A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with our company is required to declare the nature of his interest at a meeting of our directors. A director may vote in respect of any contract, proposed contract, or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered. Our directors may exercise all the powers of our company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and issue debentures, debenture stock or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

The functions and powers of our board of directors include, among others:

- convening shareholders’ annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registering of such shares in our share register.

## Terms of Directors and Officers

Our officers are elected by and serve at the discretion of our board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution of the shareholders or until the expiration of his term or his successor has been elected and qualified. If a Management Director (as defined in our second amended and restated memorandum and articles of association), Mr Yue (Justin) Tang shall have the right to appoint another person as a director (such director shall be a Managing Director) by delivering a written notice to our company and such replacement shall become effective automatically upon the delivery of such notice without any further action or resolution of the board or the shareholders, provided that Mr. Tang shall not be entitled to exercise such right if he and his affiliates do not hold any shares. Subject to the foregoing sentence with respect to the appointment of a Managing Director, a vacancy on the board created by the removal of a director may be filled by an ordinary resolution or by the affirmative vote of a simple majority of the remaining directors present and voting at a board meeting. A director will be removed from office automatically if, among other thing, the director (i) dies; (ii) becomes bankrupt or makes any arrangement or composition with his creditors generally; (iii) is found to be or becomes of unsound mind; (iv) resigns his office by notice in writing to our company; (v) is prohibited by law from being a director; and (vi) is removed from the office pursuant to any other provisions of our second amended and restated memorandum and articles of association.

## 6.D. Employees

As of December 31, 2020, we had a total of 457 employees based in China. The following table sets forth the breakdown of our employees as of December 31, 2020 by function:

	As of December 31, 2020	
	Number of Employee	% of Total Employees
Technology Development	272	60%
Financial Products	75	16%
Risk Management	46	10%
General Management	55	12%
Marketing	9	2%
<b>Total</b>	<b>457</b>	<b>100%</b>

We have entered into individual employment contracts with our employees to cover matters such as salaries, benefits, and grounds for termination. As required by regulations in China, we participate in various government statutory social security plans, including a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan, a maternity insurance plan and a housing provident fund. We are required under PRC law to contribute to social security plans at specified percentages of the salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local government from time to time.

We maintain a good working relationship with our employees, and as of the date of this annual report, we have not experienced any material labor disputes in the past. None of our employees are represented by labor unions.

## 6.E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares, as of March 31, 2021, by:

- each of our directors and executive officers;
- all of our directors and executive officers as a group; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

The calculations in the table below are based on 323,117,943 ordinary shares issued and outstanding as of March 31, 2021 comprised of 225,517,943 Class A ordinary shares and 97,600,000 Class B ordinary shares.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC and includes voting or investment power with respect to the ordinary shares. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person, except with respect to the percentage ownership of all executive officers and directors as a group.

	Ordinary Shares Beneficially Owned as of March 31, 2021					
	Class A ordinary share		Class B ordinary share		Percentage of total ordinary shares on an as converted basis	Percentage of aggregate voting power**
	Number	%	Number	%		
<b>Directors and Executive Officers:</b>						
Yue (Justin) Tang(1)	6,323,172	1.92%	97,600,000	100.00%	31.58%	89.69%
Shaoyong (Simon) Cheng	*	*	—	—	*	*
Ding (Gardon) Gao	*	*	—	—	*	*
Frank Fuya Zheng	*	*	—	—	*	*
Kan (Kent) Li	*	*	—	—	*	*
Shengwen Rong	*	*	—	—	*	*
Zheng Xue	*	*	—	—	*	*
Longgen Zhang	*	*	—	—	*	*
All directors and executive officers as a group	9,323,172	2.83%	97,600,000	100.00%	32.49%	89.82%
<b>Principal Shareholders:</b>						
Mangrove Coast Investment Limited(2)	6,323,172	1.92%	97,600,000	100.00%	31.58%	89.69%
Deal Vanguard Limited(3)	38,095,238	11.57%	—	—	11.57%	1.74%
All Trade Base Investment Limited(4)	28,201,772	8.57%	—	—	8.57%	1.29%
Dragon Destiny Limited(5)	27,113,806	8.24%	—	—	8.24%	1.24%
Pine Cove Global Limited(6)	20,000,000	6.08%	—	—	6.08%	0.92%

\* Less than 1% of our total outstanding shares.

\*\* For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A and Class B ordinary shares as a single class. In respect of all matters subject to a shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 20 votes, voting together as one class. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

- Represents (i) 97,600,000 Class B ordinary shares held by Mangrove Coast Investment Limited, a British Virgin Islands company controlled by Mangrove Coast Trust, (ii) 3,803,645 Class A ordinary shares held by Mr. Yue (Justin) Tang, and (iii) 2,519,527 Class A ordinary shares held by Purple Mountain Holding Ltd., which is ultimately controlled by Mr. Yue (Justin) Tang. The registered address of Mangrove Coast Investment Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands. Mangrove Coast Trust is a trust established under the laws of Bahamas and managed by RHONE TRUSTEES (BAHAMAS) LTD. as the trustee. Mr. Yue (Justin) Tang is the settlor of the trust and Mr. Tang and his family members are the trust's beneficiaries. The registered address of Purple Mountain Holding Ltd. is at Ellen Skelton Building, 3076 Sir Francis Darke Highway, Road Reef, P.O. Box 765, Road Town, Tortola VG 1110, British Virgin Islands.
- Represents (i) 97,600,000 Class B ordinary shares held by Mangrove Coast Investment Limited, a British Virgin Islands company controlled by Mangrove Coast Trust, (ii) 3,803,645 Class A ordinary shares held by Mr. Yue (Justin) Tang, and (iii) 2,519,527 Class A ordinary shares held by Purple Mountain Holding Ltd., which is ultimately controlled by Mr. Yue (Justin) Tang. The registered address of Mangrove Coast Investment Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands. Mangrove Coast Trust is a trust established under the laws of Bahamas and managed by RHONE TRUSTEES (BAHAMAS) LTD. as the trustee. Mr. Yue (Justin) Tang is the settlor of the trust and Mr. Tang and his family members are the trust's beneficiaries. The registered address of Purple Mountain Holding Ltd. is at Ellen Skelton Building, 3076 Sir Francis Darke Highway, Road Reef, P.O. Box 765, Road Town, Tortola VG 1110, British Virgin Islands.
- Represents 38,095,238 Class A ordinary shares held by Deal Vanguard Limited, a British Virgin Islands company wholly owned by Chow Tai Fook Enterprises Limited, which is wholly owned by Chow Tai Fook (Holding) Limited in which Chow Tai Fook Capital Limited holds a 81.03% equity interest. The registered address of Deal Vanguard Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- Represents 28,201,772 Class A ordinary shares held by All Trade Base Investment Limited, a British Virgin Islands company wholly owned by Baoguo Zhu. The registered address of All Trade Base Investment Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands.
- Represents 27,113,806 Class A ordinary shares held by Dragon Destiny Limited, a British Virgin Islands company wholly owned by Chung Kiu Cheung. The registered address of Dragon Destiny Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
- Represents 20,000,000 Class A ordinary shares held by Pine Cove Global Limited, a British Virgin Islands company wholly owned by Nexus Asia Growth Fund SPC and ultimately controlled by David Fung. The registered address of Pine Cove Global Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### 7.A. Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees—6.E. Share Ownership.”

### 7.B. Related Party Transactions

#### Transactions with Mr. Yue (Justin) Tang

In 2019, we transferred loan portfolios with an aggregate amount of RMB108.7 million to Zijinzhonghao (Zhejiang) Investment Co., Ltd. (“ZJZH”), an entity controlled by Mr. Tang Yue. The considerations received by us were determined based on the outstanding loan balances on the transaction dates.

We did not receive related party loans from shareholders other than Mr. Yue (Justin) Tang and his controlled entities.

#### Transactions with Jiangxi Ruijing

In 2018, Jiangxi Ruijing, one of our equity investees, provided guarantee over RMB1,333.5 million worth of loans facilitated through our platform and received RMB21.9 million guarantee fees from the borrowers. In 2018, the Company remitted RMB20.0 million to Jiangxi Ruijing as a form of security deposit to cover for any circumstances in which the loans referred by us were in default. In 2019, Jiangxi Ruijing ceased guarantee service to the company’s platform and refunded the security deposit in full amount.

In 2019, we purchased earnings rights of two loans from Jiangxi Ruijin. The considerations paid amounted to RMB100.0 million and RMB280.0 million, respectively, which equal to the principal amounts of the underlying loans. The former loan (Loan#1) was advanced on January 31, 2019 and was due on January 30, 2020, and the interest rate applied is 15.6%. On January 30, 2020, Loan#1 was partially repaid by RMB30 million, and the maturity date of remaining RMB70 million had been extended to October 31, 2020. As of the date of this annual report, Loan#1 has been fully repaid. The latter loan (Loan#2) was advanced on May 9, 2019 and was due on November 9, 2019, and the interest rate applied is 8%. In 2019, the maturity date of the entire Loan#2 had been extended to November 9, 2020. As of the date of this annual report, Loan#2 had been partially repaid by RMB20.0 million, and the maturity date of remaining RMB260.0 million had been extended to November 9, 2021. The associated interest income amounted to RMB27.1million and RMB28.8 million (US\$4.4 million) in 2019 and 2020, respectively.

#### Contractual Arrangement with our VIEs and their Shareholders

PRC laws and regulations currently restrict foreign ownership and foreign investment in VIE in China. As a result, we operate our relevant business through contractual arrangements among Xiaoying Beijing, our wholly-owned PRC subsidiary, VIEs, our consolidated VIE, and their shareholders. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Consolidated VIEs and their Shareholders”

#### Employment Agreements and Indemnification Agreements

See “Item 6. Directors, Senior Management and Employees—6.B. Compensation— Employment Agreements and Indemnification Agreements” for a description of the employment agreements we have entered into with our senior executive officers.

#### Share Incentives

See “Item 6. Directors, Senior Management and Employees—6.B. Compensation—Share Incentive Plan” for a description of share awards we have granted to our directors, officers and other individuals as a group.

## 7.C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### 8.A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

#### Litigation

From time to time, we become subject to legal proceedings and claims in the ordinary course of our business. We are currently involved in several lawsuits in PRC courts primarily including lawsuits initiated by us to recover defaulted loan repayment, including our claim against one corporate borrower for the repayment of loan principal, interest, penalty fees and service fees for our services.

On November 26, 2019, a putative class action complaint captioned Shivakumar Ningappa v. X Financial, et al., No. 657033/2019, was filed in the Supreme Court of the State of New York, New York County against the Company, certain of our officers and directors, and the underwriters of our initial public offering, asserting violations of the Securities Act of 1933 based on our September 2018 initial public offering. Two additional lawsuits were subsequently filed in the same court, containing substantially identical allegations. On February 5, 2020, all three lawsuits were consolidated under the caption “In re X Financial Securities Litigation,” No. 657033/2019, and a consolidated amended complaint (the “CAC”) was filed on February 14, 2020. On May 11, 2020, we filed a motion to dismiss the CAC in its entirety. A new judge will be assigned to the Action.

On December 9, 2019 a putative class action complaint captioned Xiangdong Chen v. X Financial, et al., No. 1:19-cv-06908-KAM-SJB, was filed in the Eastern District of New York against the Company and certain of our officers and directors, asserting violations of the Securities Act of 1933 based on our September 2018 initial public offering. The lead plaintiff filed an amended complaint (the “AC”) on July 13, 2020. We filed a motion to dismiss the AC on December 7, 2020. The court has referred the motion to the magistrate judge for a report and recommendation.

The Company has been served in both proceedings and intends to vigorously defend both actions. For risks and uncertainties relating to the pending cases against us, please see “Item 3. Key Information —D. Risk Factors —Risks Relating to Our Business and Industry—We may be subject to risks related to litigation and regulatory proceedings.”

Mr. Yue (Justin) Tang, our founder, Chairman of the board and Chief Executive Officer, has been named in a lawsuit filed by ChinaCast Education Corporation in the United States, there is uncertainty as to the outcome of this lawsuit and its impact on us. For further details regarding this lawsuit, see “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Mr. Yue (Justin) Tang, our founder, Chairman of the board and Chief Executive Officer, named in a lawsuit filed by ChinaCast Education Corporation in the United States; there is uncertainty as to the outcome of this lawsuit and its impact on us.”

While we do not believe that such currently pending proceedings are likely to have a material adverse effect on our business, financial condition, or results of operations, we cannot guarantee that they will be decided or resolved favorably for us, and such pending proceedings or any future legal proceedings or claims, even if not meritorious, could result in our expenditure of significant financial, legal, and management resources.

#### Dividend Policy

We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. Although we have declared dividend historically, we do not expect to pay cash dividends periodically in the foreseeable future.

Our board of directors has complete discretion, subject to certain requirements of Cayman Islands law, in deciding whether to distribute dividends. Even if our board of directors decides to pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.



We are a holding company with no material operations of our own. PRC regulations may restrict the ability of Beijing WFOE to pay dividends to us. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by Beijing WFOE. If Beijing WFOE or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us.

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the underlying Class A ordinary shares represented by our ADSs to the depositary, as the registered holder of such Class A ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to the underlying Class A ordinary shares represented by the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Item 12. Description Of Securities Other Than Equity Securities—12.D. American Depositary Shares.”

Cash dividends on our Class A ordinary shares and Class B ordinary shares, if any, will be paid in U.S. dollars.

## **8.B. Significant Changes**

Except as otherwise disclosed in this annual report on Form 20-F, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **9.A. Offering and Listing Details**

Our ADSs have been listed on the New York Stock Exchange since September 19, 2018 under the symbol “XYF.” Each ADS represents two ordinary shares, par value US\$0.0001 per share. Effective from November 19, 2020, we adjusted the ratio of our ADSs to the Class A ordinary shares from one (1) ADS representing two (2) Class A ordinary shares to one (1) ADS representing six (6) Class A ordinary shares.

### **9.B. Plan of Distribution**

Not applicable.

### **9.C. Markets**

Our ADSs have been listed on the New York Stock Exchange since September 19, 2018 under the symbol “XYF.”

### **9.D. Selling Shareholders**

Not applicable.

### **9.E. Dilution**

Not applicable.

### **9.F. Expenses of the Issue**

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **10.A. Share Capital**

Not applicable.

## 10.B. Memorandum and Articles of Association

We are a Cayman Islands company and our affairs are governed by our Second Amended and Restated Memorandum and Articles of Association and the Companies Law (as amended) of the Cayman Islands, or Companies Law, and the common law of the Cayman Islands.

We incorporate by reference into this annual report our Second Amended and Restated Memorandum and Articles of Association, the form of which was filed as Exhibit 3.2 to our registration statement on Form F-1 (File Number 333-227065) filed with the Securities and Exchange Commission on August 28, 2018. Our board of directors adopted our Second Amended and Restated Memorandum and Articles of Association by a special resolution on August 24, 2018, which became effective immediately prior to completion of our initial public offering of ADSs representing our ordinary shares.

The following are summaries of material provisions of our Second Amended and Restated Memorandum and Articles of Association and the Companies Law as they relate to the material terms of our ordinary shares.

### Registered Office and Objects

Our registered office in the Cayman Islands is at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

According to Clause 3 of our Amended and Restated Memorandum of Association, the objects for which we are established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

### Board of Directors

See “Item 6. Directors, Senior Management and Employees.”

### Ordinary Shares

**General.** Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of members (shareholders). We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and transfer their ordinary shares.

**Dividends.** The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors or declared by our shareholders by ordinary resolution (provided that no dividend may be declared by our shareholders which exceeds the amount recommended by our directors). Our second amended and restated memorandum and articles of association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our board of directors determine is no longer needed. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. Holders of Class A ordinary shares and Class B ordinary shares will be entitled to the same amount of dividends, if declared.

**Voting Rights.** In respect of all matters subject to a shareholders’ vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 20 votes, voting together as one class. A resolution put to the vote of the general meeting shall be decided on the vote of the requisite majority pursuant to a poll of the shareholders. An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the outstanding ordinary shares at a meeting. A special resolution will be required for important matters such as a change of name or making changes to our second amended and restated memorandum and articles of association.

**Conversion.** Each Class B ordinary share is convertible into one Class A ordinary share at any time at the option of the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of Class B ordinary shares by a holder to any person or entity which is not an affiliate of such holder, or upon a change of beneficial ownership of any Class B ordinary share as a result of which any person who is not an affiliate of the registered holders of such Class B ordinary shares becomes the beneficial owner of such Class B ordinary shares, such Class B ordinary shares shall be automatically and immediately converted into the equivalent number of Class A ordinary shares.

**Transfer of Ordinary Shares.** Subject to the restrictions contained in our second amended and restated memorandum and articles of association, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the NYSE may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer, they shall, within two calendar months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the NYSE, be suspended and the register of members closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register of members closed for more than 30 days in any year as our board may determine.

**Liquidation.** On the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportion to the par value of the shares held by them. Any distribution of assets or capital to a holder of a Class A ordinary share and a holder of a Class B ordinary share will be the same in any liquidation event.

**Calls on Ordinary Shares and Forfeiture of Ordinary Shares.** Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 clear days prior to the specified time of payment. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

**Redemption, Repurchase and Surrender of Shares.** We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined by our board of directors. Our company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors, or are otherwise authorized by the articles of association. Under the Companies Law, the redemption or repurchase of any share may be paid out of our Company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

**Variations of Rights of Shares.** If at any time, our share capital is divided into different classes or series of shares, all or any of the rights attached to any class or series of shares (unless otherwise provided by the terms of issue of the shares of that class or series) may, whether or not our Company is being wound up, be varied with the consent in writing of the holders of a majority of the issued shares of that class, or the sanction of an ordinary resolution passed at a general meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

### **General Meetings of Shareholders**

Shareholders' meetings may be convened by a majority of our board of directors or our chairman. Advance notice of at least fifteen calendar days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders. A quorum required for and throughout a meeting of shareholders consists of at least one shareholder entitled to vote and present in person or by proxy or (in the case of a shareholder being a corporation) by its duly authorized representative representing a majority of all votes attaching to all of our shares in issue and entitled to vote.

As a Cayman Islands exempted company, we are not obliged by the Companies Law to call shareholders' annual general meetings. Our second memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

The Companies Law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our second memorandum and articles of association provide that upon the requisition of any one or more of our shareholders who together hold shares which carry in aggregate not less than ten percent (10%) of the total number of votes attaching to all issued and outstanding shares of our company entitled to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our second memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

### **Inspection of Books and Records**

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than copies of our memorandum and articles of association and the register of mortgages and charges, and any special resolutions passed by our shareholders). However, we will provide our shareholders with the right to receive annual audited financial statements.

### **Changes in Capital**

We may from time to time by ordinary resolution:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so canceled.

However, no alteration contemplated above, or otherwise, may be made to the par value of the Class A ordinary shares or Class B ordinary shares unless an identical alteration is made to the par value of the Class B ordinary shares and Class A ordinary shares, as the case may be.

We may by special resolution, subject to any confirmation or consent required by the Companies Law, reduce our share capital or any capital redemption reserve in any manner permitted by law.

### **Exempted Company**

We are an exempted company with limited liability incorporated under the Companies Law. The Companies Law in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of members is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company. We are subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. We currently comply with the NYSE rules in lieu of following home country practice. The NYSE rules require that every company listed on the NYSE hold an annual general meeting of shareholders. In addition, our second amended and restated memorandum and articles of association allow directors to call special meeting of shareholders pursuant to the procedures set forth in our articles.

### **10.C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in "Item 4. Information on the Company" and in "Item 7. Major shareholders and Related Party Transactions" or elsewhere in this annual report.

### **10.D. Exchange Controls**

The Cayman Islands currently has no exchange control regulations or currency restrictions. See "Item 4. Information of the Company—B. Business Overview—Regulation—Regulations Relating to Foreign Exchange."

### **10.E. Taxation**

*The following sets forth material Cayman Islands, PRC and U.S. federal income tax consequences of the ownership of our Class A ordinary shares or ADSs. It is based upon laws and relevant interpretations thereof as of the date hereof, all of which are subject to change. This discussion does not address all possible tax consequences relating to an investment in our Class A ordinary shares or ADSs, such as the tax consequences under state, local and other tax laws.*

## **Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of our ADSs and Class A ordinary shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made to or by the Company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of the ADSs or ordinary shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of the ADSs or ordinary shares, nor will gains derived from the disposal of the ADSs or ordinary shares be subject to Cayman Islands income or corporation tax.

## **PRC Taxation**

In March 2007, the National People's Congress of China enacted the Enterprise Income Tax Law, which became effective on January 1, 2008 and was amended on February 24, 2017. The Enterprise Income Tax Law provides that enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Rules of the Enterprise Income Tax Law further defines the term "de facto management body" as the management body that exercises substantial and overall management and control over the business, personnel, accounts and properties of an enterprise. While we do not currently consider our company or any of our overseas subsidiaries to be a PRC resident enterprise, there is a risk that the PRC tax authorities may deem our company or any of our overseas subsidiaries as a PRC resident enterprise since a substantial majority of the members of our management team as well as the management team of our overseas subsidiaries are located in China, in which case we or the overseas subsidiaries, as the case may be, would be subject to the PRC enterprise income tax at the rate of 25% on worldwide income. If the PRC tax authorities determine that our Cayman Islands holding company is a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. Under the Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends paid to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. In addition, any gain realized on the transfer of shares by such investors is also subject to PRC tax at a rate of 10%, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our ordinary shares or ADSs, and any gain realized from the transfer of our ordinary shares or ADSs, may be treated as income derived from sources within the PRC and may as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends paid to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or ordinary shares by such investors may be subject to PRC tax at a current rate of 20% (which in the case of dividends may be withheld at source). Any PRC tax liability may be reduced under applicable tax treaties or tax arrangements between China and other jurisdictions. If we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether holders of our ADSs or ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

## **U.S. Federal Income Taxation**

The following are material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of the ADSs or Class A ordinary shares ("ordinary shares"), but this discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold ADSs or ordinary shares.

This discussion applies only to a U.S. Holder that holds the ADSs or ordinary shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including the alternative minimum tax, the Medicare contribution tax on net investment income and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities that use a mark-to-market method of tax accounting;
- persons holding ADSs or ordinary shares as part of a hedging transaction, straddle, conversion transaction, integrated transaction or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes and their partners;
- tax-exempt entities, "individual retirement accounts" or "Roth IRAs";
- persons that own or are deemed to own ADSs or ordinary shares representing 10% or more of our voting power or value;
- persons who acquired our ADSs or ordinary shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding ADSs or ordinary shares in connection with a trade or business conducted outside the United States.

If a partnership (or other entity that is classified as a partnership for U.S. federal income tax purposes) owns ADSs or ordinary shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning ADSs or ordinary shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of ADSs or ordinary shares.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the income tax treaty between the United States and the PRC (the "Treaty"), all as of the date hereof, any of which is subject to change, possibly with retroactive effect.

As used herein, a "U.S. Holder" is a beneficial owner of our ADSs or ordinary shares that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying ordinary shares represented by those ADSs.

This discussion does not address the effects of any state, local or non-U.S. tax laws, or any U.S. federal taxes other than income taxes (such as U.S. federal estate or gift tax consequences). U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of ADSs or ordinary shares in their particular circumstances.

### ***Passive Foreign Investment Company***

In general, a non-U.S. corporation is a PFIC for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the quarterly value of its assets (generally determined on a quarterly basis) consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes interest (and income equivalent to interest), dividends, rents, royalties and gains from financial investments. Cash is generally a passive asset for these purposes. Goodwill (which may be determined by reference to the excess of the sum of the corporation's market capitalization and liabilities over the value of its assets) is an active asset to the extent attributable to business activities that produce active income.

Due to the decrease in our market capitalization and uncertainties as to the proper classification of certain items of our income and assets for purposes of the PFIC rules, there is a significant risk that we were a PFIC for our 2020 taxable year. The proper application of the PFIC rules to us is not clear. For example, it is uncertain whether for purposes of the PFIC rules we should be treated as the owner of the Consolidated Trusts' assets. Although such trusts are consolidated on our financial statements for accounting purposes, based on the manner in which we and the trusts currently operate and the nature of our rights and obligations with respect to the trusts, we believe it is reasonable to treat the trusts' assets (to the extent not attributable to any investment by us in the trusts) as not owned by us for purposes of the PFIC rules, but there can be no assurance in this regard. If the trusts' assets were treated as owned by us for PFIC purposes, we would be a PFIC for our 2020 taxable year. Moreover, the value of our goodwill for 2020 was not a positive amount and it is not entirely clear how the percentage of our active assets should be calculated in such circumstances, and to what extent certain assets shown on our balance sheet should be treated as active for purposes of determining our PFIC status. In addition, it is not entirely clear how the contractual arrangements between us and our VIEs will be treated for purposes of the PFIC rules. Because we exercise effective control over the operation of our VIEs and are entitled to substantially all of their income, we believe it is appropriate to treat the VIEs as owned by us for purposes of the PFIC rules. However, there can be no assurance in this regard and we may be a PFIC for any taxable year if our VIEs are not treated as owned by us for such purposes. For these reasons, there is a significant risk that we were a PFIC for our taxable 2020 year and that we will be a PFIC for our current and future taxable years.

If we are a PFIC for any taxable year and any of our subsidiaries, VIEs or other companies in which we own or are treated as owning equity interests is also a PFIC (any such entity, a "Lower-tier PFIC"), U.S. Holders will be deemed to own a proportionate amount (by value) of the shares of each Lower-tier PFIC and will be subject to U.S. federal income tax according to the rules described in the subsequent paragraph on (i) certain distributions by a Lower-tier PFIC and (ii) dispositions of shares of Lower-tier PFICs, in each case as if the U.S. Holders held such shares directly, even though the U.S. Holders will not receive the proceeds of those distributions or dispositions.

In general, if we are a PFIC for any taxable year during which a U.S. Holder holds ADSs or ordinary shares, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of its ADSs or ordinary shares will be allocated ratably over that U.S. Holder's holding period. The amounts allocated to the taxable year of the sale or disposition and to any year before we became a PFIC will be taxed as ordinary income. The amount allocated to each other taxable year will be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge will be imposed on the resulting tax liability for each such year. Furthermore, to the extent that distributions received by a U.S. Holder in any year on its ADSs or ordinary shares exceed 125% of the average of the annual distributions on the ADSs or ordinary shares received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, such distributions will be subject to taxation in the same manner. In addition, if we are a PFIC (or with respect to a particular U.S. Holder are treated as a PFIC) for a taxable year in which we pay a dividend or for the prior taxable year, the favorable tax rate described below with respect to dividends paid to certain non-corporate U.S. Holders will not apply. If we are a PFIC for any taxable year during which a U.S. Holder owns ADSs or ordinary shares, we will generally continue to be treated as a PFIC with respect to the U.S. Holder for all succeeding years during which the U.S. Holder owns ADSs or ordinary shares, even if we cease to meet the threshold requirements for PFIC status, unless the U.S. Holder makes a "deemed sale" election, which will allow the U.S. Holder to eliminate the continuing PFIC status under certain circumstances but will require the U.S. Holder to recognize gain taxed under the general PFIC rules described above.



Alternatively, if we are a PFIC and if the ADSs are “regularly traded” on a “qualified exchange,” a U.S. Holder of ADSs could make a mark-to-market election that will result in tax treatment different from the general tax treatment for PFICs described in the preceding paragraph. The ADSs will be treated as “regularly traded” for any calendar year in which more than a de minimis quantity of the ADSs are traded on a qualified exchange on at least 15 days during each calendar quarter. The New York Stock Exchange, where our ADSs are listed, is a qualified exchange for this purpose. If a U.S. Holder makes the mark-to-market election, the U.S. Holder generally will recognize as ordinary income any excess of the fair market value of the ADSs at the end of each taxable year over their adjusted tax basis, and will recognize an ordinary loss in respect of any excess of the adjusted tax basis of the ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). If a U.S. Holder makes the election, the U.S. Holder’s tax basis in the ADSs will be adjusted to reflect the income or loss amounts recognized. Any gain recognized on the sale or other disposition of ADSs in a year in which the Company is a PFIC will be treated as ordinary income and any loss will be treated as an ordinary loss (but only to the extent of the net amount of income previously included as a result of the mark-to-market election, with any excess treated as capital loss). If a U.S. Holder makes the mark-to-market election, distributions paid on ADSs will be treated as discussed under “—*Taxation of Distributions*” below. U.S. Holders will not be able to make a mark-to-market election with respect to our ordinary shares, or with respect to any shares of a Lower-tier PFIC, because such shares will not trade on any stock exchange.

We do not intend to provide the information necessary for U.S. Holders to make qualified electing fund elections, which if available could materially affect the tax consequences of the ownership and disposition of our ADSs or ordinary shares if we are a PFIC for any taxable year. Therefore, U.S. Holders will not be able to make such elections.

If we are a PFIC for any taxable year during which a U.S. Holder owns any ADSs or ordinary shares, the U.S. Holder will generally be required to file annual reports with the Internal Revenue Service. U.S. Holders should consult their tax advisers regarding the determination of whether we are a PFIC for any taxable year and the potential application of the PFIC rules to their ownership of ADSs or ordinary shares.

### ***Taxation of Distributions***

The following discussion is subject to the discussion under “—*Passive Foreign Investment Company*” above.

Distributions paid on our ADSs or ordinary shares, other than certain pro rata distributions of ADSs or ordinary shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. Dividends will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be taxable at a favorable rate provided that we are not a PFIC for the taxable year of the distribution or the preceding year. Due to the significant risk that we were or will be a PFIC, non-corporate U.S. Holders should not assume that any distribution will be eligible for this favorable rate.

Dividends will be included in a U.S. Holder’s income on the date of the U.S. Holder’s, or in the case of ADSs, the depository’s, receipt. The amount of any dividend income paid in foreign currency will be the U.S. dollar amount calculated by reference to the spot rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars on such date. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the amount received. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

Dividends will be treated as foreign-source income for foreign tax credit purposes. As described in “—*PRC Taxation*”, dividends paid by the Company may be subject to PRC withholding tax. For U.S. federal income tax purposes, the amount of the dividend income will include any amounts withheld in respect of PRC withholding tax (if any). Subject to applicable limitations, which vary depending upon the U.S. Holder’s circumstances, PRC taxes withheld from dividend payments (at a rate not exceeding the applicable rate provided in the Treaty in the case of a U.S. Holder that is eligible for the benefits of the Treaty) generally will be creditable against a U.S. Holder’s U.S. federal income tax liability. The rules governing foreign tax credits are complex and U.S. Holders should consult their tax advisers regarding the creditability of foreign tax credits in their particular circumstances. In lieu of claiming a credit, a U.S. Holder may elect to deduct any such PRC taxes in computing its taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

### ***Sale or Other Taxable Disposition of ADSs or Ordinary Shares***

The following discussion is subject to the discussion under “—*Passive Foreign Investment Company*” above.

A U.S. Holder will generally recognize capital gain or loss on a sale or other taxable disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder’s tax basis in such ADSs or ordinary shares disposed of, in each case as determined in U.S. dollars. The gain or loss will be long-term capital gain or loss if, at the time of the sale or disposition, the U.S. Holder has owned the ADSs or ordinary shares for more than one year. Long-term capital gains recognized by non-corporate U.S. Holders may be subject to tax rates that are lower than those applicable to ordinary income. The deductibility of capital losses is subject to limitations.

As described in “—*PRC Taxation*” gains on the sale of ADSs or ordinary shares may be subject to PRC taxes. A U.S. Holder is entitled to use foreign tax credits to offset only the portion of its U.S. federal income tax liability that is attributable to foreign-source income. Because under the Code capital gains of U.S. persons are generally treated as U.S.-source income, this limitation may preclude a U.S. Holder from claiming a credit for all or a portion of any PRC taxes imposed on any such gains. However, U.S. Holders that are eligible for the benefits of the Treaty may be able to elect to treat the gain as PRC-source and therefore claim foreign tax credits in respect of PRC taxes on such disposition gains. Proposed Treasury regulations, if finalized in their current form, may impose additional restrictions on the creditability of any PRC taxes on disposition gains. U.S. Holders should consult their tax advisers regarding the creditability or deductibility of any PRC tax on disposition gains in general and in their particular circumstances.

### ***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding, unless (i) the U.S. Holder is a corporation or other “exempt recipient” and (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder’s U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals (or certain specified entities) may be required to report information relating to their ownership of ADSs or ordinary shares, unless the ADSs or ordinary shares are held in accounts at financial institutions (in which case the accounts may be reportable if maintained by non-U.S. financial institutions). U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the ADSs or ordinary shares.

### **10.F. Dividends and Paying Agents**

Not applicable.

### **10.G. Statement by Experts**

Not applicable.

## 10.H. Documents on Display

We previously filed with the SEC registration statement on Form F-1 (File Number 333-227065), as amended, including annual report contained therein, to register additional securities that become effective immediately upon filing, to register our ordinary shares in relation to our initial public offering. We also filed with the SEC related registration statement on Form F-6 (File Number 333-227070) to register the ADSs and registration statement on Form S-8 (File Number 333-227938) to register our securities to be issued under our Amended and Restated 2015 Global Share Incentive Plan.

We are subject to the periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. Copies of reports and other information, when so filed with the SEC, can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We will furnish The Bank of New York Mellon, the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### *Foreign Exchange Risk*

All of our revenues and substantially all of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalent denominated in U.S. dollars. We do not believe that we currently have any significant direct foreign exchange risk and have not used derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and RMB because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The PRC government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Between June 2010 and August 2015, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again. Since August 2015, the RMB has significantly depreciated against the U.S. dollar. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amounts available to us.

***Certain risks and concentrations***

As of December 31, 2018, 2019 and 2020, substantially all of our cash and cash equivalents were held in major financial institutions located in the PRC and in Hong Kong, which management considers to be high credit quality.

Accounts receivable and contract assets are typically unsecured and are derived from revenue earned from customers in the PRC. The risk with respect to accounts receivable and contract assets is mitigated through our consistent credit risk management framework to the entire portfolio of loans in accordance with ASC 450-20.

Deposits to institutional cooperators are placed with financial institutional cooperators. The Group regularly monitors the financial condition and evaluates the credit quality of each institutional cooperator.

Credit of loans receivables, loans held for sale and loans at fair value is controlled by the application of credit approval, limit and monitoring procedures.

No investor or institutional funding partner represented greater than 10% or more of the total net revenues for the years ended December 31, 2018, 2019 and 2020.

We manage current payment risk of guarantee liabilities and financial guarantee derivative through a self-developed risk management model. The rating scale of risk management model takes into account factors such as identity characteristics, credit history, payment overdue history, payment capacity, behavioral characteristics and online social network activities. As of December 31, 2020, substantially all of the loans facilitated by the Group were insured/guaranteed by external insurance company or financing guarantee companies.

***Interest Rate Risk***

We have not been exposed to material risks due to changes in market interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure.

The fluctuation of interest rates may affect the demand for loan services on our platform. For example, a decrease in interest rates may cause potential borrowers to seek lower-priced loans from other channels. A high interest rate environment may lead to an increase in competing investment options and dampen investors' desire to invest on our platform. We do not expect that the fluctuation of interest rates will have a material impact on our financial condition. However, we cannot provide assurance that we will not be exposed to material risks due to changes in market interest rate in the future. See "Item 3. Key Information on the Company—3.D. Risk Factors—Risks Relating to Our Business and Industry—Increase in market interest rates could negatively affect the amount of loans facilitated by us and cost of funds provided to borrowers."

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**12.A. Debt Securities**

Not applicable.

**12.B. Warrants and Rights**

Not applicable.

**12.C. Other Securities**

Not applicable.

**12.D. American Depositary Shares****Persons depositing or withdrawing shares or ADS holders must pay:**

	<b>For:</b>
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
\$.05 (or less) per ADS	Any cash distribution to ADS holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS holders
\$.05 (or less) per ADS per calendar year	Depository services
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable and facsimile transmissions (when expressly provided in the deposit agreement) Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depository services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions.

The depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depositary or its affiliate receives when buying or selling foreign currency for its own account. The depositary makes no representation that the exchange rate used or obtained in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depositary's obligations under the deposit agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

## PART II

### ITEM 13. ITEM DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

#### 14.A. — 14.D. Material Modifications to the Rights of Security Holders

See “Item 10. Additional Information” for a description of the rights of shareholders, which remain unchanged.

#### 14.E. Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number 333-227065), as amended, including the annual report contained therein, which registered 11,000,000 ordinary shares representing by ADSs and was declared effective by the SEC on September 18, 2018, for our initial public offering, which closed in September 21, 2018, and the underwriters’ exercise of their option to purchase from us an additional 763,478 ADSs representing 1,526,956 ordinary shares, or the optional offering, which closed in September 21, 2018, at an initial offering price of US\$ 9.50 per ADS. Deutsche Bank Securities Inc. and Morgan Stanley & Co. International plc were the representatives of the underwriters.

The F-1 Registration was declared effective by the SEC on September 18, 2018. For the period from the effective date of the registration statement on Form F-1 to December 30, 2020, our expenses incurred and paid to others in connection with the issuance and distribution of the ADSs in our initial public offering and the optional offering totaled US\$12.3 million, which included US\$7.8 million for underwriting discounts and commissions and US\$4.5 million for other expenses. We received an aggregated net proceeds of approximately US\$103.9 million from our initial public offering and the option offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates or others.

None of the net proceeds from the initial public offering and the optional offering was paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

For the period from the date that the F-1 Registration Statement was declared effective by the SEC to December 31, 2020, we used the net proceeds from our initial public offering for as follows:

- Approximately US\$14.8 million for dividend distribution;
- Approximately US\$53.7 million for restricted cash as collateral for our local borrowings in China;
- Approximately US\$30.0 million for capital contributions to our PRC subsidiary; and
- Approximately US\$5.4 million for general corporate purposes.

### ITEM 15. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management has concluded that, as of December 31, 2020, our disclosure controls and procedures were ineffective, due to the material weaknesses in internal control over financial reporting identified below, in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

**(b) Management’s annual report on internal control over financial reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. Based on this assessment, our management has concluded that our internal control over financial reporting as of December 31, 2020 was ineffective, due to the material weaknesses in internal control over financial reporting identified below.

**(c) Internal Control over Financial Reporting**

Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting. However, in connection with the audits of our consolidated financial statements for the year ended December 31, 2016 and 2017 and as of December 31, 2016 and 2017, we and our predecessor independent registered public accounting firm identified two “material weaknesses” in our internal control over financial reporting and other control deficiencies. As defined in standards established by the PCAOB, a “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses identified related to (1) our lack of sufficient skilled staff with U.S. GAAP knowledge and SEC reporting knowledge for the purpose of financial reporting as well as the lack in formal accounting policies and procedures manual to ensure proper financial reporting in accordance with U.S. GAAP and SEC reporting requirements; and (2) our internal audit function is still in the process of establishing formal risk assessment process and internal control framework. In connection with the audits of our consolidated financial statements for the year ended December 31, 2019 and as of December 31, 2019, we and our successor independent registered public accounting firm determined that these two material weaknesses remain as of December 31, 2019, and identified two additional material weaknesses in our internal control over financing reporting. The two additional material weaknesses identified by us and our successor independent registered public accounting firm related to: (1) the Company did not maintain effective controls over the accounting treatments of new business arrangements, including new Consolidated Trusts related arrangements; and (2) there was not adequate management oversight of accounting activities in relating to certain tax practices to conform to the U.S. GAAP. In connection with the audits of our consolidated financial statements for the year ended December 31, 2020 and as of December 31, 2020, we and our successor independent registered public accounting firm determined that three material weaknesses remain as of December 31, 2020, which related to (1) our lack of sufficient skilled staff with U.S. GAAP knowledge and SEC reporting knowledge for the purpose of financial reporting as well as the lack in formal accounting policies and procedures manual to ensure proper financial reporting in accordance with U.S. GAAP and SEC reporting requirements; (2) our internal audit function is still in the process of establishing formal risk assessment process and internal control framework; and (3) there was not adequate management oversight of accounting activities in relating to certain tax practices to conform to the U.S. GAAP.

We have implemented and plan to implement a number of measures to address the material weaknesses that have been identified, including: we hired skilled financial and accounting staff with U.S. GAAP and SEC reporting experience; and we provided relevant training to our accounting personnel and established internal audit function and audit committee with members who have an appropriate level of financial expertise to oversee our accounting and financial reporting process as well as our internal audit function. We have engaged an independent internal control advisor to assist us to establish the formal risk assessment process and internal control framework, and review the appropriateness and sufficiency of the process to identify and address risk of material misstatement related to U.S. GAAP reporting. We have set up a position, namely financial business partner, who is required to monitor the whole process of the conduct of business and has adequate experiences and qualifications to timely make professional judgements of the accounting treatment of new business arrangements. We have also formalized an accounting manual for the accounting treatment of Consolidation Trusts and required a timely review process from qualified reviewers. We have hired an experienced and qualified tax manager and provided tax related training to our accounting personnel. We have also taken other steps to strengthen our internal control over financial reporting, including formalizing a set of comprehensive U.S. GAAP accounting manual, formalizing risk assessment process and internal control framework.

As of the date of this annual report, progress has been made to remediate our internal deficiencies and remediation measures are to be further implemented and executed. The material weaknesses will not be considered remediated until the applicable remedial processes and procedures have been in place for a sufficient period of time and management has concluded, through testing, that these controls are effective. We will continue to implement measures to remediate our internal control deficiencies to comply with Section 404 of the Sarbanes Oxley Act. We expect that we will incur significant costs in the implementation of such measures. However, we cannot assure you that all these measures will be sufficient to remediate our material weakness in time, or at all. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—If we fail to implement and maintain an effective system of internal controls over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud.”

**(d) Attestation Report of the Independent Registered Public Accounting Firm**

This annual report on Form 20-F does not include an attestation report of the company’s registered public accounting firm because the Company is an emerging growth company.

**(e) Changes in Internal Control over Financial Reporting**

Other than as described above in “Item 15. Control and Procedures— Internal Control over Financial Reporting”, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this annual report on Form 20-F that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Mr. Shengwen Rong, an independent director and the chairperson of our audit committee, the qualifies as an “audit committee financial expert” within the meaning of the SEC rules and possesses financial sophistication within the meaning of Listing Rules of the New York Stock Exchange. Mr. Shengwen Rong satisfy the “independence” requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Section 303A of the Corporate Governance Rules of the NYSE.

**ITEM 16B. CODE OF ETHICS**

Our board of directors has adopted a code of business conduct and ethics that applies to all of our directors, officers, employees, including certain provisions that specifically apply to our principal executive officer, principal financial officer, principal accounting officer or controller and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as Exhibit 99.1 of our registration statement on Form F-1 (file No. 333-227065) filed with the SEC on August 28, 2018 and posted a copy of our code of business conduct and ethics on our website at [ir.xiaoyingroup.com](http://ir.xiaoyingroup.com). We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person’s written request.



**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Auditor Fees**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by our principal external accounting firms.

Services	Year Ended December 31,	
	2019	2020
	RMB	RMB
	(in thousands)	
<b>Audit Fees(1)</b>		
Deloitte Touche Tohmatsu Certified Public Accountants LLP	1,465	348
KPMG Huazhen LLP	8,372	10,722
<b>Audit-Related Fees(2)</b>	—	—
<b>Tax Fees(3)</b>		
Deloitte Touche Tohmatsu Certified Public Accountants LLP	50	—
KPMG Huazhen LLP	491	123
<b>Other Fees(4)</b>	—	—
<b>Total</b>	<b>10,378</b>	<b>11,193</b>

- (1) *Audit Fees* . Audit fees mean the aggregate fees for each of the fiscal periods listed for professional services rendered by our principal auditors for the audit of our annual consolidated financial statements and assistance with and review of documents filed with the SEC.
- (2) *Audit-related Fees* . Audit-related fees mean the aggregate fees billed for professional services rendered by our principal auditors for the assurance and related services, which were not included under Audit Fees above.
- (3) *Tax Fees* . Tax fees mean fees incurred from professional services related to tax compliance.
- (4) *Other Fees* . Other fees mean fees incurred from professional services related to training, advisory and assurance for corporate and social responsibility reporting and professional services related to tax advice.

The policy of our audit committee is to pre-approve all audit and non-audit services permitted to be performed by our independent registered public accounting firm.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Neither we nor any “affiliated purchaser,” as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

On February 7, 2020, our Audit Committee of its Board of Directors approved the change of our independent registered public accounting firm, Deloitte Touche Tohmatsu Certified Public Accountants LLP, or Deloitte, and the engagement of KPMG Huazhen LLP, or KPMG, to replace Deloitte effective on February 7, 2020.

The reports of Deloitte on our consolidated financial statements for the fiscal years ended December 31, 2017 and 2018 did not contain any adverse opinion or a disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope, or accounting principles.

During the two fiscal years ended December 31, 2018 and through February 7, 2020, there were no disagreements with Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte, would have caused it to make reference to the subject matter of the disagreements in their report on the consolidated financial statements for such years.

During the two fiscal years ended December 31, 2018 and through February 7, 2020, there were no “reportable events” (hereinafter defined) requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F. As used herein, the term “reportable event” means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 16F of Form 20-F.

We provided a copy of this disclosure to Deloitte and requested that Deloitte furnish us with a letter addressed to the SEC stating whether it agrees with the above statements, and if not, stating the respects in which it does not agree. A copy of the letter from Deloitte addressed to the SEC, dated June 4, 2020, was filed as Exhibit 15.3 to the Form 20-F for the year ended December 31, 2019 which we filed with the SEC on June 4, 2020.

On February 7, 2020, our Audit Committee of its Board of Directors appoints KPMG as our independent registered public accounting firm. During the two most recent fiscal years and through February 7, 2020, neither we nor anyone on our behalf consulted KPMG regarding either (a) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report nor oral advice was provided to the Company by KPMG that KPMG concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue, or (b) any matter that was the subject of a disagreement, as that term is defined in Item 16F(a)(1)(iv) of Form 20-F (and the related instructions thereto) or a reportable event as set forth in Item 16F(a)(1)(v)(A) through (D) of Form 20-F.

#### **ITEM 16G. CORPORATE GOVERNANCE**

As a Cayman Islands company listed on the NYSE, we are subject to the NYSE corporate governance listing standards. However, NYSE rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NYSE corporate governance listing standards. Currently, we do not plan to rely on home country practice with respect to our corporate governance. However, if we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would enjoy under the NYSE corporate governance listing standards applicable to U.S. domestic issuers. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Ordinary Shares and ADSs—As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the NYSE corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the NYSE corporate governance listing standards."

#### **ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III****ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements of X Financial are included at the end of this annual report.

**ITEM 19. EXHIBITS**

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	<a href="#">Second Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 3.2 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
2.1	<a href="#">Form of Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 4.1 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
2.2	<a href="#">Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated by reference to Exhibit 4.2 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
2.3	<a href="#">Form of Deposit Agreement (incorporated by reference to Exhibit 4.3 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
2.4	<a href="#">Description of Securities registered under Section 12 of the Exchange Act (incorporated by reference to Exhibit 2.4 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities and Exchange Commission on June 4, 2020)</a>
4.1	<a href="#">Amended and Restated 2015 Global Share Incentive Plan (incorporated by reference to Exhibit 10.1 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.2	<a href="#">Form of Indemnification Agreement between the Registrant and the directors and executive officers of the Registrant (incorporated by reference to Exhibit 10.2 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.3	<a href="#">Form of Employment Agreement between the Registrant and the executive officers of the Registrant (incorporated by reference to Exhibit 10.3 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.4	<a href="#">Strategic Framework Agreement between ZhongAn Online P&amp;C Insurance Co., Ltd. and Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd., dated March 31, 2016 (incorporated by reference to Exhibit 10.4 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.5	<a href="#">Tripartite Cooperation Agreement among ZhongAn Online P&amp;C Insurance Co., Ltd., Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated September 15, 2017 (incorporated by reference to Exhibit 10.5 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.6	<a href="#">Supplementary Agreement among ZhongAn Online P&amp;C Insurance Co., Ltd., Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated January 5, 2018 (incorporated by reference to Exhibit 10.6 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.7	<a href="#">Supplementary Agreement among ZhongAn Online P&amp;C Insurance Co., Ltd., Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated April 2, 2018 (incorporated by reference to Exhibit 10.7 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.8	<a href="#">Exclusive Business Cooperation Agreement between Xiaoying (Beijing) Information Technology Co., Ltd. and Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.8 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>

<u>Exhibit Number</u>	<u>Description of Document</u>
4.9	<a href="#">Shareholders' Voting Rights Proxy Agreement concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., among Yue Tang, Baoguo Zhu and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.9 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.10	<a href="#">Equity Pledge Agreement concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., between Yue Tang and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.10 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.11	<a href="#">Equity Pledge Agreement concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., between Baoguo Zhu and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.11 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.12	<a href="#">Exclusive Call Option Agreement concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., among Yue Tang, Baoguo Zhu and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.12 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.13	<a href="#">Spousal Consent Letter of Yue Tang concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.13 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.14	<a href="#">Spousal Consent Letter of Baoguo Zhu concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.14 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.15	<a href="#">Exclusive Business Cooperation Agreement between Xiaoying (Beijing) Information Technology Co., Ltd. and Shenzhen Xiaoying Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.15 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.16	<a href="#">Shareholders' Voting Rights Proxy Agreement concerning Shenzhen Xiaoying Technology Co., Ltd., among Yue Tang, Baoguo Zhu, Zijinzhonghao (Zhejiang) Investment Co., Ltd., Shenzhen Ao Li Hua Investment Management Partnership, Shenzhen Gu Fo Investment Management Partnership (Limited Partnership), Shenzhen Man Ni Ou Investment Management Partnership (Limited Partnership), Shenzhen Bo Li Fu Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.16 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.17	<a href="#">Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Yue Tang and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.17 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.18	<a href="#">Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Baoguo Zhu and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.18 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.19	<a href="#">Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Zijinzhonghao (Zhejiang) Investment Co., Ltd. and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.19 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>

<u>Exhibit Number</u>	<u>Description of Document</u>
4.20	<a href="#">Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Shenzhen Ao Li Hua Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation), (incorporated by reference to Exhibit 10.20 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.21	<a href="#">Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Shenzhen Man Ni Ou Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation), (incorporated by reference to Exhibit 10.21 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.22	<a href="#">Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Shenzhen Gu Fo Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation), (incorporated by reference to Exhibit 10.22 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.23	<a href="#">Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Shenzhen Bo Li Fu Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation), (incorporated by reference to Exhibit 10.23 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.24	<a href="#">Exclusive Call Option Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., among Yue Tang, Baoguo Zhu, Zijinzhonghao (Zhejiang) Investment Co., Ltd., Shenzhen Ao Li Hua Investment Management Partnership, Shenzhen Gu Fo Investment Management Partnership (Limited Partnership), Shenzhen Man Ni Ou Investment Management Partnership (Limited Partnership), Shenzhen Bo Li Fu Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation), (incorporated by reference to Exhibit 10.24 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.25	<a href="#">Spousal Consent Letter of Yue Tang concerning Shenzhen Xiaoying Technology Co. Ltd., dated December 22, 2017 (English Translation), (incorporated by reference to Exhibit 10.25 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.26	<a href="#">Spousal Consent Letter of Baoguo Zhu concerning Shenzhen Xiaoying Technology Co. Ltd., dated December 22, 2017 (English Translation), (incorporated by reference to Exhibit 10.26 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.27	<a href="#">Exclusive Business Cooperation Agreement between Xiaoying (Beijing) Information Technology Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd., dated December 16, 2016 (English Translation), (incorporated by reference to Exhibit 10.27 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.28	<a href="#">Shareholders' Voting Rights Proxy Agreement concerning Shenzhen Tangren Financing Guarantee Co., Ltd., between Xi'an Bailu Enterprise Management Co., Ltd. and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 16, 2016 (English Translation), (incorporated by reference to Exhibit 10.28 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.29	<a href="#">Equity Pledge Agreement concerning Shenzhen Tangren Financing Guarantee Co., Ltd., between Xi'an Bailu Enterprise Management Co., Ltd. and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 16, 2016 (English Translation), (incorporated by reference to Exhibit 10.29 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>
4.30	<a href="#">Exclusive Call Option Agreement concerning Shenzhen Tangren Financing Guarantee Co., Ltd., between Xi'an Bailu Enterprise Management Co., Ltd. and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 16, 2016 (English Translation), (incorporated by reference to Exhibit 10.30 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)</a>

<u>Exhibit Number</u>	<u>Description of Document</u>
4.31	<a href="#">Exclusive Business Cooperation Agreement between Xiaoying (Beijing) Information Technology Co., Ltd. and Shenzhen Beier Capital Management Co., Ltd. dated July 1, 2018 (English Translation)</a> (incorporated by reference to Exhibit 4.31 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities and Exchange Commission on June 4, 2020)
4.32	<a href="#">Exclusive Call Option Contract among Xiaoying (Beijing) Information Technology Co., Ltd., Shenzhen Gamma Capital Management Co., Ltd. and Shenzhen Beier Capital Management Co., Ltd. dated July 1, 2018 (English Translation)</a> (incorporated by reference to Exhibit 4.32 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities and Exchange Commission on June 4, 2020)
4.33	<a href="#">Equity Pledge Contract among Xiaoying (Beijing) Information Technology Co., Ltd., Shenzhen Gamma Capital Management Co., Ltd. and Shenzhen Beier Capital Management Co., Ltd. dated July 2018 (English Translation)</a> (incorporated by reference to Exhibit 4.33 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities and Exchange Commission on June 4, 2020)
4.34	<a href="#">Shenzhen Gamma Capital Management Co., Ltd.'s Power of Attorney authorizing Xiaoying (Beijing) Information Technology Co., Ltd. to exercise certain rights dated July 2018 (English Translation)</a> (incorporated by reference to Exhibit 4.34 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities and Exchange Commission on June 4, 2020)
4.35*	<a href="#">Tripartite Cooperation Agreement among ZhongAn Online P&amp;C Insurance Co., Ltd., Shenzhen Xiaoying Puhui Technology Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated November 8, 2019 (English Translation)</a>
4.36*	<a href="#">Security Deposit Pledge Agreement between ZhongAn Online P&amp;C Insurance Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated December 23, 2019 (English Translation)</a>
4.37*	<a href="#">Supplemental Agreement to Security Deposit Pledge Agreement between ZhongAn Online P&amp;C Insurance Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated July 8, 2020 (English Translation)</a>
4.38*	<a href="#">Security Deposit Pledge Agreement between ZhongAn Online P&amp;C Insurance Co., Ltd. and Shenzhen Xiaoying Puhui Technology Co., Ltd. dated June 19, 2020 (English Translation)</a>
4.39*	<a href="#">Supplemental Agreement to Security Deposit Pledge Agreement between ZhongAn Online P&amp;C Insurance Co., Ltd. and Shenzhen Xiaoying Puhui Technology Co., Ltd. dated June 19, 2020 (English Translation)</a>
8.1*	<a href="#">List of subsidiaries, VIEs and subsidiaries of the VIEs of the Registrant</a>
11.1	<a href="#">Code of Business Conduct and Ethics of the Registrant</a> (incorporated by reference to Exhibit 99.1 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
12.1*	<a href="#">Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
12.2*	<a href="#">Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
13.1**	<a href="#">Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2**	<a href="#">Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
15.1*	<a href="#">Consent of KPMG Huazhen LLP</a>
15.2	<a href="#">Letter from Deloitte Touche Tohmatsu Certified Public Accountants LLP</a> (incorporated by reference to Exhibit 15.3 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities and Exchange Commission on June 4, 2020)
15.3*	<a href="#">Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP</a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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\* Filed herewith

\*\* Furnished herewith

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

X Financial

By: /s/ Yue (Justin) Tang  
Name: Yue (Justin) Tang  
Title: Chief Executive Officer and Chairman

Date: May 14, 2021

X FINANCIAL

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
<a href="#">Report of independent registered public accounting firm</a>	F-2
<a href="#">Consolidated balance sheets as of December 31, 2019 and 2020</a>	F-4
<a href="#">Consolidated statements of comprehensive income (loss) for the years ended December 31, 2018, 2019 and 2020</a>	F-5
<a href="#">Consolidated statements of changes in shareholders' equity for the years ended December 31, 2018, 2019 and 2020</a>	F-6
<a href="#">Consolidated statements of cash flows for the years ended December 31, 2018, 2019 and 2020</a>	F-7
<a href="#">Notes to the consolidated financial statements for the years ended December 31, 2018, 2019 and 2020</a>	F-8
<a href="#">Schedule I—Condensed financial information of parent company</a>	F-55



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of X Financial

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of comprehensive income (loss), changes in shareholders' equity, and cash flows of X Financial, its subsidiaries and variable interest entities (the "Company") for the year ended December 31, 2018 and the related notes and financial statement schedule included in Schedule I (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shanghai, China

April 25, 2019

We have served as the Company's auditor since 2017. In 2019, we became the predecessor auditor

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
X Financial:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of X Financial and its subsidiaries and variable interest entities (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2020, and the related notes and financial statement Schedule I (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

### *Change in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2020 due to the adoption of ASC Topic 326, *Financial Instruments - Credit Losses*.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Huazhen LLP

We have served as the Company’s auditor since 2020.

Shenzhen, China  
May 14, 2021

X FINANCIAL

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2019 AND 2020

	Notes	As of December 31,		
		2019	2020	
		RMB	RMB	US\$
<b>ASSETS</b>				
Cash and cash equivalents		1,005,980,251	746,388,408	114,389,028
Restricted cash (including RMB449,978,760 and RMB476,854,616 from Consolidated Trusts as of December 31, 2019 and 2020, respectively)		514,323,181	852,134,486	130,595,324
Accounts receivable and contract assets, net of allowance of RMB192,909,907 and RMB38,681,680 as of December 31, 2019 and 2020, respectively	2(i)	771,154,249	413,307,108	63,342,085
Short-term investment	2(j)	—	6,000,000	919,540
Loans receivable from Xiaoying Credit Loans and Revolving Loans, net	2(n)	289,553,016	1,236,026,461	189,429,343
Loan receivable from Xiaoying Housing Loans, net	2(p)	89,535,665	47,490,437	7,278,228
Loans at fair value (including RMB2,782,332,885 and RMB1,585,731,888 from Consolidated Trusts as of December 31, 2019 and 2020, respectively)	3	2,782,332,885	1,585,731,888	243,024,044
Deposits to institutional cooperators, net	5	518,720,216	907,923,380	139,145,346
Prepaid expenses and other current assets, net (including RMB37,073,985 and RMB11,359,212 from Consolidated Trusts as of December 31, 2019 and 2020, respectively)	4	707,449,614	403,776,319	61,881,428
Financial guarantee derivative	3	719,962,262	297,928,066	45,659,474
Deferred tax assets, net	12	465,441,419	605,652,593	92,820,321
Long-term investments	2(v)	292,142,341	295,615,200	45,305,012
Property and equipment, net	6	20,138,951	11,136,599	1,706,758
Intangible assets, net	7	35,126,704	37,440,407	5,737,993
Other non-current assets		68,771,724	51,458,356	7,886,338
<b>TOTAL ASSETS</b>		<b>8,280,632,478</b>	<b>7,498,009,708</b>	<b>1,149,120,262</b>
<b>LIABILITIES</b>				
Payable to investors at fair value (including RMB3,006,349,475 and RMB1,914,183,650 from the consolidated VIEs, without recourse to the Company as of December 31, 2019 and 2020, respectively)	3	3,006,349,475	1,914,183,650	293,361,480
Payable to institutional funding partners	2(n)	—	1,460,395,100	223,815,340
Guarantee liabilities (including RMB11,140,899 and nil from the consolidated VIEs, without recourse to the Company as of December 31, 2019 and 2020, respectively)	10	17,475,303	9,789,626	1,500,326
Financial guarantee derivative (including nil and RMB130,442,090 from the consolidated VIEs, without recourse to the Company as of December 31, 2019 and 2020, respectively)	3	—	130,442,090	19,991,125
Short-term bank borrowings (including nil and RMB18,700,000 from the consolidated VIEs, without recourse to the Company as of December 31, 2019 and 2020, respectively)	8	—	350,545,000	53,723,372
Accrued payroll and welfare (including RMB22,677,991 and RMB10,017,308 from the consolidated VIEs, without recourse to the Company as of December 31, 2019 and 2020, respectively)		63,648,476	34,780,834	5,330,396
Other tax payable (including RMB34,725,447 and RMB37,103,700 from the consolidated VIEs, without recourse to the Company as of December 31, 2019 and 2020, respectively)		58,085,777	73,077,245	11,199,578
Income tax payable (including RMB227,047,349 and RMB48,349,593 from the consolidated VIEs, without recourse to the Company as of December 31, 2019 and 2020, respectively)	12	340,995,447	75,916,903	11,634,774
Deposit payable to channel cooperators	2(w)	108,923,460	21,472,235	3,290,764
Accrued expenses and other current liabilities (including RMB103,479,695 and RMB230,564,165 from the consolidated VIEs, without recourse to the Company as of December 31, 2019 and 2020, respectively)	9	274,439,480	323,748,430	49,616,618
Other non-current liabilities (including RMB26,683,382 and RMB1,739,541 from the consolidated VIEs, without recourse to the Company as of December 31, 2019 and 2020, respectively)		42,299,924	27,614,943	4,232,175
Deferred tax liabilities (including RMB688,209 and nil from the consolidated VIEs, without recourse to the Company as of December 31, 2019 and 2020, respectively)	12	1,309,468	—	—
<b>TOTAL LIABILITIES</b>		<b>3,913,526,810</b>	<b>4,421,966,056</b>	<b>677,695,948</b>
<b>Commitments and Contingencies (Note 16)</b>				
<b>Equity:</b>				
Common shares (US\$0.0001 par value; 1,000,000,000 and 1,000,000,000 shares authorized, 320,667,943 and 323,117,943 shares issued and outstanding as of December 31, 2019 and 2020, respectively)		201,240	202,870	31,091
Additional paid-in capital		2,987,363,137	3,068,045,239	470,198,503
Retained earnings (accumulated deficit)		1,311,194,007	(14,551,146)	(2,230,060)
Other comprehensive income		67,100,802	21,059,073	3,227,444
<b>Total X Financial shareholders' equity</b>		<b>4,365,859,186</b>	<b>3,074,756,036</b>	<b>471,226,978</b>
Non-controlling interests		1,246,482	1,287,616	197,336
<b>TOTAL EQUITY</b>		<b>4,367,105,668</b>	<b>3,076,043,652</b>	<b>471,424,314</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,280,632,478</b>	<b>7,498,009,708</b>	<b>1,149,120,262</b>

The accompanying notes are an integral part of these consolidated financial statements.

X FINANCIAL

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020

	Notes	Year ended	Year ended	Year ended	
		December 31,	December 31,	December 31,	December 31,
		2018	2019	2020	2020
		RMB	RMB	RMB	US\$
Net revenues					
Loan facilitation service—Direct Model		2,957,571,967	1,986,003,343	1,266,532,773	194,104,640
Loan facilitation service—Intermediary Model		228,272,373	238,867,054	41,372,812	6,340,660
Post-origination service		131,243,431	330,695,212	203,841,829	31,240,127
Financing income		76,103,961	408,400,792	612,863,477	93,925,437
Other revenue		147,408,312	124,083,594	68,346,567	10,474,570
<b>Total net revenue</b>	<b>2(d)</b>	<b>3,540,600,044</b>	<b>3,088,049,995</b>	<b>2,192,957,458</b>	<b>336,085,434</b>
Operating costs and expenses:					
Origination and servicing		1,185,937,128	1,634,822,450	2,071,506,464	317,472,255
General and administrative		220,023,783	227,481,772	179,225,336	27,467,485
Sales and marketing		205,725,801	103,157,613	35,629,022	5,460,386
Provision for contingent guarantee liabilities	10	216,363,770	7,747,561	880,948	135,011
Provision for accounts receivable and contract assets	2(l)	396,996,410	241,186,823	121,485,215	18,618,424
Provision for loan receivable from Xiaoying Housing Loans	2(p)	40,347,875	23,430,641	17,993,570	2,757,635
Provision for loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans	2(n)	—	37,643,244	227,210,026	34,821,460
Impairment losses on deposits to institutional cooperators:	5				
Provision for credit losses on deposits to institutional cooperators		—	—	10,318,117	1,581,321
Impairment loss on deposits to institutional cooperators		—	—	960,000,000	147,126,436
Reversal of credit losses for other financial assets		—	—	(975,040)	(149,431)
<b>Total operating expenses</b>		<b>2,265,394,767</b>	<b>2,275,470,104</b>	<b>3,623,273,658</b>	<b>555,290,982</b>
<b>Income (Loss) from operations</b>		<b>1,275,205,277</b>	<b>812,579,891</b>	<b>(1,430,316,200)</b>	<b>(219,205,548)</b>
Interest income (expenses), net		4,224,817	19,385,973	21,724,308	3,329,396
Foreign exchange gain		9,677	616,395	15,398,932	2,359,990
Investment loss	2(v)	—	(12,538,280)	—	—
Change in fair value of financial guarantee derivative	3	(200,971,302)	(246,371,828)	(163,670,115)	(25,083,543)
Fair value adjustments related to Consolidated Trusts	3	12,358,626	64,162,533	(57,380,274)	(8,793,912)
Other income (loss), net		(5,904,176)	26,080,766	12,709,213	1,947,773
<b>Income (Loss) before income taxes and gain (loss) from equity in affiliates</b>		<b>1,084,922,919</b>	<b>663,915,450</b>	<b>(1,601,534,136)</b>	<b>(245,445,844)</b>
Income tax benefit (expense)	12	(209,921,188)	93,102,643	299,878,635	45,958,412
Gain (loss) from equity in affiliates, net of tax		8,055,105	17,457,899	(6,805,940)	(1,043,056)
<b>Net income (loss)</b>		<b>883,056,836</b>	<b>774,475,992</b>	<b>(1,308,461,441)</b>	<b>(200,530,488)</b>
Less: net gain (loss) attributable to non-controlling interests		(55,057)	199,863	41,134	6,304
<b>Net income (loss) attributable to X Financial</b>		<b>883,111,893</b>	<b>774,276,129</b>	<b>(1,308,502,575)</b>	<b>(200,536,792)</b>
<b>Net income (loss)</b>		<b>883,056,836</b>	<b>774,475,992</b>	<b>(1,308,461,441)</b>	<b>(200,530,488)</b>
<b>Other comprehensive income (loss), net of tax of nil:</b>					
Foreign currency translation adjustments		19,045,117	14,606,045	(46,041,729)	(7,056,204)
<b>Comprehensive income (loss)</b>		<b>902,101,953</b>	<b>789,082,037</b>	<b>(1,354,503,170)</b>	<b>(207,586,692)</b>
Less: comprehensive (income) loss attributable to non-controlling interests		(55,057)	199,863	41,134	6,304
<b>Comprehensive income (loss) attributable to X Financial</b>		<b>902,157,010</b>	<b>788,882,174</b>	<b>(1,354,544,304)</b>	<b>(207,592,996)</b>
Net income (loss) per share—basic	13	3.08	2.47	(4.07)	(0.62)
Weighted average number of ordinary shares outstanding—basic		286,588,402	313,757,887	321,236,089	321,236,089
Net income (loss) per share—diluted	13	2.91	2.42	(4.07)	(0.62)
Weighted average number of ordinary shares outstanding—diluted		303,984,284	319,747,392	321,236,089	321,236,089

The accompanying notes are an integral part of these consolidated financial statements.

**X FINANCIAL**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020**

	Common share number	Common share amount (RMB)	Additional paid-in capital (RMB)	Retained earnings (Accumulated Deficits) (RMB)	Accumulated other comprehensive income (RMB)	Equity attributable to X Financial (RMB)	Non-controlling Interest (RMB)	Total equity (RMB)
<b>Balance at December 31, 2017</b>	<b>280,087,342</b>	<b>173,444</b>	<b>1,971,701,910</b>	<b>(242,997,034)</b>	<b>33,449,640</b>	<b>1,762,327,960</b>	<b>3,213,041</b>	<b>1,765,541,001</b>
Issuance of new shares (Note 1)	23,526,956	16,142	681,973,271	—	—	681,989,413	—	681,989,413
Share-based compensation (Note 14)	—	—	171,836,485	—	—	171,836,485	—	171,836,485
Acquisition in additional interest of subsidiary	—	—	(1,288,635)	—	—	(1,288,635)	(2,111,365)	(3,400,000)
Net income (loss)	—	—	—	883,111,893	—	883,111,893	(55,057)	883,056,836
Foreign currency translation adjustments	—	—	—	—	19,045,117	19,045,117	—	19,045,117
<b>Balance at December 31, 2018</b>	<b>303,614,298</b>	<b>189,586</b>	<b>2,824,223,031</b>	<b>640,114,859</b>	<b>52,494,757</b>	<b>3,517,022,233</b>	<b>1,046,619</b>	<b>3,518,068,852</b>
Exercise of share option	17,053,645	11,654	6,024,011	—	—	6,035,665	—	6,035,665
Share-based compensation (Note 14)	—	—	157,116,095	—	—	157,116,095	—	157,116,095
Net income	—	—	—	774,276,129	—	774,276,129	199,863	774,475,992
Foreign currency translation adjustments	—	—	—	—	14,606,045	14,606,045	—	14,606,045
Dividend to shareholders	—	—	—	(103,196,981)	—	(103,196,981)	—	(103,196,981)
<b>Balance at December 31, 2019</b>	<b>320,667,943</b>	<b>201,240</b>	<b>2,987,363,137</b>	<b>1,311,194,007</b>	<b>67,100,802</b>	<b>4,365,859,186</b>	<b>1,246,482</b>	<b>4,367,105,668</b>
Cumulative effect of accounting change (1)	—	—	—	(17,242,578)	—	(17,242,578)	—	(17,242,578)
<b>Balance at January 1, 2020</b>	<b>320,667,943</b>	<b>201,240</b>	<b>2,987,363,137</b>	<b>1,293,951,429</b>	<b>67,100,802</b>	<b>4,348,616,608</b>	<b>1,246,482</b>	<b>4,349,863,090</b>
Issuance of new shares	2,700,000	1,806	(1,806)	—	—	—	—	—
Exercise of share option	—	—	612,530	—	—	612,530	—	612,530
Cancellation of shares	(250,000)	(176)	(68,760)	—	—	(68,936)	—	(68,936)
Share-based compensation (Note 14)	—	—	80,140,138	—	—	80,140,138	—	80,140,138
Net income (loss)	—	—	—	(1,308,502,575)	—	(1,308,502,575)	41,134	(1,308,461,441)
Foreign currency translation adjustments	—	—	—	—	(46,041,729)	(46,041,729)	—	(46,041,729)
<b>Balance at December 31, 2020</b>	<b>323,117,943</b>	<b>202,870</b>	<b>3,068,045,239</b>	<b>(14,551,146)</b>	<b>21,059,073</b>	<b>3,074,756,036</b>	<b>1,287,616</b>	<b>3,076,043,652</b>

	Common share number	Common share amount (US\$)	Additional paid-in capital (US\$)	Retained earnings (Accumulated Deficits) (US\$)	Accumulated other comprehensive income (US\$)	Equity attributable to X Financial (US\$)	Non-controlling Interest (US\$)	Total equity (US\$)
<b>Balance at December 31, 2019</b>	<b>320,667,943</b>	<b>30,841</b>	<b>457,833,431</b>	<b>200,949,273</b>	<b>10,283,648</b>	<b>669,097,193</b>	<b>191,032</b>	<b>669,288,225</b>
Cumulative effect of accounting change (1)	—	—	—	(2,642,541)	—	(2,642,541)	—	(2,642,541)
<b>Balance at January 1, 2020</b>	<b>320,667,943</b>	<b>30,841</b>	<b>457,833,431</b>	<b>198,306,732</b>	<b>10,283,648</b>	<b>666,454,652</b>	<b>191,032</b>	<b>666,645,684</b>
Issuance of new shares	2,700,000	277	(277)	—	—	—	—	—
Exercise of share option	—	—	93,874	—	—	93,874	—	93,874
Cancellation of shares	(250,000)	(27)	(10,538)	—	—	(10,565)	—	(10,565)
Share-based compensation (Note 14)	—	—	12,282,013	—	—	12,282,013	—	12,282,013
Net income (loss)	—	—	—	(200,536,792)	—	(200,536,792)	6,304	(200,530,488)
Foreign currency translation adjustments	—	—	—	—	(7,056,204)	(7,056,204)	—	(7,056,204)
<b>Balance at December 31, 2020</b>	<b>323,117,943</b>	<b>31,091</b>	<b>470,198,503</b>	<b>(2,230,060)</b>	<b>3,227,444</b>	<b>471,226,978</b>	<b>197,336</b>	<b>471,424,314</b>

(1) The Group adopted ASU 2016-13 on January 1, 2020. See Note 2 (Summary of Significant Accounting Policies) for more information.

The accompanying notes are an integral part of these consolidated financial statements.

**X FINANCIAL**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020**

	Year ended December 31, <u>2018</u>	Year ended December 31, <u>2019</u>	Year ended December 31, <u>2020</u>	
	RMB	RMB	RMB	US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income (loss)	883,056,836	774,475,992	(1,308,461,441)	(200,530,488)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>				
Depreciation and amortization	9,635,032	11,379,697	11,915,528	1,826,135
Share-based compensation	171,836,485	157,116,095	80,140,138	12,282,013
Impairment of long-term investments	—	12,538,280	—	—
Loss (gain) from equity in affiliates	(8,055,105)	(17,457,899)	6,805,940	1,043,056
Loss (gain) from disposal of property and equipment	(66)	(2,389)	59,213	9,075
Provision for accounts receivable and contract assets	396,996,410	241,186,823	121,485,215	18,618,424
Provisions for loans receivable from Xiaoying Credit Loans and Revolving Loans	—	37,643,244	227,210,026	34,821,460
Provision for loan receivable from Xiaoying Housing Loans	40,347,875	23,430,641	17,993,570	2,757,635
Impairment losses on deposits to institutional cooperators:				
Provision for credit losses on deposits to institutional cooperators	—	—	10,318,117	1,581,321
Impairment loss on deposits to institutional cooperators	—	—	960,000,000	147,126,436
Reversal of credit losses for other financial assets	—	—	(975,040)	(149,431)
Fair value adjustments related to Consolidated Trusts	(12,358,626)	(64,162,533)	57,380,274	8,793,912
Change in fair value of financial guarantee derivative	200,971,302	246,371,828	163,670,115	25,083,543
Deferred tax benefits	(3,162,072)	(164,911,933)	(142,551,916)	(21,847,037)
Other non-cash expenses (income)	—	247,954	(978,897)	(150,023)
<b>Changes in operating assets and liabilities:</b>				
Accounts receivable and contract assets	(665,341,737)	366,952,171	220,837,490	33,844,826
Deposits to institutional cooperators	—	(518,720,216)	(1,369,521,281)	(209,888,319)
Prepaid expenses and other current assets	(6,440,698)	(197,141,775)	123,901,899	18,988,796
Amount due from related party	(20,000,000)	—	—	—
Origination of loans held for sale	(5,096,651,671)	(8,056,664,647)	—	—
Sales and maturity of loans held for sale	5,232,573,583	8,362,184,896	—	—
Loan receivable from Xiaoying Housing Loans	29,146,788	15,134,973	24,051,658	3,686,078
Other non-current assets	(3,054,940)	299,925	265,846	40,743
Guarantee liabilities	(524,270,832)	(3,422,898)	(7,983,299)	(1,223,494)
Financial guarantee derivative	(612,482,131)	(608,084,177)	388,806,171	59,587,153
Accrued payroll and welfare	15,691,600	(29,815,450)	(28,867,642)	(4,424,160)
Other tax payable	28,180,979	(76,043,291)	14,991,468	2,297,543
Income tax payable	(89,093,593)	28,757,234	(265,078,543)	(40,625,064)
Deposit payable to channel cooperators	(220,120)	(25,118,739)	(87,451,225)	(13,402,487)
Accrued expenses and other current liabilities	38,048,852	64,392,936	102,802,015	15,755,098
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>5,354,151</b>	<b>600,566,742</b>	<b>(679,234,601)</b>	<b>(104,097,256)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property and equipment and intangible assets	(38,634,331)	(15,143,162)	(5,365,436)	(822,289)
Disposal of property and equipment	5,332	115,402	79,344	12,160
Purchase of short-term investment	—	—	(6,000,000)	(919,540)
Origination of loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans	—	—	(5,746,369,142)	(880,669,600)
Sale and collection of loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans	—	—	797,086,381	122,158,832
Principal payment of loans at fair value	(67,852,371)	(4,938,191,061)	(4,016,159,473)	(615,503,368)
Principal collection of loans at fair value	744,351,887	2,253,437,828	5,155,380,196	790,096,581
Purchase of long-term investments	(225,000,000)	—	(3,500,000)	(536,398)
Purchase of loans' earnings rights from a related party	—	(380,000,000)	—	—
Collections from loans' earnings rights from a related party	—	—	120,000,000	18,390,805
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>412,870,517</b>	<b>(3,079,780,993)</b>	<b>(3,704,848,130)</b>	<b>(567,792,817)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from exercise of options	—	6,035,665	612,530	93,874
Cancelling of shares	—	—	(68,936)	(10,565)
Proceeds from initial public offering	713,089,781	—	—	—
Payments of initial public offering cost	(31,100,368)	—	—	—
Dividends to shareholders	—	(103,196,981)	—	—
Acquisition of additional interest in subsidiary	(1,400,000)	—	—	—
Proceeds from short-term bank borrowings	198,000,000	203,000,000	511,545,000	78,397,701
Repayments of short-term bank borrowings	—	(401,000,000)	(161,000,000)	(24,674,330)
Cash received from institutional funding partners	—	—	5,707,175,065	874,662,845
Cash paid to institutional funding partners	—	—	(475,385,721)	(72,856,049)
Cash received from investors and institutional funding partners of the Consolidated Trusts	—	4,313,060,000	1,537,760,000	235,672,031
Cash paid to investors and institutional funding partners of the Consolidated Trusts	(696,800,000)	(1,306,710,525)	(2,629,925,825)	(403,053,766)
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>181,789,413</b>	<b>2,711,188,159</b>	<b>4,490,712,113</b>	<b>688,231,741</b>
<b>Effect of foreign exchange rate changes</b>	<b>(6,283,113)</b>	<b>10,622,885</b>	<b>(28,409,920)</b>	<b>(4,354,011)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>593,730,968</b>	<b>242,596,793</b>	<b>78,219,462</b>	<b>11,987,657</b>
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR</b>	<b>683,975,671</b>	<b>1,277,706,639</b>	<b>1,520,303,432</b>	<b>232,996,695</b>
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT YEAR END</b>	<b>1,277,706,639</b>	<b>1,520,303,432</b>	<b>1,598,522,894</b>	<b>244,984,352</b>
<b>Supplemental disclosures of cash flow information:</b>				
Income taxes paid, net of refunds	302,176,854	43,052,057	107,751,825	16,513,690
Interest paid for bank borrowings	—	3,474,745	11,405,162	1,747,918
<b>Reconciliation to amounts on consolidated balance sheets:</b>				
Cash and cash equivalents	1,069,361,250	1,005,980,251	746,388,408	114,389,028
Restricted cash	208,345,389	514,323,181	852,134,486	130,595,324
<b>Total cash and cash equivalents and restricted cash</b>	<b>1,277,706,639</b>	<b>1,520,303,432</b>	<b>1,598,522,894</b>	<b>244,984,352</b>

The accompanying notes are an integral part of these consolidated financial statements.

**X FINANCIAL****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020****1. Organization and principal activities**

X Financial (the “Company” or “X Financial”) is an exempted company incorporated with limited liabilities in the Cayman Islands under the laws of the Cayman Islands on January 5, 2015. The Company, its subsidiaries and its variable interest entities (collectively referred to as the “Group”) provides personal finance services in the People’s Republic of China (“PRC”) by connecting borrowers and investors through a proprietary internet platform.

The Group began the operations through Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. (“Shenzhen Ying Zhong Tong”), which was founded in March 2014 in the PRC by Mr. Tang, Chief Executive Officer and Mr. Zhu (the “Founders”) who collectively held more than 50% of the equity holdings.

During the period of 2015 to 2016, the Founders also established a number of special purpose vehicles (“SPVs”) to carry out personal finance business in the PRC. At the formation date of each SPV, Shenzhen Ying Zhong Tong entered into a series of contractual agreements with the SPV and its nominal shareholder(s) include Shareholders’ Voting Rights Proxy Agreements, Exclusive Call Option Agreements, Exclusive Business Cooperation Agreements, and Equity Pledge Agreements, through which Shenzhen Ying Zhong Tong (1) has power to direct the activities that most significantly affects the economic performance of the SPV and (2) can receive the economic benefits of the SPVs that could be significant to the SPV. Accordingly, Shenzhen Ying Zhong Tong is the primary beneficiary of the SPVs.

On January 5, 2015, X Financial was incorporated in the Cayman Islands by the Founders and one other individual. The Founders collectively held more than 50% of the equity holdings of X Financial. Further, Mr. Zhu designated all of his shareholder rights to Mr. Tang through a proxy agreement. As such, Mr. Tang effectively was the controlling shareholder of the Company since its incorporation.

On August 7, 2015, the Company completed its equity financing by issuing 38,095,238 ordinary shares to an unrelated third party investor at a consideration of US\$60,000,000. In conjunction with the equity financing, the Company also issued an additional 40,000,000 ordinary shares to Mr. Yue Tang. Mr. Tang remained as the effective controlling shareholder.

In order to raise capital through its initial public offering (“IPO”) in the United States, the Group undertook a series of transactions since late 2016 with X Financial being proposed as the listing entity (“Reorganization”):

As PRC laws and regulations prohibit and restrict foreign ownership of internet value-added businesses, the Company established a wholly-owned foreign invested subsidiary in the PRC, Xiaoying (Beijing) Information Technology Co., Ltd (“Beijing WFOE”) on October 28, 2015. The existing contractual agreements with the SPVs and SPVs’ shareholders held by Shenzhen Ying Zhong Tong were assigned to Beijing WFOE.

On October 19, 2016, Shenzhen Xiaoying Technology Co., Ltd. (“Shenzhen Xiaoying”) was incorporated in the PRC by the same shareholders of the Company with identical shareholdings. In December 2016, Shenzhen Xiaoying acquired Shenzhen Ying Zhong Tong for nominal consideration and Shenzhen Ying Zhong Tong became the wholly owned subsidiary of Shenzhen Xiaoying. As both Shenzhen Xiaoying and Shenzhen Ying Zhong Tong were controlled by Mr. Tang at the time, the transaction was a reorganization under common control.

X Financial, through its PRC subsidiary, Beijing WFOE, entered into a series of contractual arrangements with Shenzhen Xiaoying, Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd (“Beijing Ying Zhong Tong”) in December 2017, and Shenzhen Tangren Financing Guarantee Co., Ltd (“Shenzhen Tangren”) in December 2016 and the shareholders of these entities respectively. Shenzhen Xiaoying, Beijing Ying Zhong Tong, Shenzhen Tangren and the SPVs are collectively referred to as “VIEs”. The series of contractual agreements included Shareholders’ Voting Rights Proxy Agreements, Spouse Consent Agreement, Exclusive Call Option Agreements, Exclusive Business Cooperation Agreements, and Equity Pledge Agreements. The Group believed that these contractual agreements would enable Beijing WFOE to (1) have power to direct the activities that most significantly affects the economic performance of the new VIEs and (2) receive the economic benefits of the VIEs that could be significant to the new VIEs. Accordingly, the Group believes that Beijing WFOE is the primary beneficiary of the VIEs.

In conjunction with the Reorganization, the Group completed equity financing of RMB1 billion in June 2017. This round of equity financing was initially conducted by increasing registered capital of Shenzhen Xiaoying by 9 existing and new investors. Subsequently, X Financial issued additional shares to the affiliates of the same shareholders of this round of equity financing such that the shareholder ownership in X Financial mirrored those in Shenzhen Xiaoying.

The Group considered the Reorganization as a reorganization of entities under common control. Accordingly, the accompanying financial statements have been prepared using historical cost basis as if the Reorganization had occurred at the beginning of the first period presented.

During December 2017, Beijing WFOE acquired two subsidiaries from Shenzhen Xiaoying at cost. During February and March 2018, one of the Group's wholly owned subsidiaries Shenzhen Xiaoying Puhui Technology Co., Ltd ("Shenzhen Puhui") acquired four subsidiaries from one of the VIE entities Shenzhen Ying Zhong Tong at cost. During 2018, predominantly all of the SPVs under Shenzhen Xiaoying had been transferred to Shenzhen Xiaoying Puhui Technology Co., Ltd. ("Shenzhen Puhui"). These transactions represented a reorganization of entities under common control as they were already within the consolidated Group, with no impact to the consolidated financials.

During September 2018, the Group completed an initial public offering of 11,763,478 American depositary shares ("ADSs") at an initial offering price of US\$9.50 which included the ADSs sold upon the exercise of the over-allotment option granted to the underwriters, representing 23,526,956 Class A ordinary shares.

As of December 31, 2020, the Company's principal subsidiaries, VIEs and subsidiaries of the VIEs are as follows:

	Date of incorporation/ establishment	Place of incorporation/ establishment	Percentage of legal ownership	Principal activities
<b>Wholly owned subsidiaries</b>				
YZT (HK) Limited	January 14, 2015	Hong Kong	100%	Investment holding
Xiaoying (Beijing) Information Technology Co., Ltd. ("Beijing WFOE")	October 28, 2015	Beijing	100%	Technology development and service, sale of products
Shenzhen Xiaoying Puhui Technology Co., Ltd. ("Shenzhen Puhui")	December 6, 2016	Shenzhen	100%	Technology development and service, sale of products
Shenzhen Xiaoying Information Technology Co., Ltd. ("Shenzhen Xiaoying IT")	November 28, 2016	Shenzhen	100%	Technology development and service, sale of products
<b>VIEs</b>				
Shenzhen Xiaoying Technology Co., Ltd. ("Shenzhen Xiaoying")	October 19, 2016	Shenzhen	100%	Technology development and service, sale of products
Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd. ("Beijing Ying Zhong Tong")	March 27, 2015	Beijing	100%	Technology development and service, sale of products
Shenzhen Tangren Financing Guarantee Co., Ltd. ("Shenzhen Tangren")	December 16, 2016	Shenzhen	100%	Guarantee services
Shenzhen Beier Asset Management Co., Ltd ("Shenzhen Beier")	July 1, 2018	Shenzhen	100%	Capital management
<b>Significant subsidiaries of the VIEs</b>				
Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. ("Shenzhen Ying Zhong Tong")	March 7, 2014	Shenzhen	100%	Technology development and service, sale of products
Shenzhen Ying Ai Gou Trading Co., Ltd. ("Shenzhen Ying Ai Gou")	October 25, 2018	Shenzhen	100%	E-commerce services

## 2. Summary of significant accounting policies

### (a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

### (b) Principles of Consolidation

#### Variable interest entity

The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries, and consolidated VIEs. All intercompany transactions and balances have been eliminated.



The Company, through its wholly-owned foreign invested subsidiary, Beijing WFOE in the PRC, entered into a series of contractual arrangements (“VIE agreements”) with Shenzhen Xiaoying, Beijing Ying Zhong Tong, and Shenzhen Tangren (collectively known as “the VIEs”) and their respective shareholders that enable the Company to (1) have power to direct the activities that most significantly affects the economic performance of the VIEs, and (2) receive the economic benefits of the VIEs that could be significant to the VIEs.

As PRC laws and regulations prohibit and restrict foreign ownership of internet value-added businesses, the Company operates its business, primarily through the VIEs and the subsidiaries of the VIEs.

Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between Beijing WFOE and the VIEs through the aforementioned agreements with the nominee shareholders of the VIEs. The following is a summary of the VIE agreements:

(1) Shareholders’ Voting Rights Proxy Agreement:

Pursuant to the voting rights proxy agreements signed between the VIEs’ nominee shareholders and Beijing WFOE, each nominee shareholder irrevocably appointed Beijing WFOE as its attorney-in-fact to exercise on each shareholder’s behalf and all rights that each shareholder has in respect of its equity interest in the VIEs (including but not limited to executing the exclusive right to the voting rights and the right to appoint directors and executive officers of the VIEs). The nominee shareholders cannot revoke the authorization and entrustment as long as the nominee shareholders remain a shareholder of the VIEs. For the arrangements among Beijing WFOE, each of the VIEs other than Shenzhen Beier, and their shareholders, the power of attorney will remain in force for ten years. Unless a thirty-day notice is given by Beijing WFOE, this agreement shall be automatically renewed for another one year upon its expiration. The arrangement among Beijing WFOE, Shenzhen Beier and its shareholder does not specify its effective term.

(2) Spouse Consent Agreement

Under the spouse consent agreement, each signing spouse acknowledges that the shares of the VIEs held by the relevant shareholder of the VIEs are the personal assets of such shareholder and not jointly owned by the couple. Each signing spouse also unconditionally and irrevocably gives up his or her rights to such shares and any associated economic rights or interests to which he or she may be entitled pursuant to applicable laws and undertakes not to make any assertion of rights to such shares and the underlying assets. Each signing spouse agrees that he or she will not carry out in any circumstances any conduct that are contradictory to the contractual arrangements and this consent agreement.

(3) Executive Call Option Agreement:

Pursuant to the exclusive call option agreement entered into between the VIEs’ nominee shareholders and Beijing WFOE, the nominee shareholders irrevocably granted Beijing WFOE a call option to request the nominee shareholders to transfer or sell any part or all of its equity interests in the VIEs, to Beijing WFOE, or their designees. The purchase price of the equity interests in the VIEs shall be equal to the minimum price required by PRC law. Without Beijing WFOE’s prior written consent, the VIEs and its nominee shareholders shall not amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of its assets or beneficial interest, issue any additional equity or right to receive equity, provide any loans, distribute dividends in any form, etc. For the agreements among Beijing WFOE, each of the VIEs other than Shenzhen Beier, and their shareholders, these arrangements will remain effective for ten years. Unless notified by Beijing WFOE, the parties to these agreements shall extend the term of these agreements for another ten years. The agreement among Beijing WFOE, Shenzhen Beier and its shareholder does not specify its effective term.

(4) Exclusive Business Cooperation Agreement:

Pursuant to the exclusive business cooperation agreement entered into by Beijing WFOE and the VIEs, Beijing WFOE provides exclusive technical support and consulting services in return for fees based on 100% of the VIE’s total consolidated profit, which is adjustable at the sole discretion of Beijing WFOE. Without Beijing WFOE’s consent, the VIEs cannot procure services from any third party or enter into similar service arrangements with any other third party, except for those from Beijing WFOE. For the agreements between Beijing WFOE and each of the VIEs other than Shenzhen Beier, unless Beijing WFOE terminates these agreements in advance, these agreements will remain effective for ten years. Unless agreed by both parties in writing, this agreement shall be automatically renewed for another ten years upon its expiration. The agreement between Beijing WFOE and Shenzhen Beier will remain effective permanently, unless early terminated by Beijing WFOE in writing pursuant to this agreement or otherwise required by PRC laws.

(5) Equity Pledge Agreement

Each nominee shareholder of the VIEs has also entered into an equity pledge agreement with Beijing WFOE, pursuant to which each shareholder pledged his/her interest in Beijing WFOE to guarantee the performance of obligations of Beijing WFOE and its shareholders under the exclusive business cooperation agreement, exclusive call option agreement, and shareholders’ voting rights proxy agreement. If the VIEs or any of the nominee shareholder breaches its contractual obligations, Beijing WFOE will be entitled to certain rights and interests regarding the pledged equity interests including the right to dispose the pledged equity interests. None of the nominee shareholders shall, without the prior written consent of Beijing WFOE, assign or transfer to any third party, create or cause any security interest and any liability in whatsoever form to be created on, all or any part of the equity interests it holds in the VIEs. This agreement is not terminated until all of the agreements under the shareholders’ voting rights proxy agreement, exclusive call option agreement and the exclusive business cooperation agreement are fully performed.

The irrevocable power of attorney has conveyed all shareholder rights held by the VIEs' shareholders to Beijing WFOE or any person designated by Beijing WFOE, including the right to appoint executive directors of the VIEs to conduct day to day management of the VIEs' businesses, and to approve significant transactions of the VIEs. In addition, the exclusive call option agreement provides Beijing WFOE with a substantive kick-out right of the VIEs shareholders through an exclusive option to purchase all or any part of the shareholders' equity interest in the VIEs. In addition, through the exclusive business cooperation agreement, Beijing WFOE demonstrates its ability and intention to continue to exercise the ability to absorb substantially all of the profits and all of the expected losses of the VIEs. The equity pledge agreements further secure the obligations of the shareholders of the VIEs under the above agreements.

Based on these contractual arrangements, the Company consolidates the VIEs in accordance with SEC Regulation S-X Rule 3A-02 and Accounting Standards Codification ("ASC") topic 810 ("ASC 810"), Consolidation.

The Company believes that the contractual arrangements with the VIEs are in compliance with PRC law and are legally enforceable. However, uncertainties in the PRC legal system could limit the Company's ability to enforce the contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of PRC laws and regulations, the PRC government could:

- revoke the Group's and operating licenses;
- levy fines on the Group;
- confiscate any of our income that they deem to be obtained through illegal operations;
- shut down the Group's services;
- discontinue or restrict the Group's operations in China;
- impose conditions or requirements with which the Group may not be able to comply;
- require the Group to change corporate structure and contractual arrangements;
- restrict or prohibit the use of the proceeds from overseas offerings to finance the Group's PRC consolidated VIEs' business and operations; and
- take other regulatory or enforcement actions that could be harmful to the Group's business.

#### ***Consolidated Trusts***

As part of the Group's efforts to develop new product offerings for investors and institutional funding partners, the Group established a business relationship with certain trusts which were administered by third-party trust companies. The trusts were set up to invest solely in the loans facilitated by the Group on its platform to provide returns to the beneficiaries of the trusts through interest payments made by the borrowers. Both direct model and intermediary model are adopted for these trusts. Under direct model, loans are originated from trusts to borrowers while under intermediary model, the Group typically provides credit to the borrowers through an intermediary first and then transfers the loans to the trusts, which issue beneficial interests to the investors and institutional funding partners. The Group determines to consolidate these trusts as the Group is the primary beneficiary, due to the following reasons: 1. the Group has the power to direct the operating activities of the trusts; 2. the Group absorbs or enjoys the potential residual losses or returns of these trusts. Under intermediary model, the transfer of loans to the Consolidated Trusts are not eligible for sale accounting because the trust is consolidated and the loan transfer is considered an intercompany transaction. The Group further elected to apply fair value option to the loans (at the date of origination) and liabilities to investors and institutional funding partners to emphasize the relevancy of the accounting information of its consolidated financial statements. That is, the loans are continued to be recorded on the Group's consolidated balance sheets as loans held for investment under "Loans at fair value" and the proceeds received from the investors and institutional funding partners are recorded as trust liabilities under "Payable to investors at fair value".

During 2019 and 2020, one of the subsidiaries of the Group funded RMB93,000,000 and RMB64,375,517 to loan products facilitated on the Group's platform through third-party trust companies. The trusts are consolidated by the Group and the underlying loans are recorded on the Group's consolidated balance sheets as loans held for investment under "Loans at fair value".

The following financial statement amounts and balances of the Consolidated Trusts are included in the accompanying consolidated financial statements after elimination of intercompany transactions and balances:

	As of December 31, 2019	As of December 31, 2020	
	RMB	RMB	US\$
<b>Assets:</b>			
Restricted cash	449,978,760	476,854,616	73,081,167
Loans at fair value	2,782,332,885	1,585,731,888	243,024,044
Prepaid expenses and other current assets	37,073,985	11,359,212	1,740,875
<b>Total assets</b>	<b>3,269,385,630</b>	<b>2,073,945,716</b>	<b>317,846,086</b>
<b>Liabilities:</b>			
Payable to investors at fair value	3,006,349,475	1,914,183,650	293,361,480
Other tax payable	2,636,517	3,357,513	514,561
Accrued expenses and other current liabilities	52,677,466	74,596,014	11,432,340
<b>Total liabilities</b>	<b>3,061,663,458</b>	<b>1,992,137,177</b>	<b>305,308,381</b>

	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2020	
	RMB	RMB	RMB	US\$
Net revenue	61,475,364	340,613,941	331,300,043	50,773,953
Net income (loss)	41,986,452	227,051,351	(19,795,471)	(3,033,789)

	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2020	
	RMB	RMB	RMB	US\$
Net cash provided by (used in) operating activities	12,547,230	123,521,027	(20,179,042)	(3,092,574)
Net cash provided by (used in) investing activities	676,499,516	(2,684,753,233)	1,139,220,723	174,593,214
Net cash provided by (used in) financing activities	(696,800,000)	3,006,349,475	(1,092,165,825)	(167,381,735)

The following financial statement amounts and balances of the VIEs and Consolidated Trusts were included in the accompanying consolidated financial statements after elimination of intercompany transactions and balances:

	As of	As of December 31,	
	December 31,	2020	2020
	2019	RMB	US\$
	RMB		
<b>Assets:</b>			
Cash and cash equivalents	336,512,754	170,390,218	26,113,443
Restricted cash	449,978,760	484,877,600	74,310,743
Accounts receivable and contract assets, net	466,630,408	—	—
Short-term investment	—	6,000,000	919,540
Loan receivable from Xiaoying Housing Loans, net	89,535,665	47,490,437	7,278,228
Loans at fair value	2,782,332,885	1,585,731,888	243,024,044
Deposits to institutional cooperators, net	—	565,372	86,647
Prepaid expenses and other current assets	429,093,130	66,235,998	10,151,111
Financial guarantee derivative	719,962,262	297,928,066	45,659,474
Deferred tax assets, net	420,822,781	287,606,896	44,077,685
Long-term investments	277,126,560	292,115,200	44,768,613
Property and equipment, net	14,396,986	6,220,398	953,318
Intangible assets, net	6,091,145	30,431,482	4,663,829
Other non-current assets	44,169,105	6,914,006	1,059,618
<b>Total assets</b>	<b>6,036,652,441</b>	<b>3,282,507,561</b>	<b>503,066,293</b>
<b>Liabilities:</b>			
Payable to investors at fair value	3,006,349,475	1,914,183,650	293,361,480
Guarantee liabilities	11,140,899	—	—
Financial guarantee derivative	—	130,442,090	19,991,125
Short-term bank borrowings	—	18,700,000	2,865,900
Accrued payroll and welfare	22,677,991	10,017,308	1,535,220
Other tax payable	34,725,447	37,103,700	5,686,391
Income tax payable	227,047,349	48,349,593	7,409,899
Accrued expenses and other current liabilities	103,479,695	230,564,165	35,335,504
Other non-current liabilities	26,683,382	1,739,541	266,595
Deferred tax liabilities	688,209	—	—
<b>Total liabilities</b>	<b>3,432,792,447</b>	<b>2,391,100,047</b>	<b>366,452,114</b>

	Year ended	Year ended	Year ended	
	December 31,	December 31,	December 31,	
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
Net revenue	2,168,665,965	2,650,594,409	754,755,127	115,671,284
Net income (loss)	408,242,461	(14,609,225)	(180,518,614)	(27,665,688)
	Year ended	Year ended	Year ended December 31,	
	December 31,	December 31,	2020	2020
	2018	2019	RMB	US\$
	RMB	RMB		
Net cash provided by (used in) operating activities	(243,451,042)	442,501,953	(190,951,068)	(29,264,531)
Net cash provided by (used in) investing activities	451,499,516	(2,706,673,269)	1,133,193,197	173,669,455
Net cash provided by (used in) financing activities	(498,800,000)	2,808,349,475	(1,073,465,825)	(164,515,835)

The VIEs and Consolidated Trusts contributed 61%, 86%, and 34% of the Group's consolidated revenue for the years ended December 31, 2018, 2019 and 2020 respectively. As of December 31, 2019 and 2020, the VIEs and Consolidated Trusts accounted for an aggregate of 73% and 44% of the consolidated total assets, and 88% and 54% of the consolidated total liabilities.

There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company or its subsidiaries to provide financial support to the VIEs and Consolidated Trusts. However, if the VIEs were ever to need financial support, the Group may, at its option and subject to statutory limits and restrictions, provide financial support to its VIEs through loans to the shareholders of the VIEs or entrustment loans to the VIEs.

The Group believes that there are no assets held in the VIEs that can be used only to settle obligations of the VIEs, except for registered capital and the PRC statutory reserves. As the VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs do not have recourse to the general credit of the Company for any of the liabilities of the VIEs. Relevant PRC laws and regulations restrict the VIEs from transferring a portion of their net assets, equivalent to the balance of its statutory reserve and its share capital, to the Company in the form of loans and advances or cash dividends. Please refer to Note 15 for disclosure of restricted net assets.

**(c) Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ materially from such estimates. Significant accounting estimates reflected in the Group's consolidated financial statements include share-based compensation, allowance for credit losses of accounts receivables and contract assets, deposits to institutional cooperators, prepaid expenses and other current assets, loans receivables from Xiaoying Housing Loans and loans receivables from Xiaoying Credit Loans and Revolving Loans, allocation of considerations under revenue arrangements with various performance obligations, valuation allowance for deferred tax assets, unrecognized tax benefits, the indefinite reinvestment assertion, fair value of guarantee liabilities and financial guarantee derivatives, loans at fair value and payable to investors at fair value.

**(d) Revenue recognition**

The Group provides services as an online marketplace connecting borrowers and investors or institutional funding partners primarily through the use of two business models. The major products offered by the Group include Xiaoying Credit Loan and Xiaoying Revolving Loan. Xiaoying Credit Loan mainly consists of Xiaoying Card Loan and Xiaoying Preferred Loan products. The major product under the category Xiaoying Revolving Loan is Yaoqianhua which was previously named as Xiaoying Wallet. Revenue is the transaction price the Group expects to be entitled to in exchange for the promised services in a contract in the ordinary course of the Group's activities and is recorded net of value-added tax ("VAT"). The services to be accounted for include loan facilitation service, post-origination service (e.g. cash processing and collection services) and guarantee service.

The first business model ("Direct Model") involves the Group matching borrowers with investors or institutional funding partners who directly funds the credit drawdowns to the borrowers. The Group has determined that it is not the legal lender or borrower in the loan origination and repayment process, but acting as an intermediary to bring the lender and the borrower together. Therefore, the Group does not record the loans receivable or payable arising from the loans facilitated between the investors or institutional funding partners and borrowers on its platform.

The second business model ("Intermediary Model") involves the Group initially providing credit to borrowers using its own funds through an intermediary and subsequently selling the loans including all of the creditor rights in the loans to external investors or institutional funding partners on its platform within a short period of time.

Loans facilitated by the Group typically have a term of less than 1 year. For each loan facilitated either through the Direct Model or Intermediary Model, the Group charges a service fee, which is payable by the borrower for all three services provided. No application fee is charged to borrowers or investors or institutional funding partners. According to the contractual agreement with borrowers, upon the inception of the loan, the Group has the unconditional right to the entire service fee regardless of whether subsequent post-origination or guarantee services are provided by the Group or timing of repayment of the loan. Since September 2017, for certain Xiaoying Card Loans facilitated, the borrower can early repay the loans with a portion of the monthly service fees for the remaining period being waived. The Group historically charged a portion of service fees upfront for certain products which is deducted from the loan proceeds at loan origination, and the remaining service fees are collected on a monthly basis. The Group has stopped charging upfront fees for all products since December 2017 to comply with new regulatory requirements. At contract inception, the Group determines that the collection of service fees is probable based on historical experiences as well as the credit due diligence performed on each borrower prior to loan origination.

In order to be more competitive by providing a certain level of assurance to the investors or institutional funding partners, for certain loans facilitated by the Group's platform, either borrowers or institutional funding partners are required to directly sign a credit insurance agreement with ZhongAn Online P&C Insurance Co., Ltd ("ZhongAn") to protect investors or institutional funding partners against the risk of borrower default. As of December 31, 2019 and 2020, 77% and 54% of loans, respectively, have signed credit insurance agreement with ZhongAn.

In 2016 and January to September 2017, substantially all of the loans facilitated by the Group's platform are insured by ZhongAn (referred to as the "Old ZhongAn Model"). The Group did not have direct contractual obligation to the investors for defaulted principal and interest during that period. The Group entered into a strategic cooperation agreement with ZhongAn pursuant to which ZhongAn provided insurance to the investors for the loans facilitated by the Group and reimbursed the loan principal and interest to the investor upon borrower's default. During the aforementioned period, in order to maintain stable business relationship with ZhongAn, although not contractually obligated by the agreement with ZhongAn, the Group at its sole discretion paid ZhongAn for substantially all the defaulted loan principal and interest but have not been subsequently collected. The Group also provides direct guarantee to investors on certain loan products via its consolidated entities. The Group is compensated for this reimbursement from the contractual service fees collected from the borrowers. Given that the Group is at its sole discretion responsible for the uncollected claims paid, the Group effectively took on substantially all of the losses incurred by the investors due to borrowers' default, the Group deemed the guarantee as a guarantee service to the investors and recognizes a stand ready obligation for its guarantee exposure in accordance with ASC Topic 460, *Guarantees*.

From September 2017, the Group revised the arrangement with ZhongAn on substantially all of the Xiaoying Credit Loans (referred to as the “New ZhongAn Model”).

For certain Xiaoying Card Loans that were newly facilitated from September 2017, borrowers are required to enter into a guarantee agreement and an insurance agreement with the Group and ZhongAn, respectively, to pay the guarantee fee and insurance fee to the respective party at a pre-agreed rate. Upon borrower’s default, ZhongAn reimburses the full loan principal and interest to the investor or institutional funding partner first, and has the right to recourse to both the borrower and the Group, and the Group’s contractual obligation is at any time it limited to a cap (the “Cap”) which is the lower of (1) total amount of guarantee fees contractually required to be collected from the borrowers for such loans facilitated during the current period on an aggregated basis, and (2) a certain percentage of the total principal of the loans facilitated stated in an annualized manner, as pre-agreed with ZhongAn (the “Rate”). The contractual guarantee fees in (1) is not influenced by default or early repayment of borrowers. The Group has no obligation or intention to compensate ZhongAn for any losses in excess of the contractual obligation. The Rate will be negotiated prospectively at each quarter between the two parties based on the expected default rate. The actual loss in excess of the Cap is absorbed by ZhongAn. ZhongAn ultimately bears substantially all of the credit risk. The Group’s exposure in this arrangement is limited to the default and prepayment risk in relation to the guarantee fee when the Group cannot collect the guarantee fee under the agreement with the borrower on an individual basis but is still obligated to compensate ZhongAn up to the Cap on a pool basis. The Group evaluated the guarantee arrangement pursuant to ASC Topic 815, and concluded that the arrangement meets the definition of a derivative and that it is not eligible for the guarantee scope exception. Therefore, the guarantee is recognized as a derivative liability/asset at fair value and is not accounted for pursuant to ASC Topic 460 or 450. See accounting policy for financial guarantee derivative.

For other Xiaoying Preferred Loan products newly facilitated from September 2017, the borrowers are required to enter into an insurance agreement with ZhongAn only at a rate set by ZhongAn. No separate guarantee agreement is signed by the borrower with the Group and no additional guarantee fee is charged from the borrower. Upon borrower’s default, ZhongAn reimburses the full loan principal and interest to the investor or institutional funding partner. The Group collects the defaulted amount from borrowers on behalf of ZhongAn but has no obligation and it is no longer the Group’s intention to compensate ZhongAn for the defaulted loan principal and interest not subsequently collected in the future. ZhongAn is fully liable for all the borrower’s credit risk associated with the defaulted principal and interest of the loan. Therefore, for these loans, the Group provides loan facilitation and post-origination services but no longer provides guarantee service. The Group does not record guarantee liabilities associated with these loans or corresponding account receivables from guarantee services. Under the Direct Model, the total transaction price is directly allocated to the facilitation service and post-origination service. Under the Intermediary—non-trust model, upon transfer of the loan to third party investors, the Group recognize the difference between (1) the proceeds received from the investors and accounts receivable and (2) the carrying value of the loan as a gain of sale, which effectively represents the service fees earned from facilitation of the loans under Intermediary Model, as the “Loan facilitation service—Intermediary Model” in the consolidated statements of comprehensive income (loss).

For certain loans that were newly facilitated in 2020, the institutional funding partners as policyholder and insured party are required to enter into an insurance agreement with ZhongAn to pay the insurance premiums. To attract institutional funding and maintain a relatively low funding cost, the Group at its sole discretion paid the insurance premiums. The borrowers are still required to enter into a guarantee agreement with the Group to pay the guarantee fee at a pre-agreed rate. The obligation/ credit risk/ exposure of the Group and ZhongAn to compensate the defaulted loans has no change with “New ZhongAn Model”.

Starting from 2020, the Group enters into a series of arrangements with various external financing guarantee companies, which is similar to “New ZhongAn Model” with limited exposure to compensate these financing guarantee companies based on the contractual guarantee fee up to the pre-agreed cap when borrowers’ default occur.

#### *Direct Model*

The Group has early adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified ASC 606 on January 1, 2017 and has elected to apply it retrospectively for the year ended December 31, 2016.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the Group applies the following steps:

- Step 1: Identify the contract (s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group determines its customers to be both the borrowers and the investors or institutional funding partners. The Group considers the loan facilitation service, guarantee service and post-origination service as three separate services of which the guarantee service is accounted for in accordance with ASC Topic 460, *Guarantees*. While the post-origination service is within the scope of ASC Topic 860, the ASC Topic 606 revenue recognition model is applied due to the lack of definitive guidance in ASC Topic 860. The loan facilitation service and post-origination service are two separate performance obligations under ASC 606, as these two deliverables are distinct in that customers can benefit from each service on its own and the Group's promises to deliver the services are separately identifiable from each other in the contract.

The Group determines the total transaction price to be the service fees chargeable from the borrowers or institutional funding partners, including the guarantee fees charged by the Group under the separate guarantee agreement with the borrowers for certain type of Xiaoying Card Loans that are newly facilitated since September 2017. The Group's transaction price includes variable consideration in the form of prepayment risk for certain products. The Group reflects, in the transaction price, the prepayment risk and estimates variable consideration for these contracts using the expected value approach on the basis of historical information and current trends of the prepayment percentage of the borrowers. The transaction price is allocated amongst the guarantee service, if any, and two performance obligations.

The Group first allocates the transaction price to the guarantee liabilities, if any, that is recognized in accordance with either (1) ASC Topic 460, *Guarantees* which requires the guarantee to be measured initially at fair value based on the stand-ready obligation or (2) ASC Topic 815, which requires the guarantee to be measured initially and subsequently at fair value. Then the remaining considerations are allocated to the loan facilitation services and post-origination services using their relative standalone selling prices consistent with the guidance in ASC 606. For certain loans facilitated since September 2017, the total transaction price is allocated to facilitation service and post-origination service only. The Group does not have observable standalone selling price information for the loan facilitation services or post-origination services because it does not provide loan facilitation services or post-origination services on a standalone basis. There is no direct observable standalone selling price for similar services in the market that is reasonably available to the Group. As a result, the estimation of standalone selling price involves significant judgment. The Group uses an expected cost plus margin approach to estimate the standalone selling prices of loan facilitation services and post origination services as the basis of revenue allocation. In estimating its standalone selling price for the loan facilitation services and post-origination services, the Group considers the cost incurred to deliver such services, profit margin for similar arrangements, customer demand, effect of competitors on the Group's services, and other market factors.

For each type of service, the Group recognizes revenue when (or as) the entity satisfies the service/performance obligation by transferring a promised good or service (that is, an asset) to a customer. Revenues from loan facilitation are recognized at the time a loan is originated between the borrower and the investor or institutional funding partner and the principal loan balance is transferred to the borrower, at which time the facilitation service is considered completed. Revenues from post-origination services are recognized on a straight-line basis over the term of the underlying loans as the services are provided. Revenues from guarantee services are recognized at the expiry of the guarantee term when there had been no defaults. Except for certain loan products offered since September 2017, the collection of service fees is not conditional on the provision of subsequent post-origination or guarantee services.

#### *Intermediary Model*

Starting from 2018, the Group cooperate with several microcredit companies who use their own funds to provide credit to borrowers first; the Group provide facilitation and post-origination services for these loans and receive service fee from borrowers. These microcredit companies transfer their rights as creditors shortly to SPVs controlled by the Group at the price of the carrying amount of the outstanding loan principal balance and accumulated accrued interest not paid by the borrowers as of the day on which the creditor's rights are legally transferred to SPVs. The SPVs usually further transfer their creditor's rights to third party investors or institutional funding partners in a short period at the price of the carrying amount of the outstanding loan principal balance and the accumulated accrued interest not paid by the borrowers as of the day on which the creditor's rights are legally transferred to investors or institutional funding partners. The Group accounts the relevant interest and service fees received from the borrowers as the financing income and the fee charged by the microcredit companies which is proportionate to the loans facilitated as the origination and servicing cost in its consolidated financial statements.

Under the Intermediary business model, the Group provides the funds that are loaned to borrowers and agrees to take predominantly all the risk arising from potential breaches of agreement by the borrowers receiving financing.

The Group provides financing to borrowers on their platform and the loans are initially recorded on the consolidated balance sheet as loans held for sale or loans receivable from Xiaoying credit loans and Xiaoying revolving loans. These loans carry the same insurance/ guarantee agreement with external institutional co-operators as loans facilitated under the Direct Model, which is attached to the loan and transfers along with the loan. The Group also charges service fees in the same manner as loans facilitated under the Direct Model.

#### *Intermediary Model—Non-Trust Model*

The transfer of loans (including the creditor rights) to external investors or institutional funding partners not involving trust structure is accounted for as a true sale under ASC 860 (see accounting policy under “Sales and Transfers of Financial Instruments”). Upon sale, the Group records a guarantee liability in accordance with ASC 460 in relation to the on-going guarantee services to be provided to the investors or institutional funding partners, consistent with the loans facilitated under the Direct Model. The Group continues to provide post-origination services to the loans subsequent to their sale in the same manner as the Group services the loans facilitated under the Direct Model. No additional service fee is charged. Similar to the loans facilitated under the Direct Model, the Group charges and collects service fees from the borrowers or institutional funding partners in relation to the transferred loans on a monthly basis. The difference between (1) the proceeds received from the investors or institutional funding partners and accounts receivable and contract assets (see accounting policy on “Accounts receivable and contract assets and allowance for uncollectible accounts receivable and contract assets”) and (2) the sum of the carrying value of the loans and the fair value of the guarantee liability is recognized as a gain of sale, which effectively represents the service fees earned from facilitation of the loans under Intermediary Model, as the “Loan facilitation service—Intermediary Model” in the consolidated statements of comprehensive income (loss). For certain loans facilitated since September 2017, given the Group no longer provides guarantee services and the Group does not record any guarantee liabilities associated with those loans or related account receivable from guarantee services, the gain of sale is the difference between (1) the proceeds received from the investors or institutional funding partners and accounts receivable and (2) the carrying value of the loan. The subsequent accounting for post-origination service and guarantee services is consistent with that for loans facilitated under the Direct Model.

Loans that were not yet transferred to external investors or institutional funding partners or have been transferred but such transaction does not qualify for sale accounting as of December 31, 2019 and 2020 amounted to RMB289,553,016 and RMB 1,236,026,461 (US\$189,429,343) respectively and was recorded in “Loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans” in the consolidated balance sheets.

#### *Intermediary Model—Trust Model*

The transfer of loans to institutional funding partners under the Intermediary Model often involves transferring the loans to a trust formed and operated by unrelated third party trust companies. The Group consolidates such trusts under the VIE model (see accounting policy on “Consolidated Trusts”). The Group also elects to apply fair value option to these loans at the date of origination. Loans transferred to Consolidated Trusts do not qualify for sales accounting as the transfer is to a consolidated subsidiary. The loans are recorded as “Loans at fair value” in the consolidated balance sheets. The Group recognizes as revenue under “financing income” the service fees and interests charged to the borrowers over the lifetime of the loans using effective interest method.

The online Intermediary Model ceased in April 2017 and the offline Intermediary Model with funding from banking financial institution partners ceased in February 2018 to comply with the promulgated regulatory requirements. The Group continues the operations through the offline Intermediary Model with funding from other partners to the extent permitted under applicable laws and regulations.

#### *Disaggregation of revenues*

All of the Group’s revenue for the years ended December 31, 2018, 2019 and 2020 were generated from the PRC. As the remaining duration of the Group’s performance obligations of the contracts is one year or less, the Group elects to apply the exemption of disclosing the aggregate amount of transaction price allocated to the performance obligations at the end of 31 December, 2018, 2019 and 2020. The following table illustrates the disaggregation of revenue by product the Group offered in 2018, 2019 and 2020:



2018	Loan facilitation service-Direct Model (RMB)	Loan facilitation service-Intermediary Model (RMB)	Post-origination service (RMB)	Financing income (RMB)	Other revenue (RMB)	Total (RMB)
Major products						
Xiaoying Credit Loan	2,897,702,061	216,754,528	128,865,000	67,731,784	109,141,168	3,420,194,541
Xiaoying Housing Loan	5,780,118	1,247,846	463,129	8,290,828	9,190,257	24,972,178
Internet Channel(1)	53,874,025	8,760,054	1,182,786	41,253	9,313,276	73,171,394
Other loan products	215,763	1,509,945	732,516	40,096	1,079,296	3,577,616
Other service(2)	—	—	—	—	18,684,315	18,684,315
<b>Total</b>	<b>2,957,571,967</b>	<b>228,272,373</b>	<b>131,243,431</b>	<b>76,103,961</b>	<b>147,408,312</b>	<b>3,540,600,044</b>

2019	Loan facilitation service-Direct Model (RMB)	Loan facilitation service-Intermediary Model (RMB)	Post-origination service (RMB)	Financing income (RMB)	Other revenue (RMB)	Total (RMB)
Major products						
Xiaoying Credit Loan	1,834,813,952	223,668,549	314,767,947	396,039,771	71,024,093	2,840,314,312
Xiaoying Revolving Loan	63,667,334	13,174,930	8,163,362	12,361,021	9,069,408	106,436,055
Xiaoying Housing Loan	578,598	88,225	132,382	—	264,644	1,063,849
Internet Channel(1)	86,733,843	1,703,032	7,568,757	—	1,890,227	97,895,859
Other loan products	209,616	232,318	62,764	—	10,403	515,101
Other service(2)	—	—	—	—	41,824,819	41,824,819
<b>Total</b>	<b>1,986,003,343</b>	<b>238,867,054</b>	<b>330,695,212</b>	<b>408,400,792</b>	<b>124,083,594</b>	<b>3,088,049,995</b>

2020	Loan facilitation service-Direct Model (RMB)	Loan facilitation service-Intermediary Model (RMB)	Post-origination service (RMB)	Financing income (RMB)	Other revenue (RMB)	Total (RMB)
Major products						
Xiaoying Credit Loan	1,190,088,566	19,755,482	176,229,908	538,869,175	39,537,661	1,964,480,792
Xiaoying Revolving Loan	76,444,207	21,571,881	26,000,468	73,991,011	597,911	198,605,478
Xiaoying Housing Loan	—	—	—	—	172,960	172,960
Internet Channel(1)	—	45,449	1,611,453	3,291	11	1,660,204
Other loan products	—	—	—	—	226,720	226,720
Other service(2)	—	—	—	—	27,811,304	27,811,304
<b>Total</b>	<b>1,266,532,773</b>	<b>41,372,812</b>	<b>203,841,829</b>	<b>612,863,477</b>	<b>68,346,567</b>	<b>2,192,957,458</b>

2020	Loan facilitation service-Direct Model (US\$)	Loan facilitation service-Intermediary Model (US\$)	Post-origination service (US\$)	Financing income (US\$)	Other revenue (US\$)	Total (US\$)
Major products						
Xiaoying Credit Loan	182,389,053	3,027,660	27,008,415	82,585,314	6,059,412	301,069,854
Xiaoying Revolving Loan	11,715,587	3,306,035	3,984,746	11,339,619	91,634	30,437,621
Xiaoying Housing Loan	—	—	—	—	26,507	26,507
Internet Channel(1)	—	6,965	246,966	504	2	254,437
Other loan products	—	—	—	—	34,746	34,746
Other services(2)	—	—	—	—	4,262,269	4,262,269
<b>Total</b>	<b>194,104,640</b>	<b>6,340,660</b>	<b>31,240,127</b>	<b>93,925,437</b>	<b>10,474,570</b>	<b>336,085,434</b>

(1) Represents loans facilitated to borrowers referred by other platforms

(2) Primarily consists of commission fees from Xiaoying Online Mall, service fees charged for transferring loans between investors on the Group's online platform, referral service fee for introducing borrowers to other platforms and technology service fees received for providing assistant technology development services.

### *Contract balances*

The Group did not enter into contracts with customers that were greater than one year for substantially all products for the years ended December 31, 2018, 2019 and 2020. The Group historically did not record any contract liabilities for both 2019 and 2020 and did not record any contract asset prior to September 2017. For certain Xiaoying Card Loan products facilitated since September 2017, the borrower can early repay the loans in which case a portion of the monthly service fees for the remaining period is waived. The Group does not have unconditional right to the consideration at the loan inception and records a corresponding contract asset when recognizing revenue from facilitation service. The contract asset will not be reclassified to a receivable given that the right to invoice and the payment due date is the same date. Since 2018, the Group determined that the consideration for these loan products to no longer be probable that substantially all of the consideration will be collected from its customers, therefore no contract assets were recognized. Revenue for these loan products are recognized when the collection of consideration becomes probable.

Remaining unsatisfied performance obligations as of December 31, 2018, 2019 and 2020 pertained to post-origination service in the amount of RMB103,023,734, RMB106,147,877 and RMB61,415,170(US\$ 9,412,287) respectively. All remaining unsatisfied performance obligations would be recognized as revenue in the subsequent year. The revenues recognized in 2018, 2019, and 2020 from performance obligations satisfied (or partially satisfied) in prior periods are RMB3,390,633, RMB2,240,572 and nil, respectively.

### *Incentives to investors*

To expand its market presence, the Group provides incentives to investors in a variety of forms that either reduces the amount of investment required to purchase financial products or entitles them to receive higher interest rates in the products they purchase. During the relevant incentive program period, the Group sets certain thresholds for the investor to qualify to enjoy the incentive. Such incentives are accounted for as a reduction of revenue in accordance with ASC 606.

### *Financing income*

Financing income consists primarily the financing fees the Group charges for the loans facilitated through the Consolidated Trusts, including interest income and service fees generated from providing loan facilitation, guarantee and post-origination services to the investors and institutional funding partners of the Consolidated Trusts and are recorded as revenue over the life of the underlying financing using the effective interest method.

Financing income also includes financing fees, including interest income and service fee, from loans held for sale and loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans that have not yet been transferred to external investors or institutional funding partners or have been transferred but such transaction does not qualify for sale accounting under the Intermediary Model.

### *Other revenue*

Other revenue primarily includes penalty fees for loan prepayment and late payment, administration fee for transferring loans between investors on the Group's platform, commission fees for introducing borrowers to other platforms and commission fees from Xiaoying Online Mall. The penalty fees, which are fees paid to the Group, will be received as a certain percentage of past due amounts in the case of late payments or a certain percentage of interest over the prepaid principal loan amount in the case of prepayment. Penalty fees are contingency-based variable considerations and constrained by the occurrence of delinquency or prepayment. They are recognized when the uncertainty associated with the variability is resolved, that is, when the underlying event occurs. The administration fees for transferring loans between investors and commission fees for introducing borrowers to other platforms are recognized when the obligation is fulfilled and is confirmed by the other platforms.

Xiaoying Online Mall launched in March 2019 is a product that provides loan installments to our individual customers enabling them to purchase goods online. The loan installment revenue is recognized as loan facilitation revenue and post origination revenue. The gross amount of product sales and related costs or the net amount earned is recorded as commissions. The Group was evaluated as an agent and its obligation is to facilitate third parties in fulfilling their performance obligation for specified goods or services, revenues should be recognized in the net amount for the amount of commission which the Group earns in exchange for arranging for the specified goods or services to be provided by other parties. Revenue is recorded net of value-added taxes.

***(e) Sales and transfers of financial instruments***

Sales and transfers of financial instruments are accounted under authoritative guidance for the transfers and servicing of financial assets and extinguishment of liabilities. Specifically, a transfer of a financial asset, a group of financial assets, or a participating interest in a financial asset is accounted for as a sale only if all the following conditions are met:

1. The financial assets are isolated from the transferor and its consolidated affiliates as well as its creditors;
2. The transferee or beneficial interest holders have the right to pledge or exchange the transferred financial assets; and
3. The transferor, its consolidated affiliates included in the financial statements being presented, or its agents do not maintain effective control of the transferred asset. A transferor's effective control over the transferred financial assets includes, but is not limited to, any of the following:
  - a. An agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity.
  - b. An agreement, other than through a cleanup call that provides the transferor with both of the following: (i) The unilateral ability to cause the holder to return specific financial assets. (ii) A more-than-trivial benefit attributable to that ability; and
  - c. An agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

Under the Intermediary Model, the Group, through its Intermediary, facilitates credits to borrowers and subsequently transfers the loans (including the creditor rights) to third party investors or institutional funding partners at face value within a short period of time.

When the loan (including the creditor rights) is transferred, the transferee becomes the direct counterparty to the borrower and the legal record holder of the loan upon transfer. The transfer is accounted for as a sale, when (1) the transferred loans are considered legally isolated from the assets of the Group and its creditors even in the bankruptcies under the PRC laws and regulations, (2) the investors or institutional funding partners (transferees) can freely pledge or exchange the transferred loans, and (3) the Group does not maintain effective control over the transferred loans. The cash flows related to the origination and transfer of these loans are presented as "Origination of loans held for sale" and "Sale of loans held for sale", respectively, within operating cash flows in the consolidated statement of cash flows. When a transfer does not qualify for sale accounting, e.g. when the Group sells loans with recourse to the Group, the transferred financial asset remains in the statement of financial position and a financial liability is recognized for any consideration received.

For certain loans facilitated through the Intermediary Model, borrowers are required to pledge properties to one of the Group's consolidated VIE entities (other than the Intermediary or the SPV conducting the facilitation and transfer of the loan) as collateral for the guarantee that the Group is providing to ZhongAn against borrower's default. It is a separate arrangement with different counterparties from the loan provided by the Group. While the loan (including creditor's rights) is transferred to third party investors or institutional funding partners, the lien remains under the Group's name and in security for the Group agreeing to provide the guarantee to ZhongAn. The holding of the lien does not affect the creditor's right in the loan being fully transferred. Provided all aforementioned conditions under sales accounting are met, the transfer of such loans with collateral are accounted for as a sale.

***(f) Foreign currency translation***

The functional currency of X Financial is in US dollars ("US\$"). The functional currency of the Group's subsidiaries and VIEs in the PRC is Renminbi ("RMB"). The determination of the respective functional currency is based on the criteria stated in ASC 830, Foreign Currency Matters. The Group also uses RMB as its reporting currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency are measured and recorded in the functional currency at the exchange rate prevailing on the transaction date. Translation gains and losses are recognized in the statements of comprehensive income (loss).

The Company with functional currency of US\$ translates its operating results and financial positions into RMB, the Group's reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Equity amounts are translated at historical exchange rates. Revenues, expenses, gains and losses are translated using the average rates for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component in the statements of comprehensive income (loss).

### **(g) Guarantee liabilities**

The Group has guarantee service which is directly and indirectly provided to the investors or institutional funding partners. The Group also provides direct guarantee to investors or institutional funding partners on certain loan products via its consolidated entities. If a borrower defaults, the Group makes its best efforts to collect the default loan. The Group directly or indirectly makes payment to the defaulted principal and interest to each investor or institutional funding partner. Under the Old ZhongAn Model, prior to September 2017, ZhongAn initially reimbursed the loan principal and interest to the investor or institutional funding partner upon the borrower's default. In order to maintain stable business relationship with ZhongAn, although not contractually obligated, the Group at its sole discretion compensated ZhongAn for substantially all loan principal and interest default but not subsequently collected. At the inception of each loan, the Group recognizes the guarantee liability at fair value in accordance with ASC 460-10, which incorporates the expectation of potential future payments under the guarantee and takes into both non-contingent and contingent aspects of the guarantee. Subsequent to the loan's inception, the guarantee liability is composed of two components: (i) ASC Topic 460 component; and (ii) ASC Topic 450 component. The liability recorded based on ASC Topic 460 is determined on a loan by loan basis and it is reduced when the Group is released from the underlying risk, i.e. as the loan is repaid by the borrower or when the investor or institutional funding partner is compensated in the event of a default. This component is a stand-ready obligation which is not subject to the probable threshold used to record a contingent obligation. When the Group is released from the stand-ready liability upon expiration of the underlying loan, the Group records a corresponding amount as "Other revenue" in the consolidated statement of comprehensive income. The other component is a contingent liability determined based on probable loss considering the actual historical performance and current conditions, representing the obligation to make future payouts under the guarantee liability in excess of the stand-ready liability, measured using the guidance in ASC Topic 450. The ASC Topic 450 contingent component is determined on a collective basis and loans with similar risk characteristics are pooled into cohorts for purposes of measuring incurred losses. The ASC 450 contingent component is recognized as part of operating expenses in the consolidated statement of comprehensive income. At all times the recognized liability (including the stand-ready liability and contingent liability) is at least equal to the probable estimated losses of the guarantee portfolio.

The Group measures its guarantee liabilities at inception at fair value based on the Group's expected payouts and also incorporating a markup margin. As the Group's guarantee liabilities are not traded in an active market with readily observable prices, the Group applies a discounted cash flow methodology to measure the fair value of guarantee liabilities. The impact of credit losses is also considered by applying discounted cash flow method for the subsequent measurement of guarantee liabilities, based on the consideration of reasonable and supportable forecasts of future economic conditions. The significant unobservable inputs used include expected future payout and discount rate. The expected future payouts were estimated based on expected default rates and collection rates for each product type, taking into consideration of historical loss experiences for both contingent and noncontingent elements. The expected future payouts take into account missed payments initially compensated by ZhongAn within two business days from borrowers' payment due date. The expected collection rate of defaulted loans incorporates the proceeds from liquidation of underlying collateral that would be expected to cover the payouts under the guarantee and was based on the average historical collection rate of the Group's products. These inputs in isolation can cause significant increases or decreases in fair value. Increase in the expected default rates can significantly increase the fair value of guarantee liabilities; conversely a decrease in the expected default rates can significantly decrease the fair value of guarantee liabilities. The discount rate applied discounted cash flow methodology to present value the projected cash flows which is based on market rates. The Group also estimated the markup margin by looking at several comparable business models. The approximate term of the guarantee service correlates directly with the term of the loan product.

Refer to Note 10 for additional information about guarantee liabilities for the years ended December 31, 2018, 2019 and 2020.

From September 2017, the Group revised the Old ZhongAn Model on Xiaoying Credit Loan products, which is the major product offered by Group. The Group no longer records any guarantee liabilities in accordance with ASC Topic 460 for substantially all Xiaoying Preferred Loans. For most Xiaoying Card Loans, the Group records financial guarantee derivatives in accordance with ASC 815. See accounting policy of revenue recognition and financial guarantee derivatives.

### **(h) Financial guarantee derivatives**

Starting from September 2017, for newly facilitated Xiaoying Credit Loans and Xiaoying Revolving Loans, the Group's exposure is limited to the contractual guarantee fee that the Group cannot collect under the agreement from the borrower as a result of default or prepayment but are still obligated to compensate ZhongAn based on the contractual guarantee fee up to the pre-agreed cap. See accounting policy in Revenue Recognition. The financial guarantee is accounted for as a derivative under ASC 815 because the financial guarantee scope exemption in ASC 815-10-15-58 is not met. The derivative is remeasured at each reporting period. The change in fair value of the derivative is recorded as a change in fair value of financial guarantee derivatives in the consolidated statements of comprehensive income (loss). The derivative is increased by the guarantee fees collected from the borrowers upon receipt as the Group expects all the fees to be ultimately paid to ZhongAn. When the Group settles the guarantee through performance of the guarantee by making payments to ZhongAn, the Company records a corresponding deduction to the derivative.

Starting from 2020, the Group enters into a series of arrangements with various external financing guarantee companies, which is similar to our new ZhongAn model with limited exposure to compensate these financing guarantee companies based on the contractual guarantee fee up to the pre-agreed cap when borrowers' default occur.

The Group uses the discounted cash flow model to value these financing guarantee derivatives at inception and subsequent valuation dates. This discounted cash flow model incorporates assumptions such as the expected delinquency rates, prepayment rate and discount rate. The expected delinquency rate and prepayment rate is estimated by taking into consideration of historical loss experiences. The discount rate is determined based on the market rates. The Group considers that the impact of discount rate to the fair value of financial guarantee derivatives is immaterial. For the loans facilitated after September 2017, the Group estimated at inception that the prepayment risk is immaterial.

**(i) Fair value**

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

· Level 1—inputs are based upon unadjusted quoted prices for identical assets or liabilities traded in active markets.

· Level 2—inputs are based upon quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

· Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair value is therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

**(j) Cash and Cash Equivalents**

Cash and cash equivalents primarily consist of cash on hand and cash in bank which are highly liquid. As of December 31, 2020, cash equivalents were comprised of current deposits and money market funds stated at cost plus accrued interest. All cash and cash equivalents are unrestricted as to withdrawal and use.

**(k) Restricted Cash**

Restricted cash consists primarily of cash held by the Consolidated Trusts through segregated bank accounts which can only be used by the trusts to specified activities as stipulated in the trust agreements. Cash in the Consolidated Trusts is not available to fund the general liquidity needs of the Group.

Restricted cash also includes cash deposited with banks as collateral for borrowings from the respective banks. Restriction on the use of such cash and the interest earned thereon is imposed by the banks and remains effective throughout the terms of the borrowings. See Note 8.

**(l) Accounts receivable and contract assets, net**

Accounts receivable and contract assets consist of accounts receivable and contract assets from the facilitation and post-origination service in relation to loans facilitated under both Direct and Intermediary Models. Contract assets represent the Group's right to consideration in exchange for facilitation services that the Company has transferred to the customer before payment is due. The Group only recognizes accounts receivable and contract assets to the extent that the Group believes it is probable that they will collect substantially all of the consideration to which it will be entitled in exchange for the services transferred to the customer. The general life time of Accounts receivable and contract assets lasts no more than 12 months.

Accounts receivable and contract assets from facilitation service is stated at the historical carrying amount net of write-offs and allowance for credit losses. The Group establishes an allowance for credit losses in accordance with ASC 326 based on estimates, historical experience of net default rates, current economic conditions, reasonable and supportable forecasts of future economic conditions and other factors surrounding the credit risk of customers. The profile of the borrowers is similar under each product therefore the Group applies a consistent credit risk management framework to the entire portfolio of borrowers under each product. For individual customers where there is an observable indicator of impairment such as fraud, a specific allowance is provided. The Group evaluates and adjusts its allowance for credit losses for accounts receivable and contract assets on a quarterly basis or more often as necessary. Uncollectible accounts receivable or contract assets are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when accounts receivable or contract assets are deemed uncollectible.

The following table presents the accounts receivable and contract assets from facilitation and post-origination as of December 31, 2019 and 2020, respectively:

As of December 31, 2019	Accounts receivable from facilitation services RMB	Accounts receivable from post-origination services RMB	Allowance for doubtful accounts RMB	Total RMB
Xiaoying Credit Loan	884,954,449	17,906,149	(185,085,029)	717,775,569
Xiaoying Revolving Loan	28,961,624	129,661	(7,824,878)	21,266,407
Xiaoying Housing Loan	890,225	44,516	—	934,741
Internet Channel	31,169,383	8,149	—	31,177,532
<b>Total</b>	<b>945,975,681</b>	<b>18,088,475</b>	<b>(192,909,907)</b>	<b>771,154,249</b>

As of December 31, 2020	Accounts receivable from facilitation services RMB	Accounts receivable from post-origination services RMB	Accounts receivable from financing income RMB	Allowance for credit losses RMB	Total RMB
Xiaoying Credit Loan	422,694,249	1,897,119	9,160,182	(37,529,193)	396,222,357
Xiaoying Revolving Loan	14,438,096	1,295,993	2,503,149	(1,152,487)	17,084,751
<b>Total</b>	<b>437,132,345</b>	<b>3,193,112</b>	<b>11,663,331</b>	<b>(38,681,680)</b>	<b>413,307,108</b>

As of December 31, 2020	Accounts receivable from facilitation services US\$	Accounts receivable from post-origination services US\$	Accounts receivable from Financing income US\$	Allowance for credit losses US\$	Total US\$
Xiaoying Credit Loan	64,780,728	290,746	1,403,859	(5,751,601)	60,723,732
Xiaoying Revolving Loan	2,212,735	198,620	383,624	(176,626)	2,618,353
<b>Total</b>	<b>66,993,463</b>	<b>489,366</b>	<b>1,787,483</b>	<b>(5,928,227)</b>	<b>63,342,085</b>

The following tables present the aging of accounts receivable as of December 31, 2019 and 2020 respectively. The Group charges off accounts receivable overdue more than 60 days.

As of December 31, 2019 Aging	Not past-due RMB	1 - 30 days RMB	30 - 60 days RMB	Total RMB
Xiaoying Credit Loan	837,707,889	32,739,296	32,413,413	902,860,598
Xiaoying Revolving Loan	27,661,848	792,577	636,860	29,091,285
Xiaoying Housing Loan	934,741	—	—	934,741
Internet Channel	31,177,532	—	—	31,177,532
<b>Total</b>	<b>897,482,010</b>	<b>33,531,873</b>	<b>33,050,273</b>	<b>964,064,156</b>

As of December 31, 2020 Aging	Not past-due RMB	1 - 30 days RMB	30 - 60 days RMB	Total RMB
Xiaoying Credit Loan	426,728,851	3,680,132	3,342,567	433,751,550
Xiaoying Revolving Loan	16,016,508	986,663	1,234,067	18,237,238
<b>Total</b>	<b>442,745,359</b>	<b>4,666,795</b>	<b>4,576,634</b>	<b>451,988,788</b>

As of December 31, 2020 Aging	Not past-due US\$	1 - 30 days US\$	30 - 60 days US\$	Total US\$
Xiaoying Credit Loan	65,399,057	564,005	512,271	66,475,333
Xiaoying Revolving Loan	2,454,637	151,213	189,129	2,794,979
<b>Total</b>	<b>67,853,694</b>	<b>715,218</b>	<b>701,400</b>	<b>69,270,312</b>

The following tables present the movement of provision for accounts receivable and contract assets as of December 31, 2019 and in the allowance for credit losses for accounts receivables and contract assets as of December, 2020:

	As of January 1, 2019 RMB	Provision for accounts receivable (net of recovery) (1) RMB	Charge-off for accounts receivable RMB	As of December 31, 2019 RMB	Adoption of ASU 2016-13 RMB	Provision for accounts receivable (net of recovery) (1) RMB	Charge-off for accounts receivable RMB	As of December 31, 2020 RMB
Xiaoying Credit Loan	206,575,845	230,589,301	(252,080,117)	185,085,029	11,480,592	112,833,743	(271,870,171)	37,529,193
Xiaoying Revolving Loan	—	10,303,996	(2,479,118)	7,824,878	811,579	11,883,737	(19,367,707)	1,152,487
Xiaoying Housing Loan	119,616	—	(119,616)	—	—	—	—	—
Internet Channel	133,707	—	(133,707)	—	3,232,265	(3,232,265)	—	—
Other products	14,384,158	293,526	(14,677,684)	—	—	—	—	—
<b>Total</b>	<b>221,213,326</b>	<b>241,186,823</b>	<b>(269,490,242)</b>	<b>192,909,907</b>	<b>15,524,436</b>	<b>121,485,215</b>	<b>(291,237,878)</b>	<b>38,681,680</b>

	As of December 31, 2019 US\$	Adoption of ASU 2016-13 US\$	Provision for accounts receivable (net of recovery) (1) US\$	Charge-off for accounts receivable US\$	As of December 31, 2020 US\$
Xiaoying Credit Loan	28,365,522	1,759,478	17,292,528	(41,665,927)	5,751,601
Xiaoying Revolving Loan	1,199,215	124,380	1,821,262	(2,968,231)	176,626
Internet Channel	—	495,366	(495,366)	—	—
<b>Total</b>	<b>29,564,737</b>	<b>2,379,224</b>	<b>18,618,424</b>	<b>(44,634,158)</b>	<b>5,928,227</b>

- (1) The recoveries of charge-off of accounts receivables and contract assets amounted to RMB3,690,460 and RMB4,243,262 (US\$650,308) during the year ended December 31, 2019 and 2020, respectively.

**(m) Loans held for sale**

From time to time, the Group provides credits to borrowers through an intermediary first to enhance borrowers' service satisfaction and transfers the loans to third party investors or institutional funding partners on its platform immediately thereafter (typically within a short period of time). These loans are accounted for as held for sale at lower of cost or fair value, as the Group has a clear marketing plan to transfer these loans to external investors or institutional funding partners and does not have intention to hold loans for the foreseeable future. During the period presented, the direct origination costs were inconsequential and were expensed as incurred. As at December 31, 2019, the Group reclassified loans held for sale to loans receivables from Xiaoying Credit Loans and Xiaoying Revolving loans after reassessing its intent and ability to transfer these loans.

Loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans refer to those loans that the Group acquired from unaffiliated third parties who were the initial lenders of such loans. The Group believes that acquiring loans from unaffiliated third parties is not prohibited under the Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries (the "Interim Measures") because the Interim Measures prohibit an online finance information intermediary from providing its own funds to borrowers on the platform directly but do not prohibit an online finance information intermediary acquiring loans from others. The Group acquired loans from unaffiliated third parties who were the initial lenders of such loans in 2019 and 2020. As of December 31, 2019 and 2020, such loans had a weighted average term of 10~11 months and a remaining weighted average term of 7 ~ 8 months. The loans were initially recognized as "Loans held for sale" as the Group did not have intention to retain such loans. The loans were not covered by any credit enhancement from qualified institutional partners. And the Group had no ability to transfer out the loans without recourse to the Group due to the illiquid market. Therefore, as of December 31, 2019, the Group reclassified loans held for sale to loans receivables from Xiaoying Credit Loans and Xiaoying Revolving loans after reassessing its ability to transfer these loans. The cash flows related to the origination and transfer of these loans are presented as "Origination of loans held for sale" and "Sale of loans held for sale", respectively, within operating cash flows in the consolidated statement of cash flows.

**(n) Loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans, net**

For those loans that the Group provides credits to borrowers using its own fund but fail to have certain marketing plans to transfer, or those transfer of loans that fails to meet to criteria of true sale under ASC 860 (see accounting policy under "Sale and Transfers of Financial Instruments"), they are accounted for as loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans at amortized cost. As of December 31, 2019 and 2020, loans that were unable to be transferred to external investors or institutional funding partners in a transaction qualifying for sale accounting amounted to RMB289,553,016 and RMB1,236,026,461 (US\$189,429,343) and were recorded in "Loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans" in the consolidated balance sheet. The general life time of Loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans lasts no more than 12 months. As a result of the failure of satisfying the criteria of true sale under ASC 860, the corresponding considerations received from the institutional funding partners were recorded in "Payable to institutional funding partners" in the consolidated balance sheet. The considerations received by the Group were determined based on the outstanding loan balances on the transaction dates. As the Group entitles them to receive a fixed interest rate in the loans which the institutional funding partners purchased, an accrued interest expenses payable to them was also recorded in "Payable to institutional funding partners" in the consolidated balance sheet.

Loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans are stated at the historical carrying amount net of write-offs and allowance for credit losses. The Group establishes an allowance for credit losses in accordance with ASC 326 based on estimates, historical experience of net default rates, current economic conditions, reasonable and supportable forecasts of future economic conditions and other factors surrounding the credit risk of customers. The profile of the borrowers is similar under each product therefore the Group applies a consistent credit risk management framework to the entire portfolio of borrowers under each product. For individual customers where there is an observable indicator of impairment such as fraud, a specific allowance is provided. The Group evaluates and adjusts its allowance for credit losses for loans receivables on a quarterly basis or more often as necessary. Uncollectible loans receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when loans receivables are deemed uncollectible.

The Group excluded the accrued interest receivable balance from the disclosed amortized cost basis, amounting to RMB11,663,331 (US\$1,787,483) as of December 31, 2020. The accrued interest receivables were recorded in Accounts receivables in the consolidated balance sheet. The Group does not measure the allowance for credit losses for accrued interest receivables as the Group writes off the uncollectible accrued interest receivables when the corresponding Loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans are written off. In 2020, the Group revised the charges off policy of Loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans after revisiting the latest recovery rate. Upon the revision, the Group charges off Loan receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans overdue more than 60 days in 2020 while the charge off policy was more than 180 days in 2019.



The following table presents the loans receivable from Xiaoying Credit Loans and Revolving Loans originated and retained by the Company as of December 31, 2019 and 2020, respectively:

As of December 31, 2019	Loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans	Allowance for doubtful accounts	Total
	RMB	RMB	RMB
Xiaoying Credit Loan	7,568,272	—	7,568,272
Xiaoying Revolving Loan	306,694,212	(24,709,468)	281,984,744
<b>Total</b>	<b>314,262,484</b>	<b>(24,709,468)</b>	<b>289,553,016</b>

As of December 31, 2020	Loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans	Allowance for credit losses	Total
	RMB	RMB	RMB
Xiaoying Credit Loan	1,027,762,930	(70,615,780)	957,147,150
Xiaoying Revolving Loan	310,819,315	(31,940,004)	278,879,311
<b>Total</b>	<b>1,338,582,245</b>	<b>(102,555,784)</b>	<b>1,236,026,461</b>

As of December 31, 2020	Loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans	Allowance for credit losses	Total
	US\$	US\$	US\$
Xiaoying Credit Loan	157,511,560	(10,822,342)	146,689,218
Xiaoying Revolving Loan	47,635,145	(4,895,020)	42,740,125
<b>Total</b>	<b>205,146,705</b>	<b>(15,717,362)</b>	<b>189,429,343</b>

The following tables present the movement of provision for loans receivable from Xiaoying Credit Loans and Revolving Loans as of December 31, 2019 and 2020, respectively:

	As of December 31, 2018	Provision for loans receivable from Xiaoying Credit Loans and Revolving Loans (net of recovery) (1)	Charge-off	As of December 31, 2019
	RMB	RMB	RMB	RMB
Xiaoying Revolving Loans	—	37,643,244	(12,933,776)	24,709,468
<b>Total</b>	—	37,643,244	(12,933,776)	24,709,468

	As of December 31, 2019	Adoption of ASU 2016-13	Provision for loans receivable from Xiaoying Credit Loans and Revolving Loans (net of recovery) (1)	Charge-off	As of December 31, 2020
	RMB	RMB	RMB	RMB	RMB
Xiaoying Credit Loans	—	—	74,934,783	(4,319,003)	70,615,780
Xiaoying Revolving Loans	24,709,468	4,205,046	152,275,243	(149,249,753)	31,940,004
<b>Total</b>	<b>24,709,468</b>	<b>4,205,046</b>	<b>227,210,026</b>	<b>(153,568,756)</b>	<b>102,555,784</b>

	As of December 31, 2019	Adoption of ASU 2016-13	Provision for loans receivable from Xiaoying Credit Loans and Revolving Loans (net of recovery) (1)	Charge-off	As of December 31, 2020
	US\$	US\$	US\$	US\$	US\$
Xiaoying Credit Loans	—	—	11,484,258	(661,916)	10,822,342
Xiaoying Revolving Loans	3,786,892	644,451	23,337,202	(22,873,525)	4,895,020
<b>Total</b>	<b>3,786,892</b>	<b>644,451</b>	<b>34,821,460</b>	<b>(23,535,441)</b>	<b>15,717,362</b>

(1) The recoveries of charge-off of loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans amounted to RMB751,264 and RMB11,249,305 (US\$ 1,724,031) during the years ended December 31, 2019 and 2020, respectively.

The following table presents the aging of loans receivable from Xiaoying Credit Loans and Revolving Loans as of December 31, 2019 and 2020, respectively:

As of December 31, 2019						
Aging	Not past-due	1 - 30 days	30 - 60 days	60 - 90 days	90 - 180 days	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Xiaoying Credit Loans	6,540,911	263,148	218	600,904	163,091	7,568,272
Xiaoying Revolving Loans	270,615,045	8,513,663	7,639,159	5,623,676	14,302,669	306,694,212
Total	277,155,956	8,776,811	7,639,377	6,224,580	14,465,760	314,262,484

As of December 31, 2020				
Aging	Not past-due	1 - 30 days	30 - 60 days	Total
	RMB	RMB	RMB	RMB
Xiaoying Credit Loans	1,012,188,463	10,394,739	5,179,728	1,027,762,930
Xiaoying Revolving Loans	294,056,208	9,930,164	6,832,943	310,819,315
Total	1,306,244,671	20,324,903	12,012,671	1,338,582,245

As of December 31, 2020				
Aging	Not past-due	1 - 30 days	30 - 60 days	Total
	US\$	US\$	US\$	US\$
Xiaoying Credit Loans	155,124,669	1,593,063	793,828	157,511,560
Xiaoying Revolving Loans	45,066,086	1,521,865	1,047,194	47,635,145
Total	200,190,755	3,114,928	1,841,022	205,146,705

**(o) Loans and payable to investors of Consolidated Trusts**

The Group has elected the fair value option for the loan assets and liabilities of the Consolidated Trusts that otherwise would not have been carried at fair value. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition. The Group estimates the fair value of loans and payable using a discounted cash flow valuation methodology by discounting the estimated future net cash flows using an appropriate discount rate. The future net cash flows are estimated based on contractual cash flows, taking into consideration of estimated delinquency rate, prepayment rate and collection rate of the loans, and the pre-determined Rate of the Group's guarantee exposure for certain products. Loans and payable to investors of Consolidated Trusts are recorded as "Loans at fair value" and "Payable to investors at fair value" in the consolidated balance sheet. Changes in fair value of loans and payable to investors are reported net as recorded in "Fair value adjustments related to Consolidated Trusts" in the consolidated statement of comprehensive income. See Note 3 for further disclosure on financial instruments of the Consolidated Trusts for which the fair value option has been elected.

***(p) Loan receivable from Xiaoying Housing Loans, net***

The Group directly or indirectly guarantees on borrowers' defaults to the investors or institutional funding partners of Xiaoying Housing Loan products and obtains a collateral right from the borrowers for such guarantees. The collaterals include apartments, houses and properties, which can fully cover the underlying loan principle and interest. Upon default of the loan, the Group compensates the investor or ZhongAn for defaulted loan principal and interest and obtains the creditor's right of the underlying loan. The payout amount in relation to the original guarantee provision provided at loan inception was recorded as a deduction of guarantee liability, reflected in net payouts in the guarantee liabilities rollforward. The remaining payout amount in relation to the acquisition of the creditor's right of the underlying loan is recorded as loan receivable upon payment of compensation in "Loan receivable from Xiaoying Housing Loans" in the consolidated balance sheets as the collection cycle typically will be more than one year. No loan receivables are recorded at loan inception.

Loan receivable from Xiaoying Housing Loans is recorded based on the present value of the expected amount to be collected from the exercise of the collateral right. Given the deterioration of the credit related to those loans upon acquisition, the Group determined that those loans are in non-accrual status and should only recognize related service and penalty fees upon cash received in other revenues.

Allowance for loan receivable is established through periodic charges to the provision for loan receivable when the Group believes that the future collection of defaulted loan principal and interest is unlikely. Allowance for credit losses for loan receivables from Xiaoying Housing loans is also recognized when the fair value is below the original recorded present value of the expected amount to be collected. In order to accelerate the collection process, the Group transferred the creditor rights of certain defaulted loans as well as the underlying collateral right to third party companies at a discount in 2018, 2019 and 2020. The discounted amount was recorded as an allowance for loan receivables which represent the amount that the Group expects not able to collect from the proceedings. In addition, the Group also recorded an allowance for the remaining outstanding loans not transferred benchmarked to the discounted amount. The Group also institutes proceedings to collect the payout amount from collaterals. Uncollectible loan receivable from Xiaoying Housing Loans is written off when a settlement is reached for an amount that is less than the outstanding historical balance or when loan receivables are deemed uncollectible.

The outstanding balance of loan receivable from Xiaoying Housing Loans were RMB89,535,665 and RMB47,490,437 (US\$7,278,228) as of December 31, 2019 and 2020, respectively. The contractually required payments that are receivable for loans acquired during 2019 and 2020 were RMB67,668,067 and RMB14,165,030 (US\$2,170,886), respectively. The outstanding undiscounted balance including the principal, interest, fees, penalties under Xiaoying Housing Loans receivable were RMB170,806,499 and RMB129,940,425 (US\$19,914,241), as of December 31, 2019 and 2020, respectively.

The following tables presents the movement in provision for loans receivable from Xiaoying Housing Loans for the years ended December 31, 2019 and 2020.

As of December 31, 2018	Provision for Loans Receivable from Xiaoying Housing Loans	Charge-off	As of December 31, 2019
RMB	RMB	RMB	RMB
25,911,367	23,430,641	(1,130,496)	48,211,512

As of December 31, 2019	Provision for Loans Receivable from Xiaoying Housing Loans	Charge-off	As of December 31, 2020
RMB	RMB	RMB	RMB
48,211,512	17,993,570	(66,205,082)	—

As of December 31, 2019	Provision for Loans Receivable from Xiaoying Housing Loans	Charge-off	As of December 31, 2020
US\$	US\$	US\$	US\$
7,388,737	2,757,635	(10,146,372)	—

The following tables presents the aging of Loan receivables from Xiaoying Housing Loans as of December 31, 2019 and 2020, respectively:

As of December 31, 2019	Over due within 1 year	Over due 1 – 2 years	Over due 2 – 3 years	Over due over 3 years	Total
Aging	RMB	RMB	RMB	RMB	RMB
Xiaoying Housing Loans	9,748,522	27,456,312	88,655,668	11,886,675	137,747,177

As of December 31, 2020	Over due within 1 year	Over due 1 – 2 years	Over due 2 – 3 years	Over due over 3 years	Total
Aging	RMB	RMB	RMB	RMB	RMB
Xiaoying Housing Loans	–	3,043,453	8,691,640	35,755,344	47,490,437

As of December 31, 2020	Over due within 1 year	Over due 1 – 2 years	Over due 2 – 3 years	Over due over 3 years	Total
Aging	US\$	US\$	US\$	US\$	US\$
Xiaoying Housing Loans	–	466,430	1,332,052	5,479,746	7,278,228

#### **(q) Short-term investment**

The Group classifies certain financial asset with highly liquid and original maturities less than twelve months as short-term investment. The financial asset was accounted as fair value and the value of the asset is determined constantly in flux as a result of changes in EUR to USD exchange rate. Related realized and unrealized gains and losses are included in earnings.

#### **(r) Deposits to institutional cooperators, net**

Starting from November 2019, the Group enter into a series of deposit arrangements with financing institutional cooperators, such as insurance company and financing guarantee company. The Group is required to pay deposits to those financial institutional cooperators monthly or in accordance with an agreed payment schedule. The amount of deposit is separately agreed with each institutional cooperator, usually calculated by multiplying the outstanding loan balance on the reconciliation date by an agreed percent rate (“the standard amount”). The agreed percent rate may be adjusted from time to time. If the balance of the deposits exceeds the standard amount or supplementary payment of deposit is needed, the financial institutional cooperators shall refund the excess part to the Group or the Group shall make supplementary payment of deposit in accordance with an agreed payment schedule.

Deposits to institutional cooperators is stated at the historical carrying amount net of write-offs and allowance for credit losses. The Group establishes an allowance based on estimates, the current and expected default rates, insurance premium/guarantee fee, the historical pay-out amounts, the outstanding loan balances and the forecasted loan facilitation amounts. The Group evaluates and adjusts its allowance for deposits to institutional cooperators on a quarterly basis or more often as necessary. Deposits to institutional cooperators are written off when deposits are deemed uncollectible. Deposits to institutional cooperators are recorded as current assets because the term of the underlying loan assets was 12 months or less. As of December 31, 2020, all deposits are refundable and none of them passed the original due date.

**(s) Property and equipment, net**

Furniture and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives:

Computer and transmission equipment	3 years
Furniture and office equipment	5 years
Motor vehicles	4 years
Leasehold improvements	Over the shorter of the lease term or expected useful lives

Gains and losses from the disposal are included in 'Other income (loss), net'.

**(t) Intangible assets**

Intangible assets with finite lives represent domain name and purchased computer software. These intangible assets are amortized on a straight line basis over their estimated useful lives of the respective assets, which varies from 1-10 years.

Intangible assets with an indefinite useful life represent the insurance broker license purchased during 2018 and insurance sale on line license authorized in 2019, See Note 7. Intangible assets with an indefinite life is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

**(u) Impairment of long-lived assets**

Long-lived assets including intangible assets with definite lives, are assessed for impairment, whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC 360, Property, Plant and Equipment. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Group measures the carrying amount of long-lived assets against the estimated undiscounted future cash flows associated with it. Impairment exists when the estimated undiscounted future cash flows are less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. No impairment loss was recognized for the years ended December 31, 2018, 2019 and 2020. Intangible assets with an indefinite useful life are tested for impairment annually or more frequently, if events or changes in circumstances indicate that they might be impaired accordance with ASC subtopic 350-30, Intangibles-Goodwill and Other: General Intangibles Other than Goodwill ("ASC 350-30").

**(v) Long-term investments**

The Group accounts for long-term investments using either the cost or equity method of accounting depending upon whether the Group has the ability to exercise significant influence over investments. As part of this evaluation, the Group considers the participating and protective rights in the investments as well as its legal form.

The Group uses the equity method of accounting for the long-term investments when the Group has the ability to significantly influence the operations or financial activities of the investee. The Group record the equity method long-term investments at historical cost and subsequently adjusts the carrying amount each period for share of the earnings or losses of the investee and other adjustments required by the equity method of accounting. Dividends received from the equity method investments are recorded as reductions in the cost of such investments.

The Group records the cost method long-term investments at historical cost and subsequently record any dividends received from the net accumulated earnings of the investee as income. Dividends received in excess of earnings are considered a return of investment and are recorded as reductions in the cost of the investments.

Long-term investments are evaluated for impairment when facts or circumstances indicate that the fair value of the long-term investments is less than its carrying value. An impairment is recognized when a decline in fair value is determined to be other-than-temporary. The Group reviews several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, the: (i) nature of the investment; (ii) cause and duration of the impairment; (iii) extent to which fair value is less than cost; (iv) financial condition and near term prospects of the investments; and (v) ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. Long-term investments of the Group consist of five equity investments of PRC private companies.

During the year ended December 31, 2016, the Group invested RMB6,300,000 in cash for 15% of the equity interest in a private entity which mainly operates computer services, advisory and online merchandise services. Given that the Group can significantly influence this private entity through its representation on the board, such an equity investment was recorded by equity method. The Group fully impaired this equity investment in the same year as the business performance of the investee was much lower than initially forecasted and as no sustainable earnings capacity can be found in the investee, the Group considered that such an impairment is irreversible.

During the year ended December 31, 2017, the Group invested RMB15,000,000 in cash for 10% of the equity interest in a private company which mainly operates computer services, advisory and car leasing & financing. The significant influence can be given by the Group as the Group has its representation on the board and thus equity method was applied. As the investee was unable to sustain an earnings capacity that would justify the carrying amount of the investment, the Group fully impaired the investment amounting to RMB12,538,280 and considered that such impairment is other than temporary in 2019.

In 2017, the Group also invested RMB40,000,000 in cash of equity interests through nominee arrangement where the Group obtained all shareholder rights associated with the 40% equity holdings through contractual agreements with the nominal shareholder as the Group currently does not meet certain regulatory requirements to directly invest in such investee company. As the Group has significant influence over the private entity through its representation on the board, the investment was accounted for using the equity method.

During the year ended December 31, 2018, the Group invested RMB225,000,000 in cash for 15% equity interest of a Jiangxi Ruijing Financial Asset Management Co., Ltd. (“Jiangxi Ruijing”), a PRC based asset management company through a nominee arrangement where the Group obtained all shareholder rights associated with the 15% equity holdings through contractual agreements with the nominal shareholder. Given that the Group has the ability to significantly influence Jiangxi Ruijing, the equity method of accounting was used.

During the year ended December 31, 2020, the Group invested RMB3,500,000 in cash for 20% equity interest of a PRC based digital system service company, whereas the Group obtained less than 17% of the voting power of the investee. Given that the Group does not have the ability to exercise significant influence over investments, the cost method of accounting was used.

There are no differences between the amount at which these long-term investments were carried and the amount of the underlying equities in net assets.

**(w) Deposit payable to channel cooperators**

The Group co-operates with selected Fintech and other financial companies by connecting the borrowers referred by those companies to investors on the Group’s platform. As part of the arrangements, the selected companies also provide credit enhancements on the loans facilitated to the borrowers referred by them and are required to pay a certain amount of cash as deposit to the Group, from which the Group is entitled to deduct if they fail to compensate the defaulted loans on a timely basis. Any remaining balance of the deposit is released upon expiry of the co-operation agreements. As of December 31, 2019 and 2020 the total deposit amount that the Group received from Fintech and other financial companies were RMB108,923,460 and RMB21,472,235 (US\$3,290,764 ) respectively.

**(x) Employee defined contribution plan**

Full time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Group make contributions to the government for these benefits based on a certain percentage of the employee’s salaries. The Group has no legal obligation for the benefits beyond the contributions. The total amount that was expensed as incurred were RMB51,979,823, RMB53,997,224 and RMB28,891,339 (US\$4,427,791) for the years ended December 31, 2018, 2019 and 2020 respectively.

**(y) Advertising cost**

Advertising costs are expensed as incurred in accordance with ASC 720-35 Other Expense—Advertising costs. Advertising costs were RMB192,483,874, RMB64,357,939 and RMB 25,594,249 (US\$3,922,490 ) for the years ended December 31, 2018, 2019 and 2020 respectively. Advertising costs are included in sales and marketing expense in the consolidated statements of comprehensive income (loss).

***(z) Origination and servicing expense***

Origination and servicing expense consists primarily of variable expenses and vendor costs, including labor costs, costs related to credit assessment, borrower acquisitions, payment processing services, fees paid to third party collection agencies, as well as interest expense paid to institutional investors and institutional funding partners of the Consolidated Trusts.

***(aa) Income taxes***

Current taxes are provided for in accordance with the laws of the relevant tax authorities.

Deferred taxes are provided using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax return. Under this method, deferred tax assets and liabilities are recognized for the differences between financial statement carrying amount and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are then evaluated to determine the extent to which they are more likely than not to be realized. In making such a determination, management considers all positive and negative evidence, including future reversals of existing taxable temporary differences and projected future taxable income exclusive of reversing temporary differences and carryforwards. Deferred tax assets are then reduced by a valuation allowance to the amount, in the opinion of management, that is more like than not to be realized.

The Group accounts for uncertainty in income taxes recognized in the consolidated financial statements by applying a two-step process to determine the amount of the benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If the tax position is deemed more-likely-than-not to be sustained (defined as a likelihood of more than fifty percent of being sustained upon an audit, based on the technical merits of the tax position), the tax position is then assessed to determine the amount of benefits to recognize in the consolidated financial statements. The amount of the benefits that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon settlement. Interest and penalties on income taxes are classified as a component of income taxes.

***(ab) Value added taxes (“VAT”)***

The Group is subject to VAT at the rate of 6% and 13% given that they are classified as general tax payers and at the rate of 3% as the Consolidated Trusts of the Group are classified as small-scale tax payers. VAT is reported as a deduction to revenue when incurred and amounted to RMB301,758,965, RMB231,454,037 and RMB197,016,590(US\$30,194,113) for the years ended December 31, 2018, 2019 and 2020 respectively. Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. Net VAT balance between input VAT and output VAT is recorded in the line item of accrued expense and other liabilities on the consolidated balance sheets.

***(ac) Segment information***

The Group uses management approach to determine operation segment. The management approach considers the internal organization and reporting used by the Group’s chief operating decision maker (“CODM”) for making decisions, allocation of resource and assessing performance.

The Group’s CODM has been identified as the Chief Executive Officer who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group. The Group operates and manages its business as a single segment.

All of the Group’s revenue for the years ended December 31, 2018, 2019 and 2020 were generated from the PRC. As of December 31, 2019 and 2020, all of long-lived assets of the Group were located in the PRC.

As the Group generates all of its revenues in the PRC, no geographical segments are presented.

**(ad) Leases**

The Group adopted ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”) from January 1, 2019 by using the modified retrospective method and did not restate the comparable periods. The Group has elected the package of practical expedients, which allows the Group not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. The Group also elected the practical expedient not to separate lease and non-lease components of contracts. Lastly, the Group elected the short-term lease exemption for all contracts with lease terms of 12 months or less.

The Group determines if an arrangement is a lease or contains a lease at lease inception. For operating leases, the Group recognizes a ROU asset and a lease liability based on the present value of the lease payments over the lease term on the consolidated balance sheets at commencement date. For finance leases, assets are included in property and equipment on the consolidated balance sheets. As most of the Group’s leases do not provide an implicit rate, the Group estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. The Group’s leases often include options to extend and lease terms include such extended terms when the Group is reasonably certain to exercise those options. Lease terms also include periods covered by options to terminate the leases when the Group is reasonably certain not to exercise those options. Lease expense is recorded on a straight-line basis over the lease term. The ROU assets were recorded as “Other non-current assets”, and the current and non-current portions of the lease liabilities were recorded as “Accrued expenses and other current liabilities” and “Other non-current liabilities” in the Consolidated Balance Sheets.

As of December 31, 2019 and 2020, the Group recognized operating lease ROU assets of RMB62,265,193 and RMB45,217,671 (US\$6,929,911), total lease liabilities RMB62,513,147 and RMB44,486,728 (US\$6,817,889), including current portion of RMB20,213,070 and RMB16,871,785 (US\$2,585,714) for operating leases.

The Group’s operating leases mainly related to office facilities. As of December 31 2020, the weighted average remaining lease term was 2.43 years and the weighted average discount rate was 6.2% for the Group’s operating leases.

Operating lease cost for the year ended 31 December, 2020 was RMB22,553,477 (US\$3,456,472), which excluded cost of short-term contracts. Short-term lease cost for the year ended 31 December, 2020 was insignificant. For the year ended 31 December, 2020, no lease cost for operating or finance leases was capitalized. Supplemental cash flow information related to operating leases was as follows:

	<b>As of December 31, 2020</b>	
	<b>RMB</b>	<b>US\$</b>
Cash payments for operating leases	20,946,607	3,210,208
ROU assets obtained in exchange for operating lease liabilities	42,908,981	6,576,089

Future lease payments under operating leases as of December 31, 2020 were as follows:

Year ending December 31,	<b>Operating leases</b>	
	<b>RMB</b>	<b>US\$</b>
2021	21,291,080	3,263,001
2022	16,764,989	2,569,347
2023	4,753,618	728,524
2024	4,844,256	742,415
2025 and thereafter	3,503,856	536,989
<b>Total future lease payments</b>	<b>51,157,799</b>	<b>7,840,276</b>
Less: Imputed interest	6,671,071	1,022,387
<b>Total lease liability balance</b>	<b>44,486,728</b>	<b>6,817,889</b>

As of December 31, 2020, additional operating leases that have not yet commenced were immaterial.

**(ae) Net income (loss) per share**

Basic income (loss) per share is computed by dividing net income (loss) attributable to the holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted income (loss) per share is calculated by dividing net income (loss) attributable to the holders of ordinary shares as adjusted for the effect of dilutive ordinary share equivalents, if any, by the weighted average number of ordinary shares and dilutive ordinary share equivalents outstanding during the period. Ordinary share equivalents of stock options are calculated using the treasury stock method. However, ordinary share equivalents are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded.



***(af) Share-based compensation***

Share-based payment transactions with employees, such as stock options and restricted stocks, are measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis in the consolidated statements of income over the period during which the employee is required to perform service in exchange for the award.

***(ag) Certain risks and concentrations***

Financial instruments that potentially expose the Group to concentrations of credit risk consist principally of cash, restricted cash, short-term investment, accounts receivable and contract assets, deposits to institutional cooperators, loans receivables, loans held for sale and loans at fair value.

The Group's investment policy requires cash, restricted cash and short-term investment to be placed with high-quality financial institutions and to limit the amount of credit risk from any one issuer. The Group regularly evaluates the credit standing of the counterparties or financial institutions.

Accounts receivable and contract assets are typically unsecured and are derived from revenue earned from customers in the PRC. The risk with respect to accounts receivable and contract assets is mitigated through the Group's consistent credit risk management framework to the entire portfolio of loans in accordance with ASC 450-20.

Deposits to institutional cooperators are placed with financial institutional cooperators. The Group regularly monitors the financial condition and evaluates the credit quality of each institutional cooperator.

Credit of loans receivables, loans held for sale and loans at fair value is controlled by the application of credit approval, limit and monitoring procedures.

No investor represented greater than 10% or more of the total net revenues for the years ended December 31, 2018, 2019 and 2020.

The Company manages current payment risk of guarantee liabilities / financial guarantee derivative through a self-developed risk management model. The rating scale of risk management model takes into account factors such as identity characteristics, credit history, payment overdue history, payment capacity, behavioral characteristics and online social network activity. As of December 31, 2020, substantially all of the loans facilitated by the Group were insured/guaranteed by external insurance company or financing guarantee companies.

### **(ah) Impact of COVID-19**

During the first half year of 2020, the Company's operations has been affected by the COVID-19 pandemic, which is reflected in the decline of loan facilitation amount and the increase of default rates. In the early onset of the third quarter, our business was already on track for a steady recovery. In July, our total loan facilitation amount was back to the level in January 2020 before COVID-19, and so were the delinquency rates for outstanding loans. The Company has also provided additional credit losses for accounts receivable and contract assets, other current assets and loans receivables in the year ended December 31, 2020, due to the impact of COVID-19, other economic conditions and other factors. There are still uncertainties of COVID-19's future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of COVID-19, possibility of a second wave in China, the development and progress of distribution of COVID-19 vaccine and other medical treatment, the potential change in user behavior, especially on internet usage due to the prolonged impact of COVID-19, the actions taken by government authorities, particularly to contain the outbreak, stimulate the economy to improve business condition, almost all of which are beyond the Company's control. As a result, certain of the Company's estimates and assumptions, including the allowance for credit losses, require significant judgments and carry a higher degree of variabilities and volatilities that could result in material changes to the Company's current estimates in future periods.

### **(ai) Change in Accounting Principle**

#### **ASU 2016-13**

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326). The ASU introduced a new credit loss methodology, the current expected credit losses (CECL) methodology, which requires earlier recognition of credit losses while also providing additional disclosure about credit risk. The Group adopted the ASU as of January 1, 2020, which, as discussed below, resulted in an increase in the Group's Allowance for credit losses (ACL) and a decrease to opening Retained earnings, net of deferred income taxes, at January 1, 2020.

The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, receivables and other financial assets measured at amortized cost at the time the financial asset is originated or acquired. The ACL is adjusted each period for changes in expected lifetime credit losses. The CECL methodology represents a significant change from prior U.S. GAAP and replaced the prior multiple existing impairment methods, which generally required that a loss be incurred before it was recognized. Within the life cycle of a loan or other financial asset, the methodology generally results in the earlier recognition of the provision for credit losses and the related ACL than prior U.S. GAAP.

#### **January 1, 2020 CECL Transition Impact**

The CECL methodology's impact on expected credit losses, among other things, reflects the Group's view of the current state of the economy, forecasted macroeconomic conditions and the Group's portfolios. The CECL methodology also applies to certain off-balance sheet credit exposures, such as financial guarantees not accounted for as derivatives. The financial guarantees provided for the Group's off-balance sheet loans accounted for under ASC 460 are in the scope of ASC 326 and subject to the CECL methodology.

At the January 1, 2020 date of adoption, based on forecasts of macroeconomic conditions and exposures at that time, the aggregate impact to the Group was an approximate RMB22.99 million, or an approximate 8.03%, pre tax increase in the Allowance for credit losses, along with a RMB17.24 million after-tax decrease in Retained earnings and a deferred tax asset increase of RMB5.75 million. This transition impact reflects (i) a RMB11.64 million build to the Allowance for credit losses for the Group's accounts receivable and contract assets; (ii) an increase of RMB3.15 million of Allowance for credit losses for the Group's loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans; (iii) an increase of RMB2.10 million of Allowance for credit losses for the Group's earnings rights associated with loan assets; (iv) an increase of RMB0.12 million of cash and equivalents; and (v) an increase of RMB0.22 million of guarantee liabilities.

Under the CECL methodology, the Allowance for credit losses is model based and utilizes a forward-looking macroeconomic forecast in estimating expected credit losses. The model of the Allowance for credit losses would be considers (i) the uncertainty of forward-looking scenarios based on the likelihood and severity of a possible recession as another possible scenario; (ii) certain portfolio characteristics, such as portfolio concentration and collateral coverage; and (iii) model limitations as well as idiosyncratic events.

#### **ASU 2018-13**

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 eliminates, adds and modifies certain disclosure requirements for fair value measurements. The amendments applicable to the disclosures of changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial year of adoption. This ASU became effective on January 1, 2020 and did not have a material impact on the Group's related disclosures.

***(aj) Revisions of prior year***

In 2020, the Company identified certain amount should have been excluded from both origination and collection of loan principals related to Consolidated Trusts for the year ended December 31, 2019. As a result, the additional information about Level 3 loans and payable to investors measured at fair value, and “Principal payment of loans at fair value” and “Principal collection of loans at fair value” in the cash flows from investing activities of consolidated statement of cash flows for 2019 have been revised accordingly to reflect the immaterial error, which did not affect loans at fair value, payable to investors at fair value, cash and cash equivalent, cash flows from investing activities, or any other subtotal on the accompanying consolidated statement of cash flows.

***(ak) Recent accounting pronouncements***

In December 2019, the FASB issued ASU 2019-12, Income taxes (Topic 740)-Simplifying the accounting for income taxes, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, Income Taxes. For public business entities, the ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Group will adopt the standard in the first quarter of 2021. The Group is currently evaluating the impact of this new guidance on the consolidated financial statements but does not expect this guidance will have a material impact on its consolidated financial statements.

***(al) Translation into United States Dollars***

The financial statements of the Group are stated in RMB. Translations of amounts from RMB into United States dollars are solely for the convenience of the reader and were calculated at the rate of US\$1.00 = RMB 6.5250, on December 31, 2020, as set forth in H.10 statistical release of the Federal Reserve Board. The translation is not intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into United States dollars at that rate on December 31, 2020, or at any other rate.

**3. Fair value of assets and liabilities**

For a description of the fair value hierarchy and the Group’s fair value methodologies, see “Note 2—Summary of Significant Accounting Policies”.

*Financial Instruments Recorded at Fair Value on a Recurring Basis*

The following tables present the fair value hierarchy for assets and liabilities measured at fair value on a recurring basis:

<b>December 31, 2019</b>	<b>Level 1 (RMB)</b>	<b>Level 2 (RMB)</b>	<b>Level 3 (RMB)</b>	<b>Balance at Fair Value (RMB)</b>
<b>Assets</b>				
Loans at fair value	—	—	2,782,332,885	2,782,332,885
Financial guarantee derivative	—	—	719,962,262	719,962,262
Total assets	—	—	3,502,295,147	3,502,295,147
Payable to investors at fair value	—	—	3,006,349,475	3,006,349,475
Total liabilities	—	—	3,006,349,475	3,006,349,475

<b>December 31, 2020</b>	<b>Level 1 (RMB)</b>	<b>Level 2 (RMB)</b>	<b>Level 3 (RMB)</b>	<b>Balance at Fair Value (RMB)</b>
<b>Assets</b>				
Loans at fair value	—	—	1,585,731,888	1,585,731,888
Financial guarantee derivative	—	—	297,928,066	297,928,066
Short-term investment	6,000,000	—	—	6,000,000
Total assets	6,000,000	—	1,883,659,954	1,889,659,954
Payable to investors at fair value	—	—	1,914,183,650	1,914,183,650
Financial guarantee derivative	—	—	130,442,090	130,442,090
Total liabilities	—	—	2,044,625,740	2,044,625,740

<b>December 31, 2020</b>	<b>Level 1 (US\$)</b>	<b>Level 2 (US\$)</b>	<b>Level 3 (US\$)</b>	<b>Balance at Fair Value (US\$)</b>
<b>Assets</b>				
Loans at fair value	—	—	243,024,044	243,024,044
Financial guarantee derivative	—	—	45,659,474	45,659,474
Short-term investment	919,540	—	—	919,540
Total assets	919,540	—	288,683,518	289,603,058
Payable to investors at fair value	—	—	293,361,480	293,361,480
Financial guarantee derivative	—	—	19,991,125	19,991,125
Total liabilities	—	—	313,352,605	313,352,605

***Financial guarantee derivative***

The Group uses the discounted cash flow model to value the financial guarantee derivatives. Significant unobservable inputs applied in the discounted cash flow model included expected default rates at inception, which ranged from 4.79% to 17.87% for the year ended December 31, 2020.

The following table sets forth the asset side of Group's financial guarantee derivative movement activities for the years ended December 31, 2019 and 2020.

Year ended December 31, 2019	For loans facilitated in	For loans facilitated in	Total	
	2018 RMB	2019 RMB	RMB	
Balance at December 31, 2018	(358,249,913)	—	(358,249,913)	
Estimated payment to ZhongAn based on the pre-agreed Cap <sup>(1)</sup>	—	2,270,629,689	2,270,629,689	
Less: Initially estimated net guarantee service fee to be collected <sup>(2)</sup>	—	2,039,737,713	2,039,737,713	
Add: Subsequent changes in estimated net guarantee service fee to be collected for outstanding loans <sup>(3)</sup>	16,050,795	(570,943)	15,479,852	
Change in fair value of financial guarantee derivative	16,050,795	230,321,033	246,371,828	
Add: Guarantee service fee received from borrowers	713,157,422	1,164,728,075	1,877,885,497	
Less: Compensation paid to ZhongAn	370,958,304	2,115,011,370	2,485,969,674	
Balance at December 31, 2019	—	(719,962,262)	(719,962,262)	
Potential maximum undiscounted amount payable (Remaining estimated payment to ZhongAn based on the pre-agreed Cap at December 31, 2019)	—	155,618,319	155,618,319	
Changes in fair value related to balance outstanding at December 31, 2019	—	120,363,772	120,363,772	
Year ended December 31, 2020	For loans facilitated in	For loans facilitated in	Total	Total
	2019 RMB	2020 RMB	RMB	USD
Balance at December 31, 2019	(719,962,262)	—	(719,962,262)	(110,339,044)
Estimated payment to ZhongAn based on the pre-agreed Cap <sup>(1)</sup>	—	1,268,778,377	1,268,778,377	194,448,793
Less: Initially estimated net guarantee service fee to be collected <sup>(2)</sup>	—	1,151,250,106	1,151,250,106	176,436,798
Add: Subsequent changes in estimated net guarantee service fee to be collected for outstanding loans <sup>(3)</sup>	57,152,814	(41,440,640)	15,712,174	2,407,996
Change in fair value of financial guarantee derivative	57,152,814	76,087,631	133,240,445	20,419,991
Add: Guarantee service fee received from borrowers	818,427,767	622,533,675	1,440,961,442	220,837,003
Less: Compensation paid to ZhongAn	155,618,319	996,549,372	1,152,167,691	176,577,424
Balance at December 31, 2020	—	(297,928,066)	(297,928,066)	(45,659,474)
Potential maximum undiscounted amount payable (Remaining estimated payment to ZhongAn based on the pre-agreed Cap at December 31, 2020)	—	272,229,005	272,229,005	41,720,920
Changes in fair value related to balance outstanding at December 31, 2020	—	39,915,887	39,915,887	6,117,377

Note:

(1) Amount represents estimated payment to ZhongAn which is the aggregated amount of guarantee fees, which would be the amount of loan principle multiplied by annualized guarantee fee ratio. The obligation is not influenced by default and early repayment of borrowers.

(2) Amount represents estimated guarantee service fees to be collected for loans newly facilitated during each vintage period according to the guarantee service agreement with the borrowers, net of estimated defaults and prepayments.

(3) Amount represents the subsequent adjustment to update the estimated net guarantee service fees to be collected for all outstanding loans as a result of changes in estimated default or prepayment rates.

The following table sets forth the liability side of Group's financial guarantee derivative movement activities for the years ended December 31, 2020.

Year ended December 31, 2020	For loans facilitated in 2020	
	RMB	USD
Balance at December 31, 2019	—	—
Estimated payment to financial guarantee companies based on the pre-agreed Cap <sup>(1)</sup>	527,660,148	80,867,456
Less: Initially estimated net guarantee service fee to be collected <sup>(2)</sup>	484,555,120	74,261,321
Add : Subsequent changes in estimated net guarantee service fee to be collected for outstanding loans <sup>(3)</sup>	(12,675,358)	(1,942,584)
Change in fair value of financial guarantee derivative	30,429,670	4,663,552
Add: Guarantee service fee received from borrowers	173,018,461	26,516,239
Less: Compensation paid to financial guarantee companies	73,006,041	11,188,666
Balance at December 31, 2020	130,442,090	19,991,125
Potential maximum undiscounted amount payable (Remaining estimated payment to financial guarantee companies based on the pre-agreed Cap at December 31, 2020)	454,654,107	69,678,790
Changes in fair value related to balance outstanding at December 31, 2020	21,496,996	3,294,559

*Note:*

(1) Amount represents estimated payment to financing guarantee companies which is the aggregated amount of guarantee fees, which would be the amount of loan principle multiplied by annualized guarantee fee ratio. The obligation is not influenced by default and early repayment of borrowers.

(2) Amount represents estimated guarantee service fees to be collected for loans newly facilitated during each vintage period according to the guarantee service agreement with the borrowers, net of estimated defaults and prepayments.

(3) Amount represents the subsequent adjustment to update the estimated net guarantee service fees to be collected for all outstanding loans as a result of changes in estimated default or prepayment rates.

The change in fair value of financial guarantee derivative primarily relates the Group's estimated exposure in relation to the loans newly facilitated during the corresponding period, as the Group is obligated to compensate ZhongAn and financing guarantee companies under the guarantee arrangement based on the contractual guarantee fees charged to borrowers across the entire portfolio subject to a pre-agreed Cap rather than the actual guarantee fees collected from the borrowers. The change in fair value amount equals to the portion of amounts obligated to pay to ZhongAn and financing guarantee companies that are not expected to be collected from the borrowers due to the estimated default or prepayment. The derivative is increased by the guarantee fees collected from the borrowers upon receipt as the Group expects all the fees to be ultimately paid to ZhongAn and financing guarantee companies. When the payments are made to ZhongAn and financing guarantee companies, the derivative is reduced by the corresponding amount. The total loan products related to guarantee derivatives facilitated during the years ended December 31, 2019 and 2020 were RMB27,942,291,698 and RMB22,050,765,318(US\$3,379,427,635), respectively.

As of December 31, 2019 and 2020, financial guarantee derivatives related to Zhongan has an asset position of RMB719,962,262 and RMB297,928,066 (US\$ 45,659,474) respectively, primarily due to the time lag between the payments to ZhongAn and the collection of monthly guarantee service fees from borrowers. As of December 31, 2019 and 2020, the cumulative amount paid to ZhongAn was less than the cumulative monthly guarantee service fees collected from borrowers. However, the total amount paid to ZhongAn was still within the pre-agreed Cap with ZhongAn. The excess is expected to be fully collected from the borrowers during the remaining term of the underlying loans. As of December 31, 2019 and 2020, the maximum potential undiscounted future payment the Group would be required to make is RMB155,618,319 and RMB272,229,005(US\$41,720,920) respectively which also reflects the maximum potential payment to ZhongAn based on the pre-agreed Cap.

As of December 31, 2020, financial guarantee derivatives related to financing guarantee companies has an liability position of RMB 130,442,090 (US\$ 19,991,125). As of December 31, 2020, the maximum potential undiscounted future payment the Group would be required to make is RMB454,654,107 (US\$69,678,790) which also reflects the maximum potential payment to financing guarantee companies based on the pre-agreed Cap.

The following table represents the outstanding loan balance, remaining weighted average contractual term and estimated default rate of the outstanding loans as of December 31, 2019 and 2020, respectively.

	As of December 31, 2019 RMB	As of December 31, 2020 RMB	As of December 31, 2020 US\$
Outstanding loan balance	12,492,069,873	11,349,182,478	1,739,338,311
Remaining weighted average contractual term (Month)	7.13	8.16	8.16
Estimated default rate	10.13%	5.75%	5.75%

#### *Loans at fair value and Payable to investors at fair value*

The Group has elected the fair value option for the loan assets and liabilities of the Consolidated Trusts that otherwise would not have been carried at fair value. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition.

As the Group's loans and payable to investors in the Consolidated Trusts do not trade in an active market with readily observable prices, the Group uses significant unobservable inputs to measure the fair value of these assets and liabilities. Financial instruments are categorized in the Level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement. At December 31, 2019 and 2020, the discounted cash flow methodology is used to estimate the fair value of loans and payables to investors and institutional funding partners.

As of December 31, 2019 and 2020, the significant unobservable inputs used in the fair value measurement of the loans and payables to investors and institutional funding partners of the Consolidated Trusts include the discount rate, net accumulative expected loss. These inputs in isolation can cause significant increases or decreases in fair value. Increases or decrease in the discount rate can significantly impact the fair value results. The discount rate is determined based on the market rates.

#### Significant Unobservable Inputs

Financial Instrument	Unobservable Input	December 31, 2019 Range of Inputs Weighted-Average	December 31, 2020 Range of Inputs Weighted-Average
Loans and payable to investors at fair value	Discount rates	8.28%	7.77%
	Net cumulative expected loss rates (1)	9.99%	5.88%

(1) Represents the net of default rate, prepayment rate and collection rate, expressed as a percentage of the loan volume.

The following table presents additional information about Level 3 loans and payable to investors measured at fair value on a recurring basis for the years ended December 31, 2019 and 2020. Changes in fair value of loans and payable to investors are reported net as "Fair value adjustments related to Consolidated Trusts" in the consolidated statements of comprehensive income (loss).

**RMB**

	Balance at December 31, 2018	Origination of loan principal	Collection of principal	Reinvestment of principal	Change in fair value	Balance at December 31, 2019	Changes in fair value related to balance outstanding at December 31, 2019
Xiaoying Credit Loan	33,417,119	4,229,716,166	(2,253,437,828)	708,474,895	64,162,533	2,782,332,885	62,412,104

**RMB**

	Balance at December 31, 2019	Origination of loan principal	Collection of principal	Reinvestment of principal	Change in fair value	Balance at December 31, 2020	Changes in fair value related to balance outstanding at December 31, 2020
Xiaoying Credit Loan	2,782,332,885	1,521,546,428	(5,155,380,196)	2,494,613,045	(57,380,274)	1,585,731,888	5,031,830

**USD**

	Balance at December 31, 2019	Origination of loan principal	Collection of principal	Reinvestment of principal	Change in fair value	Balance at December 31, 2020	Changes in fair value related to balance outstanding at December 31, 2020
Xiaoying Credit Loan	426,411,170	233,187,192	(790,096,581)	382,316,175	(8,793,912)	243,024,044	771,162

	Payable to investors at fair value of the Consolidated Trusts
	RMB
Balance at December 31, 2018	—
Initial contribution	4,313,060,000
Principal payment	(1,306,710,525)
Changes in fair value	—
Balance at December 31, 2019	3,006,349,475
Changes in fair value related to balance outstanding at December 31, 2019	—

	Payable to investors at fair value of the Consolidated Trusts	
	RMB	US\$
Balance at December 31, 2019	3,006,349,475	460,743,215
Initial contribution	1,537,760,000	235,672,031
Principal payment	(2,629,925,825)	(403,053,766)
Changes in fair value	—	—
Balance at December 31, 2020	1,914,183,650	293,361,480
Changes in fair value related to balance outstanding at December 31, 2020	—	—

The unpaid balance of loans at fair value as of December 31, 2019 and 2020 were RMB2,719,920,781 and RMB1,580,700,058 (US\$242,252,882). The difference between the aggregate fair value and unpaid principal balance for loans at fair value is primarily attributable to the credit risk associated with the loan collections and time value of money, amounted to RMB62,412,104 and RMB5,031,830 (US\$771,162) as of December 31, 2019 and 2020, respectively.

The unpaid balance of payable to investors as of December 31, 2019 and 2020 were RMB3,006,349,475 and RMB1,914,183,650 (US\$293,361,480). The difference between the aggregate fair value and unpaid principal balance for payable to investors at fair value is primarily due to the time value of money, amounted nil and nil respectively as of December 31, 2019 and 2020.



The difference between the aggregate fair value and unpaid principal balance for both loans at fair value and payable to investors at fair value was recorded in Fair value adjustments related to Consolidated Trusts in the consolidated statements of comprehensive income (loss).

#### *Financial Instruments Recorded at Fair Value on a non-recurring basis*

The Group records its loans held for sale at fair value on a non-recurring basis when the fair value is less than the carrying amount. Given most of loans held for sale are traded with unrelated third party investors or institutional funding partners in a short period of time at face value, the Group determines that the face value of loans approximate its fair value upon origination and are classified as level 2 fair value measurement.

#### *Financial Instruments Not Recorded at Fair Value*

Financial instruments, including cash and cash equivalents, accounts receivable and contract assets, other payable, short-term bank borrowings and amounts due from related party. The carrying values of cash and cash equivalents, accounts receivable and contract assets, other payable, short-term bank borrowings and amounts due from related party approximate their fair value reported in the consolidated balance sheets due to the short term nature of these assets and liabilities.

#### **4. Prepaid expenses and other current assets**

Prepaid expenses and other current assets consist of the following:

	As of December 31, 2019	As of December 31, 2020	
	RMB	RMB	US\$
Earnings rights associated with loan assets(1)	380,000,000	258,012,040	39,542,075
Prepaid expenses(2)	160,697,858	57,084,166	8,748,531
Input VAT to be deducted	79,150,506	64,367,796	9,864,796
Interest receivable of Consolidated Trusts	35,451,817	11,359,212	1,740,875
Advance to employee	6,330,011	1,510,410	231,480
Receivables from borrowers	1,206,974	—	—
Others	44,612,448	11,442,695	1,753,671
Total prepaid expenses and other current assets	<u>707,449,614</u>	<u>403,776,319</u>	<u>61,881,428</u>

- (1) In 2019, the Group purchased earnings rights of two loan assets from a related party without recourse (Note 11). The principal of the two underlying loans amounted to RMB100 million (Loan#1) and RMB280 million (Loan#2), respectively. Based on the earnings right transfer agreement, the Group obtains the contractual right to receive principal and interest payments of the underlying loans through the transfer of earnings rights from Jiangxi Ruijing and is obligated legally to absorb the credit risk. Therefore, the Group recognized the earning rights as other receivable under 'Prepaid expenses and other current assets'.

Loan#1 was advanced on January 31, 2019 and was due on January 30, 2020, and the interest rate applied is 15.6%. On January 30, 2020, Loan#1 had been partially repaid by RMB30 million, and the maturity date of remaining RMB70 million had been extended to October 31, 2020. As of the date of this report, Loan#1 had been fully repaid. The loan was secured by pledged shares provided by the borrower's controlling shareholder. The total number of the pledged shares was 100, which represent 100% of the total outstanding shares of a British Virgin Islands ("BVI") company controlled by the borrower's controlling shareholder. The net equity of the BVI company as of December 31, 2019 was RMB116.6 million.

Loan#2 was advanced on May 9, 2019 and was due on November 9, 2019, and the interest rate applied is 8%. In 2019, the maturity date of the entire Loan#2 had been extended to November 9, 2020. As of the date of this report, Loan#2 had been partially repaid by RMB20 million, and the maturity date of remaining RMB260 million had been extended to November 9, 2021. The loan was guaranteed by borrower's shareholder.

The Group assesses the allowance for credit losses for the earnings rights of loan assets in accordance with ASC 326, taking reference with the credit ratings of the corresponding loan borrowers and applying the probability of default rates, based on the mapping of probability of default rates and external credit ratings.

The following table presents the movement of the allowances for the credit losses for earnings rights associated with the loan assets:

	As of December 31, 2019 RMB	Adoption of ASU 2016-13 RMB	Credit losses for earnings rights associated with the loan assets. RMB	As of December 31, 2020 RMB
Total	—	2,802,000	(814,040)	1,987,960

	As of December 31, 2019 US\$	Adoption of ASU 2016-13 US\$	Credit losses for earnings rights associated with the loan assets. US\$	As of December 31, 2020 US\$
Total	—	429,425	(124,757)	304,668

(2) Prepaid expenses mainly relate to prepaid service fee to our service providers.

### 5. Deposits to institutional cooperators, net

The following table presents the deposits to cooperators as of December 31, 2019 and 2020, respectively:

	As of December 31, 2019 RMB	As of December 31, 2020	
		RMB	US\$
Deposits to cooperators	518,720,216	918,241,497	140,726,667
Provision for deposits to institutional cooperators	—	(10,318,117)	(1,581,321)
Deposits to cooperators, net	518,720,216	907,923,380	139,145,346

Deposits to cooperators relate to the pledged cash to the Group's financial institutional cooperators and the amount of deposit is separately agreed with each institutional cooperator. To maintain the collaborative relationship with one of its institutional cooperator and to avoid any material adverse impact on the Group's current business model and future transaction cost, the Group used deposits amounting to RMB970,000,000 to compensate for such institutional cooperator's loss for the amount it had paid under investors' or and institutional funding partners' claims arising from borrowers' default to repay loans. The Group also assumed the right of subrogation and related rights against the defaulting borrowers, which were sold to a third party with the consideration of RMB10,000,000. The Group has recognized above loss of RMB960,000,000 as impairment of the deposits and has also provided an allowance for the potential losses of the remaining deposits, taking into account the underlying assets' credit quality.

As of 31 December, 2020 the allowance of deposits to cooperators was RMB10,318,117 (US\$1,581,321).

The following table presents the movement of the provision for deposits to institutional cooperators:

	As of December 31, 2019 RMB	Provision for deposits to institutional cooperators RMB	Charge-off for deposits to institutional cooperators RMB	As of December 31, 2020 RMB
Deposits to institutional cooperators	—	10,318,117	—	10,318,117

	As of December 31, 2019 US\$	Provision for deposits to institutional cooperators US\$	Charge-off for deposits to institutional cooperators US\$	As of December 31, 2020 US\$
Deposits to institutional cooperators	—	1,581,321	—	1,581,321

## 6. Property and equipment, net

Property and equipment, net consists of the following:

	As of December 31,	As of December 31,	
	2019 RMB	2020 RMB	2020 US\$
Computer and transmission equipment	21,552,895	22,107,077	3,388,058
Furniture and office equipment	3,732,638	3,663,257	561,419
Leasehold improvements	20,842,929	21,682,197	3,322,942
Motor vehicles	816,103	816,103	125,073
Total property and equipment	46,944,565	48,268,634	7,397,492
Accumulated depreciation	(26,805,614)	(37,132,035)	(5,690,734)
Property and equipment, net	<u>20,138,951</u>	<u>11,136,599</u>	<u>1,706,758</u>

Depreciation expense was RMB9,245,203, RMB10,544,813 and RMB10,114,779 (US\$1,550,158) for the years ended December 31, 2018, 2019 and 2020 respectively. Gains from the disposal of property and equipment during the years ended December 31, 2018, 2019 were RMB66, RMB2,389 and with a loss from the disposal of property and equipment during the years ended December 31 2020 is RMB59,213 (US\$9,075).

## 7. Intangible assets

Intangible assets, net consists of the following:

	As of December 31,	As of December 31,		Weighted Average Remaining Amortization Period in Years
	2019 RMB	2020 RMB	2020 US\$	
Licenses(1)	26,600,000	26,600,000	4,076,628	NA
Software and others	11,324,077	15,438,530	2,366,058	7.8
Accumulated amortization	(2,797,373)	(4,598,123)	(704,693)	
Intangible assets, net	<u>35,126,704</u>	<u>37,440,407</u>	<u>5,737,993</u>	

(1) During 2018, the Group acquired an insurance broker license at a cost of RMB26,000,000. During 2019, the Group further acquired an insurance sale on line license at a cost of RMB 600,000.

Amortization expenses were RMB389,829, RMB834,884 and RMB1,800,749 (US\$275,977) for the years ended December 31, 2018, 2019 and 2020 respectively. The Group expects to record amortization expenses of RMB1,330,892 (US\$203,968), RMB1,219,236 (US\$186,856), RMB1,200,468 (US\$183,980) and RMB1,200,468 (US\$183,980) and RMB1,197,535 (US\$183,530) for the years ending December 31, 2021, 2022, 2023, 2024 and 2025 respectively.

## 8. Short-term bank borrowings

In January 2020, the Group set up a six-month loan amounting to RMB161,000,000 and repaid with interest amounting to RMB3,215,081 in July 2020.

As of December 31, 2020, out of the secured one-year borrowings, RMB350,545,000 were secured by restricted cash of US\$55,950,000. The weighted average interest rate of all short-term borrowings is 4.04% per annum as of December 31, 2020.

## 9. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of December 31,	As of December 31,	
	2019	2020	2020
	RMB	RMB	US\$
Fund attributable to institutional funding partners (1)	50,888,482	16,485,383	2,526,495
Accrued interest payable of Consolidated Trusts	39,994,898	25,320,873	3,880,594
Accrued office expense	1,036,656	830,848	127,333
Professional fee payable	26,101,318	27,648,350	4,237,295
Commission fee payable(2)	63,384,314	101,285,353	15,522,659
Insurance fee payable(3)	—	65,906,706	10,100,645
Lease liabilities	20,213,070	16,871,785	2,585,714
Other accrued expenses	72,820,742	69,399,132	10,635,883
<b>Total accrued expenses and other current liabilities</b>	<b>274,439,480</b>	<b>323,748,430</b>	<b>49,616,618</b>

(1) Fund attributable to institutional funding partners relate to the principal and interest collected on behalf of the institutional funding partners but have not yet been passed onto them as of December 31, 2019 and 2020.

(2) Commission fee payable relates to the commission fees payable to channel partners who introduce borrowers to the platform of the Group. The commission is typically determined based on the volume of traffic introduced, regardless of whether the introduced traffic becomes a borrower or investor on the Group's platform.

(3) Insurance fee payable relates to the insurance fees payable to Zhongan who provides credit insurance to institutional funding partners.

## 10. Guarantee liabilities

The movement of guarantee liabilities during the years ended December 31, 2018, 2019 and 2020 are as follows:

### RMB

	As of January 1, 2018	Provision at the inception of new loans	Net payout(1)	Released on expiration	Contingent liability	As of December 31, 2018
Xiaoying Credit Loan	514,475,024	5,884,134	(667,658,887)	(15,691,880)	182,289,328	19,297,719
Xiaoying Housing Loan	8,688,973	1,773,180	(378,694)	(8,482,977)	—	1,600,482
Internet Channel	2,929,686	—	(12,890,754)	(365,456)	10,326,524	—
Others	19,075,350	—	(42,688,268)	(135,000)	23,747,918	—
<b>Total</b>	<b>545,169,033</b>	<b>7,657,314</b>	<b>(723,616,603)</b>	<b>(24,675,313)</b>	<b>216,363,770</b>	<b>20,898,201</b>

### RMB

	As of January 1, 2019	Provision at the inception of new loans	Net payout(1)	Released on expiration	Contingent liability(2)	As of December 31, 2019
Xiaoying Credit Loan	19,297,719	—	(6,333,472)	(3,366,501)	289,211	9,886,957
Xiaoying Housing Loan	1,600,482	184,036	97,593	(1,752,115)	—	129,996
Internet Channel	—	—	—	—	7,458,350	7,458,350
<b>Total</b>	<b>20,898,201</b>	<b>184,036</b>	<b>(6,235,879)</b>	<b>(5,118,616)</b>	<b>7,747,561</b>	<b>17,475,303</b>

### RMB

	As of January 1, 2020	Adoption of ASU 2016-13	Provision at the inception of new loans	Net payout(1)	Released on expiration	Contingent liability	As of December 31, 2020
Xiaoying Credit Loan	9,886,957	168,385	—	9,192,069	(14,162,703)	55,034	5,139,742
Xiaoying Housing Loan	129,996	2,214	—	42,660	(174,870)	—	—
Internet Channel	7,458,350	127,023	—	(3,761,403)	—	825,914	4,649,884
<b>Total</b>	<b>17,475,303</b>	<b>297,622</b>	<b>—</b>	<b>5,473,326</b>	<b>(14,337,573)</b>	<b>880,948</b>	<b>9,789,626</b>

### USD

	As of January 1, 2020	Adoption of ASU 2016-13	Provision at the inception of new loans	Net payout(1)	Released on expiration	Contingent liability	As of December 31, 2020
Xiaoying Credit Loan	1,515,242	25,806	—	1,408,747	(2,170,529)	8,434	787,700
Xiaoying Housing Loan	19,923	339	—	6,538	(26,800)	—	—
Internet Channel	1,143,042	19,467	—	(576,460)	—	126,577	712,626
<b>Total</b>	<b>2,678,207</b>	<b>45,612</b>	<b>—</b>	<b>838,825</b>	<b>(2,197,329)</b>	<b>135,011</b>	<b>1,500,326</b>

(1) Net payouts represent the amount paid to ZhongAn upon borrowers' default net of the amount subsequently collected from the borrower if they paid back the loan.

(2) The Group continued to recognize a contingent liability of RMB 7,458,350 in 2019 relating to expected default loans referred by a cooperated Fintech channel partner who experiences business difficulties. In order to maintain the reputation among investors and institutional funding partners, the Group decided at its sole discretion to reimburse investors and institutional funding partners if the channel partner fails to fulfill its obligation to make the reimbursement.

The following table presents the maximum potential undiscounted future payments by product, remaining weighted average contractual loan term, and estimated net default rates as of December 31, 2019 and 2020, respectively:

As of December 31, 2019	Maximum potential undiscounted future payment (RMB)	Maximum potential undiscounted future payment (USD)	Remaining weighted average contractual term (Month)	Estimated net default rate
Xiaoying Credit Loan	20,314,823	2,918,042	13.07	15.7
Internet Channel(1)	1,399,671,106	201,050,175	0.43	—
Xiaoying Housing Loan	21,666,185	3,112,153	7.9	0.60
Other products	—	—	—	—
<b>Total</b>	<b>1,441,652,114</b>	<b>207,080,370</b>		

As of December 31, 2020	Maximum potential undiscounted future payment (RMB)	Maximum potential undiscounted future payment (USD)	Remaining weighted average contractual term (Month)	Estimated net default rate
Xiaoying Credit Loan	10,560,672	1,618,494	3.04	26.06%
Internet Channel (1)	4,649,885	712,626	2.21	100%
Xiaoying Housing Loan	—	—	—	—
Other products	—	—	—	—
Total	15,210,557	2,331,120	—	—

(1) Relates to loans referred from third party channel cooperators that has back to back guarantee arrangements with the Group. The Group cooperates with selected Fintech and other financial companies by connecting the borrowers referred by those companies to investors or institutional funding partners on the Group's platform. Though it is the selected companies who provide credit enhancements on the loans facilitated to the borrowers, since 2019, the Group voluntarily provides guarantee service to the investors or institutional funding partners from its platform for reputational maintenance, if any indication of operational deterioration is found among these selected companies. The Group recognizes a contingent liability in 2019 relating to expected default loans referred by a cooperated Fintech channel partner who experiences business difficulties, which was minimal comparing with the cooperating scale. In 2020, the Group continues to voluntarily provide guarantee services to its institutional funding partners and estimates that its potential reimbursement would be maximized as no indication of operational improvement is found from the cooperated Fintech channel partner. As such, estimated net default rate is 100% as of December 31, 2020.

As of December 31, 2019 and 2020, the maximum potential undiscounted future payment that had been collateralized by real estate was estimated to be RMB21.67 billion and nil respectively.

From August 2017, the Group entered into a new arrangement with a third party asset management company to obtain a back to back guarantee for an identified portfolio of Xiaoying Housing Loan products. The third party asset management company has the commitment to compensate the Group for the actual losses incurred on any loan within the portfolio upon default by the borrower and will acquire the creditor's rights and the associated collateral of the underlying loan from the Group upon settlement. The Group pays 0.6% of the portfolio amount as service fee to the asset management company for providing such services and accounts for as part of origination and servicing cost over the term of the asset management agreement. The Group ceased cooperation with the asset management company in 2018.

From 2018, the Group entered into a series of arrangements with various external asset management companies to provide guarantee service for an identified portfolio of loans facilitated on the Company's platform and engages directly with the borrowers and investors on the platform. Throughout the loan term, borrowers pay the guarantee fee directly to the asset management companies. Upon the default of the borrower, the asset management companies directly compensate the investors and obtains the creditor's rights of the loans. As a result, no guarantee liabilities have been recorded by the Group for the loan portfolio that are guaranteed by the asset management companies.

## 11. Related party balances and transactions

In 2018, Jiangxi Ruijing, one of the Group's associates, provided guarantee over loans facilitated with a principal amount of RMB1,333,503,026 through the Company's platform and received RMB21,918,796 guarantee fees from the borrowers. In 2018, the Group remitted RMB20,000,000 to Jiangxi Ruijing as a form of security deposit to cover for any circumstances in which the loans referred by Company were fictitious. In 2019, Jiangxi Ruijing ceased guarantee service to the company's platform and refunded the security deposit in full amount.

In 2019, we transferred loan portfolios with an aggregate amount of RMB108.7 million to ZJZH. The considerations received by us were determined based on the outstanding loan balances on the transaction dates.

In 2019, the Group purchased earnings rights of two loans from Jiangxi Ruijin. The considerations paid amounted to RMB100,000,000 and RMB280,000,000, respectively, which equal to the principal amounts of the underlying loans. In 2020, earnings right of the former loan (Loan#1) had been fully repaid. Earnings right of the latter loan (Loan#2) had been partially repaid by RMB20,000,000, and the maturity date of remaining RMB260,000,000 had been extended to November 9, 2021(Note 4(2)). The associated interest income amounted to RMB27,111,557 and RMB28,774,549 (US\$4,409,893) in 2019 and 2020, respectively.

## 12. Income taxes

### Cayman Islands

X Financial is a company incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, the Company is not subject to tax on either income or capital gain.

## Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, YZT (HK) Limited, a subsidiary of the Group located in Hong Kong, is subject to 16.5% income tax on its taxable income generated from operations in Hong Kong. No income tax expense for this entity has been recognized in the consolidated financial statements as it has no assessable income for the years ended December 31, 2018, 2019 and 2020.

## PRC

The Company's subsidiaries and consolidated VIEs established in the PRC are subject to an income tax rate of 25% for the years presented. As stipulated by the Taxation Law of the PRC, entities founded in certain industrial cooperation zones can be subject to a reduced enterprise income tax rate of 15%. One subsidiary became a qualified enterprise eligible to enjoy the preferential income tax rate of 15% from 2018 to 2019. One VIE in Shenzhen became a qualified enterprise eligible to enjoy the preferential income tax rate of 15% from 2018 to 2020. Moreover, a qualified software enterprise is entitled to a tax holiday consisting of two-year exemption starting from the first profit-making year and 50% reduction for the subsequent three years. One subsidiary became a qualified software enterprise and was subject to a tax exemption in 2018 and the preferential tax rate of 12.5% from 2019 to 2021.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese Income Tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties, occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to PRC income taxes, at a statutory income tax rate of 25%.

According to PRC Tax Administration and Collection Law, the statute of limitations is three years if an underpayment of taxes is due to computational errors made by the taxpayer or withholding agent. The statute of limitations will be extended five years under special circumstances, which are not clearly defined (but an underpayment of tax liability exceeding RMB0.1 million is specifically listed as a special circumstance). In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. Tax years from 2015 to the current years for the Group's PRC subsidiaries are subject to examination of the PRC tax authorities.

Current tax expense and deferred tax expense which are substantially all attributable to the Company's PRC subsidiaries, VIEs and subsidiaries of the VIEs, are as follows:

	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2020	
	RMB	RMB	RMB	US\$
Current tax	213,083,260	71,809,290	(157,326,719)	(24,111,375)
Deferred tax	(3,162,072)	(164,911,933)	(142,551,916)	(21,847,037)
<b>Total</b>	<b>209,921,188</b>	<b>(93,102,643)</b>	<b>(299,878,635)</b>	<b>(45,958,412)</b>

Income (loss) before income taxes and gain (loss) from equity affiliates for different jurisdictions is shown as follows:

	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2020	
	RMB	RMB	RMB	US\$
Cayman Islands	(11,832,862)	(9,978,594)	(15,160,941)	(2,323,516)
Hong Kong entities	(2,423,249)	(140,208)	911,529	139,698
PRC entities	1,099,179,030	674,034,252	(1,587,284,724)	(243,262,026)
<b>Total</b>	<b>1,084,922,919</b>	<b>663,915,450</b>	<b>(1,601,534,136)</b>	<b>(245,445,844)</b>

A reconciliation between income tax expense computed by applying the PRC tax rate of 25% to income (loss) before income taxes and gain (loss) from equity affiliates and the reported amount of income tax expense is as follows:

	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2020	
	RMB	RMB	RMB	US\$
Expected tax at PRC rate	271,230,730	165,978,862	(400,383,534)	(61,361,461)
Other expenses not deductible for income tax purposes	226,076	27,243,710	26,628,325	4,080,969
Share based compensation expense not deductible for income tax purposes	42,959,121	39,101,140	20,035,035	3,070,503
Effect of tax holiday and preferential tax rate(1)	(104,548,726)	(279,823,276)	2,160,562	331,121
Effect of different tax rate of subsidiary operation in other jurisdictions	3,164,192	2,853,547	3,712,755	569,005
Effect of change in tax rate	—	—	(1,547,465)	(237,159)
Research and development tax deduction	(32,720,713)	(12,657,389)	—	—
Unrecognized tax benefits for prior years' transfer pricing arrangement	—	—	32,092,388	4,918,374
Adjustment on income tax of the previous periods(2)	(17,208,473)	961,418	338,799	51,923
Tax on undistributed earnings/(loss) of VIEs	46,419,145	(46,419,145)	—	—
Valuation allowance movement	399,836	4,451,281	9,155,075	1,403,077
Others	—	5,207,209	7,929,425	1,215,236
<b>Total</b>	<b>209,921,188</b>	<b>(93,102,643)</b>	<b>(299,878,635)</b>	<b>(45,958,412)</b>

(1) The aggregate amount and per share effect of the tax holiday and preferential tax rate are as follows:

	Year ended December 31,	Year ended December 31,	Year ended December 31,	
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
The aggregate amount tax benefit/(expense) of the tax holiday and preferential tax rate	104,548,726	279,823,276	(2,160,562)	(331,121)
The aggregate effect on basic and diluted net income per share:				
— Basic	0.36	0.89	(0.01)	(0.00)
— Diluted	0.34	0.88	(0.01)	(0.00)

(2) A adjustment on current tax of the previous periods represented the adjustment according to final review of income tax filing with the PRC tax authorities.

The tax effects of temporary differences and carry forwards that give rise to the deferred tax balances at December 31, 2019 and 2020 are as follows:

	As of December 31,		As of December 31,	
	2019	2020	2020	2020
	RMB	RMB	RMB	US\$
<b>Deferred tax assets:</b>				
Long-term investments	3,455,742	5,325,000		816,092
Accrued expenses	30,867,551	27,280,677		4,180,947
Accounts receivable and contract assets	105,168,108	79,593,687		12,198,266
Guarantee liabilities	210,014,843	62,048,651		9,509,372
Financial guarantee derivatives	116,363,471	157,281,000		24,104,368
Loan receivable from Xiaoying Housing Loans	7,231,727	16,551,270		2,536,593
Loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans	10,264,710	60,479,731		9,268,924
Operating loss carry forwards	5,631,764	214,313,889		32,845,041
Earnings rights associated with loan assets	—	496,990		76,167
Deposits to institutional cooperators	—	2,579,529		395,330
Investment in Consolidated Trusts	—	808,113		123,849
Lease liabilities	13,226,632	9,479,662		1,452,821
Others	149,079	—		—
Total deferred tax assets	502,373,627	636,238,199		97,507,770
Valuation allowance	(4,854,955)	(14,010,030)		(2,147,131)
Total deferred tax assets, net of valuation allowance	497,518,672	622,228,169		95,360,639
<b>Deferred tax liabilities:</b>				
Property and equipment	662,682	581,854		89,173
Long-term investments	646,786	6,778,801		1,038,896
Investment in Consolidated Trusts	18,953,213	—		—
Right-of-use assets	13,124,040	9,214,921		1,412,249
Total deferred tax liabilities	33,386,721	16,575,576		2,540,318



On January 1, 2020, the Group adopted the ASC 326. The transition adjustment included a tax benefit of RMB5.7 million in retained earnings, which increased deferred tax assets by a corresponding amount.

Movement of the valuation allowance is as follows:

	As of December 31, 2019	As of December 31, 2020	
	RMB	RMB	US\$
Balance as of January 1	(403,674)	(4,854,955)	(744,054)
Addition	(4,451,281)	(9,155,075)	(1,403,077)
Balance as of December 31	(4,854,955)	(14,010,030)	(2,147,131)

The Company operates through its subsidiaries, VIEs and subsidiaries of the VIEs. The valuation allowance is considered on an individual entity basis. As of December 31, 2019 and 2020, the Company had operating loss carry forwards of RMB38,990,106 and RMB921,429,605 (US\$141,215,265) respectively from its subsidiaries, VIEs and subsidiaries of the VIEs registered in the PRC. The tax benefit due to net operating losses that can be carried forward to future years amounted to RMB776,809 and RMB200,303,859 (US\$30,697,910), net of valuation allowances, during 2019 and 2020 respectively. The net operating loss will expire in years 2022 to 2025 if not utilized.

The Group assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. The ultimate realization of deferred tax assets is dependent upon its ability to generate sufficient future taxable income within the carry-forward periods provided for in the tax law and during the periods in which the temporary differences become deductible. When assessing the realization of deferred tax assets, the Group has considered possible sources of taxable income including (i) future reversals of existing taxable temporary differences, (ii) future taxable income exclusive of reversing temporary differences and carry-forwards, including consideration of specific known trend of profits expected to be reflected within the industry and (iii) future taxable income arising from implementing tax planning strategies. On the basis of this evaluation, as of December 31, 2019 and 2020 a valuation allowance of RMB4,854,955 and RMB14,010,030 (US\$2,147,131) was recorded respectively to reflect only the portion of the deferred tax assets that is not more likely than not to be realized. The amount of the deferred tax assets considered realizable, however, could be adjusted if estimates of future taxable income during the carry forwards period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth.

In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises (“FIEs”) earned after January 1, 2008, are subject to a 10% withholding income tax. In addition, under tax treaty between the PRC and Hong Kong, if the foreign investor is incorporated in Hong Kong and qualifies as the beneficial owner, the applicable withholding tax rate is reduced to 5%, if the investor holds at least 25% in the FIE, or 10%, if the investor holds less than 25% in the FIE. A deferred tax liability should be recognized for the undistributed profits of PRC subsidiaries unless the Company has sufficient evidence to demonstrate that the undistributed dividends will be reinvested and the remittance of the dividends will be postponed indefinitely. Management has asserted it intends to indefinitely reinvest the undistributed earnings of the subsidiaries located in the PRC. As of December 31, 2020, the FIE of the Group had cumulative profits of RMB1,445,300,682 (US\$221,502,020). The related unrecognized deferred tax liabilities were RMB144,530,068 (US\$22,150,202) as of December 31, 2020.

A deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting amounts over tax basis amounts, including those differences attributable to a more than 50% interest in a domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Group accrued deferred tax liabilities on the earnings of the VIEs of nil and nil as of December 31, 2019 and 2020.

#### Unrecognized tax benefit

A roll-forward of unrecognized tax benefits are as follows:

	Year ended December 31, 2019	Year ended December 31, 2020	
	RMB	RMB	US\$
Balance at beginning of the year	—	246,394,607	37,761,626
Additions for tax positions taken in prior years	—	32,092,388	4,918,374
Additions for tax positions taken in current year	319,206,371	34,252,413	5,249,412
Reductions for tax positions	(72,811,764)	(153,256,232)	(23,487,545)
Balance at end of the year	246,394,607	159,483,176	24,441,867

The accrued interest and penalties related to income taxes at December 31, 2019 and 2020 is set forth below:

	Year ended December 31, 2019	Year ended December 31, 2020	
	RMB	RMB	US\$
Accrued interest	3,805,963	11,885,624	1,821,552

As of December 31, 2019 and 2020, the Group’s unrecognized tax benefits consisted of: 1) RMB105,168,108 and RMB 79,593,688 (US\$12,198,266) arising from impairment losses and charge-offs of accounts receivable and contract assets; 2) RMB141,226,499 and RMB 47,797,100 (US\$7,325,227) related to the provision for contingent guarantee liabilities; and 3) nil and RMB32,092,388 (US\$4,918,374) arising from prior years’ transfer pricing arrangement.

As of December 31, 2019, all the Group’s unrecognized tax benefits were presented as income tax payable. As of December 31, 2020, RMB34,252,413 out of the unrecognized tax benefits was presented in the consolidated financial statements as a reduction to a deferred tax asset for a net operating loss carry forward.

As at December 31, 2019 and 2020, the unrecognized tax benefit balance of RMB246,394,607 and RMB127,390,788 (US\$19,523,493), if recognized upon examination settlement or statute expiration, would not affect the Group’s effective tax rate.

As at December 31, 2019 and 2020, the unrecognized tax benefit balance of nil and RMB32,092,388 (US\$4,918,374), if recognized upon examination settlement or statute expiration, would affect the effective tax rate.

As of December 31, 2019 and 2020, interest payable related to unrecognized tax benefits was RMB3,805,963 and RMB11,885,624 (US\$1,821,552), which was recorded as part of the income tax payable in the consolidated financial statements.

For the year ended December 31, 2018, 2019 and 2020, interest expense related to unrecognized tax benefits was nil, RMB3,805,963 and RMB 8,079,661 (US\$1,238,262), which was recorded as part of the income tax expense in the consolidated financial statements.

### 13. Net income (loss) per share and net income (loss) attributable to common stockholders

The following table details the computation of the basic and diluted net income (loss) per share:

	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2020	
	RMB	RMB	RMB	US\$
Net income (loss) attributable to X Financial	883,111,893	774,276,129	(1,308,502,575)	(200,536,792)
Shares (denominator):				
Weighted average number of ordinary shares used in computing basic EPS	286,588,402	313,757,887	321,236,089	321,236,089
Basic net income (loss) per share	3.08	2.47	(4.07)	(0.62)
Diluted effects of stock options and RSUs	17,395,882	5,989,505	—	—
Weighted average number of ordinary shares used in computing diluted EPS	303,984,284	319,747,392	321,236,089	321,236,089
Diluted net income (loss) per share	2.91	2.42	(4.07)	(0.62)

Diluted income (loss) per share do not include the following instruments as their inclusion would have been anti-dilutive:

	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2020
Stock options	56,926,054	52,405,826	52,198,603
Restricted stocks units	—	3,689,400	6,285,294

### 14. Share-based compensation

#### Share options

On January 25, 2015, the Board of Directors of X Financial approved the Share Incentive Plan for the purpose of providing incentives and rewards to employees and executives who contribute to the success of the Company's operations, and granted 13,843,645 of stock options. On June 29, 2015, May 3, 2016, October 11, 2017, April 30, 2018, October 31, 2018 and April 30, 2019, the Board of Directors of X Financial granted 630,000, 7,425,000, 16,616,000, 841,054, 475,000 and 155,000 stock options respectively to certain employees, directors and officers. The stock options shall expire 10 years from the date of grant and vest over a period from three to four years.

On May 9, 2018, the Board of Directors of X Financial granted 40,000,000 share options to certain senior management. The exercise price was the offering price per share of the Group's IPO which was US\$4.75, and were eligible to vest, in whole or in part, when both the market capitalization milestone as well as the targeted adjusted net earnings were achieved subsequent to the IPO. The Company determined the service inception date to be May 9, 2018 and the grant date to be the date of the IPO. The offering price of the IPO was used to determine the fair value of ordinary shares at grant date to estimate the total share-based compensation expense of RMB16,210,135 (US\$2,357,666) which was recognized over a 5 year period from service inception date on a straight line basis. The share-based compensation expense recognized upon the IPO was RMB9,163,461 (US\$1,332,770).

The Company used the Binomial model to estimate the fair value of the options granted on the respective grant dates with assistance from independent valuation firms. The fair value per option was estimated at the date of grant using the assumptions. The weighted-average grant date fair value of the options for the years ended December 31, 2019 and 2020 were RMB10.33 and RMB9.99 per share respectively.

	January 25, 2015	June 29, 2015	May 3, 2016	October 11, 2017	April 30, 2018	May 9, 2018	October 31, 2018	April 30,2019
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Fair value of underlying ordinary shares	4.91	9.66	16.98	30.29	41.33	38.14	26.74	16.65
Exercise Price	0.27	0.27	0.27 - 10.71	0.27 - 27.02	25.42	30.27	27.93	31.96
Expected Volatility per annum ("p.a.")	43.00%	38.00%	42.00%	38.60%	45.47%	39.3%	43.90%	30.15%
Risk-Free Rate (p.a.)	1.81%	2.33%	1.81%	2.35%	2.96%	2.94%	3.15%	2.97%
Exercise Multiple	2.5	2.5	2.5	2.5	2.5	5.58-38.33	2.5	NIL
Dividend Yield (p.a.)	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
Time to Maturity (Years)	10	10	10	10	10	5	10	10

The risk-free rate of interest is based on the yield curve of government bonds in the PRC as of valuation date. The expected volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as the expected expiration term. Prior to the IPO, the fair value of the ordinary shares was through a retrospective valuation as at each grant date, which used management's best estimate for projected cash flows as of the valuation date with the assistance of an independent third-party appraiser. Subsequent to the IPO, the fair value of ordinary shares was determined by observable market price.

A summary of option activity during the year ended December 31, 2020 is presented below:

	Number of Options	Exercise Price RMB	Remaining Contractual	Intrinsic value of options RMB
Outstanding, as of January 1, 2020	60,161,227	0.27-31.96	5.07-9.33	74,834,115
Granted	—	—	—	—
Exercised	2,009,564	0.27	—	—
Forfeited/Cancelled	5,953,060	0.27-31.96	—	—
Outstanding, as of December 31, 2020	52,198,603	0.27-31.96	4.07-8.33	19,538,815
Vested and expected to vest as of December 31, 2020	52,198,603	0.27-31.96	4.07-8.33	19,538,815
Exercisable as of December 31, 2020	8,301,673	0.27-31.96	4.07-8.33	13,364,215

The Group recognized the compensation cost for the stock options on a straight line basis.

For the years ended December 31, 2018, 2019 and 2020 the Group recorded compensation expenses of RMB171,836,485, RMB150,943,580 and RMB70,588,710(US\$10,818,193) respectively for the stock options granted to the Group's employees. The Group allocated share-based compensation expense for share option as follows:

	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31,	
	RMB	RMB	2020 RMB	2020 US\$
Origination and servicing	103,124,758	88,671,136	35,885,086	5,499,630
General and administrative	66,264,371	60,445,030	32,794,113	5,025,918
Sales and marketing	2,447,356	1,827,414	1,909,511	292,645

As of December 31, 2018, 2019 and 2020, there were RMB425,970,675, RMB232,061,272 and RMB85,785,176(US\$13,147,153) respectively of total unrecognized compensation expense related to unvested stock options granted. As of December 31, 2020 that cost is expected to be recognized over a weighted-average period of 1.87 years.

There were no income tax benefits recognized for the year ended December 31, 2018, 2019 and 2020 for share options.

#### **Restricted stocks unit**

On April 15, 2019, the Board of Directors of X Financial granted 150,000 of restricted stock units to certain directors. The restricted stock units shall vest over a period from two to three years. The restricted stock units have no expiration period. On November 20, 2019, the Board of Directors of X Financial granted 1,789,400 of restricted stock units to certain employees. On January 21, April 30, October 31, 2020, the Board of Directors of X Financial granted 4,600,000, 673,300 and 550,000 of restricted stock units to certain employees, respectively. The restricted stocks shall expire 10 years from the date of grant and vest over a period from three to four years.

On August 13, 2019 and November 20, 2019, the Board of Directors decided to cancel 1,500,000 and 250,000 of unvested options of certain senior managements and concurrently granted 1,500,000 and 250,000 of restricted stock units as replacement awards to the senior managements. The incremental compensation expenses of RMB360,592(US\$51,796) was equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification.

A summary of restricted share units activity during the year ended December 31, 2020 is presented below:

	Number of Restricted Shares	Weighted-Average Grant-Date Fair Value RMB
Outstanding, as of January 1, 2020	3,639,402	8.21
Granted	5,823,300	5.65
Vested	631,680	8.61
Forfeited	1,295,728	6.16
Outstanding, as of December 31, 2020	7,535,294	6.49

For the year ended December 31, 2019 and 2020, the Group recorded compensation expenses of RMB6,172,515 and RMB9,551,428(US\$1,463,820) respectively for the restricted shares granted to the Group's directors and employees. The Group allocated share-based compensation expense for restricted share as follows:

	Year ended December 31, 2019	Year ended December 31,	
	RMB	2020 RMB	2020 US\$
Origination and servicing	446,808	6,173,735	946,166
General and administrative	5,717,025	3,064,908	469,718
Sales and marketing	8,682	312,785	47,936

As of December 31, 2019 and 2020, there was RMB34,246,159 and RMB33,499,672(US\$5,134,049) respectively of total unrecognized compensation expense related to unvested restricted shares granted. As of December 31, 2020 that cost is expected to be recognized over a weighted-average period of 2.62 years.

There were no income tax benefits recognized for the year ended December 31, 2018, 2019 and 2020 for restricted stocks unit.

## 15. Statutory reserves and restricted net assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the VIEs and subsidiaries of the VIEs incorporated in PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The consolidated results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

Under PRC law, the Company's subsidiaries, VIEs and the subsidiaries of the VIEs located in the PRC (collectively referred as the ("PRC entities")) are required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund. The PRC entities are required to allocate at least 10% of their after tax profits on an individual company basis as determined under PRC accounting standards to the statutory reserve and has the right to discontinue allocations to the statutory reserve if such reserve has reached 50% of registered capital on an individual company basis. In addition, the registered capital of the PRC entities is also restricted.

Amounts restricted that include paid-in capital, additional paid-in capital and statutory reserve funds, as determined pursuant to PRC GAAP, are RMB2,621,559,394 and RMB3,565,880,640 (US\$546,495,117) as of December 31, 2019 and 2020 respectively.

## 16. Commitments and contingencies

### Operating lease as lessee

As disclosed in note 2, the Group has adopted ASC Topic 842 on 1 January, 2019. These lease payments have been recognized as "Other non-current assets" and the current and non-current portions of lease liabilities have been recorded as "Accrued expenses and other current liabilities" and "Other non-current liabilities" in the balance sheet as at December 31, 2019 and 2020, except for short-term leases.

### Contingencies

On November 26, 2019, a putative class action complaint captioned Shivakumar Ningappa v. X Financial, et al., No. 657033/2019, was filed in the Supreme Court of the State of New York, New York County against the Group, certain of officers and directors, and the underwriters of initial public offering, asserting violations of the Securities Act of 1933 based on the Group's September 2018 initial public offering. Two additional lawsuits were subsequently filed in the same court, containing substantially identical allegations. On February 5, 2020, all three lawsuits were consolidated under the caption "In re X Financial Securities Litigation," No. 657033/2019, and a consolidated amended complaint (the "CAC") was filed on February 14, 2020. On May 11, 2020, the Group filed a motion to dismiss the CAC in its entirety. A new judge will be assigned to the Action.

On December 9, 2019 a putative class action complaint captioned Xiangdong Chen v. X Financial, et al., No. 19-cv-06908-KAM-SJB, was filed in the Eastern District of New York against the Group and certain officers and directors, asserting violations of the Securities Act of 1933 based on the Group's September 2018 initial public offering. The lead plaintiff filed an amended complaint (the "AC") on July 13, 2020. The Group filed a motion to dismiss the AC on December 7, 2020. The court has referred the motion to the magistrate judge for a report and recommendation.

The Group is subject to periodic legal or administrative proceedings in the ordinary course of business. The Group does not have any pending legal or administrative proceeding to which the Group is a party that will have a material effect on its business or financial condition.

#### **17. Subsequent events**

In March 2021, the Group committed to invest in US\$10 million and US\$3 million in two VC funds managed by Dragonfly Ventures II, L.P. and IOSG FUND II, L.P., respectively. As of the date of this annual report, the Group had made the capital contribution of US\$7 million and US\$3 million to those two VC funds, respectively.

## SCHEDULE I

## CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

## BALANCE SHEETS

(in Renminbi “RMB”, except share and per share data)

	As of	As of December 31,	
	December 31,	2020	2020
	RMB	RMB	US\$
<b>Assets:</b>			
Cash and cash equivalents	14,051,790	6,041,648	925,923
Prepaid expenses and other current assets	4,762,941	1,862,127	285,383
Amount due from subsidiaries and VIEs	1,017,874,882	1,008,811,092	154,607,065
Investments in subsidiaries and VIEs	3,378,505,504	2,067,921,292	316,922,803
Total assets	<u>4,415,195,117</u>	<u>3,084,636,159</u>	<u>472,741,174</u>
<b>Liabilities:</b>			
Accrued expenses and other current liabilities	49,335,931	9,880,123	1,514,196
Total liabilities	<u>49,335,931</u>	<u>9,880,123</u>	<u>1,514,196</u>
<b>Equity:</b>			
Common shares	201,240	202,870	31,091
Additional paid-in capital	2,987,363,137	3,068,045,239	470,198,503
Retained earnings (Accumulated deficits)	1,311,194,007	(14,551,146)	(2,230,060)
Accumulated other comprehensive income	67,100,802	21,059,073	3,227,444
Total equity	<u>4,365,859,186</u>	<u>3,074,756,036</u>	<u>471,226,978</u>
Total liabilities and equity	<u>4,415,195,117</u>	<u>3,084,636,159</u>	<u>472,741,174</u>

## CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

## STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in Renminbi “RMB”, except share and per share data)

	Year ended	Year ended	Year ended December 31,	
	December 31,	December 31,	2020	2020
	2018	2019	RMB	US\$
	RMB	RMB		
General and administrative	(79,265,535)	(14,451,949)	(18,494,095)	(2,834,345)
Interest income	122,320	77,030	4,416	677
Equity in profit (loss) of subsidiaries and VIEs	961,430,600	785,350,473	(1,293,341,634)	(198,213,275)
Other income (loss), net	824,508	3,300,575	3,328,738	510,151
Net income (loss)	883,111,893	774,276,129	(1,308,502,575)	(200,536,792)
Other comprehensive income (loss)	19,045,117	14,606,045	(46,041,729)	(7,056,204)
Comprehensive income (loss)	902,157,010	788,882,174	(1,354,544,304)	(207,592,996)

## CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

## STATEMENT OF CASH FLOWS

(in Renminbi “RMB”, except share and per share data)

	Year ended	Year ended	Year ended December 31,	
	December 31,	December 31,	2020	2020
	2018	2019	RMB	US\$
	RMB	RMB		
<b>Net cash provided by (used in) operating activities</b>	<b>36,187,975</b>	<b>(10,004,797)</b>	<b>(14,708,389)</b>	<b>(2,254,159)</b>
Loan to subsidiaries and VIE	(519,786,600)	(199,179,173)	6,818,106	1,044,920
<b>Net cash provided by (used in) investing activities</b>	<b>(519,786,600)</b>	<b>(199,179,173)</b>	<b>6,818,106</b>	<b>1,044,920</b>
Contribution from shareholders	681,989,413	6,035,665	543,594	83,309
Dividend paid	—	(103,196,981)	—	—
<b>Net cash provided by (used in) financing activities</b>	<b>681,989,413</b>	<b>(97,161,316)</b>	<b>543,594</b>	<b>83,309</b>
<b>Effect of foreign exchange rate changes</b>	<b>(6,283,113)</b>	<b>10,892,988</b>	<b>(663,453)</b>	<b>(101,679)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>192,107,675</b>	<b>(295,452,298)</b>	<b>(8,010,142)</b>	<b>(1,227,609)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>117,396,413</b>	<b>309,504,088</b>	<b>14,051,790</b>	<b>2,153,532</b>
<b>Cash and cash equivalents, end of year</b>	<b>309,504,088</b>	<b>14,051,790</b>	<b>6,041,648</b>	<b>925,923</b>



**SCHEDULE I—NOTES TO CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY**

1. Schedule I has been provided pursuant to the requirements of Rule 12-04(a) and 5-04(c) of Regulation S-X, which require condensed financial information as to the financial position, changes in financial position and results of operations of a parent company as of the same date and for the same period for which audited consolidated financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

2. The condensed financial information has been prepared using the same accounting policies as set out in the consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries and VIEs. For the parent company, the Company records its investments in subsidiaries and VIEs under the equity method of accounting as prescribed in ASC 323, Investments—Equity Method and Joint Ventures. Such investments are presented on the Condensed Balance Sheet as “Investments in subsidiaries and VIEs” and the subsidiaries and VIEs’ profit or loss as “Equity in profit (loss) of subsidiaries and VIEs” on the Condensed Statements of Comprehensive Income (loss). Ordinarily under the equity, an investor in an equity method investee would cease to recognize its share of the losses of an investee once the carrying value of the investment has been reduced to nil absent an undertaking by the investor to provide continuing support and fund losses. For the purpose of this Schedule I, the parent company has continued to reflect its share, based on its proportionate interest, of the losses of subsidiaries and VIE regardless of the carrying value of the investment even though the parent company is not obligated to provide continuing support or fund losses.

3. For the years ended December 31, 2018, 2019 and 2020, except as disclosed in Note 16, there were no material contingencies, significant provisions of long-term obligations, guarantees of the Company.

4. Translations of balances in the additional financial information of Parent Company—Financial Statements Schedule I from RMB into US\$ as of and for the year ended December 31, 2020 are solely for the convenience of the readers and were calculated at the rate of US\$1.00= RMB6.5250, as set forth in H.10 statistical release of the Federal Reserve Board on December 31, 2020. The translation is not intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into United States dollars at that rate on December 31, 2020, or at any other rate.

**Tripartite Cooperation Agreement**

Agreement No.: 20193948

Date: November 8, 2019

**Party A: ZhongAn Online P&C Insurance Co., Ltd. (“ZhongAn Insurance”)****Registered Address:** 4-5/F, Associate Mission Building, 169 Yuanmingyuan Road, Huangpu District, Shanghai**Legal Representative:** OU Yaping**Party B: Shenzhen Xiaoying Puhui Technology Co., Ltd. (“Xiaoying Puhui”)****Registered Address:** Shenzhen Qianhai Commerce Secretariat Co., Ltd., Qianhai Complex A201, Qianwan Road 1, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen**Legal Representative:** SUN Huichang**Party C: Shenzhen Tangren Financing Guarantee Co., Ltd. (“Tangren Guarantee”)****Registered Address:** Room 18B04, Tower B, Aerospace Science and Technology Square, 166&168 Haide 3rd Road, Haizhu Community, Yuehai Sub-district, Nanshan District, Shenzhen**Legal Representative:** SONG Hui**WHEREAS,**

1. ZhongAn Insurance is an online property insurance company approved by the China Banking and Insurance Regulatory Commission, specializing in property insurance business, which offers efficient, professional and safe insurance service solutions through diversified products and business models, by virtue of its professional experience in online insurance and credit guarantee insurance, upon effective integration of financial and Internet elements.
2. Xiaoying Puhui is a company that offers financial information services to users based on their borrowing needs by interaction through Internet system, which is actively cooperating with commercial banks, trust companies, small loan companies, consumer finance companies and other financial institutions in consulting and management business and providing customer referral and other services in such cooperation.
3. Tangren Guarantee is a professional financing guarantee company approved by the Economy, Trade and Information Commission of Shenzhen Municipality (深圳市经济贸易和信息化委员会), and is licensed to engage in (i) financing guarantees such as loan guarantee, bill acceptance guarantee, trade financing guarantee, project financing guarantee and letter of credit guarantee for enterprises and individuals; (ii) litigation preservation guarantee, performance guarantee business, financing advisory, financial consultation and other intermediary services related to guarantee business, and (iii) investment with its own funds.

Upon friendly negotiation, Party A, Party B and Party C jointly enter into this Cooperation Agreement in order to cooperate with each other, draw on each other's strengths and realize sustainable development, subject to national laws, regulations and regulatory policies and in accordance with their respective strategic and business development needs.

**Article 1            Scope of Cooperation**

As a financial information service company, Party B will refer borrowers with loan needs to banks, trust companies, small loan companies, consumer finance companies and other financial institutions. Subject to passing Party A's underwriting review, Party A will provide credit guarantee insurance services for loans between lenders and borrowers. Party B shall provide relevant customer management, consulting services, post-loan management and other related services for such loans underwritten by Party A. Party C agrees to provide joint and several liability guarantee for the debts owed to Party A by borrowers.

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## **Article 2 Compliance Undertaking**

Party A, Party B and Party C each undertakes that no cooperation business hereunder may violate national laws and regulations as well as the requirements of regulatory policies of all regulatory authorities.

## **Article 3 Insurance Products**

According to this Agreement, Party A shall provide credit guarantee insurance services to the applicants referred by Party B within the scope of business with reference to the insurance clauses approved by and filed with the regulatory authorities (the specific name of the insurance product shall be subject to the insurance contract), and perform the obligations of insurer as agreed.

### **3.1 Personal Loan Guarantee Insurance - Product Elements:**

1. Applicant: the borrower
2. Insured: the lender who enters into legal and valid loan contract with the borrower
3. Insurer: ZhongAn Online P&C Insurance Co., Ltd.
4. Claimant: the insured
5. Coverage: If, during the policy period, the applicant fails to fulfill the repayment obligation according to the loan contract with the insured, and the applicant still fails to fully repay any installment arrears which reaches the waiting period specified in the insurance contract, then the insurer shall be liable for compensation for the loan principal and corresponding interest payable but unpaid by the applicant in accordance with the provisions of the insurance contract.
6. Main Exclusions: subject to provisions of the insurance contract.
7. Policy Period: no more than 12 months, with the starting and ending dates set forth in the policy.
8. Premium: subject to the amount set forth in the insurance contract.
9. Policy Territory: within the territory of the People's Republic of China (excluding Hong Kong, Macau and Taiwan).
10. Applicable Insurance Clause

Details of the insurance product are set forth in the Personal Loan Guarantee Insurance Clause of ZhongAn Online P&C Insurance Co., Ltd. (Lender Version) (ZhongAn Online) (Filed-Guarantee Insurance) [2017] (Primary) No.016, subject to the Clause filed with China Insurance Regulatory Commission and published on Party A's website by Party A.

### **3.2 Personal Loan Contract Credit Insurance - Product Elements:**

1. Applicant: the lender who enters into legal and valid loan contract with the borrower
  2. Insured: the lender who enters into legal and valid loan contract with the borrower
  3. Insurer: ZhongAn Online P&C Insurance Co., Ltd.
  4. Claimant: the insured
  5. Coverage: If, during the policy period, the borrower fails to fulfill the obligation of repayment to the insured as scheduled according to the loan contract, and the borrower still fails to fully repay any installment arrears which exceeds the period agreed in the insurance contract, then the insurer shall be liable for compensation to the insured for the loan principal and/or interest unpaid by the borrower in accordance with the provisions of the insurance contract.
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6. Main Exclusions: subject to provisions of the insurance contract.
7. Policy Period: no more than 12 months, with the starting and ending dates set forth in the policy.
8. Premium: subject to the amount set forth in the insurance contract.
9. Policy Territory: within the territory of the People's Republic of China (excluding Hong Kong, Macau and Taiwan).
10. Applicable Insurance Clause

Details of the insurance product are set forth in the Personal Loan Contract Credit Insurance Clause of ZhongAn Online P&C Insurance Co., Ltd. (Lender Version) (ZhongAn Online) (Filed-Credit Insurance) [2017] (Primary) No.017, subject to the Clause filed with China Insurance Regulatory Commission and published on Party A's website by Party A.

#### **Article 4          Loan Review, Insurance Application and Approval**

4.1 **Loan Review and Insurance Application:** Party B shall be responsible for the front-end customer acquisition for the products, and for collecting, verifying and reviewing the pre-loan investigation materials of applicants who are willing to borrow and have insurance needs under the guarantee insurance business. The borrower will sign, through the online signing method designated by Party B, the Loan Contract, Entrusted Guarantee Contract, the Card Binding and Recharge Service Agreement or the Authorization Letter for Entrusted Deduction from Account, the Authorization Letter for Personal Credit Information Inquiry, the Authorization Letter for Personal Information Inquiry and Use, and the Non-college Student Undertaking confirmed by the lender and Party A, as well as relevant contract documents such as the Personal Loan Guarantee Insurance Agreement, the Application Instruction and Explanation, and the Privacy Notice (which are applicable to guarantee insurance business). After the review is passed and the legal authorization of the customer is obtained, Party B shall send the customer list and relevant information required by Party A to Party A through system interaction.

In case of guarantee insurance business, Party A shall, after receiving the information transmitted by Party B, conduct a personal loan guarantee insurance application review on the borrower through the internal risk control rules and blacklist mechanism, and feed back the review results to Party B through system interaction.

In case of credit insurance business, the borrower shall file a loan application to the lender recommended by Party B through the cooperation platform, and then establish a creditor-debtor relationship with the lender when obtaining the loan money; and the lender shall take out personal loan contract credit insurance with Party A for such loan.

Party B shall not display Party A's insurance products hereunder on any third-party network platform other than the cooperative network platforms agreed herein (i.e. the "XiaoYing Card Loan" and "XiaoYing Wallet" platforms operated by Party B or its affiliates and other platforms subsequently approved by Party A, the specific information of such platforms shall be subject to the List of Cooperative Third-Party Network Platforms disclosed on Party A's official website). If it is indeed necessary to cooperate with a third-party network platform other than those agreed by Party A and Party B, Party B shall separately negotiate and enter into a written agreement with Party A.

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- 4.2 **Insurance Approval:** upon completion of the loan, Party B shall provide to Party A through system interaction the contractual documents relating to insurance approval such as the signed electronic Loan Contract, Authorization Letter for Personal Credit Information Inquiry, and Personal Loan Guarantee Insurance Agreement signed by the borrower under guarantee insurance business, and transmit to Party A the relevant information of the borrower, the insured, insured object as required for insurance application, including but not limited to loan agreement number, name, ID card number and contacts of borrower, loan amount, date of advance, loan period, interest, repayment method and other information, and Party A shall issue the corresponding electronic policy based thereon.

#### **Article 5           Repayment, Payment of Premium and Claim Settlement**

- 5.1 The borrower will generate a repayment schedule with Party B according to the provisions of the Loan Contract, and Party B shall synchronize such repayment schedule to Party A when the borrower or the lender takes out insurance.
- 5.2 Based on the borrower's authorization to Party A and Party B, Party A authorizes and entrusts Party B to give instructions to its cooperative third party payment agencies which shall complete the deduction of premium of the guarantee insurance and pay the same to the account designated by Party A on behalf of the borrower.
- 5.3 Based on the relevant explicit legal authorization of the borrower, the lender and Party C entrust Party B to give instructions to its cooperative third party payment agencies which shall deduct the due repayment amount from the borrower's account on each repayment date, including but not limited to the loan principal and interest, guarantee fee, service charge, etc.
- 5.4 Party B shall synchronize the repayment information of the borrowers to Party A through system interaction every day. In case of overdue repayment on the T day, Party B is entrusted by the insured to notify claim to Party A and inform Party A of the insurance accident information (i.e. the insured is deemed to have fulfilled the insurance claim notification obligation). After receiving the claim notification, Party A shall timely carry out claim assessment according to the provisions of the insurance contract, and make the claim payment to the designated account of the insured filed with Party A.

#### **Article 6           Post-Loan Management**

Party A shall have the right of subrogation according to law after paying the overdue principal and interest of the borrower, for which, Party B shall provide necessary assistance and actively cooperate with Party A in the recovery work. Party B's methods of providing recovery assistance include but not limited to system prompt, telephone reminder, SMS reminder, reminder at door, or entrusting a third party with appropriate qualifications to provide recovery assistance services for Party A with the consent of Party A. And Party B shall archive the originals of the recovery notice, follow-up inspection records and related correspondence in a special cabinet, and Party A shall have the right to reasonably use, verify, get access to, copy and keep them according to business needs. When necessary, Party B shall actively cooperate with Party A in litigation and other work for recovery. When assisting Party A in recovery, Party B shall handle the entrusted matters in strict accordance with Party A's instructions and requirements and comply with Party A's relevant internal collection rules, except that Party A has not informed Party B in writing of the relevant internal rules in advance, and there shall be no violent recovery or other illegal acts that endanger the personal and property safety of the borrower. If Party B violates the foregoing and causes personal injury or property damage to the borrower, Party B shall assume all liabilities, which shall have nothing to do with Party A.

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**Article 7 Guarantee Clause**

**7.1 Guarantee Scope:**

For the specific loan business recommended by Party B (including the loan business prior to effectiveness of this Agreement), Party C shall enter into the Entrusted Guarantee Contract with the borrower and charge guarantee fee and arrears administration fee (if any) against the borrower as agreed in that Contract. If Party A underwrites such loan business after passing the underwriting review, Party C agrees to provide joint and several liability guarantee for the right of subrogation against the borrower to be acquired by Party A after fulfilling the insurance payment obligation to the lender in accordance with the insurance contract and the premium as Party A may require the borrower to pay under the guarantee insurance business (hereinafter referred to as “**Primary Creditor’s Rights**”). That is, Party A shall have the right to directly require the borrower to reimburse the corresponding loan principal and interest under the paid loan and all other debts as the borrower may owe to Party A under the insurance contract or otherwise, as well as the premium payable by the borrower under the guarantee insurance business, according to the right of subrogation against the borrower after making the insurance payment to the insured according to the insurance contract, and Party C shall provide irrevocable joint and several liability guarantee for such debts of the borrower owed to Party A.

Party A, Party B and Party C unanimously confirm that the total amount to be paid by Party C for the guarantee liability for the Primary Creditor’s Rights shall not exceed the total amount of guarantee fees payable and arrears administration fees (if any) actually paid to Party C by the borrowers of all loans underwritten by Party A in the tripartite cooperation.

Party C voluntarily undertakes to assume the guarantee liability to Party A in accordance with the provisions of the Guarantee Clause hereof. The creditor’s rights secured shall be all the creditor’s rights within the guarantee scope agreed herein during the tripartite cooperation among Party A, Party B and their cooperative financial institutions, including creditor’s rights within the said guarantee scope that have occurred before the signing of this Agreement. Party C’s guarantee shall be irrevocable joint and several liability guarantee.

**7.2** After Party C fulfills the guarantee obligation, if the defaulted borrower continues to make repayment to Party A due to reasons such as compliance with the insurance contract and being demanded, Party A shall submit the repayment list received to Party C for verification and confirmation in the middle of each month. For the amount confirmed by Party A and Party C to be consistent, Party A shall transfer and pay such amount to Party C before the 25th day of each month. The information of Party C’s bank account for the receipt of such amount is as follows:

Account Holder	Shenzhen Tangren Financing Guarantee Co., Ltd.
Bank	[     ]
Account Number	[     ]

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7.3 Party A, Party B and Party C shall reconcile the overdue loan amount every month. The monthly reconciliation date shall be subject to the date confirmed by the mail of the Parties in that month. Within 5 business days upon the completion of reconciliation, Party C shall perform the guarantee liability to Party A in accordance with the agreement among Party A, Party B and Party C, and pay the settlement money to the following designated account of Party A through transfer or a cooperative third-party payment institution:

Account Holder	ZhongAn Online P&C Insurance Co., Ltd.
Account Number	[     ]
Bank	[     ]

7.4 Party C may adjust the rate of guarantee fee to be paid by the borrower according to the business risk level with written consent of Party A and Party B. During the term of validity hereof, in case of any adjustment to the guarantee fee, the total insurance premium will change with such adjustment, and the compensation cap for guarantee liability of Party C will also change with such adjustment, for which, the Parties unanimously agree that the compensation cap for guarantee liability of Party C may be otherwise agreed in a separate written supplementary agreement, or confirmed by persons designated by the Parties by email after negotiation among Party A, Party B and Party C in each quarter, and such email shall represent the consensus of and bind upon the Parties, and the persons designated by the Parties and their contacts are as follows:

Party A: [     ], Email: [     ];

Party B: [     ], Email: [     ];

Party C: [     ], Email: [     ].

Any change to the above persons may be otherwise agreed in a written supplementary agreement or confirmed via email by the original designated persons on behalf of the Parties.

## **Article 8           Confidentiality Obligation**

8.1 Confidentiality Obligation: Each Party hereto undertakes to keep confidential the trade secrets involved herein (including but not limited to the information of transaction rules, documents, customer information, etc.), and not to disclose or make available to any other party (except insurers and lenders involved based on project needs), or use the same for any other purpose other than the performance of this Agreement, except for disclosure in accordance with laws and regulations, requirements of regulatory authorities or to relevant parties such as securities regulators due to IPO or other projects of the company. In case of any breach, the breaching Party shall compensate the non-breaching Party for all losses so suffered.

8.2 Confidential information does not include the information, as proved by the receiving Party: (1) which was held by the receiving Party before it was provided to the receiving Party in accordance with the terms hereof, provided that the source of the information has nothing to do with the confidentiality agreement signed by the relevant parties or the confidentiality obligations of the receiving Party to the providing Party in accordance with the continuing legal relationship; (2) which has become known to the public due to reasons other than the conduct or fault of the receiving Party; (3) which is common sense in the industry or known to industry personnel; (4) which is legally obtained by the receiving Party from other parties without breach of contract to the providing Party, or independently developed by the receiving Party without reference to the confidential information.

8.3 Confidentiality Obligation of Customer Information: each Party hereto undertakes that, for the customer data or information provided by a Party to the other Parties in accordance with provisions hereof during the business development under the Cooperation Agreement, the other Parties shall not disclose or make available the same to any other party other than the Parties hereto, or use the same for other purposes irrelevant to this Business. In case of breach, the breaching Party shall compensate the non-breaching Party for all losses and assume corresponding legal liabilities.

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8.4 Term of Confidentiality: the confidentiality obligation of the receiving Party hereunder shall be valid during the term hereof, commencing from the date of expiration or termination of this Agreement to the date when such confidential information is voluntarily disclosed by the disclosing Party or may be obtained and known through public channels, unless otherwise expressly agreed by the Parties on confidential information.

#### **Article 9 Force Majeure**

9.1 If any Party fails to perform or delays in performing its obligations hereunder due to force majeure (including but not limited to natural disasters, war, acts of government or public authorities, civil unrest, strikes, computer viruses, hacker attacks, network failures, service delays or failures of bandwidth or other network equipment or technology provider, or any other similar events) directly or indirectly, then such Party shall be exempted from any liability for its non-performance or delay in performance. The Party failing to perform the Agreement shall immediately notify the other Parties, provide proof of the occurrence and duration of force majeure within 5 days, and take appropriate measures to prevent the enlargement of property losses; otherwise, it shall be liable for the enlarged losses.

9.2 The Parties hereto acknowledge that, if the transaction mode and rules hereunder are changed or the insurance products or the business agreed herein is paused, suspended or terminated, due to the promulgation and change of laws, regulations and relevant policies or regulatory reasons, the Parties hereto shall not claim liability for compensation against each other, and shall actively negotiate and adjust the transaction mode in the spirit of contract, good faith and through friendly cooperation.

#### **Article 10 Liabilities for Breach of Contract**

The Parties hereto shall strictly abide by the provisions hereof. If any Party breaches the provisions hereof, such Party shall assume the liability for breach of contract to the non-breaching Parties and compensate for the losses caused to the non-breaching Parties due to its breach of contract. And if this Agreement becomes invalid, canceled or terminated due to such breach, the non-breaching Parties shall have the right to require the breaching Party to compensate for the economic losses so suffered.

#### **Article 11 Intellectual Property Rights**

11.1 During the performance of this Agreement, when a Party uses the company names, trademarks, trade names, brands, domain names and websites authorized by other Parties, such use shall be limited to the contents and services agreed by the Parties herein, and shall not contain other business contents or be for other business purposes. Before using the names, domain names and websites authorized by other Parties in its own promotional materials, business cards, marketing, website building or otherwise, each Party shall notify the other Parties in writing and obtain the written permission of the other Parties; otherwise, a Party may require the breaching Party to assume all legal liabilities arising therefrom and compensate for the direct losses so caused.

11.2 All hardware, software, programs, passwords, product names, technologies, licenses, patents and know-how used by the Parties shall belong to their respective owners and are free from any defect in title, in and to which the other Parties shall have no right or interest.

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**Article 12 Anti-money Laundry, Anti-fraud and Anti-commercial Bribery**

- 12.1 Each Party hereto shall abide by relevant national laws and regulations on anti-money laundering, and do a good job in customer identification and other anti-money laundering duties required by laws and regulations. If a Party needs the partners to cooperate with its anti-money laundering duties, the other Parties shall provide active cooperation within the scope of laws, regulations and regulatory provisions, including but not limited to providing photocopies of ID cards of users and other identification documents required by regulators. On that basis, Party B shall comply with the Administrative Measures for Reporting of High-Value Transactions and Suspicious Transactions by Financial Institutions and other requirements for high-value suspicious transactions reporting, and transmit the transaction data to Party A truthfully and completely according to the route determined in advance.
- 12.2 The Parties shall strictly abide by the relevant requirements of regulatory authorities on anti-fraud, and undertake to set up a sound internal anti-fraud system and process, and have sound qualifications and good financial condition to fulfill their obligations hereunder.
- 12.3 Each Party hereto is aware and willing to strictly abide by the laws and regulations of the People's Republic of China on anti-commercial bribery, and is aware that any form of bribery and corruption is against the law and thus will be severely punished by the law. Neither Party may solicit, receive, offer or give any benefits other than those agreed herein from and to the other Parties or their handling persons or other relevant personnel, including but not limited to commission, kickback, cash, shopping card, physical items, negotiable securities, tourism or other non-material benefits, etc.
- 12.4 The term "other relevant personnel" as mentioned in this Article refers to the personnel who have direct or indirect interest in the Agreement other than the handling persons of Party A, Party B and Party C, including but not limited to the relatives and friends of the handling persons agreed herein.

**Article 13 Notice and Service**

- 13.1 All notices among the Parties shall be made in writing and may be served by personal delivery, express courier service, email, etc. Fax may be used as an auxiliary delivery method, but supplementary service must be made by any of the above agreed methods afterwards.
- 13.2 The notice shall be deemed to be served on the following dates:
- (1) If sent by personal delivery, on the date of delivery;
  - (2) If sent by express courier service (with postage prepaid), on the 3rd day after posting (subject to the postmark); and
  - (3) If sent by email, when the email is sent successfully.
- 13.3 Information of the designated contact persons of the Parties is as follows:
- Party A: [ ], Email: [ ], Contact Phone: [ ]
- Party B: [ ], Email: [ ], Contact Phone: [ ]
- Party C: [ ], Email: [ ], Contact Phone: [ ]
- 13.4 The contact address filled herein by the Parties hereto shall be their valid correspondence address. If the contact information of a Party changes, a change notice shall be delivered to the other Parties within 7 business days after the change; otherwise, all consequences arising therefrom shall be borne by the changing Party.
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**Article 14      Dispute Resolution**

This Agreement shall be governed by the laws of the People's Republic of China. Any dispute among the Parties arising out of the performance of this Agreement shall be resolved through friendly negotiation, and in case of failure to do so, the Parties agree to submit such dispute to Shanghai Arbitration Commission for arbitration.

**Article 15      Miscellaneous**

15.1 Any matter not covered herein shall be otherwise agreed by the Parties in a written supplementary agreement upon negotiation. Amendment to the Agreement shall be made in the form of a written supplementary agreement duly signed by the Parties, which shall be an integral part of this Agreement. In case of any inconsistency between the supplementary agreement and this Agreement, the supplementary agreement shall prevail.

15.2 The invalidity or unenforceability of any provision hereof shall not affect the validity of other provisions of this Agreement.

15.3 Unless otherwise provided, the failure or delay of any Party hereto in exercising any right, power or privilege hereunder shall not be deemed as waiver of such right, power or privilege, and the single or partial exercise of any right, power or privilege shall not impede the exercise of other right, power or privilege.

15.4 This Agreement shall be affixed with common seal by all the Parties. This Agreement shall be retroactively valid to August 12, 2019, for a term of two years, during which, either Party shall notify the other Parties about its termination request in writing 30 days in advance. Upon termination of this Agreement, the Parties shall still be responsible for handling relevant matters in accordance with the rights and obligations agreed herein for the creditor's rights of loans that have occurred before the termination of the Agreement. This Agreement shall be made in sextuplicate with each Party holding two copies of the same legal effect.

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**Party A: ZhongAn Online P&C Insurance Co., Ltd. (Common Seal)**

**/s/ Seal of ZhongAn Online P&C Insurance Co., Ltd.**

**Date of Signature: November 8, 2019**

**Party B: Shenzhen Xiaoying Puhui Technology Co., Ltd. (Common Seal)**

**/s/ Seal of Shenzhen Xiaoying Puhui Technology Co., Ltd.**

**Date of Signature:**

**Party C: Shenzhen Tangren Financing Guarantee Co., Ltd. (Common Seal)**

**/s/ Seal of Shenzhen Tangren Financing Guarantee Co., Ltd.**

**Date of Signature:**

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## Security Deposit Pledge Guarantee Agreement

Agreement No.: 20195237

Date: December 23, 2019

**Party A: ZhongAn Online P&C Insurance Co., Ltd.** (hereinafter referred to as “**Party A**” or “**ZhongAn Insurance**”)

**Registered Address:** 4-5/F, Associate Mission Building, 169 Yuanmingyuan Road, Huangpu District, Shanghai

**Legal Representative:** OU Yaping

**Party B: Shenzhen Tangren Financing Guarantee Co., Ltd.** (hereinafter referred to as “**Party B**” or “**Tangren Guarantee**”)

**Registered Address:** Room 1803, Building No.3, Tower 2, Dachong Business Center, Shennan Road, Yuehai Subdistrict, Nanshan District, Shenzhen

**Legal Representative:** SONG Hui

**WHEREAS,**

Party A, Party B and Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. (hereinafter referred to as “**Ying Zhong Tong**”) have entered into the Tripartite Cooperation Agreement No. 20193854, and Party A, Party B and Shenzhen Xiaoying Puhui Technology Co., Ltd. (hereinafter referred to as “**Xiaoying Puhui**”) have entered into the Tripartite Cooperation Agreement No. 20193948 (hereinafter collectively as the “**Tripartite Cooperation Agreements**”). According to the Tripartite Cooperation Agreements, with respect to the specific loan business referred by Ying Zhong Tong or Xiaoying Puhui, Party B will enter into an Entrusted Guarantee Contract with the borrower and charge the borrower guarantee fee and arrears administration fee (if any) according to the contract. If Party A underwrites such loan business after passing the underwriting review, Party B will provide joint and several liability guarantee for the right of subrogation against the borrower to be acquired by Party A after fulfilling the insurance payment obligation to the lender in accordance with the insurance contract and the premium as Party A may require the borrower to pay under the guarantee insurance business, provided that the total amount paid by Party B for such joint and several liability guarantee shall be capped at the aggregate of the guarantee fees payable and the arrears administration fees (if any) actually paid to Party B by all the borrowers in the loans underwritten by Party A in the above cooperation. NOW, Party B is willing to provide security deposit pledge guarantee for its above joint and several guarantee liability.

THEREFORE, in order to specify the rights and obligations of the Parties, the Parties hereto enter into the following agreement in good faith and upon friendly consultation according to the provisions of applicable laws and regulations.

**Article 1 Security Deposit Pledge Guarantee****1.1 Scope of Guarantee and Enforcement of Security Interest:**

Party B agrees to create security deposit pledge guarantee for the joint and several guarantee liability of Party B under the Tripartite Cooperation Agreements, by providing security deposit. Should Party B fail to timely and fully fulfill its joint and several guarantee liability to ZhongAn Insurance pursuant to the Tripartite Cooperation Agreements due to its own cause, then ZhongAn Insurance shall be entitled to directly deduct the security deposit paid by Party B hereunder, by an amount equivalent to the amount of the joint and several guarantee liability that should be assumed by Party B under the Tripartite Cooperation Agreements (provided that the total amount shall be capped at the aggregate of the guarantee fees payable and the arrears administration fees (if any) actually paid to Party B by all the borrowers in the loans underwritten by Party A in the above cooperation). After Party A's deduction of corresponding amount from the security deposit paid by Party B, Party B shall be deemed to have fulfilled the joint and several guarantee liability as agreed under the Tripartite Cooperation Agreements, and Party A shall continue performing relevant obligations in accordance with the provisions of the Tripartite Cooperation Agreements, including but not limited to refunding to Party B the amounts subsequently repaid to Party A by defaulted borrowers due to reasons such as being demanded for repayment.

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1.2 This Agreement shall only apply to the business occurred before November 1, 2019 (exclusive), which Party A will underwrite corresponding creditor's rights pursuant to the Tripartite Cooperation Agreements and Party B agrees to provide guarantee for such creditor's rights therein.

1.3 Collection and Refund of Security Deposit:

(1) Collection of Security Deposit. Party B will pay the security deposit to Party A according to the schedule below upon execution of this Agreement:

<u>Due Date</u>		<u>Payment Amount</u>
December 11, 2019	RMB	70,000,000.00
December 20, 2019	RMB	150,000,000.00
January 20, 2020	RMB	150,000,000.00
February 20, 2020	RMB	120,000,000.00
March 20, 2020	RMB	120,000,000.00
April 20, 2020	RMB	120,000,000.00
May 20, 2020	RMB	120,000,000.00
June 20, 2020	RMB	50,000,000.00
<b>Total</b>	<b>RMB</b>	<b>900,000,000.00</b>

The above security deposit will be paid to the security deposit account designated by Party A below:

Account Holder: ZhongAn Online P&C Insurance Co., Ltd.

Bank: [       ]

Account No.: [       ]

(2) Refund of Security Deposit. On the first anniversary upon effectiveness of this Agreement or on the date as Party A and Party B may otherwise agree, Party A and Party B shall settle the security deposit, and after confirming that Party B has fully performed all obligations hereunder, Party A shall refund the remaining security deposit which has not been deducted (if any) to Party B within 5 business days.

(3) The Parties may otherwise confirm the specific operation rules for reconciliation, payment, refund and deduction of security deposit by email.

**Article 2       Representations and Warranties**

2.1 The Parties undertake that the execution of this Agreement complies with applicable laws and regulations, and violate no laws or regulations.

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- 2.2 The Parties have obtained the necessary and lawful approvals and authorizations for the execution and performance of this Agreement, including but not limited to the approvals and authorizations of the authorities of the Parties, and the execution of this Agreement and performance of their obligations hereunder by the Parties comply with the provisions of laws, administrative rules, regulations and the Articles of Association or internal organizational documents of the Parties.
- 2.3 The Parties shall sign the documents and provide all kinds of information and documents that must be signed or provided by the Parties to complete the cooperation matters hereunder.
- 2.4 The Parties shall actively perform their obligations under other provisions hereof.

### **Article 3 Confidentiality Obligation**

The Parties shall be obligated to keep confidential the trade secrets and information relating to this Agreement of the other Party known and the contents of this Agreement (hereinafter collectively referred to as the “**Secrets**”). Unless otherwise provided in the PRC laws and regulations or required by regulatory authorities, neither Party may disclose the Secrets to any other third party.

### **Article 4 Liabilities for Breach of Contract**

- 4.1 A Party who breaches its undertakings, warranties or other obligations hereunder shall indemnify the other Party for losses suffered as a result of such breach and for costs incurred in pursuing and remedying the breach by the other Party.
- 4.2 If a Party is unable to perform or fully perform this Agreement due to force majeure, such Party shall be fully or partially exempted from the liability for breach of contract.
- 4.3 Event of Default

In addition to breach of any obligation, undertaking or warranty hereunder, any of the following events of Party B shall constitute an Event of Default for the purpose of this Article:

- (1) Where Party B breaches any of its obligations hereunder or Party B explicitly expresses or indicates by its own acts that it will not perform any of its obligations hereunder;
  - (2) Where the documents submitted or any representations and undertakings made to Party A by Party B are unauthentic, inaccurate or incomplete; or have false records, misleading representations or gross omissions; or conceal true and important information;
  - (3) Where Party B experiences leakage of customers’ personal information or concentrated negative news or public opinions;
  - (4) Where Party B is subject to frequent litigation or arbitration cases, or has disputes the amount of which are so large that it may affect the performance of Party B’s obligations under this cooperation, except for Party B’s recovery litigation or actions initiated against the borrower;
  - (5) Where Party B is subject to any administrative punishment or criminal sanction or any investigation by relevant authority, due to any illegal or irregular operation etc.;
  - (6) Where Party B incurs external financing liabilities on its own or through its affiliates or otherwise without 15 business days’ prior notice to Party A;
  - (7) Where Party B provides external guarantee without 15 business days’ prior notice to Party A;
  - (8) Where any controlling shareholder, actual controller, director, supervisor or senior executive of Party B is subject to criminal sanctions, has committed major violations of laws or regulations or is included in the list of dishonest persons subject to enforcement;
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- (9) Where Party B has significant operational difficulties, financial losses, significant loss of assets, etc. that may result in a decline in its ability to fulfill its obligations;
- (10) Where Party B has corporate merger, split, dissolution, acquisition and reorganization, disposal of major assets, liquidation, been declared bankrupt, or the like;
- (11) Where Party B fails to maintain the approvals, authorizations and/or consents required to perform its contractual obligations, or the said approvals, authorizations and/or consents have been suspended, withdrawn or revoked;
- (12) Where Party B breaches any representation or warranty made in this Agreement;
- (13) Where Party B is under receivership or placed in trust by the relevant regulatory authority;
- (14) Where Party B has ceased or shows by action that it will cease operating its main business;
- (15) Where Party B is negligent in administering or asserting its due claims against third parties; or disposes assets for free or at unreasonably low price or in other inappropriate way, or transfers property or avoids debts;
- (16) Where Party B has any other illegal or irregular acts or there are circumstances that may cause it unable to perform its obligations hereunder as agreed.

4.4 Where Party B has any Event of Default stated herein, Party A is entitled to take any or more of the following measures:

- (1) Require Party B to immediately cease its breach, and compensate Party A for all economic losses so suffered;
- (2) Unilaterally terminate this Agreement based on the then circumstances;
- (3) Require Party B to continue the performance of the contractual obligations hereunder;
- (4) Notify the lender to immediately stop new advance;
- (5) Disclose Party B's breach of contract to the public; and
- (6) Take other remedy measures as provided by laws and regulations.

## **Article 5 Notice**

5.1 The Parties shall send notice to the other Party by the following address:

Party A: ZhongAn Online P&C Insurance Co., Ltd.

Address: ZhongAn Insurance, 4/F, Associate Mission Building, 169 Yuanmingyuan Road, Huangpu District, Shanghai

Phone: [      ]

Contact Person: [      ]

Email: [      ]

Party B: Shenzhen Tangren Financing Guarantee Co., Ltd.

Address: Room 18B04, Tower B, Aerospace Science and Technology Square, 166&168 Haide 3rd Road, Haizhu Community, Yuehai Sub-district, Nanshan District, Shenzhen

Phone: [      ]

Contact Person: [      ]

Email: [      ]

5.2 A notice will be deemed received on (i) the first business day after the date of sending (the date of sending shall be the date when the fax machine prints the confirmation of successful sending of the fax), if sent by fax; or (ii) the date of delivery to the designated address, if sent by personal delivery; or (iii) the 5th day after the date of post, if sent by post; or (iv) the date of successful sending, if sent by e-mail.

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5.3 If a Party designates a different address or if its above address changes, such Party shall promptly notify the other Party in writing.

**Article 6           Applicable Laws and Dispute Resolution**

6.1 The validity, interpretation and performance of this Agreement shall be governed by the laws, regulations and governmental department rules of the PRC.

6.2 Any dispute arising from the performance of this Agreement or in connection with this Agreement shall be resolved by the Parties through friendly negotiation; and in case of failure to do so, either Party may bring a lawsuit before the competent people's court at the place where Party A is located.

6.3 Pending dispute resolution, the Parties shall continue performing this Agreement except the disputed part.

**Article 7           Miscellaneous**

7.1 This Agreement shall establish and take effect upon affixation of common seal by the Parties and seal by the legal representatives of the Parties.

7.2 This Agreement shall be effective retroactively from November 1, 2019.

7.3 This Agreement shall be made in duplicate, with each Party holding one copy of the same legal effect.

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(Signature Page to the Security Deposit Pledge Guarantee Agreement No. 20195237)

**Party A: ZhongAn Online P&C Insurance Co., Ltd. (Common Seal)**

**/s/ Seal of ZhongAn Online P&C Insurance Co., Ltd.**

**Legal Representative: /s/ Ou Yaping** \_\_\_\_\_

**Party B: Shenzhen Tangren Financing Guarantee Co., Ltd. (Common Seal)**

**/s/ Seal of Shenzhen Tangren Financing Guarantee Co., Ltd.**

**Legal Representative: /s/ Song Hui** \_\_\_\_\_

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## Supplementary Agreement to Security Deposit Pledge Guarantee Agreement

Agreement No.: 20201886

Date: July 8, 2020

This Supplementary Agreement shall be made and entered into on July 8, 2020 in Xuhui District, Shanghai by and between:

**Party A: ZhongAn Online P&C Insurance Co., Ltd.** (hereinafter referred to as “**Party A**” or “**ZhongAn Insurance**”)

**Registered Address:** 4-5/F, Associate Mission Building, 169 Yuanmingyuan Road, Huangpu District, Shanghai

**Legal Representative:** OU Yaping

**Party B: Shenzhen Tangren Financing Guarantee Co., Ltd.** (hereinafter referred to as “**Party B**” or “**Tangren Guarantee**”)

**Registered Address:** Room 1803, Building No.3, Tower 2, Dachong Business Center, Shennan Road, Yuehai Subdistrict, Nanshan District, Shenzhen

**Legal Representative:** SONG Hui

**WHEREAS:** Party A and Party B have entered into the Security Deposit Pledge Guarantee Agreement No. 20195237 dated December 23, 2019 (hereinafter referred to as the “**Original Agreement**”), and the Parties hereby agree to supplement and adjust the Original Agreement as follows pursuant to the applicable laws and regulations of the PRC on the principles of willingness, equality, mutual benefits and good faith upon amicable negotiation:

**Article 1** Unless specially agreed herein, the terms used herein shall have the meaning ascribed to them in the Original Agreement.

**Article 2** The Parties agree to amend the collection and refund of the security deposit under Item (1), Paragraph 3, Article 1 **from:**

Collection of Security Deposit. Party B will pay the security deposit to Party A according to the schedule below upon execution of this Agreement:

<b>Due Date</b>	<b>Payment Amount</b>
December 11, 2019	RMB 70,000,000.00
December 20, 2019	RMB 150,000,000.00
January 20, 2020	RMB 150,000,000.00
February 20, 2020	RMB 120,000,000.00
March 20, 2020	RMB 120,000,000.00
April 20, 2020	RMB 120,000,000.00
May 20, 2020	RMB 120,000,000.00
June 20, 2020	RMB 50,000,000.00
<b>Total</b>	<b>RMB 900,000,000.00</b>

The above security deposit will be paid to the security deposit account designated by Party A below:

Account Holder: ZhongAn Online P&C Insurance Co., Ltd.

Bank: [       ]

Account No.: [       ]

to:

Collection of Security Deposit. Party B will pay the security deposit to Party A according to the schedule below upon execution of this Agreement:

<u>Due Date</u>	<u>Payment Amount</u>	
December 11, 2019	RMB	70,000,000.00
December 20, 2019	RMB	150,000,000.00
January 20, 2020	RMB	150,000,000.00
February 21, 2020	RMB	120,000,000.00
March 20, 2020	RMB	120,000,000.00
April 20, 2020	RMB	120,000,000.00
May 9, 2020	RMB	120,000,000.00
May 28, 2020	RMB	120,000,000.00
<b>Total</b>	<b>RMB</b>	<b>970,000,000.00</b>

The above security deposit will be paid to the security deposit account designated by Party A below:

Account Holder: ZhongAn Online P&C Insurance Co., Ltd.

Bank: [       ]

Account No.: [       ]

**Article 3** This Agreement shall be adjustment and supplement to the Original Agreement. In case of inconsistency, this Agreement shall prevail. Any matter not covered herein shall be subject to the relevant provisions of the Original Agreement.

**Article 4** This Agreement shall take effect as of May 28, 2020 and shall be made in duplicate with each Party holding one copy of the same legal effect.

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**Party A: ZhongAn Online P&C Insurance Co., Ltd. (Common Seal)**

**/s/ Seal of ZhongAn Online P&C Insurance Co., Ltd.**

**Party B: Shenzhen Tangren Financing Guarantee Co., Ltd. (Common Seal)**

**/s/ Seal of Shenzhen Tangren Financing Guarantee Co., Ltd.**

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## Security Deposit Pledge Guarantee Agreement

Agreement No.: 20201653

Date: June 19, 2020

**Party A: ZhongAn Online P&C Insurance Co., Ltd.** (hereinafter referred to as “**Party A**” or “**ZhongAn Insurance**”)

**Registered Address:** 4-5/F, Associate Mission Building, 169 Yuanmingyuan Road, Huangpu District, Shanghai

**Legal Representative:** OU Yaping

**Party B: Shenzhen Xiaoying Puhui Technology Co., Ltd.** (hereinafter referred to as “**Party B**” or “**Xiaoying Puhui**”)

**Registered Address:** Qianhai Complex A201, Qianwan Road 1, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen

**Legal Representative:** SUN Huichang

**WHEREAS,**

Party A, Shenzhen Tangren Financing Guarantee Co., Ltd. (hereinafter referred to as “**Tangren Guarantee**”) and Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. (hereinafter referred to as “**Ying Zhong Tong**”) have entered into the Tripartite Cooperation Agreement No. 20193854 dated November 8, 2019, and, Party A, Party B and Tangren Guarantee have entered into the Tripartite Cooperation Agreement No. 20193948 dated November 8, 2019, and may enter into relevant Supplementary Agreement from time to time (hereinafter referred to collectively as the “**Tripartite Cooperation Agreements**”). According to the Tripartite Cooperation Agreements, with respect to the specific loan business referred by Ying Zhong Tong or Xiaoying Puhui, Tangren Guarantee will enter into an Entrusted Guarantee Contract with the borrower and charge the borrower guarantee fee and arrears administration fee (if any) according to the contract. If Party A underwrites such loan business after passing the underwriting review, Tangren Guarantee will provide joint and several liability guarantee for the right of subrogation against the borrower to be acquired by Party A after fulfilling the insurance payment obligation to the lender in accordance with the insurance contract and the premium as Party A may require the borrower to pay under the guarantee insurance business, provided that the total amount paid by Tangren Guarantee for such joint and several liability guarantee shall be capped at the aggregate of the guarantee fees payable and the arrears administration fees (if any) actually paid to Tangren Guarantee by all the borrowers in the loans underwritten by Party A in the above cooperation. NOW, Party B is willing to provide security deposit pledge guarantee for the above joint and several guarantee liability of Tangren Guarantee within the scope of guarantee agreed herein, THEREFORE, in order to specify the rights and obligations of the Parties, the Parties hereto enter into the following agreement in good faith and upon friendly consultation according to the provisions of applicable laws and regulations.

**Article 1 Security Deposit Pledge Guarantee**

**1.1 Scope of Guarantee and Enforcement of Security Interest:**

Party B agrees to create security deposit pledge guarantee for the joint and several guarantee liability of Tangren Guarantee under the Tripartite Cooperation Agreements, by providing security deposit. Should Tangren Guarantee fail to timely and fully fulfill its joint and several guarantee liability to ZhongAn Insurance pursuant to the Tripartite Cooperation Agreements due to its own cause, then ZhongAn Insurance shall be entitled to directly deduct the security deposit paid by Party B hereunder, by an amount equivalent to the amount of the joint and several guarantee liability that should be assumed by Tangren Guarantee under the Tripartite Cooperation Agreements (provided that the total amount shall be capped at the aggregate of the guarantee fees payable and the arrears administration fees (if any) actually paid to Tangren Guarantee by all the borrowers in the loans underwritten by Party A in the above cooperation).

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- 1.2 This Agreement shall only apply to the business occurred after November 1, 2019 (inclusive), which Party A will underwrite corresponding creditor's rights pursuant to the Tripartite Cooperation Agreements and Tangren Guarantee agrees to provide guarantee for such creditor's rights therein.
- 1.3 Collection and Refund of Security Deposit. It is agreed that the specific operation rules for reconciliation, payment, refund and deduction of security deposit shall be otherwise agreed in a written supplementary agreement or conformed via email by designated personnel.
- 1.4 Use of Security Deposit. Should Tangren Guarantee fail to timely and fully fulfill its guarantee liability to Party A pursuant to the Tripartite Cooperation Agreements, then Party A shall be entitled to directly deduct the security deposit paid by Party B; or in case that Party B has paid more security deposit than it is supposed to, then upon email confirmation by Party A, Party B and Tangren Guarantee, such excess of the security deposit may be directly used as compensation to Party A while the guarantee liability of Tangren Guarantee will be reduced pro rata.

The designated personnel of the Parties and their contact information shall be as follows:

Party A: [       ]

Email: [       ]

Party B: [       ]

Email: [       ]

Tangren: [       ]

Email: [       ]

Any change to the above personnel may be otherwise agreed in a written supplementary agreement or confirmed via email by the original designated personnel on behalf of the Parties.

## **Article 2            Representations and Warranties**

- 2.1 The Parties undertake that the execution of this Agreement complies with applicable laws and regulations, and violate no laws or regulations.
  - 2.2 The Parties have obtained the necessary and lawful approvals and authorizations for the execution and performance of this Agreement, including but not limited to the approvals and authorizations of the authorities of the Parties, and the execution of this Agreement and performance of their obligations hereunder by the Parties comply with the provisions of laws, administrative rules, regulations and the Articles of Association or internal organizational documents of the Parties.
  - 2.3 The Parties shall sign the documents and provide all kinds of information and documents that must be signed or provided by the Parties to complete the cooperation matters hereunder.
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2.4 The Parties shall actively perform their obligations under other provisions hereof.

### **Article 3 Confidentiality Obligation**

The Parties shall be obligated to keep confidential the trade secrets and information relating to this Agreement of the other Party known and the contents of this Agreement (hereinafter collectively referred to as the “**Secrets**”), except otherwise provided by the PRC laws and regulations and required by regulatory authorities, or disclosed to professional consulting firms (including but not limited to attorneys, accountants, auditors, appraisers, financial advisors, etc. and their personnel) engaged by the receiving Party (hereinafter collectively referred to as the “**Representatives**”), provided that reasonable measures have been taken to require such Representatives to undertake the same confidentiality obligations with respect to the confidential information as those set out herein. If the above Representatives violate the confidentiality obligation, it shall be deemed as a breach of contract by the receiving Party, and neither Party may disclose the Secrets to any other third party.

### **Article 4 Liabilities for Breach of Contract**

- 4.1 A Party who breaches its undertakings, warranties or other obligations hereunder shall indemnify the other Party for losses suffered as a result of such breach and for costs incurred in pursuing and remedying the breach by the other Party.
- 4.2 If a Party is unable to perform or fully perform this Agreement due to force majeure, such Party shall be fully or partially exempted from the liability for breach of contract.
- 4.3 Event of Default

In addition to breach of any obligation, undertaking or warranty hereunder, any of the following events of Party B shall constitute an Event of Default for the purpose of this Article:

- (1) Where Party B breaches any of its obligations hereunder or Party B explicitly expresses or indicates by its own acts that it will not perform any of its obligations hereunder;
  - (2) Where the documents submitted or any representations and undertakings made to Party A by Party B are unauthentic, inaccurate or incomplete; or have false records, misleading representations or gross omissions; or conceal true and important information;
  - (3) Where Party B experiences leakage of customers’ personal information or concentrated negative news or public opinions;
  - (4) Where Party B is subject to frequent litigation or arbitration cases, or has disputes the amount of which are so large that it may affect the performance of Party B’s obligations under this cooperation;
  - (5) Where Party B is subject to any administrative punishment or criminal sanction or any investigation by relevant authority, due to any illegal or irregular operation, etc.;
  - (6) Where Party B incurs external financing liabilities on its own or through its affiliates or otherwise without 15 business days’ prior notice to Party A;
  - (7) Where Party B provides external guarantee without 15 business days’ prior notice to Party A;
  - (8) Where any controlling shareholder, actual controller, director, supervisor or senior executive of Party B is subject to criminal sanctions, has committed major violations of laws or regulations or is included in the list of dishonest persons subject to enforcement;
  - (9) Where Party B has significant operational difficulties, financial losses, significant loss of assets, etc. that may result in a decline in its ability to fulfill its obligations;
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- (10) Where Party B has corporate merger, split, dissolution, acquisition and reorganization, disposal of major assets, liquidation, been declared bankrupt, or the like;
- (11) Where Party B fails to maintain the approvals, authorizations and/or consents required to perform its contractual obligations, or the said approvals, authorizations and/or consents have been suspended, withdrawn or revoked;
- (12) Where Party B breaches any representation or warranty made in this Agreement;
- (13) Where Party B is under receivership or placed in trust by the relevant regulatory authority;
- (14) Where Party B has ceased or shows by action that it will cease operating its main business;
- (15) Where Party B is negligent in administering or asserting its due claims against third parties; or disposes assets for free or at unreasonably low price or in other inappropriate way, or transfers property or avoids debts;
- (16) Where Party B has any other illegal or irregular acts or there are circumstances that may cause it unable to perform its obligations hereunder as agreed.

4.4 Where Party B has any Event of Default stated herein, Party A is entitled to take any or more of the following measures:

- (1) Require Party B to immediately cease its breach, and compensate Party A for all economic losses so suffered;
- (2) Unilaterally terminate this Agreement based on the then circumstances;
- (3) Require Party B to continue the performance of the contractual obligations hereunder;
- (4) Notify the lender to immediately stop new advance;
- (5) Disclose Party B's breach of contract to the public; and
- (6) Take other remedy measures as provided by laws and regulations.

#### **Article 5 Notice**

5.1 The Parties shall send notice to the other Party by the following address:

Party A: ZhongAn Online P&C Insurance Co., Ltd.

Address: ZhongAn Insurance, 4/F, Associate Mission Building, 169 Yuanmingyuan Road, Huangpu District, Shanghai

Phone: [      ]

Contact Person: [      ]

Email: [      ]

Party B: Shenzhen Xiaoying Puhui Technology Co., Ltd.

Address: Qianhai Complex A201, Qianwan Road 1, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen

Phone: [      ]

Contact Person: [      ]

Email: [      ]

5.2 A notice will be deemed received on (i) the first business day after the date of sending (the date of sending shall be the date when the fax machine prints the confirmation of successful sending of the fax), if sent by fax; or (ii) the date of delivery to the designated address, if sent by personal delivery; or (iii) the 5th day after the date of post, if sent by post; or (iv) the date of successful sending, if sent by e-mail.

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5.3 If a Party designates a different address or if its above address changes, such Party shall promptly notify the other Party in writing.

**Article 6           Applicable Laws and Dispute Resolution**

6.1 The validity, interpretation and performance of this Agreement shall be governed by the laws, regulations and governmental department rules of the PRC.

6.2 Any dispute arising from the performance of this Agreement or in connection with this Agreement shall be resolved by the Parties through friendly negotiation; and in case of failure to do so, either Party may bring a lawsuit before the competent people's court at the place of signature of this Contract.

6.3 Pending dispute resolution, the Parties shall continue performing this Agreement except the disputed part.

**Article 7           Miscellaneous**

7.1 This Agreement shall establish and take effect upon affixation of common seal by the Parties and signature/seal by the legal representatives of the Parties.

7.2 This Agreement shall be effective retroactively from November 1, 2019.

7.3 This Agreement shall be made in duplicate, with each Party holding one copy of the same legal effect.

7.4 This Agreement shall be signed in Xuhui District, Shanghai on June 19, 2020.

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**Party A: ZhongAn Online P&C Insurance Co., Ltd. (Common Seal)**

**/s/ Seal of ZhongAn Online P&C Insurance Co., Ltd.**

**Legal Representative: /s/ Ou Yaping** \_\_\_\_\_

**Party B: Shenzhen Xiaoying Puhui Technology Co., Ltd. (Common Seal)**

**/s/ Seal of Shenzhen Xiaoying Puhui Technology Co., Ltd.**

**Legal Representative: /s/ Sun Huichang** \_\_\_\_\_

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\*\*\*\* CERTAIN INFORMATION (INDICATED BY ASTERISKS IN BRACKETS) HAS BEEN OMITTED FROM THIS DOCUMENT BECAUSE IT IS BOTH (1) NOT MATERIAL AND (2) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED.

### Supplementary Agreement to Security Deposit Pledge Guarantee Agreement

Agreement No.: 20201654

Date: June 19, 2020

**Party A: ZhongAn Online P&C Insurance Co., Ltd.**

**Registered Address:** 4-5/F, Associate Mission Building, 169 Yuanmingyuan Road, Huangpu District, Shanghai

**Legal Representative:** OU Yaping

**Party B: Shenzhen Xiaoying Puhui Technology Co., Ltd.** (hereinafter referred to as “**Party B**” or “**Xiaoying Puhui**”)

**Registered Address:** Qianhai Complex A201, Qianwan Road 1, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen

**Legal Representative:** SUN Huichang

**WHEREAS,**

1. Party A, Shenzhen Tangren Financing Guarantee Co., Ltd. (hereinafter referred to as “**Tangren Guarantee**”) and Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. (hereinafter referred to as “**Ying Zhong Tong**” or “**YZT**”) have entered into the Tripartite Cooperation Agreement No. 20193854 dated November 8, 2019, and, Party A, Party B and Tangren Guarantee have entered into the Tripartite Cooperation Agreement No. 20193948 dated November 8, 2019, and may enter into relevant Supplementary Agreement from time to time (hereinafter referred to collectively as the “**Tripartite Cooperation Agreements**”). According to the provisions of the Tripartite Cooperation Agreements, for the specific loan business referred by YZT or Xiaoying Puhui, Tangren Guarantee will enter into an Entrusted Guarantee Contract with the borrower and charge the borrower guarantee fee and arrears administration fee (if any) according to the contract. If Party A underwrites such loan business after passing the underwriting review, Tangren Guarantee will provide joint and several liability guarantee for the right of subrogation against the borrower to be acquired by Party A after fulfilling the insurance payment obligation to the lender in accordance with the insurance contract and the premium as Party A may require the borrower to pay under the guarantee insurance business (hereinafter referred to as “**Primary Creditor’s Rights**”), provided that the total amount paid by Tangren Guarantee for such joint and several liability guarantee shall be capped at the aggregate of the guarantee fees payable and the arrears administration fees (if any) actually paid to Tangren Guarantee by all the borrowers in the loans underwritten by Party A in the above cooperation.
  2. Party A and Party B have entered into the Security Deposit Pledge Guarantee Agreement No. 20201653 dated June 9, 2020 (hereinafter referred to as the “**Security Deposit Agreement**”), whereby Party B is willing to provide security deposit pledge guarantee for such joint and several guarantee liability of Tangren Guarantee, that is, when Tangren Guarantee fails to timely and fully perform the guarantee liability to Party A as agreed in the Tripartite Cooperation Agreements due to its own reasons, Party A shall have the right to directly deduct from and transfer the corresponding security deposit paid by Party B. Upon negotiation, Party A and Party B, intending to be legally bound, enter into this Supplementary Agreement for matters not covered in the Security Deposit Agreement (hereinafter referred to as the “**Original Agreement**”).
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## Definitions

- 1) “**Assets**” refers to consumer finance personal loan debt assets involved in the cooperation among Party A, Party B, YZT, Tangren Guarantee and other lenders under the Tripartite Cooperation Agreements.
- 2) “**Asset FIP**” is calculated according to **VINTAGE31 + overdue final loss percentage (FIP)**, that is, remaining outstanding principal amount of loans that are advanced in X month and currently overdue at the end of each MOB month for 31 days or longer/ amount of loans advanced in X Month;
- 3) “**MOB**” refers to Month on Book. With respect to a loan, its MOB is 0 in the month of advance, 1 in the month immediately following, and so on;
- 4) “**C Assets**” refers to loans which are not in overdue state at the end of the MOB month;
- 5) “**M1 Assets**” refers to loans which are overdue for 1-30 days at the end of the MOB month;
- 6) “**M2 & Above Assets**” refers to loans which are overdue for 31 days or longer at the end of the MOB month;
- 7) “**Insured Balance**” refers to the sum of the principal and interest for which the balance of coverage within the policy period of ZhongAn has not reached the agreed repayment date and which has not been paid by the customer.
- 8) “**Product Period/Asset Period**” refers to the term of a loan or period of an insurance product/asset, calculated on a monthly basis, with one period being a month, for example, a 3-period or 6-period product is a loan or insurance product with the loan term or policy period of 3 months or 6 months.

### **Article 1 Amendment to Applicability of Security Deposit Pledge Guarantee**

Party A and Party B agree to amend Paragraph 2, Article 1 of the Security Deposit Agreement from “This Agreement shall only apply to the business occurred after November 1, 2019 (inclusive), which Party A will underwrite corresponding creditor’s rights pursuant to the Tripartite Cooperation Agreements and Tangren Guarantee agrees to provide guarantee for such creditor’s rights therein.” to “The security deposit pledge guarantee hereunder shall apply to all businesses under the Tripartite Cooperation Agreements which are underwritten by ZhongAn Insurance and Tangren Guarantee agrees to provide guarantee for the creditor’s rights therein”.

The Parties also agree that on basis of the Original Agreement, Party B shall assume guarantee liability and pay security deposit for such particular products as “High Value Bank Card Loan Series Products” (including “Xiaoying Card Loan”, “Xiaoying Easy Loan”, and “Card Loan Installment Mall”) and “Xiaoying Wallet” under the cooperative business (hereinafter collectively referred to as “**Particular Products**”), and the Parties agree to settle different products in accordance with the rules set forth herein.

### **Article 2 Computation and Collection of Security Deposit**

1. Party B shall pay the security deposit of RMB70,772,735.40 (in words: Seventy Million, Seven Hundred and Seventy-Two Thousand, Seven Hundred and Thirty-Five Yuan Forty Fen) by December 12, 2019 (inclusive) to the security deposit account designated by Party A as the security deposit for the creditor’s rights generated from the Particular Products underwritten by Party A in the whole November of 2019.
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2. Starting from November 25, 2019, the Parties shall calculate the advance amount corresponding to the estimated underwritten Assets of the High Value Bank Card Loan Series Products for the period from the 1st to 15th day of next month before the 25th day of current month on a monthly basis (hereinafter referred to as the “**Estimated Advance Amount in 1HM**”), and conduct statistics of the actual underwritten amount of the High Value Bank Card Loan Series Products for the period from the 1st to 15th day of that month by the 16th day of next month (hereinafter referred to as the “**Actual Underwritten Amount in 1HM**”). According to the Estimated Advance Amount in 1HM and the Actual Underwritten Amount in 1HM, Party B shall pay the security deposit in four installments respectively by the 30th day of current month, 6th day of next month, 16th day of next month and 30th day of next month:

(1) Amount of security deposit to be paid by the [\*\*\*\*] day of current month: [\*\*\*\*]

(2) Amount of security deposit to be paid by the [\*\*\*\*] day of next month: [\*\*\*\*]

(3) Amount of security deposit to be paid by the [\*\*\*\*] day of next month: [\*\*\*\*]

(4) Amount of security deposit to be paid by the [\*\*\*\*] day of next month: [\*\*\*\*]

3. Starting from December 10, 2019, the Parties shall calculate the advance amount corresponding to the estimated underwritten Assets of the High Value Bank Card Loan Series Products for the period from the 16th to 31st day of current month before the 10th day of current month on a monthly basis (hereinafter referred to as the “**Estimated Advance Amount in 2HM**”), and conduct statistics of the actual underwritten amount of the High Value Bank Card Loan Series Products for the period from the 16th to 31st day of that month by the 1st day of next month (hereinafter referred to as the “**Actual Underwritten Amount in 2HM**”). According to the Estimated Advance Amount in 2HM and the Actual Underwritten Amount in 2HM, Party B shall pay the security deposit in four installments respectively by the [\*\*\*\*] day of current month, [\*\*\*\*] day of current month, [\*\*\*\*] day of next month and [\*\*\*\*] day of next month:

(1) Amount of security deposit to be paid by the [\*\*\*\*] day of current month: [\*\*\*\*]

(2) Amount of security deposit to be paid by the [\*\*\*\*] day of current month: [\*\*\*\*]

(3) Amount of security deposit to be paid by the [\*\*\*\*] day of next month: [\*\*\*\*]

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(4) Amount of security deposit to be paid by the [\*\*\*\*] day of next month: [\*\*\*\*]

4. From December, 2019, Party B shall pay to Party A security deposit equivalent to [\*\*\*\*]% of the advance amount corresponding to the estimated underwritten Assets of “Xiaoying Wallet” products in the month within the first 5 business days each month.
5. If any of the estimated reconciliation dates and security deposit payment dates above is not on a business day, the corresponding date shall be advanced to the preceding business day.
6. The security deposit percentages under all periods above are the results of the measurement of the current quality of Assets. Should the Assets deteriorate, Party A may propose to adjust the security deposit percentage.
7. Information of Bank Account Designated by Party A for Receipt of Security Deposit:

Account Holder: ZhongAn Online P&C Insurance Co., Ltd.

Bank: [\*\*\*\*]

Account No.: [\*\*\*\*]

### **Article 3 Replenishment of Security Deposit**

1. From January 1, 2020, Party A and Party B shall verify the actual underwritten amount of the High Value Bank Card Loan Series Products for the period from the 16th to 31st day of the previous month on the 1st day each month, and compare (i) the security deposit amount corresponding to the actual underwritten amount of High Value Bank Card Loan Series Products for the period from 16th to 31st day of the previous month with (ii) the prepaid security deposit amount for the advance amount corresponding to the estimated underwritten Assets of High Value Bank Card Loan Series Products during such period. If the security deposit amount corresponding to the actual underwritten amount is higher than the prepaid security deposit amount corresponding to the estimated advance amount, Party B shall replenish the security deposit in a lump sum within 5 business days upon receipt of notice from Party A, and the amount of replenishment shall be [\*\*\*\*], of the High Value Bank Card Loan Series Products. Where Party B fails to timely replenish the security deposit due to its own reasons for more than 5 business days overdue, Party A may cease cooperation on new business and/or unilaterally terminate this Agreement, and demand Party B to pay liquidated damages of RMB100,000 (unless Party A and Party B agree through email communication that the security deposit may be paid later).
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2. From December 16, 2019, Party A and Party B shall verify the actual underwritten amount of the High Value Bank Card Loan Series Products for the period from the 1st to 15th day of current month on the 16th day each month, and compare (i) the security deposit amount corresponding to the actual underwritten amount of High Value Bank Card Loan Series Products for the period from 1st to 15th day of current month with (ii) the prepaid security deposit amount for the advance amount corresponding to the estimated underwritten Assets of High Value Bank Card Loan Series Products during such period. If the security deposit amount corresponding to the actual underwritten amount of High Value Bank Card Loan Series Products is higher than the prepaid security deposit amount corresponding to the estimated advance amount, Party B shall replenish the security deposit in a lump sum within 5 business days upon receipt of notice from Party A, and the amount of replenishment shall be [\*\*\*\*], of the High Value Bank Card Loan Series Products. Where Party B fails to timely replenish the security deposit due to its own reasons for more than 5 business days overdue, Party A may cease cooperation on new business and/or unilaterally terminate this Agreement, and demand Party B to pay liquidated damages of RMB100,000 (unless Party A and Party B agree through email communication that the security deposit may be paid later).
3. From December, 2019, Party A and Party B shall verify the underwriting scale of “Xiaoying Wallet” products in the previous month in the first week of each month. If the actual underwritten amount of “Xiaoying Wallet” products in the previous month is higher than the advance amount corresponding to the estimated underwritten Assets of the previous month, Party B shall replenish the security deposit in a lump sum within 5 business days upon receipt of notice from Party A, and the amount of replenishment shall be [\*\*\*\*]. Where Party B fails to timely replenish the security deposit due to its own reasons for more than 5 business days overdue, Party A may cease cooperation on new business and/or unilaterally terminate this Agreement, and demand Party B to pay liquidated damages of RMB100,000 (unless Party A and Party B agree through email communication that the security deposit may be paid later).
4. Party A may at any time require to verify the standard amount of security deposit agreed in Article 5 hereof with Party B out of business needs, and determine the amount of security deposit to be replenished by Party B based on the verification result. Party B shall replenish the security deposit in a lump sum within 5 business days upon receipt of notice from Party A requiring replenishment of security deposit. Where Party B fails to timely replenish the security deposit due to its own reasons for more than 5 business days overdue, Party A may cease cooperation on new business and/or unilaterally terminate this Agreement, and demand Party B to pay liquidated damages of RMB100,000 (unless Party A and Party B agree through email communication that the security deposit may be paid later).
5. The Parties shall confirm the security deposit amount received in the month by email on a monthly basis.

Email of Party A's Contact Persons:

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Email of Party B's Contact Persons:

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In case of any changes to the above designated emails, such changes shall be notified to the other Party in writing 3 business days in advance.

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6. In addition to the above replenishment provisions, the Parties shall regularly verify the quality of the cooperative Assets, and negotiate and adjust the security deposit percentage based on the quality of Assets. After the security deposit percentages are confirmed by the Parties by email, Party B shall replenish the security deposit in a lump sum within 5 business days upon receipt of notice in writing or by email from Party A requiring replenishment of security deposit.
7. If any of the verification dates above is not on a business day, the corresponding date shall be advanced to the preceding business day.

**Article 4 Security Deposit Warning Line Standard and Adjustment Rules:**

1. The security deposit percentages agreed in this Article are annualized percentages, and the security deposit warning line is only specific to the Insured Balance corresponding to C Assets of the High Value Bank Card Loan Series Products advanced after November 1, 2019 which are underwritten by Party A.
  2. DPD31+vintage warning line monitoring indicator at EOM:
    - (1) DPD31+vintage indicator at EOM (hereinafter referred to as “**DPD31+indicator**”) shall be monitored on a monthly basis, and the monthly observation date is the 10th day (which shall be postponed to the business day immediately following if it is not on a business day), Party B shall send the Assets performance data of the previous month to Party A before the observation date according to the requirements of Party A on a monthly basis, and Party A and Party B shall complete the verification of DPD31+indicator within 2 business days after the observation date.
    - (2) For 3-period, 6-period, 9-period and 12-period Assets advanced from November 1, 2019, the warning line percentages of their respective periods corresponding to the advance month shall be calculated respectively according to the Assets performance of each advance month during each period. With respect to advance month with DPD31+ performance, for all periods in each advance month, the amount of security deposit to be retained corresponding to C Assets for all periods in each advance month shall be determined by Warning Line Percentage Triggered by the Latest MOB × Insured Balance of C Assets for All Periods of Each Advance Month × (1-MOB/Actual Advance Periods). With respect to advance month without DPD31+ performance, the amount of security deposit to be retained corresponding to C Assets for all periods in each advance month shall be determined by [\*\*\*\*].
    - (3) For 3-period, 6-period, 9-period and 12-period Assets, if the latest MOB for all periods in an advance month triggers warning line I, the security deposit percentage of Insured Balance of C Assets of corresponding periods at the corresponding advance month shall rise to [\*\*\*\*]; if the latest MOB for all periods in an advance month triggers warning line II, Party A shall give warning to Party B, and Party B may apply for observation and cooperate with Party A to understand relevant changes in Assets and adjustment of risk control policies, until the warning line II has been triggered in two consecutive periods, in which case, the security deposit percentage of Insured Balance of C Assets of corresponding periods at the corresponding advance month shall rise by the same percentage on basis of [\*\*\*\*].
-





12-period	Security Deposit Percentage	mob2	mob3	mob4	mob5	mob6	mob7	mob8	mob9	mob10	mob11
Normal	[****]										
Warning Line I	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]
Warning Line II	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]
Security Deposit Reduction Standard	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]	[****]

**Article 5 Refund and Supplementary Payment of Security Deposit:**

- From March 1, 2020, Party A and Party B shall verify the security deposit standard amount of Particular Products as of the end of the previous calendar month at the first week each month, which shall be postponed in case of holidays. If the balance of security deposit exceeds the security deposit standard amount, Party A shall refund the excess part to Party B without interest within 3 business days upon receipt of notice from Party B. Upon completion of verification of Assets of all periods, if supplementary payment of security deposit is needed, Party B shall make supplementary payment of security deposit before the 16th day of the observation month.
- Security Deposit Standard Amount of Particular Products = [\*\*\*\*];
- The initial security deposit percentages of High Value Bank Card Loan Series Products and Xiaoying Wallet Products shall be accounted for per [\*\*\*\*] and [\*\*\*\*] respectively. In case of any changes to the security deposit percentage corresponding to any MOB of Assets under all Periods, Party A may discuss with Party B to adjust the beginning security deposit of Assets under such Periods and the security deposit percentage of each corresponding MOB under such Periods, and adjustment percentage shall be confirmed in writing or by email by Party A and Party B upon negotiation.
- Upon expiry of the project cooperation, after Party B has fully performed all obligations hereunder and there is no customer complaint handling, regulatory investigation, judicial case or other pending matters of the cooperation project between the Parties, Party A shall refund the remaining security deposit (if any) to Party B without interest within 5 business days.

**Article 6 Confidentiality Obligation**

The Parties shall be obligated to keep confidential the trade secrets and information relating to this Agreement of the other Party known and the content of this Agreement (hereinafter referred to collectively as “Secrets”). Unless otherwise provided in the PRC laws and regulations or required by regulatory authorities, neither Party may disclose the Secrets to any other third party.

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**Article 7            Miscellaneous**

1. This Supplementary Agreement shall establish and take effect from the date of affixation of common seal and signature/seal by legal representatives of the Parties. This Supplementary Agreement shall be made in duplicate with each Party holding one copy of the same legal effect.
2. This Supplementary Agreement shall be an integral part of the Original Agreement, and have the same legal effect as the Original Agreement. Where there is any conflict between a clause in this Supplementary Agreement and a clause in the Original Agreement, the clause in this Supplementary Agreement shall prevail. Except for provisions expressly changed herein, the remaining part of the Original Agreement shall remain in full force and effect.
3. Any dispute arising from the performance of this Agreement or in connection with this Agreement shall be resolved by the Parties through friendly negotiation; and in case of failure to do so, either Party may bring a lawsuit before the competent people's court at the place of signature of this Agreement.
4. This Agreement shall be signed on June 19, 2020 in Xuhui District, Shanghai.

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**Party A: ZhongAn Online P&C Insurance Co., Ltd. (Common Seal)**

**/s/ Seal of ZhongAn Online P&C Insurance Co., Ltd.**

**Legal Representative: /s/ Ou Yaping**

**Party B: Shenzhen Xiaoying Puhui Technology Co., Ltd. (Common Seal)**

**/s/ Seal of Shenzhen Xiaoying Puhui Technology Co., Ltd.**

**Legal Representative: /s/ Sun Huichang**

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## List of subsidiaries, VIEs and significant subsidiaries of VIEs of the Registrant

<b>Significant Subsidiaries</b>	<b>Place of Incorporation</b>
YZT (HK) Limited	Hong Kong
Xiaoying (Beijing) Information Technology Co., Ltd.	PRC
Shenzhen Xiaoying Puhui Technology Co., Ltd.	PRC
Shenzhen Xiaoying Information Technology Co., Ltd.	PRC

<b>VIEs</b>	<b>Place of Incorporation</b>
Shenzhen Xiaoying Technology Co., Ltd.	PRC
Shenzhen Tangren Financing Guarantee Co., Ltd.	PRC
Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd.	PRC
Shenzhen Beier Assets Management Co., Ltd.	PRC

<b>Significant Subsidiaries of VIEs</b>	<b>Place of Incorporation</b>
Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd.	PRC

\* The subsidiaries of the Registrant's subsidiaries incorporated in PRC and other subsidiaries of the VIEs have been omitted from this list since, considered in the aggregate as a single entity, they would not constitute a significant subsidiary.

**Certification by the Principal Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Yue (Justin) Tang, certify that:

1. I have reviewed this annual report on Form 20-F of X Financial (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: May 14, 2021

By: /s/ Yue (Justin) Tang  
Name: Yue (Justin) Tang  
Title: Chief Executive Officer and Chairman

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**Certification by the Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Frank Fuya Zheng, certify that:

1. I have reviewed this annual report on Form 20-F of X Financial (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: May 14, 2021

By: /s/ Frank Fuya Zheng  
Name: Frank Fuya Zheng  
Title: Chief Financial Officer

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**Certification by the Principal Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of X Financial (the “Company”) on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Yue (Justin) Tang, Chief Executive Officer and Chairman of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2021

By: /s/ Yue (Justin) Tang  
Name: Yue (Justin) Tang  
Title: Chief Executive Officer and Chairman

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**Certification by the Principal Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of X Financial (the "Company") on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank Fuya Zheng, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2021

By: /s/ Frank Fuya Zheng  
Name: Frank Fuya Zheng  
Title: Chief Financial Officer

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**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
X Financial:

We consent to the incorporation by reference in the registration statement on Form S-8 (No. 333-227938) of X Financial of our report dated May 14, 2021, with respect to the consolidated balance sheet of X Financial as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2020, the related notes and financial statement Schedule I, which report appears in the December 31, 2020 annual report on Form 20-F of X Financial.

Our report refers to a change in the method of accounting for the recognition and measurement of credit losses.

/s/ KPMG Huazhen LLP

Shenzhen, China  
May 14, 2021

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-227938) of our report dated April 25, 2019 relating to the consolidated financial statements and financial statement schedule of X Financial and its subsidiaries and its consolidated variable interest entities (the "Group") for the year ended December 31, 2018, appearing in this Annual Report on Form 20-F of X Financial for the year ended December 31, 2020.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Shanghai, China

May 14, 2021

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