

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

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(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, 2021.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

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

Commission file number: 001-37657

Yiren Digital Ltd.

(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)

**5/F, Hanwei Plaza, No. 7, Guanghua Road
Chaoyang District, Beijing 100022
The People's Republic of China**

(Address of principal executive offices)

Na Mei, Chief Financial Officer

Telephone: +86 10 5090-5315

Email: ir@yirendai.com

**5/F, Hanwei Plaza, No. 7, Guanghua Road
Chaoyang District, Beijing 100022
The People's Republic of China**

(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:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
American depositary shares (one American depositary share representing two ordinary shares, par value US\$0.0001 per share)	YRD	New York Stock Exchange
Ordinary shares, par value US\$0.0001 per share*		New York Stock Exchange

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

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

None

(Title of Class)

[Table of Contents](#)

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.

169,995,926 ordinary shares, par value US\$0.0001 per share, as of December 31, 2021.

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, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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.

Yes No

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 12b2 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>
INTRODUCTION	iii
FORWARD-LOOKING INFORMATION	iv
PART I	1
Item 1. Identity of Directors, Senior Management and Advisers	1
Item 2. Offer Statistics and Expected Timetable	1
Item 3. Key Information	1
Our Holding Company Structure and Contractual Arrangements with the Consolidated Variable Interest Entities	1
Permissions Required from the PRC Authorities for Our Operations	3
Cash and Asset Flows through Our Organization	6
Financial Information Related to the Consolidated Variable Interest Entities	9
Selected Financial Data	12
B. Capitalization and Indebtedness	14
C. Reasons for the Offer and Use of Proceeds	14
D. Risk Factors	14
Item 4. Information on the Company	69
A. History and Development of the Company	69
B. Business Overview	71
C. Organizational Structure	106
D. Property, Plant and Equipment	112
Item 4A. Unresolved Staff Comments	112
Item 5. Operating and Financial Review and Prospects	113
A. Operating Results	113
Off-Balance Sheet Arrangements	132
B. Liquidity and Capital Resources	132
Contractual Obligations	135
C. Product Development	136
D. Trend Information	136
Item 6. Directors, Senior Management and Employees	138
A. Directors and Senior Management	138
B. Compensation	140
C. Board Practices	142
D. Employees	144
E. Share Ownership	145
Item 7. Major Shareholders and Related Party Transactions	146
A. Major Shareholders	146
B. Related Party Transactions	146
C. Interests of Experts and Counsel	151
Item 8. Financial Information	151
A. Consolidated Statements and Other Financial Information	151
B. Significant Changes	152
Item 9. The Offer and Listing	152
A. Offering and Listing Details	152
B. Plan of Distribution	152
C. Markets	152
D. Selling Shareholders	152
E. Dilution	153
F. Expenses of the Issue	153
Item 10. Additional Information	153
A. Share Capital	153
B. Memorandum and Articles of Association	153
C. Material Contracts	157
D. Exchange Controls	157
E. Taxation	157

Table of Contents

	<u>F. Dividends and Paying Agents</u>	163
	<u>G. Statement by Experts</u>	163
	<u>H. Documents on Display</u>	163
	<u>I. Subsidiary Information</u>	163
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	163
<u>Item 12.</u>	<u>Description of Securities Other than Equity Securities</u>	164
	<u>A. Debt Securities</u>	164
	<u>B. Warrants and Rights</u>	164
	<u>C. Other Securities</u>	164
	<u>D. American Depositary Shares</u>	164
<u>PART II</u>		166
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	166
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	166
<u>Item 15.</u>	<u>Controls and Procedures</u>	166
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>	167
<u>Item 16B.</u>	<u>Code of Ethics</u>	167
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>	167
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	168
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	168
<u>Item 16F.</u>	<u>Change in Registrant’s Certifying Accountant</u>	168
<u>Item 16G.</u>	<u>Corporate Governance</u>	170
<u>Item 16H.</u>	<u>Mine Safety Disclosure</u>	170
<u>Item 16I.</u>	<u>Disclosure Regarding Foreign Jurisdictions That Prevent Inspections</u>	170
<u>PART III</u>		171
<u>Item 17.</u>	<u>Financial Statements</u>	171
<u>Item 18.</u>	<u>Financial Statements</u>	171
<u>Item 19.</u>	<u>Exhibits</u>	171
<u>SIGNATURES</u>		175

INTRODUCTION

Unless otherwise indicated or the context otherwise requires in this annual report:

- “ADSs” refer to our American depositary shares, each of which represents two ordinary shares;
- “CreditEase” refers to CreditEase Holdings (Cayman) Limited, our parent company and controlling shareholder;
- “M3+ Net Charge-off Rate” with respect to loans facilitated during a specified time period, which we refer to as a vintage, is defined as the difference between (i) the total balance of outstanding principal of loans that become over three months delinquent during a specified period, and (ii) the total amount of recovered past due payments of principal and accrued interest in the same period with respect to all loans in the same vintage that have ever become over three months delinquent, divided by (iii) the total initial principal of the loans facilitated in such vintage;
- “net payout” refers to the portion of an investor’s outstanding principal and accrued interest paid out to the investor from our quality assurance program in the event of a loan default. Prior to the discontinuation of our quality assurance program in May 2018, we implemented a 100% payout ratio policy allowing investors to fully recover their outstanding principal and accrued interest in the event of loan default;
- “ordinary shares” refer to our ordinary shares, par value US\$0.0001 per share;
- “prime borrower” refers to credit card holders with stable credit performance and sufficient repayment capabilities. In determining whether a prospective borrower has stable credit performance and sufficient repayment capabilities, we review such borrower’s credit card statement for the last six months and/or credit report from the People’s Bank of China, or the PBOC, for the last five years and re-evaluate the secured asset’s valuation for secured loans, as applicable;
- “client assets” refer to the balance of client assets generated through our platforms.
- “RMB” and “Renminbi” refer to the legal currency of China;
- “US\$,” “U.S. dollars,” “\$,” and “dollars” refer to the legal currency of the United States;
- “Yiren Credit” refers to our credit-tech platform that has the capability to provide individual borrowers and small business owners with a full spectrum of online and offline, multi-channel loan products funded by financial institutions;
- “Yiren Digital,” “we,” “us,” “our company” and “our” refer to Yiren Digital Ltd., its subsidiaries and in the context of describing our operations and consolidated financial information, the consolidated variable interest entities in China, including, but not limited to, CreditEase Puhui Information Consultant (Beijing) Co., Ltd., Hexiang Insurance Broker Co., Ltd., Haijin Yichuang Financial Leasing Co., Ltd., Yiren Financial Information Service (Beijing) Co., Ltd., Dekai Yichuang Asset Management (Shenzhen) Co., Ltd., Hainan Haijin Yichuang Data Information Service Co., Ltd.;
- “Yiren Wealth” refers to our wealth management platform that specifically targets the mass affluent investors and provides them with one-stop asset allocation-based wealth management solutions; and
- “Yiren Select” refers to the “Finance Plus Life” super App initiative launched by Yiren Wealth, which cater to the mass affluent group’s diversified and comprehensive needs in different life scenarios.

In March and July 2019, we entered into definitive agreements and certain amendment, respectively, with CreditEase, the controlling shareholder of our company, pursuant to which we assumed from CreditEase and its affiliates certain business operations, mainly including online wealth management targeting the mass affluent, unsecured and secured consumer lending, small-and-medium-enterprise (SME) lending and other related services or businesses (the “Acquired Businesses”). This transaction was consummated in July 2019. Unless otherwise indicated, the financial data and operating data of our company set forth in this annual report reflect the inclusion of the Acquired Businesses.

On December 31, 2020, we consummated another business restructuring with CreditEase to streamline our service lines and reposition us as a comprehensive digital personal financial management platform in China. In connection with the business restructuring, we had disposed of the online consumer lending platform targeting individual investors as the funding source (the “Disposed Business”). The Disposed Business was operated by Hengcheng Technology Development (Beijing) Co., Ltd. (“Hengcheng”), and CreditEase had, through its subsidiaries and affiliates, paid the designated subsidiaries of our company an aggregate amount of RMB67.0 million in cash. After the restructuring, the funding source for Yiren Credit is investments from institutional funding partners only.

Our reporting currency is Renminbi, or RMB. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report are made at a rate of RMB6.3726 to US\$1.00, the exchange rate in effect as of December 31, 2021 as set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve System. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to:

- our goals and strategies;
- our future business development, financial condition and results of operations;
- the expected growth of the online consumer finance marketplace market in China;
- our expectations as to the charge-off rates of loans facilitated through our platform;
- our expectations regarding demand for and market acceptance of our products and services;
- our expectations regarding our relationships with investors and borrowers;
- our plans to invest in our proprietary technologies in the areas of data collection and processing algorithms as well as new business initiatives;
- competition in our industry;
- potential impact of COVID-19 outbreak on our current and future business development, financial condition and results of operations; and
- relevant government policies and regulations relating to our industry.

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 3D. Key Information—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

Our Holding Company Structure and Contractual Arrangements with the Consolidated Variable Interest Entities

Yiren Digital Ltd. is not a Chinese operating company but a Cayman Islands holding company with no equity ownership in the consolidated variable interest entities. We conduct our operations in China through (i) our PRC subsidiaries and (ii) the consolidated variable interest entities with which we have maintained contractual arrangements. PRC laws and regulations restrict and impose conditions on foreign investment in internet culture business and certain value-added telecommunication services such as internet content provision services. Accordingly, we operate these businesses in China through the consolidated variable interest entities, and rely on contractual arrangements among our PRC subsidiaries, the consolidated variable interest entities and their shareholders to conduct the business operations of the consolidated variable interest entities. Revenues contributed by the consolidated variable interest entities accounted for 96.4%, 64.4% and 71.3% of our total revenues for the years of 2019, 2020 and 2021, respectively. As used in this annual report, “we,” “us,” “our company” and “our” refers to Yiren Digital Ltd., its subsidiaries, and, in the context of describing our operations and consolidated financial information, the consolidated variable interest entities in China, including but not limited to CreditEase Puhui Information Consultant (Beijing) Co., Ltd. or CreditEase Puhui, which was established in March 2011 and holds our Domestic Call Center Service Permit, operates our website and primarily engages in the credit business; Hexiang Insurance Broker Co., Ltd. or Hexiang Insurance Brokers, which was established in September 2011 and holds our Business Licenses to Professional Insurance Intermediaries, operates our website and primarily engages in the insurance brokerage business; Dekai Yichuang Asset Management (Shenzhen) Co., Ltd. or Dekai Yichuang, which was established in March 2016 and primarily engages in the business of asset management; Hainan Haijin Yichuang Data Information Service Co., Ltd. or Yichuang Data, which was established in December 2016 and primarily engages in the business of data information; Haijin Yichuang Financial Leasing Co., Ltd. or Yichuang Financial Leasing, which was established in March 2017 and primarily engages in the business of financial leasing; Yichuang Micro-lending Co., Ltd. or Yichuang Micro-lending, which was established in May 2017 and primarily engages in the micro-lending business; Yiren Financial Information Service (Beijing) Co., Ltd. or Yiren Wealth, which was established in October 2016 and operates our website and mobile application and primarily engages in the wealth management business; Heilongjiang Changtuo Technology Development Co., Ltd. or Changtuo Technology, which was established in January 2014; Tianjin Linyang Information and Technology Co., Ltd. or Tianjin Linyang, which was established in July 2019 and primarily engages in the business of referral service; Beijing Yiding Technology Co., Ltd. or Yiding Technology, which was established in August 2019 and operates our website and primarily engages in the insurance referral business; Beijing Kechuang Xinlian Technology Co., Ltd. or Kechuang Xinlian, which was established in November 2019 and holds our Internet Culture Business Permit, Internet Content Provider License and Electronic Data Interchange License, operates our website and mobile application and primarily engages in the electronic commerce business. Investors in our ADSs are not purchasing equity interest in the consolidated variable interest entities in China but instead are purchasing equity interest in a holding company incorporated in the Cayman Islands.

A series of contractual agreements, including loan agreements, exclusive purchase option agreements, exclusive technology consulting and services agreements or exclusive business cooperation agreements, as applicable, intellectual property rights license agreement, equity pledge agreements, powers of attorney and business operation agreements, have been entered into by and among our subsidiaries, the consolidated variable interest entities and their respective shareholders. Terms contained in each set of contractual arrangements with the consolidated variable interest entities and their respective shareholders are substantially similar. As a result of the contractual agreements, we are considered the primary beneficiary of these companies and have consolidated the financial results of these companies in our consolidated financial statements. For more details of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the Consolidated Variable Interest Entities.”

However, the contractual arrangements may not be as effective as direct ownership and we may incur substantial costs to enforce the terms of the arrangements. In addition, these agreements have not been tested in China courts. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with the consolidated variable interest entities, and their respective shareholders for a portion of our business operations, which may not be as effective as direct ownership” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure— The shareholders of the consolidated variable interest entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.”

There are also substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules regarding the status of the rights of our Cayman Islands holding company with respect to its contractual arrangements with the consolidated variable interest entities and their shareholders. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or any of the consolidated variable interest entities is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government deems that the contractual arrangements in relation to the consolidated variable interest entities 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.”

Our corporate structure is subject to risks associated with our contractual arrangements with the consolidated variable interest entities. If the PRC government deems that our contractual arrangements with the consolidated variable interest entities 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 or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, our PRC subsidiaries and the consolidated variable interest entities, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the consolidated variable interest entities and, consequently, significantly affect the financial performance of the consolidated variable interest entities and our company as a whole. For a detailed description of the risks associated with our corporate structure, please refer to risks disclosed under “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure.”

We face various risks and uncertainties related to doing business in China. Our business operations are primarily conducted in China, and we are subject to complex and evolving PRC laws and regulations. For example, we face risks associated with regulatory approvals on offshore offerings, anti-monopoly regulatory actions, and oversight on cybersecurity and data privacy, which may impact our ability to conduct certain businesses, accept foreign investments, or list on a United States or other foreign exchange. These risks could result in a material adverse change in our operations and the value of our ADSs, significantly limit or completely hinder our ability to continue to offer securities to investors, or cause the value of such securities to significantly decline. For a detailed description of risks related to doing business in China, please refer to risks disclosed under “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China.”

PRC government has significant authority in regulating our operations and may influence our operations. It may exert more oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers, which could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations, including data security or anti-monopoly related regulations, in this nature may cause the value of such securities to significantly decline. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC government’s significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.”

Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of our ADSs. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the legal system in Chinese mainland could adversely affect us. Certain laws and regulations in Chinese mainland can evolve quickly, which bring risks and uncertainties to their interpretation and enforcement. Administrative and court proceedings in Chinese mainland may be protracted. Some government policies and internal rules may not be published on a timely manner. These risks and uncertainties may make it difficult for us to meet or comply with requirements under the applicable laws and regulations” and “—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.”

Permissions Required from the PRC Authorities for Our Operations

We conduct our business primarily through our subsidiaries and the consolidated variable interest entities in China. Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, our PRC subsidiaries and the consolidated variable interest entities have obtained the requisite licenses and permits from the PRC government authorities that are material for the business operations of our holding company and the consolidated variable interest entities in China, including, among others, Internet Content Provider (“ICP”) License, Electronic Data Interchange (“EDI”) License, Internet Culture Business Permit, Food Business Permit, Internet Drug Information Service Certificate, Financing Guarantee Business License and Business Licenses to Professional Insurance Intermediaries. Given the uncertainties of interpretation and implementation of relevant laws and regulations and the enforcement practice by relevant government authorities, we may be required to obtain additional licenses, permits, filings or approvals for the functions and services of our platform in the future. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If our practice is deemed to violate any PRC laws, rules or regulations, our business, financial condition and results of operations would be materially and adversely affected.”

Furthermore, in connection with our issuance of securities to foreign investors, under current PRC laws, regulations and regulatory rules, as of the date of this annual report, we, our PRC subsidiaries and the consolidated variable interest entities, (i) have not received request to obtain permissions from the China Securities Regulatory Commission, or the CSRC, (ii) have not received request to go through cybersecurity review by the Cyberspace Administration of China, or the CAC, and (iii) have not received or were denied such requisite permissions by any PRC authority.

However, the PRC government has recently indicated an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. If we fail to obtain the relevant approval or complete other filing procedures for any future offshore offering or listing, we may face sanctions by the CSRC or other PRC regulatory authorities, which may include fines and penalties on our operations in China, limitations on our operating privileges in China, restrictions on or prohibition of the payments or remittance of dividends by our subsidiaries in China, restrictions on or delays to our future financing transactions offshore, or other actions that could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing” and “—Our business is subject to complex and evolving Chinese and international laws and regulations regarding data privacy and cybersecurity. Failure to protect confidential information of our customers and network against security breaches could damage our reputation and brand and substantially harm our business and results of operations.”

The Holding Foreign Companies Accountable Act

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. The HFCA Act states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the Public Company Accounting Oversight Board (United States), or the PCAOB, for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange. Our current independent registered public accounting firm, Wei, Wei & Co., LLP (“Wei Wei”), whose audit report is included in this annual report on Form 20-F, is headquartered in Flushing, New York, and has been inspected by the PCAOB on a regular basis. The PCAOB currently has access to inspect the working papers of our auditor. Our auditor is not headquartered in mainland China or Hong Kong and was not identified in the report as a firm subject to the PCAOB determinations announced on December 16, 2021 and as of the filing date of this annual report. Notwithstanding the foregoing, in the future, if either there is any regulatory change or steps taken by the PRC regulators that does not permit Wei Wei to provide audit documentation located in mainland China or Hong Kong to the PCAOB for inspection or investigation or if we change auditors and they are not able to provide audit documentation for the inspection or investigation of the PCAOB, they could become subject to the HFCA Act prohibitions. On August 26, 2022, the PCAOB signed a Statement of Protocol with the Chinese authorities governing inspections and investigations of audit firms based in China, which marks the first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms in China. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PCAOB may be unable to inspect or fully investigate our auditor in relation to their audit work performed for our financial statements. If the PCAOB is unable to conduct such inspection, our investors would be deprived of the benefits of such inspection” and “—Our ADSs may be prohibited from trading in the United States under the HFCA Act in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.”

Summary of Risk Factors

Investing in our ADSs involves significant risks. You should carefully consider all of the information in this annual report before making an investment in our ADSs. Below please find a summary of the principal risks we face, organized under relevant headings. These risks are discussed more fully in the section titled “Item 3. Key Information—D. Risk Factors.”

Risks Related to Our Delayed Filing of this Form 20-F

- The filing of this Form 20-F may not make us “current” in our Exchange Act filing obligations, which means we retain certain potential liability and may not be eligible to use certain forms or rely on certain rules of the SEC.

Risks Related to Our Business

Risks and uncertainties related to our business include, but are not limited to, the following:

- We operate in emerging and evolving industries, and our operations, services and products have been and may need to be modified in answering to the latest market trends, which makes it difficult to evaluate our future prospects.
- If we are unable to obtain adequate funding from institutional funding partners to meet user demand for loans on our platform, our business and results of operations will be adversely affected.
- If we are unable to maintain or increase the volume of loans facilitated through our marketplace or if we are unable to retain existing borrowers or investors or attract new borrowers or investors, our business and results of operations will be adversely affected.
- If our practice is deemed to violate any PRC laws, rules or regulations, our business, financial condition and results of operations would be materially and adversely affected.
- We may not be able to achieve profitability in the future.
- If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud.
- Our business is subject to complex and evolving Chinese and international laws and regulations regarding data privacy and cybersecurity. Failure to protect confidential information of our customers and network against security breaches could damage our reputation and brand and substantially harm our business and results of operations.

Risks Related to Our Carve-out from CreditEase and Our Relationship with CreditEase

Risks and uncertainties related to our carve-out from CreditEase and our relationship with CreditEase include, but are not limited to, the following:

- We rely on our parent company, CreditEase, for the successful operation of our business.
- Our financial information included in this annual report may not be representative of our financial condition and results of operations if we had been operating as a stand-alone company.
- We may have conflicts of interest with CreditEase and, because of CreditEase’s controlling ownership interest in our company, we may not be able to resolve such conflicts on favorable terms for us.

Risks Related to Our Corporate Structure

Risks and uncertainties related to our corporate structure include, but are not limited to, the following:

- Yiren Digital Ltd. is a Cayman Islands holding company with no equity ownership in the consolidated variable interest entities and their subsidiaries. We conduct our operations in China primarily through (i) our subsidiaries in China, (ii) the variable interest entities with which we have maintained contractual arrangements, and (iii) the subsidiaries of the variable interest entities. Holders of our ADSs hold equity interest in Yiren Digital Ltd. and do not have direct or indirect equity interest in the consolidated variable interest entities and their subsidiaries. There are uncertainties under PRC laws and regulations regarding the enforceability of the whole or any part of these contractual arrangements. If the whole or any part of our contractual arrangements with the variable interest entities and their shareholders is found to be unenforceable, we may not be able to consolidate, or derive economic interests from the consolidated variable interest entities and their subsidiaries, which could result in a material adverse change in the financial performance of our company and the value of our ADSs.
- Any failure by the consolidated variable interest entities or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.
- The shareholders of the consolidated variable interest entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Risks Related to Doing Business in China

We are also subject to risks and uncertainties relating to doing business in China in general, including, but not limited to, the following:

- PRC government has significant authority in regulating our operations and may influence our operations. It may exert more oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers, which could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations, including data security or anti-monopoly related regulations, in this nature may cause the value of such securities to significantly decline. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC government’s significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.”
- Changes in China’s or global economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations.
- Uncertainties with respect to the legal system in Chinese mainland could adversely affect us. Certain laws and regulations in Chinese mainland can evolve quickly, which bring risks and uncertainties to their interpretation and enforcement. Administrative and court proceedings in Chinese mainland may be protracted. Some government policies and internal rules may not be published on a timely manner. These risks and uncertainties may make it difficult for us to meet or comply with requirements under the applicable laws and regulations.
- We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.
- The funds in our PRC subsidiaries or the consolidated variable interest entities in Chinese mainland may not be available to fund operations or for other use outside of Chinese mainland due to interventions in or the imposition of restrictions and limitations on the ability of our holding company, our subsidiaries, or the consolidated variable interest entities by the PRC government on currency conversion. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may limit our ability to utilize our net revenue effectively and affect the value of your investment.”

- The PCAOB may be unable to inspect or fully investigate our auditor in relation to their audit work performed for our financial statements. If the PCAOB is unable to conduct such inspection, our investors would be deprived of the benefits of such inspection.
- Our ADSs may be prohibited from trading in the United States under the HFCA Act in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

Risks Related to Our American Depositary Shares

In addition to the risks described above, we are subject to general risks relating to our ADSs, including, but not limited to, the following:

- The trading price of our ADSs may be volatile, which could result in substantial losses to investors.
- The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.

Cash and Asset Flows through Our Organization

We have established stringent controls and procedures for cash flows within our organization. Each transfer of cash between our Cayman Islands holding company and a subsidiary, the variable interest entities or their subsidiaries is subject to internal approval. The cash inflows of the Cayman Islands holding company were primarily generated from the proceeds we received from our public offerings of ordinary shares, other financing activities and cash generated from operating activities. In 2019, 2020 and 2021, our Cayman Islands holding company transferred cash in the total amount of RMB13.9 million, RMB9.6 million and RMB11.9 million (US\$1.9 million) to our subsidiaries. In 2019, 2020 and 2021, no assets other than cash were transferred between our Cayman Islands holding company and a subsidiary, a variable interest entity or its subsidiary, no subsidiaries paid dividends or made other distributions to the holding company, and no dividends or distributions were paid or made to U.S. investors. Pursuant to the exclusive technical and consulting services agreements between our wholly-owned PRC subsidiaries and the consolidated variable interest entities, the amount of service fee shall be calculated in such manner as determined by both the consolidated variable interest entities and our wholly-owned PRC subsidiary from time to time based on the nature of service and paid. The consolidated variable interest entities have paid RMB1,205.7 million, RMB392.8 million and RMB66.0 million (US\$10.4 million) of service fee to our wholly-owned PRC subsidiary under the variable interest entity arrangements for the years ended December 31, 2019, 2020 and 2021, respectively. The consolidated variable interest entities expect to continue to settle any service fees incurred under the exclusive technical and consulting services agreements. Furthermore, cash transfers from our PRC subsidiaries and the consolidated variable interest entities to entities outside of Chinese mainland are subject to PRC governmental control on currency conversion. As a result, the funds in our PRC subsidiaries or the consolidated variable interest entities in Chinese mainland may not be available to fund operations or for other use outside of Chinese mainland due to interventions in, or the imposition of restrictions and limitations on, the ability of our holding company, our subsidiaries, or the consolidated variable interest entities by the PRC government on such currency conversion. For risks relating to the fund flows of our operations in China, see “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—We rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business” and “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may limit our ability to utilize our net revenue effectively and affect the value of your investment.”

[Table of Contents](#)

As a Cayman Islands holding company, we may receive dividends from our PRC subsidiaries. Under the Enterprise Income Tax Law of the PRC, or the EIT Law, and related regulations, dividends, interests, rent or royalties payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its foreign non-resident enterprise investors, and proceeds from any such foreign enterprise investor's disposition of assets (after deducting the net value of such assets) are subject to a 10% withholding tax, unless the foreign enterprise investor's jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. The Cayman Islands, where Yiren Digital Ltd., the direct parent company of our PRC subsidiaries, is incorporated, does not have such a tax treaty with China. Hong Kong has a tax arrangement with China that provides for a 5% withholding tax on dividends subject to certain conditions and requirements, such as the requirement that the Hong Kong resident enterprise own at least 25% of the PRC enterprise distributing the dividend at all times within the 12-month period immediately preceding the distribution of dividends and be a "beneficial owner" of the dividends. If our PRC subsidiaries declare and distribute profits to us, such payments will be subject to withholding tax, which will increase our tax liability and reduce the amount of cash available to our company. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—Contractual arrangements in relation to the consolidated variable interest entities may be subject to scrutiny by the PRC tax authorities and they may determine that we owe additional taxes, which could negatively affect our financial condition and the value of your investment." 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%.

For purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid within China, assuming that: (i) we have taxable earnings, and (ii) we determine to pay dividends in the future.

	<u>Tax calculation ⁽¹⁾</u>
Hypothetical pre-tax earnings ⁽²⁾	100 %
Tax on earnings at statutory rate of 25% ⁽³⁾	(25)%
Net earnings available for distribution	75 %
Withholding tax at standard rate of 10% ⁽⁴⁾	(7.5)%
Net distribution to Parent/Shareholders	67.5 %

Notes:

- (1) For purposes of this example, the tax calculation has been simplified. The hypothetical book pre-tax earnings amount, not considering timing differences, is assumed to equal taxable income in China.
- (2) Under the terms of variable interest entity agreements, our PRC subsidiaries may charge the consolidated variable interest entities for services provided to the consolidated variable interest entities. These service fees shall be recognized as expenses of the consolidated variable interest entities, with a corresponding amount as service income by our PRC subsidiaries and eliminate in consolidation. For income tax purposes, our PRC subsidiaries and the consolidated variable interest entities file income tax returns on a separate company basis. The service fees paid are recognized as a tax deduction by the consolidated variable interest entities and as income by our PRC subsidiaries and are tax neutral.
- (3) Certain of our subsidiaries and the variable interest entities qualifies for a 15% preferential income tax rate in China. However, such rate is subject to qualification, is temporary in nature, and may not be available in a future period when distributions are paid. For purposes of this hypothetical example, the table above reflects a maximum tax scenario under which the full statutory rate would be effective.
- (4) The PRC Enterprise Income Tax Law imposes a withholding income tax of 10% on dividends distributed by a foreign invested enterprise, or FIE, to its immediate holding company outside of China. A lower withholding income tax rate of 5% is applied if the FIE's immediate holding company is registered in Hong Kong or other jurisdictions that have a tax treaty arrangement with China, subject to a qualification review at the time of the distribution. For purposes of this hypothetical example, the table above assumes a maximum tax scenario under which the full withholding tax would be applied.

The table above has been prepared under the assumption that all profits of the consolidated variable interest entities will be distributed as fees to our PRC subsidiaries under tax neutral contractual arrangements. If, in the future, the accumulated earnings of the consolidated variable interest entities exceed the service fees paid to our PRC subsidiaries (or if the current and contemplated fee structure between the intercompany entities is determined to be non-substantive and disallowed by Chinese tax authorities), the consolidated variable interest entities could make a non-deductible transfer to our PRC subsidiaries for the amounts of the stranded cash in the consolidated variable interest entities. This would result in such transfer being non-deductible expenses for the consolidated variable interest entities but still taxable income for the PRC subsidiaries.

Under PRC laws and regulations, we are subject to restrictions on foreign exchange and cross-border cash transfers, including to U.S. investors. Our ability to distribute earnings to the holding company and U.S. investors is also limited. We are a Cayman Islands holding company and we may rely on dividends and other distributions on equity paid by our PRC subsidiary, which in turn relies on consulting and other fees paid to us by the consolidated variable interest entities, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. When any of our PRC subsidiaries incurs debt on its own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Our subsidiaries' ability to distribute dividends is based upon their distributable earnings. Current PRC regulations permit our PRC subsidiaries to pay dividends to their respective shareholders only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries and the consolidated variable interest entities are required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entities in China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. These reserves are not distributable as cash dividends.

In addition, our PRC subsidiaries, the consolidated variable interest entities and their subsidiaries generate revenue primarily in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our PRC subsidiaries to pay dividends to us. For more details, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business," and "—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of our initial public offering and the concurrent private placement to make loans to or make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business."

Financial Information Related to the Consolidated Variable Interest Entities

The following table presents the condensed consolidating schedule of financial position for the consolidated variable interest entities and other entities as of the dates presented.

Selected Condensed Consolidated Statements of Income Information

For the Year Ended December 31, 2021						
Parent	Company Subsidiaries	Consolidated Variable Interest Entities	Consolidated Assets Backed Financing Entities	Eliminations	Consolidated Total	
RMB (In millions)						
Net revenue	—	1,773	3,282	—	(577)	4,478
Net income/(loss)	(37)	790	349	(75)	6	1,033

For the Year Ended December 31, 2020						
Parent	Company Subsidiaries	Consolidated Variable Interest Entities	Consolidated Assets Backed Financing Entities	Eliminations	Consolidated Total	
RMB (In millions)						
Net revenue	—	3,858	2,663	—	(2,559)	3,962
Net income/(loss)	(29)	1,592	(2,122)	(129)	(5)	(693)

For the Year Ended December 31, 2019						
Parent	Company Subsidiaries	Consolidated Variable Interest Entities	Consolidated Assets Backed Financing Entities	Eliminations	Consolidated Total	
RMB (In millions)						
Net revenue	—	1,611	8,370	—	(1,364)	8,617
Net income/(loss)	(57)	903	522	(214)	2	1,156

Selected Condensed Consolidated Balance Sheets Information

As of December 31, 2021						
Parent	Company Subsidiaries	Consolidated Variable Interest Entities	Consolidated Assets Backed Financing Entities	Eliminations	Consolidated Total	
RMB (In millions)						
Cash and cash equivalents	6	1,465	1,393	—	—	2,864
Restricted cash	—	24	—	57	—	81
Accounts receivable	—	88	217	—	—	305
Contract assets, net	—	543	563	—	—	1,106
Contract cost	—	4	9	—	(3)	10
Prepaid expenses and other assets	—	206	145	1	—	352
Loans at fair value	—	—	—	74	—	74
Financing receivables	—	—	1,698	—	—	1,698
Amounts due from related parties	1,408	3,661	2,284	—	(6,474)	879
Held-to-maturity investments	—	—	—	2	—	2
Available-for-sale investments	89	155	5	—	(72)	177
Property, equipment and software, net	—	22	81	—	—	103
Deferred tax assets	—	—	7	—	—	7
Right-of-use assets	—	35	46	—	—	81
Investments in its subsidiaries and the consolidated VIEs	3,332	1,432	—	—	(4,764)	—
Total assets	4,835	7,635	6,448	134	(11,313)	7,739
Accounts payable	—	—	19	—	—	19
Amounts due to related parties	—	2,826	3,964	42	(6,399)	433
Deferred revenue	—	2	10	—	—	12
Payable to investors at fair value	—	—	—	203	(152)	51
Accrued expenses and other liabilities	14	214	954	1	—	1,183
Secured borrowings	—	—	1,029	—	—	1,029
Refund liabilities	—	6	—	—	—	6
Deferred tax liabilities	—	72	41	—	—	113
Lease liabilities	—	33	39	—	—	72
Total liabilities	14	3,153	6,056	246	(6,551)	2,918

As of December 31, 2020						
Parent	Company Subsidiaries	Consolidated Variable Interest Entities	Consolidated Assets Backed Financing Entities	Eliminations	Consolidated Total	
RMB						
(In millions)						
Cash and cash equivalents	51	1,419	1,000	—	—	2,470
Restricted cash	—	24	—	213	—	237
Accounts receivable	—	23	100	—	—	123
Contract assets, net	—	208	542	—	—	750
Contract cost	—	10	64	—	(8)	66
Prepaid expenses and other assets	2	49	228	—	—	279
Loans at fair value	—	—	—	192	—	192
Financing receivables	—	—	1,253	—	—	1,253
Amounts due from related parties	1,396	1,775	773	—	(3,060)	884
Held-to-maturity investments	—	—	—	3	—	3
Available-for-sale investments	74	179	56	—	(133)	176
Property, equipment and software, net	—	38	109	—	—	147
Deferred tax assets	—	—	16	—	—	16
Right-of-use assets	—	9	97	—	—	106
Investments in its subsidiaries and the consolidated VIEs	2,263	1,432	—	—	(3,695)	—
Total assets	3,786	5,166	4,238	408	(6,896)	6,702
Accounts payable	—	—	9	—	—	9
Amounts due to related parties	—	1,341	2,494	119	(2,984)	970
Deferred revenue	—	7	44	—	—	51
Payable to investors at fair value	—	—	—	321	(268)	53
Accrued expenses and other liabilities	9	145	1,054	1	—	1,209
Secured borrowings	—	—	501	—	—	501
Refund liabilities	—	11	—	—	—	11
Deferred tax liabilities	—	25	14	—	—	39
Lease liabilities	—	8	74	—	—	82
Total liabilities	9	1,537	4,190	441	(3,252)	2,925

Selected Condensed Consolidated Cash Flows Information

For the Year Ended December 31, 2021						
<u>Parent</u>	<u>Company Subsidiaries</u>	<u>Consolidated Variable Interest Entities</u>	<u>Consolidated Assets Backed Financing Entities</u>	<u>Eliminations</u>	<u>Consolidated Total</u>	
RMB (In millions)						
Net cash (used in)/provided by operating activities	(10)	(35)	250	(35)	(12)	158
Net cash (used in)/provided by investing activities	(31)	81	(359)	66	(104)	(347)
Net cash (used in)/provided by financing activities	(3)	—	501	(187)	116	427
Effect of foreign exchange rate changes	(1)	—	—	—	—	(1)

For the Year Ended December 31, 2020						
<u>Parent</u>	<u>Company Subsidiaries</u>	<u>Consolidated Variable Interest Entities</u>	<u>Consolidated Assets Backed Financing Entities</u>	<u>Eliminations</u>	<u>Consolidated Total</u>	
RMB (In millions)						
Net cash (used in)/provided by operating activities	(13)	1,091	(828)	42	(10)	282
Net cash (used in)/provided by investing activities	—	(1,203)	(1,249)	33	622	(1,797)
Net cash (used in)/provided by financing activities	(3)	(66)	1,542	94	(612)	955
Effect of foreign exchange rate changes	(1)	(2)	—	—	—	(3)

For the Year Ended December 31, 2019						
<u>Parent</u>	<u>Company Subsidiaries</u>	<u>Consolidated Variable Interest Entities</u>	<u>Consolidated Assets Backed Financing Entities</u>	<u>Eliminations</u>	<u>Consolidated Total</u>	
RMB (In millions)						
Net cash (used in)/provided by operating activities	(15)	1,366	(912)	(151)	(14)	274
Net cash (used in)/provided by investing activities	(12)	(645)	442	640	685	1,110
Net cash (used in)/provided by financing activities	(37)	(204)	600	(838)	(671)	(1,150)
Effect of foreign exchange rate changes	—	—	—	—	—	—

Selected Financial Data

In July 2019, we consummated a business realignment transaction with CreditEase, the controlling shareholder of our company, pursuant to which we have assumed from CreditEase and its affiliates the Acquired Businesses. As our company and the Acquired Businesses have been under the common control of CreditEase since the establishment of our company, ASC 805-50 requires that our financial statements be recast to retroactively reflect the acquisition of the Acquired Businesses for all the applicable prior periods presented. Item 3 of Form 20-F requires that selected financial information be presented for the registrant's most recent five fiscal years. However, registrants are permitted to omit up to two of the earliest years in such five-year period in certain circumstances.

On December 31, 2020, we consummated another business restructuring with CreditEase to streamline our service lines and reposition us as a comprehensive digital personal financial management platform in China. In connection with the business restructuring, we had disposed of the Disposed Business. The Disposed Business was operated by Hengcheng, and CreditEase had, through its subsidiaries and affiliates, paid the designated subsidiaries of our company an aggregate amount of RMB67.0 million in cash. Please see “Item 4. Information on the Company—A. History and Development of the Company” for further information.

The following selected consolidated statements of operations data for the years ended December 31, 2019, 2020 and 2021 and selected consolidated balance sheet data as of December 31, 2020 and 2021 have been derived from our audited consolidated financial statements included in this annual report beginning on page F-1. The following selected consolidated balance sheets data as of December 31, 2019 has been derived from our audited consolidated financial statements not included in this annual report. The following selected recast consolidated statements of operations data for the year ended December 31, 2017 and 2018 and the selected recast consolidated balance sheet data as of December 31, 2018 have been derived from our audited recast consolidated financial statements not included in this annual report. The following selected recast consolidated balance sheet data as of December 31, 2017 are derived from our unaudited recast consolidated balance sheet as of December 31, 2017 not included in this annual report.

Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and the related notes and “Item 5. Operating and Financial Review and Prospects” below. Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

	For the Year Ended December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands, except for share, per share and per ADS data, and percentages)						
Selected Consolidated Statements of Operations Data:						
Net revenue (including revenue from related parties of RMB177,341, RMB142,477, RMB145,442, and RMB573,158 for the years ended December 31, 2018, 2019, 2020 and 2021, respectively)	11,534,808	11,244,114	8,616,784	3,961,962	4,477,929	702,685
Operating costs and expenses:						
Sales and marketing (including expenses from related parties of RMB997,203, RMB434,875, RMB111,550 and RMB1,548 for the years ended December 31, 2018, 2019, 2020 and 2021, respectively)	(9,004,959)	(6,658,270)	(4,457,353)	(1,905,095)	(1,553,344)	(243,754)
Origination, servicing and other operating costs (including costs from related parties of RMB559,724, RMB409,287, RMB718,734 and RMB354,985 for the years ended December 31, 2018, 2019, 2020 and 2021, respectively)	(1,242,928)	(1,061,289)	(665,083)	(1,104,682)	(760,858)	(119,395)
General and administrative (including expenses from related parties of RMB584,426, RMB122,338, RMB 192,934 and RMB135,118 for the years ended December 31, 2018, 2019, 2020 and 2021, respectively)	(1,323,608)	(1,336,247)	(731,806)	(627,368)	(508,869)	(79,853)
Provision for contingent liability	(43,049)	(419,581)	(9,462)	(3,187)	2,629	413
Allowance for contract assets, receivables and others	—	(992,581)	(1,625,051)	(371,629)	(370,154)	(58,085)
Loss of disposal	—	—	—	(655,839)	—	—
Total operating costs and expenses	(11,614,544)	(10,467,968)	(7,488,755)	(4,667,800)	(3,190,596)	(500,674)
Interest income, net	115,060	73,917	73,367	61,623	(73,383)	(11,515)
Fair value adjustments related to the consolidated asset backed financing entities	(86,372)	243,122	3,866	(143,988)	(37,442)	(5,875)
Gain on disposal of loan receivables and other beneficial rights	271,125	663,884	159,392	—	—	—
Other (expenses) / income, net	(32,001)	26,323	32,365	14,844	26,665	4,183
Total other income/(expenses), net	267,812	1,007,246	268,990	(67,521)	(84,160)	(13,207)
Income/(loss) before provision for income taxes	188,076	1,783,392	1,397,019	(773,359)	1,203,173	188,804
Income tax (expenses)/benefit	(381,210)	(194,287)	(239,228)	80,611	(170,189)	(26,706)
Share of results of equity investees	5,060	(9,295)	(2,180)	—	—	—
Net (loss)/income	(188,074)	1,579,810	1,155,611	(692,748)	1,032,984	162,098
Weighted average number of ordinary shares outstanding, basic	182,438,985	184,225,643	185,219,586	180,301,898	169,029,826	169,029,826
Basic net (loss)/income per share	(1.0309)	8.5754	6.2391	(3.8422)	6.1113	0.9590
Basic net (loss)/income per ADS (1) (2)	(2.0618)	17.1508	12.4782	(7.6844)	12.2226	1.9180
Weighted average number of ordinary shares outstanding, diluted	182,438,985	186,270,515	186,535,464	180,301,898	170,590,203	170,590,203
Diluted net (loss)/income per share	(1.0309)	8.4813	6.1951	(3.8422)	6.0554	0.9502
Diluted net (loss)/income per ADS (1) (2)	(2.0618)	16.9626	12.3902	(7.6844)	12.1108	1.9004

(1) Each ADS represents two ordinary shares.

- (2) For purposes of calculating net loss/income per share, the weighted average number of ordinary shares for all the prior periods presented in the consolidated financial statements have been retroactively adjusted to reflect the issuance of our ordinary shares to CreditEase in consideration of our assumption of the Acquired Businesses.

	As of December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Selected Consolidated Balance Sheet Data:						
Cash and cash equivalents	2,222,785	2,606,939	3,198,086	2,469,909	2,864,543	449,511
Restricted cash	2,257,537	427,546	71,056	237,239	80,800	12,679
Contract assets, net (net of allowance of RMB992,049, RMB1,515,627, RMB467,306 and RMB350,686 as of December 31, 2018, 2019, 2020 and 2021, respectively)	—	3,909,263	2,398,685	750,174	1,105,905	173,541
Loans at fair value	1,450,707	1,375,221	418,492	192,156	73,734	11,571
Financing receivables (net of allowance of nil, nil, RMB32,975 and RMB65,489 as of December 31, 2018, 2019, 2020 and 2021, respectively)	—	—	29,612	1,253,494	1,697,962	266,449
Held-to-maturity investments	24,094	329,597	6,627	3,286	2,200	341
Available-for-sale investments	966,353	835,565	460,991	175,515	177,360	27,832
Total assets	16,124,352	14,251,815	9,644,420	6,702,253	7,739,440	1,214,487
Secured borrowings	50,000	222,419	18,590	500,500	1,028,600	161,410
Refund liabilities	—	2,145,748	1,801,535	10,845	5,732	899
Total liabilities	24,014,085	14,615,228	5,154,330	2,924,589	2,918,008	457,899
Total (deficit)/equity	(7,889,733)	(363,413)	4,490,090	3,777,664	4,821,432	756,588

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Delayed Filing of this Form 20-F

The filing of this Form 20-F may not make us “current” in our Exchange Act filing obligations, which means we retain certain potential liability and may not be eligible to use certain forms or rely on certain rules of the SEC.

We are filing a comprehensive annual report on Form 20-F since we have been delinquent in meeting our periodic reporting requirements with the SEC, following, by analogy, previously issued guidance from the staff of the SEC’s Division of Corporation Finance, or the Staff, with respect to U.S. domestic issuers. Our filing of this Form 20-F does not necessarily mean that the Staff will conclude that we have complied with all applicable financial statement requirements or complied with all reporting requirements of the Exchange Act, nor does it foreclose any enforcement action by the SEC with respect to our disclosure, filings or failures to file reports under the Exchange Act.

As a result of our failure to maintain current filings with the SEC in the past, our use of this format of the Form 20-F and any potential enforcement action from the SEC or other regulatory agencies, we may not be eligible to use certain short-form registration statements or rely on certain rules of the SEC. This could increase our transaction costs and adversely impact our ability to raise capital in a timely manner.

Risks Related to Our Business

We operate in emerging and evolving industries, and our operations, services and products have been and may need to be modified in answering to the latest market trends, which makes it difficult to evaluate our future prospects.

The market for China's loan facilitation and wealth management solutions are emerging and in general remain at relatively preliminary stages of development and may not continue to develop as rapidly as expected. The regulatory framework for the industries we operate in is also evolving and may remain uncertain for the foreseeable future.

We launched our online marketplace in March 2012 and have a limited operating history. Starting in the fourth quarter of 2014, we began offering loan products with different pricing grades. In the second quarter of 2017, we further launched a new credit scoring system, the Yiren score, which can be used to more accurately characterize a borrower's credit profile. As a result of our strategic business realignment with CreditEase in 2019, we have begun operating our business on a more diverse and scalable mix of service platforms—Yiren Credit and Yiren Wealth. Yiren Credit is our credit-tech platform that has the capability to provide individual borrowers and small business owners with a full spectrum of online and offline, multi-channel loan products funded by retail and institutional investors. Yiren Wealth is our wealth management platform that specifically targets the mass affluent investors and provides them with one-stop asset allocation-based wealth management solutions. On December 31, 2020, we consummated another business restructuring with CreditEase to streamline our service lines and reposition us as a comprehensive digital personal financial management platform in China. In connection with the business restructuring, we had disposed of the online consumer lending platform targeting individual investors as the funding source (the "Disposed Business"). The Disposed Business was operated by Hengcheng, and CreditEase had, through its subsidiaries and affiliates, paid the designated subsidiaries of our company an aggregate amount of RMB67.0 million in cash. After the restructuring, the funding source for Yiren Credit is investments from institutional funding partners only.

As our business develops or in response to competition, we may continue to introduce new products or make adjustments to our existing products, or make adjustments to our business model. In connection with the introduction of new products or in response to general economic conditions, we may impose more stringent borrower qualifications to ensure the quality of loans on our platform, which may negatively affect the growth of our business. Any significant change to our business model may not achieve expected results and may have a material and adverse impact on our financial condition and results of operations. For example, we cannot assure you that wealth management products and services available through our platform can be widely accepted in light of our limited experience and operating history in the wealth management sector. It is possible that we may not be able to provide access to attractive wealth management products and services to achieve our clients' expectation of the investment returns. Any failure on our part to keep up with providing access to wealth management products and services or any failure to respond quickly to the market trend may materially and adversely affect the growth of our wealth management business. It is therefore difficult to effectively assess our future prospects. The risks and challenges we encounter or may encounter in this developing and rapidly evolving market may adversely impact our business and prospects. These risks and challenges include our ability to, among other things:

- navigate an evolving regulatory environment;
- expand the base of borrowers and investors served on our platforms;
- acquire borrowers and investors in a cost-effective manner;
- enhance our risk management capabilities and maintain low delinquency rates of transactions facilitate by us;
- continue to scale our technology infrastructure to support the growth of our platform and higher transaction volume;
- broaden our product offerings;
- source qualified third-party wealth management products and services;
- enhance our risk management capabilities;
- attract sufficient funding from institutional funding partners;
- improve our operational efficiency;

- cultivate a vibrant consumer finance ecosystem;
- maintain the security of our platform and the confidentiality of the information provided and utilized across our platform;
- attract, retain and motivate talented employees; and
- defend ourselves against litigation, regulatory, intellectual property, privacy or other claims.

We are subject to all risks and challenges inherent in developing business enterprise in emerging and evolving industries. If the market for our marketplace does not develop as we expect, or if we fail to address the needs of our target market, or other risks and challenges, our business and results of operations will be harmed.

If we are unable to obtain adequate funding from institutional funding partners to meet user demand for loans on our platform, our business and results of operations will be adversely affected.

The growth and success of our operations depend on the availability of adequate funding to meet users' demand for loans on our platform. Our funding sources will include investments from institutional funding partners only. Our institutional funding partners primarily include commercial banks, trusts, and microloan, financial leasing and consumer finance companies. In 2021, 100.0% of loans facilitated on our platform were funded by our institutional funding partners. To maintain a high growth momentum of our marketplace, we must continuously attract more institutional funding partners to our marketplace. If there is insufficient funding from our institutional funding partners, borrowers may not be able to obtain capital through our marketplace and may turn to other sources for their borrowing needs. If we are unable to retain our existing institutional funding partners or attract new institutional funding partners, or if regulatory authorities promulgated new laws and regulations to regulate, limit, or even prohibit our collaboration with the institutional funding partners, our business, results of operations and financial condition will be adversely affected. Our cooperation with institutional funding partners is not on an exclusive basis. If the governmental authorities further tighten the regulations on the online consumer finance industry, our institutional funding partners would become more selective in choosing partners for referring borrowers and facilitating loans for them. The competition we face would become even more intensely. If we fail to continuously meet their requirements or needs, our financial institution partners may stop cooperating with us and turn to our competitors, which may also materially and adversely affect our business, financial condition and results of operations.

If we are unable to maintain or increase the volume of loans facilitated through our marketplace or if we are unable to retain existing borrowers or investors or attract new borrowers or investors, our business and results of operations will be adversely affected.

The growth of our marketplace is dependent on the increase in the volume of loans facilitated and the sales volume of our current investment products through our marketplace, which may be affected by several factors, including the regulatory environment, our brand recognition and reputation, the effectiveness of our risk control, the repayment rate of borrowers on our marketplace, the spectrum and attractiveness of our current investment products, the efficiency of our platform, the macroeconomic environment and other factors.

To maintain the high growth momentum of our marketplace, we must continuously increase the volume of loans and the sales volume of our current investment products by retaining current participants and attracting more users whose financing or investment needs can be met on our marketplace. If there is insufficient funding from our institutional funding partners, borrowers may not be able to obtain capital through our marketplace and may turn to other sources for their borrowing needs. If we are unable to attract qualified borrowers and sufficient funding from our institutional funding partners or if borrowers do not continue to participate in our marketplace at the current rates due to any change we may be required to make to the way we conduct our business to ensure compliance with existing or new PRC laws and regulations or due to other business or regulatory reasons, we might not be able to increase our loan transaction volume and revenues as we expect, and our business and results of operations may be adversely affected.

To the extent permitted by laws and regulations, we intend to continue to dedicate significant resources to our user acquisition efforts, including establishing new acquisition channels. We utilize online channels, such as search engine marketing, search engine optimization, partnerships with internet companies and internet traffic acquisition from third-party online loan products marketplaces, as well as offline channels for user acquisition. As part of a business realignment with CreditEase in 2019, we acquired CreditEase Puhui, an entity managing CreditEase's national service network for offline borrower acquisition. In 2019, 2020 and 2021, 53.0%, 21.7% and 6.1% of our borrowers were acquired through CreditEase Puhui, respectively, contributing 52.4%, 68.4% and 29.3% of the total amount of loans facilitated through our marketplace, respectively. There is no assurance that we will be successful with our user acquisition efforts. If any of our current user acquisition channels become less effective, if we are unable to continue to use any of these channels or if we are not successful in using new channels, we may not be able to acquire new borrowers and investors in a cost-effective manner or convert potential borrowers and investors into active borrowers and investors, and may even lose our existing borrowers and investors to our competitors. If we are unable to attract qualified borrowers and sufficient funding from our institutional funding partners or if borrowers and investors do not continue to participate in our marketplace at the current rates, we might be unable to increase our loan transaction volume and revenues as we expect, and our business and results of operations may be adversely affected.

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

The PRC government has adopted several regulations governing the personal credit reporting business. According to these regulations and measures, no entity may engage in the personal credit reporting business without approval by the credit reporting industry regulatory department under the State Council. If any entity directly engages in the personal credit reporting business without such approval, the entity is subject to penalties including suspension of business, confiscation of revenues related to the personal credit reporting business, fines and criminal liabilities.

On September 27, 2021, the PBOC issued the Administrative Measures for Credit Reporting Business, or the Credit Reporting Measures, which took effect on January 1, 2022. The Credit Reporting Measures define "credit information" to include "basic information, borrowing and lending information and other relevant information legally collected in the offering of services of finance or other activities for purposes of identifying and judging the credit standing of businesses and individuals, as well as result of analysis and evaluation based on the aforesaid information" and define "credit reporting business" as the collection, collation, keeping and processing of credit information and provision of such information to information users. The Credit Reporting Measures applies to entities that carry out credit reporting business and "activities relating to credit reporting business" in China. Separately, entities providing "services of credit reporting function" in the name of "credit information service, credit service, credit evaluation, credit rating, credit repair, among others" are also subject to the Credit Reporting Measures. Credit Reporting Measures provides for an 18-month grace period from its effectiveness date for organizations that engage in credit investigation business to obtain the credit reporting business license and comply with its other provisions. The Credit Reporting Measures is new and significant uncertainties exist with respect to its interpretation and implementation. For example, the Credit Reporting Measures does not directly deny the legitimacy of existing data analytics or precision marketing service providers in the financial service industry, nor does it provide a clear guidance or implementation rules on how and when these providers, if deemed to be conducting credit reporting business, could apply for required licenses or otherwise comply with the Credit Reporting Measures.

In addition, it is reported that in April 2021, the PBOC, the CBIRC, the CSRC and the SAFE invited a number of internet platform operators for a meeting to discuss the operations and compliance of their internet finance business, including but not limited to conducting credit reporting business through authorized credit reporting agency.

We organize, store and analyze information provided by users after obtaining their consent. This information contains certain personal information of users, a portion of which, upon their consent, will be provided to our institutional funding partners for their further review and assessment. Due to the lack of further interpretations of the current regulations governing the personal credit reporting business, it is uncertain whether we would be deemed to engage in the personal credit reporting business. We cannot assure you that we will not be required in the future to obtain approval or license for the personal credit reporting business and comply with the relevant regulations, which may be costly, or become subject to penalties associated with regulations governing the personal credit reporting business.

According to the Regulations on the Supervision and Administration of Financing Guarantee Companies, which was promulgated by State Council and came into effect on October 1, 2017, without the approval by the competent government department, no entity may operate the financing guarantee business in which such entity acts as a guarantor providing guarantee to the guaranteed parties as to their loans, bonds or other types of debt financing. If any entity engages in the financing guarantee business without such approval, the entity may be subject to penalties, including ban or suspension of business, confiscation of revenues related to financing guarantee business, fines and criminal liabilities. Circular on Measures for the Regulation of Risks in the Information Technology Outsourcing by Banking and Insurance Institutions, or Circular 141, further sets out that a banking financial institution shall not accept any credit enhancement service, ultimate commitment or any other disguised credit enhancement service provided by any third-party institution without guarantee qualifications. We cooperated with a bank to furnish borrower referral and facilitation services to the bank from August 2017 to December 2017. We provided guarantee deposits to the bank to protect it from potential losses due to loan delinquency and undertook to timely replenish such deposit from time to time. We also undertake to repay the bank on behalf of defaulting borrowers if any repayment is 80 days overdue and upon such full repayment to the bank, we will obtain the creditor's rights in respect of the relevant default amount. Since the promulgation of Circular 141, we have suspended the cooperation with the bank. Due to the lack of further interpretations and the evolving regulatory environments, it is uncertain whether we would be deemed by the PRC regulatory authorities as operating financing guarantee business, which is prohibited by the Interim Measures. We cannot assure you that we will not be subject to sanctions imposed by relative PRC regulatory agencies, or be required in the future to obtain approval or license for financing guarantee business to continue our cooperation with banks. In July 2020, the China Banking and Insurance Regulatory Commission, or the CBIRC, published the Interim Measures for the Administration of Internet Loans of Commercial Banks, or the Commercial Banks Measures, which stipulates several rules on internet loans provided by commercial banks. In February 2021, the CBIRC issued the Notice on further regulating the Internet loan business of commercial banks, or the Internet Loan Notice, which make further provisions on the internet loan business by commercial banks. In July 2022, the CBIRC issued the Notice on Strengthening the Management of the Internet Lending Business of Commercial Banks to Improve the Quality and Efficiency of Financial Services, or the Commercial Banks Notice, aiming to further specify rules on internet loans provided by Commercial Banks. The Commercial Banks Notice grants a transition period until June 30, 2023 for the Internet loan stock business. For newly generated internet loans provided by Commercial Banks during such transition period, the Commercial Banks Notice, the Internet Loan Notice and the Commercial Banks Measures shall apply. We cannot assure you that our cooperation with commercial banks will remain in compliance with the Commercial Banks Measures, the Internet Loan Notice and the Commercial Banks Notice.

The laws, rules and regulations continue to evolve in this emerging industry, and the interpretation of these laws, rules and regulations by the local authorities may be different from our understanding. We cannot be certain that our practices would not be deemed to violate any existing or future laws, rules and regulations. For instance, since the online insurance industry in China is evolving rapidly, the CBIRC has been enhancing its supervision over this industry in recent years, and new laws, regulations and regulatory requirements have been promulgated and implemented from time to time. We face challenges brought by these new laws, regulations and regulatory requirements, as well as significant uncertainties in the interpretation and application thereof. Moreover, there exist uncertainties as to how the regulatory environment might change.

The regulatory framework in China's insurance industry is evolving and undergoing significant changes. Further development of regulations applicable to us may result in additional restrictions on our business operations. We may have to adjust our business practice and operations to comply with the continuously changing regulatory requirements. For example, the Implementing Measures for Administrative Licensing and Record-filing for Insurance Intermediaries, promulgated by the CBIRC on October 28, 2021 and effective on February 1, 2022, which apply to both online and offline insurance intermediaries, require the CBIRC and its local offices to implement administrative license and recordation of insurance intermediary business and senior executives. On December 14, 2020, the CBIRC published the Regulatory Measures for Online Insurance Business, or the Regulatory Measures, which became effective on February 1, 2021, significantly changes regulatory regime for online insurance business in various aspects. For instance, the Regulatory Measures requires insurance institutions (including insurance carriers and insurance intermediary service providers, such as insurance brokerage companies and insurance agency companies) to (i) establish internal policies with regard to personnel management, customer information protection and internal control, (ii) enhance compliance management of promotional materials and marketing activities, (iii) meet certain detailed requirements for sales activities, and (iv) protect the information right of consumers by making appropriate disclosure. In particular, the Regulatory Measures requires online insurance transactions being conducted through online interfaces operated by insurance institutions only, and prohibits insurance institutions to set default option for customer and impose any restriction on the cancellation of automatic payment to affect customer's choice during the sales process of insurance products. The Regulatory Measures prohibits entities which are not insurance institutions from conducting insurance businesses, such as consultation of insurance products, comparison of insurance products, trial calculation of insurance premiums, quotation and comparison of quotations, drafting insurance plans for policyholders, processing insurance application formalities and premium collection. The Regulatory Measures also does not explicitly allow the entities which are not insurance institutions to conduct marketing activities for online insurance products. In addition, the Regulatory Measures sets a higher standard for insurance institutions and online industry participants to improve IT infrastructure and cybersecurity protection. In particular, insurance institutions engaged in online insurance products sales business shall have IT systems that are certified as Safety Level III Computer Information Systems or above level.

In October 2021, the CBIRC published the Circular on Further Regulating Certain Issues on Internet Life Insurance Business, or the Internet Life Insurance Circular. The Internet Life Insurance Circular requires that each installment of premium of certain insurance products less than one year term shall be equal. The Internet Life Insurance Circular also provides the upper limit for the predetermined fee rate and average supplemental fee rate for certain insurance products, which may affect the amount of insurance brokerage commission we charge on the relevant insurance products and adversely affect our financial condition. The attention of our management team could be diverted to these efforts to cope with an evolving regulatory or competitive environment. Meanwhile, staying compliant with the restriction may result in limitation to our business scope, limitation to our product and service offerings, and reduction in our attraction to consumers.

Our financing guarantee and insurance brokerage business are subject to the supervision of financial authorities. While we have not been subject to any regulatory penalties as of the date of this annual report in connection with such financing guarantee and insurance brokerage business practices, we may be subject to regulatory warnings, correction orders, condemnation and fines and may be required to further modify our business if any of our financing guarantee or insurance brokerage companies is deemed to have violated national, provincial or local laws and regulations or regulatory orders and guidance.

Furthermore, if the PRC government issues any laws and regulations that restrict or prohibit our collaboration with our financial institution partners, our collaboration with them may have to be terminated or suspended, which may materially and adversely affect our business, financial condition and results of operations. For example, on December 31, 2021, seven ministries and commissions including the PBOC issued the Measures for Administration of Online Marketing of Financial Products (Draft for Comments), which when effective will regulate online marketing of financial products by financial institutions or internet platform operators engaged by such financial institutions. Pursuant to this draft, financial institutions shall not engage other entities or individuals to carry out internet marketing of financial products unless otherwise provided or authorized by laws and regulations. This draft also prohibits third-party online platform operators from being involved in the sale of financial products or participating in the income sharing of financial business in a disguised way without the approval of financial regulatory authorities. If these measures were to be adopted in their current form, we may no longer be able to display financial products in current format on our mobile app to conduct online marketing, which may have a material adverse impact on our business, results of operations and prospects.

If our business arrangements with certain institutional investors were deemed to violate PRC laws and regulations, our business and results of operations could be materially and adversely affected.

As part of our strategy to expand our institutional investor base, we may from time to time explore alternative funding initiatives, including through standardized capital instruments, such as the issuance of asset-backed securities.

We have established business relationships with trusts, asset backed special plans and funds (collectively referred to as the “assets backed financing entities,” or “ABFEs”) which were administered by trust companies and asset management companies. The ABFEs were set up to invest solely in the loans facilitated on our platform and provide returns to the beneficiaries of the ABFEs through interest payments made by the borrowers. Under the arrangements, we normally invest in all of subordinate tranches and portion of senior tranches. We were designated as the service provider for the ABFEs. Through the transaction fees charged, security funds deposited, and direct investment, we have the right to receive benefits or bear losses from the ABFEs. We are considered as the primary beneficiary of the ABFEs and thus consolidated such ABFEs’ assets, liabilities, results of operations and cash flows.

Although the operating our online marketplace, is not part of the fund-raising process by the ABFEs, we cannot assure you that our provision of services to the ABFEs and investments through the ABFEs will not be viewed by PRC regulators as violating any laws or regulations regarding capital pools. Also, we transferred cash to certain trusts in amounts equal to certain percentages of the entire assets put into the trusts, as security funds to protect the ABFEs from potential losses from defaults of loans in which the ABFEs have invested. Under limited circumstances, the remainder of such funds may be returned to us, and we cannot assure you that we will not be viewed by PRC regulators as bearing some credit risk or providing credit enhancement services under such arrangement. In addition, we cannot assure you that the purchase of beneficial rights of the ABFEs through the Shenzhen Stock Exchange, or purchase of beneficial rights of ABFEs in private placement would not be deemed as investments in loans facilitated through the online marketplace we operate by using our own capital. If any of such business arrangements were deemed to violate PRC laws and regulations, our business and results of operations could be materially and adversely affected. In addition, as the laws, rules and regulations applicable to asset-backed securities are still developing, it remains uncertain as to the application and interpretation of such laws, rules and regulations, particularly as they relate to the online lending information intermediary service industry.

If we are unable to maintain low default rates for loans facilitated by our platform, our business and results of operations may be materially and adversely affected.

Our ability to attract borrowers and institutional funding partners to, and build trust in, our marketplace is significantly dependent on our ability to effectively evaluate a borrower’s credit profile and maintain low default rates. To conduct this evaluation, we have employed a series of procedures and developed a proprietary credit assessment and decisioning model. Our credit scoring models aggregate and analyze the data submitted by a borrower, as well as the data we collect from a number of internal and external sources, and then generates a score for the prospective borrower. The score will be further used to approve and classify the borrower into different segments in our current risk grid. If our credit scoring model contains programming or other errors, is ineffective or the data provided by borrowers or third parties are incorrect or stale, our loan pricing and approval process could be negatively affected, resulting in misclassified or mispriced loans or incorrect approvals or denials of loans. If we are unable to effectively and accurately assess the credit profiles of borrowers, segment borrowers into the appropriate grade in the risk grid, or unable to maintain low default rates of loans facilitated by our platform. In addition, the foregoing will also have an impact on collectability of service fees, resulting in higher allowances for contract assets.

Historically, loans generated from our online channels generally have experienced higher delinquency rates and higher charge-off rates as compared with loans referred from offline channels. If the proportion of loans generated from our online channels increases as opposed to loans generated from our offline channels, the overall delinquency rates and charge-off rates of loans facilitated by our platform may increase. In addition, once a loan application is approved, we do not further monitor certain aspects of the borrower’s credit profile, such as changes in the borrower’s credit report and the borrower’s purchasing pattern with online merchants. If the borrower’s financial condition deteriorates, we may not be able to take measures to prevent default on the part of the borrower and thereby maintain low default rates for loans facilitated by our platform. Prior to the completion of our business realignment with CreditEase, the borrowers that we served were primarily prime borrowers. After the completion of the business realignment with CreditEase, we have been shifting our customer mix towards higher credit quality segment over the past year and lowering prices under the window guidance that require IRR-based lending rate capped at 24%. Although we collaborate with insurance and guarantee companies to provide credit enhancement for loans facilitated through our marketplace, if widespread defaults were to occur, institutional funding partners may incur losses and cease collaboration with us, the insurance and guarantee companies that cooperate with us may raise their insurance premium and guarantee service fees, which may cause us to lower fee rates to stay competitive in acquiring borrowers, and our business and results of operations may be materially and adversely affected.

If our loan products do not achieve sufficient market acceptance, our financial results and competitive position could be harmed.

We incur expenses and consume resources upfront to develop, acquire and market new loan products. The expected M3+ Net Charge-off Rate and actual observed results for each of these customer groups divide potential borrowers into distinctively different credit segments. For a more detailed description of the risk grades we currently offer, please see “Item 4. Information on the Company—B. Business Overview—Risk Management—Proprietary Credit Scoring Model and Loan Qualification System.” New loan products must achieve high levels of market acceptance in order for us to recoup our investment in developing, acquiring and bringing them to market.

Our existing or new loan products and changes to our platform could fail to attain sufficient market acceptance for many reasons, including, but not limited to:

- our failure to predict market demand accurately and supply loan products that meet this demand in a timely fashion;
- borrowers and institutional funding partners using our platform may not like, find useful or agree with any changes;
- our failure to properly price new loan products;
- defects, errors or failures on our platform;
- negative publicity about our loan products or our platform’s performance or effectiveness;
- views taken by regulatory authorities that the new products or platform changes do not comply with PRC laws, rules or regulations applicable to us; and
- the introduction or anticipated introduction of competing products by our competitors.

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

Our business depends on our ability to collect payment on the transactions we facilitate.

Historically, we used to provide loan collection services to the individual investors who funded through our platform. After we disposed of the Disposed Business, we can assist our institutional funding partners in the loan collection services upon their request. As of December 31, 2021, most of our institutional funding partners performed loan collection by themselves and we did not provide such services. However, if requested, we can utilize an automated process for collecting scheduled loan payments from our borrowers. Upon loan origination, we establish a payment schedule with payment occurring on a set business day each month. Borrowers then make scheduled loan repayments via a third-party payment platform or a payment platform delegated by the institutional funding partners. As a day-to-day service to borrowers, we provide payment reminder services such as sending reminder text messages and phone calls on the day a repayment is due. Once a repayment is past due, we also send additional reminder text messages during the first fourteen days of delinquency. The collections process commences once a loan is fifteen days delinquent. To facilitate repayment, the collections process is divided into distinct stages based on the severity of delinquency, which dictates the level of collection steps taken. For example, reminder text messages and emails are sent to a delinquent borrower as soon as the collections process commences, and if the payment is still outstanding, the collection team will make phone calls. Although most stages of the collections process are outsourced to CreditEase, we handle all decisions to restructure or defer delinquent loans that are above a certain threshold, while CreditEase collection teams have the discretion to make decisions for the loans that are below such threshold.

However, despite such collection efforts, we cannot assure you that we will be able to collect the relevant payments as expected. Failure to collect payments and maintain low default rates for loans facilitated by our platform will have an adverse effect on our business operations, financial position and results of operations. Furthermore, any misconduct in our collection practice (including that of CreditEase carried out on our behalf) that is considered not to be in compliance with the relevant laws, rules and regulations may harm our reputation and business, which could further reduce our ability to collect payments from borrowers, lead to a decrease in the willingness of prospective borrowers to apply for loans on our platform, or fines and penalties imposed by the relevant regulatory authorities, any of which may have a material adverse effect on our results of operations. In addition, if any laws, rules or regulations are adopted by the regulatory authorities in the future imposing additional restrictions on debt collection practice, we may need to modify our collection efforts accordingly.

If we are not able to respond to changes in customer preferences for our products and services and provide a satisfactory customer experience on our platforms, or our existing and new products and services do not maintain or achieve sufficient market acceptance, we will not be able to maintain and expand our customer base and increase customer activities, and our financial results and competitive position will be harmed.

We believe that our customer base is the cornerstone of our business. Our ability to maintain and expand our customer base depends on a number of factors, including our ability to provide access to suitable loan products or wealth management products and services for our customers, and our ability to provide relevant and timely products and services to meet changing customer needs. If we are unable to respond to changes in user preference and deliver satisfactory and distinguishable user experience, our users may switch to competing platforms or obtain the relevant products and services directly from their providers. As a result, customer access to and customer activity on our platform will decline, our products and services will be less attractive to our customers, and our business, financial performance and prospects will be materially and adversely affected.

If the market acceptance of the online wealth management products and services we provide access to, or the attractiveness of online wealth management products and services in general, declines, and we fail to retain our investors by improving our services and providing the access to more alternative investment portfolio options for investors, we may suffer a loss of our investor base, and our business, operation results and financial status will be adversely impacted.

We have devoted significant resources to, and will continue to emphasize on, upgrading and marketing our existing loan products and wealth management products and services available through our platform and enhancing their market awareness. We also incur expenses and expend resources upfront to develop, acquire and market new loan products and wealth management products and services that incorporate additional features, improve functionality or otherwise make our products more desirable to borrowers and investors. New loan products and wealth management products and services must achieve high levels of market acceptance in order for us to recoup our investment in developing, acquiring and bringing them to market.

Our existing and new loan products and wealth management products and services available through our platform could fail to attain sufficient market acceptance for many reasons, including:

- borrowers may not find terms of our loan products, such as borrowing costs and credit limit, competitive or appealing;
- investors or institutional funding partners are not willing to deploy their funds in a timely or efficient manner;
- we may fail to predict market demand accurately and provide loan products or access to wealth management products and services that meet this demand in a timely fashion;
- users may not like, find useful or agree with, any changes;
- there may be defects, errors or failures on our platform;
- there may be negative publicity about our loan products and wealth management products and services available through our platform or our platform's performance or effectiveness;
- regulatory authorities may take the view that the existing and new loan products and online wealth management products and services or changes to our platform do not comply with PRC laws, regulations or rules applicable to us; and
- there may be competing products and services introduced or anticipated to be introduced by our competitors.

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

We cooperate with business partners to provide services to investors and borrowers on our platform. If we are unable to maintain relationships with existing business partners and develop new relationships with potential business partners on terms acceptable to us, our reputation, business and results of operations may be materially and adversely affected.

We have established strategic partnerships with multiple financial institutions in the ordinary course of our business, including joint-stock banks, city banks, internet banks, insurance companies and trust companies. For example, we cooperate with insurance and guarantee companies to provide credit enhancement for loans facilitated through our marketplace. If these insurance and guarantee companies fail to perform any of their contractual obligations, our institutional funding partners may cease collaboration with us, which could materially harm our reputation and growth of our marketplace. If any of these insurance and guarantee companies is unable or unwilling to continue operating in the line of business that is the subject of their cooperation with us for regulatory, business or other reasons, we may not be able to obtain similar relationships on terms acceptable to us in a timely manner, or at all. If any of the foregoing were to occur, our reputation, business and results of operations would be materially and adversely affected.

We may not be successful in operating our wealth management business.

The markets for wealth management business in China are relatively rapidly developing and subject to significant challenges. If we fail to address the needs of our clients, adapt to rapidly evolving market trends or continue to offer innovative products and services, there may not be significant market demand for them. In addition, our wealth management business will continue to encounter risks and difficulties, including adapt to evolving regulatory landscape, mitigate challenges imposed by COVID-19, maintain adequate risk management, implement our customer development strategies and adapt and modify them as needed, develop and maintain our competitive advantages, and anticipate and adapt to changing conditions in China's financing industry resulting from mergers and acquisitions involving our competitors or other significant changes in economic conditions, competitive landscape and market dynamics. If we are unable to successfully develop our wealth management business into profitable business, our business and revenues would be materially and adversely affected.

We may not be able to ensure the accuracy of the third-party product information and the authenticity of third-party wealth management products and services on our platform, and we have limited control over performance of those investment products.

Our wealth management business provides retail and institutional investors with asset-allocation based services and the access to wealth management products and services, such as short-term cash management products, mutual funds, fund portfolios and insurance products. These wealth management products and services are offered by third-party financial institutions. The acceptance and popularity of our platform is partially premised on the reliability of the relevant underlying wealth management products and services and financial information provided by third parties. We rely on the relevant third-party licensed providers of the relevant wealth management products and services for the authenticity of their underlying products and the comprehensiveness, accuracy and timeliness of the related financial information. While the products and information from these third-party providers have been generally reliable, there can be no assurance that the reliability can be maintained in the future. If these third-party providers or their agents provide inauthentic financial products or incomplete, misleading, inaccurate or fraudulent information, we may lose the trust of existing and prospective investors. In addition, if our investors purchase the underlying wealth management products and services and they suffer losses, they may blame us and attempt to hold us responsible for their losses, even though we have made risk disclosures before they invest. Our reputation could be harmed, and we could experience reduced user traffic to our platform, which would adversely affect our business and financial performance.

Furthermore, as investors access the underlying wealth management products and services through our platform, they may have the impression that we are at least partially responsible for the quality of these products. Although we have established standards to theoretically research product providers before cooperating with them, we have limited control over performance of those investment products. In the event that an investor is dissatisfied with underlying products or the services of a product provider, we do not have any means to directly make improvements in response to user complaints. If investors become dissatisfied with the underlying wealth management products and services provided by our financial institutional partners, our business, reputation, financial performance and prospects could be materially and adversely affected.

Wealth management products and services we provide access to are subject to risks related to lawsuits and other claims brought by our investors.

We may be subject to lawsuits and other claims in the ordinary course of providing the access of wealth management products and services to our investors. We may also be subject to claims for failing to provide sufficient information on investment risks or for failing to provide access to such relevant information in a manner that is clear and readily accessible to investors. Actions brought against us may result in settlements, awards, injunctions, fines, penalties or other results adverse to us including harm to our reputation and our results of operations. Even if we are successful in defending against these actions, the defense of such matters may result in our incurring significant expenses, divert management attention and damage our reputation.

If we are unable to compete effectively, our business and results of operations could be harmed.

The industries we are operating in are competitive and evolving. We compete with financial products and companies that attract borrowers and investors, partners or all of these. For our credit business, we compete with other consumer finance marketplaces. For our wealth management business, we compete with other online wealth management platforms and insurance brokerage companies.

Our competitors operate with different business models, have different cost structures or participate selectively in different market segments. They may ultimately prove more successful or more adaptable to new regulatory, technological and other developments. Some of our current and potential competitors have significantly more financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their platforms. Our competitors may also have longer operating histories, more extensive borrower or investor bases, greater brand recognition and brand loyalty and broader partner relationships than us. Additionally, a current or potential competitor may acquire one or more of our existing competitors or form a strategic alliance with one or more of our competitors. Our competitors may be better at developing new products, offering more attractive investment returns or lower fees, responding faster to new technologies and undertaking more extensive and effective marketing campaigns. If we are unable to compete with such companies and meet the need for innovation in our industry, the demand for our marketplace could stagnate or substantially decline, we could experience reduced revenues or our marketplace could fail to achieve or maintain more widespread market acceptance, any of which could harm our business and results of operations.

If we fail to promote and maintain our brand in an effective and cost-efficient way, our business and results of operations may be harmed.

We believe that developing and maintaining awareness of our brand effectively is critical to attracting new borrowers and investors and retaining existing borrowers and investors on our marketplace. Successful promotion of our brand and our ability to attract qualified borrowers and sufficient investors depend largely on the effectiveness of our marketing efforts and the success of the channels we use to promote our marketplace. Our efforts to build our brand have caused us to incur significant expenses, and it is likely that our future marketing efforts will require us to incur significant additional expenses. These efforts may not result in increased revenues in the immediate future, or at all and, even if they do, any increases in revenues may not offset the expenses incurred. If we fail to successfully promote and maintain our brand while incurring substantial expenses, our results of operations and financial condition would be adversely affected, which may impair our ability to grow our business.

Credit and other information that we receive from third parties about a borrower may be inaccurate, discontinued, or may not accurately reflect the borrower's creditworthiness, which may compromise the accuracy of our credit assessment.

For the purpose of credit assessment, after obtaining borrower's consent, we obtain the borrowers' credit information from third parties, such as financial institutions and e-commerce providers, and assess applicants' credit and assign credit scores to borrowers based on such credit information. A credit score assigned to a borrower may not reflect that particular borrower's actual creditworthiness because the credit score may be based on outdated, incomplete or inaccurate consumer reporting data. We currently do not have a comprehensive way to determine whether borrowers have obtained loans through other consumer finance marketplaces, creating the risk whereby a borrower may borrow money through our marketplace in order to pay off loans on other consumer finance marketplaces. Additionally, there is a risk that, following our obtaining a borrower's credit information, the borrower may have:

- 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.

Such inaccurate or incomplete borrower credit information, and the potential discontinuation of borrower credit information from third parties could compromise the accuracy of our credit assessment, require adjustments to our credit assessment model and adversely affect the effectiveness of our control over our default rates, which could in turn harm our reputation and materially and adversely affect our business, financial condition and results of operations.

Any harm to our brand or reputation or any damage to the reputation of the online consumer finance marketplace industry may materially and adversely affect our business and results of operations.

Enhancing the recognition and reputation of our brand is critical to our business and competitiveness. Factors that are vital to this objective include, but are not limited to, our ability to:

- maintain the quality and reliability of our platform;
- provide borrowers and investors with a superior experience in our marketplace;
- enhance and improve our credit assessment and decisioning model;
- effectively manage and resolve borrower and investor complaints; and
- effectively protect personal information and privacy of borrowers and investors.

In addition, certain factors that may adversely affect our reputation are beyond our control. Negative publicity about our partners, outsourced service providers or other counterparties, such as negative publicity about their debt collection practices and any failure by them to adequately protect the information of borrowers and investors, to comply with applicable laws and regulations or to otherwise meet required quality and service standards could harm our reputation. Furthermore, any negative development in the online consumer finance marketplace industry, such as bankruptcies or failures of consumer finance marketplaces as part of the industry, and especially a large number of such bankruptcies or failures, or negative perception of the industry as a whole, such as that arises from any failure of other consumer finance marketplaces to detect or prevent money laundering or other illegal activities, even if factually incorrect or based on isolated incidents, could compromise our image, undermine the trust and credibility we have established and impose a negative impact on our ability to attract new borrowers and investors. Negative developments in the online consumer finance marketplace industry, such as widespread borrower defaults, fraudulent behavior and/or the closure of other online consumer finance marketplaces, may also lead to tightened regulatory scrutiny of the sector and limit the scope of permissible business activities that may be conducted by online consumer finance marketplaces like us. If any of the foregoing takes place, our business and results of operations could be materially and adversely affected.

We may not be able to achieve profitability in the future.

We had a net income of RMB1,155.6 million in 2019, a net loss of RMB692.7 million in 2020 and a net income of RMB1,033.0 million (US\$162.1 million) in 2021, respectively. We also had accumulated deficit of RMB533.5 million, RMB1,257.6 million and RMB247.8 million (US\$38.9 million) as of December 31, 2019, 2020 and 2021, respectively. We cannot assure you that we will be able to continue to generate net income or will have positive retained earnings in the future. Our operating expenses may increase in the foreseeable future as we seek to continue to grow our business, attract borrowers, investors and partners and further enhance and develop our loan products and platform. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. There are other factors that could negatively affect our financial condition. For example, the default rates of the loans facilitated through our platform may be higher than expected, which may lead to lower than expected net revenue. Furthermore, we have adopted share incentive plans in September 2015, July 2017 and June 2020, and we may grant equity-based awards to eligible participants from time to time under the plan, which will result in share-based compensation expenses to us. As a result of the foregoing and other factors, our net revenue growth may slow, our net income margins may decline or we may incur additional net losses in the future and may not be able to maintain profitability on a quarterly or annual basis.

Our quarterly results may fluctuate significantly and may not fully reflect the underlying performance of our business.

Our quarterly results of operations, including the levels of our net revenue, expenses, net loss or net income and other key metrics, may vary significantly in the future due to a variety of factors, some of which are outside of our control, and period-to-period comparisons of our operating results may not be meaningful, especially given our limited operating history. Accordingly, the results for any one quarter are not necessarily an indication of future performance. Fluctuations in quarterly results may adversely affect the price of our ADSs. Factors that may cause fluctuations in our quarterly financial results include:

- our ability to attract new borrowers and investors and maintain relationships with existing borrowers and investors;
- loan volumes and the channels through which borrowers and investors are sourced, including the relative mix of online and offline channels;
- changes in our product mix and introduction of new loan products;
- the amount and timing of operating expenses related to acquiring borrowers and investors, and the maintenance and expansion of our business, operations and infrastructure;
- promulgation of new rules and regulations applicable to, or heightened regulatory scrutiny of, the online consumer finance industry;
- our decision to manage loan volume growth during the period;
- network outages or security breaches;
- general economic, industry and market conditions;
- our emphasis on borrower and investor experience instead of near-term growth; and
- the timing of expenses related to the development or acquisition of technologies or businesses.

In addition, we experience seasonality in our business, reflecting seasonal fluctuations in internet usage and traditional personal consumption patterns, as our individual borrowers typically use their borrowing proceeds to finance their personal consumption needs. For example, we generally experience a lower transaction volume on our online consumer finance marketplace during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. Our results of operations could be affected by such seasonality in the future.

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

Although we had a positive operating cash flow of RMB274.2 million, RMB282.0 million and RMB158.2 million (US\$24.8 million) in 2019, 2020 and 2021, respectively, we cannot assure you that we will be able to have a positive cash flow in the future. Going forward, our ability to collect fees from customers, product providers and insurer partners, will continue to affect our liquidity and cash flow condition. Inability to collect payments from customers in a timely and sufficient manner may adversely affect our liquidity, financial condition and results of operations.

Fraudulent activity on our marketplace could negatively impact our operating results, brand and reputation and cause the use of our loan products and services to decrease.

We are subject to the risk of fraudulent activity both on our marketplace and associated with borrowers, investors and third parties handling borrower and investor information. For example, we detected an organized fraud incident concerning our FastTrack loan products in July 2016. After uncovering the fraud incident, we had suspended the offering of the FastTrack loan products until late July 2016 when we implemented more stringent requirements aiming to prevent similar types of fraud incidents. Our resources, technologies and fraud detection tools may be insufficient to accurately detect and prevent fraud. In addition, our anti-fraud and verification processes for borrowers from offline channels and online channels may differ, and such processes with respect to borrowers from online channels may not be as extensive as those from offline channels. If we increase the proportion of loans generated from our online channels as opposed to our offline channels, we may experience an increase in fraudulent activity on our platform. Significant increases in fraudulent activity could negatively impact our brand and reputation, reduce the volume of loan transactions facilitated through our platform and lead us to take additional steps to reduce fraud risk, which would increase our costs. High profile fraudulent activity could even lead to regulatory intervention and may divert our management's attention and cause us to incur additional expenses and costs. If any of the foregoing were to occur, our results of operations and financial condition would be materially and adversely affected.

The wealth management products and services involve various risks and any failure to identify or fully appreciate such risks may negatively affect our reputation, client relationships, operations and prospects.

We provide the access to a variety of wealth management products and asset allocation based services through our wealth management business. These products and services include short-term cash management products, mutual funds, fund portfolios and insurance products. These products and services often have complex structures and involve various risks, including default risks, interest risks, liquidity risks, market risks, counterparty risks, fraud risks and other risks.

Our success depends, in part, on our ability to successfully identify the risks associated with such products and services, and failure to identify or fully appreciate such risks may negatively affect our reputation, client relationships, operations and prospects. All the products and services have been gone through rigid selection and screening processes before we cooperate with the product providers. Although we enforce and implement strict risk management policies and procedures, such risk management policies and procedures may not be fully effective in mitigating the risk exposure of all of our clients in all market environments or against all types of risks.

If we fail to identify and fully appreciate the risks associated with the products and services on our platform, or fail to disclose such risks to our clients, and our clients suffer financial loss or other damages resulting from their purchase of those financial products and services, our reputation, client relationships, business and prospects may be adversely affected.

We may not be able to continue to retain or expand our mass affluent investor base or maintain or increase the amount of investment made by our clients in the products and services under our wealth management business.

The wealth management products and services we provide access to primarily target China's mass affluent population. In light of China's competitive ever-evolving wealth management industry for mass affluent population we cannot assure you that we will be able to maintain and increase the number of our clients or that our existing clients will maintain the same level of investment in the wealth management products and services on our platform. As this industry in China is at an early stage of development and highly fragmented, our existing and future competitors may have more resources and better capabilities to capture market opportunities and grow their client bases faster than us. A decrease in the number of our clients or a decrease in their spending on the products and services available through our platform may reduce revenues derived from service fees and commissions and monetization opportunities for our wealth management products and services. If the products and services available on our platform fail to continue to meet our clients' expectations on the returns, or if the clients are no longer satisfied with our services, they may leave us for our competitors and our reputation may be damaged by these clients, affecting our ability to attract new clients, which will in turn affect our financial condition and operational results.

Because a portion of the commissions and service fees we earn on providing access to the wealth management products and services are based on commission and fee rates negotiated with licensed financial product and service providers, any decrease in these commission and fee rates may have an adverse effect on our revenues, cash flow and results of operations.

We derive a portion of our revenues from service fees and commissions paid by licensed financial product providers, which are negotiated and vary from product to product, and from service to service. Service fees and commission rates can fluctuate based on the prevailing political, economic, regulatory, taxation and competitive factors that affect our product, and from service to service providers. These factors, which are not within our control, include the capacity to place new business, profits of product and service providers, client demand and preference for financial products, the availability of comparable products from other product and service providers at a lower cost, the availability of alternative financial products and services to clients and the tax deductibility of commissions and fees. In addition, we can neither determine, nor predict, the timing or extent of commission and fee rate changes with respect to the financial products and services, it is difficult for us to assess the effect of any of these changes on our operations. Therefore, any decrease in commission and fee rates would adversely affect our revenues, cash flow and results of operations.

The wealth management products and services are supplied by licensed financial product and services providers; and the renegotiation or termination of our relationships with such financial product and services providers could significantly impact our business.

The wealth management products and services available through our platform are provided by a selected number of financial product providers, including commercial banks, mutual fund management companies, and insurance companies. Although our wealth management business has a broad coverage of most major product and service providers in the market, due to our rigorous risk management standards, a significant portion of these products and service are sourced from a limited number of product and service providers, and thus we rely on our relationships with those important product and service providers. In 2021, the top three independent financial product and service providers accounted for approximately 72.7% of the aggregate value of all the products and services available through our wealth management business. Our relationships with financial product and service providers are governed by cooperation agreements. If financial product and service providers that in the aggregate account for a significant portion of our business decide not to enter into contracts with us, or the terms of our contracts with them become less beneficial to us, our business and operating results could be materially and adversely affected.

A drop in the investment performance for products and services available through our platform could negatively impact our revenues and profitability.

Investment performance is a key competitive factor for products and services available through our platform. Strong investment performance of these products and services helps us to retain and expand our client base and helps generate new sales of products and services. Strong investment performance is therefore an important element to our goals of maximizing the value of products and services made available to our clients through our platform. There can be no assurance as to how future investment performance of the products and services available on our platform will compare to those available on other platforms or that historical performance will be indicative of future returns. Any drop or perceived drop in investment performance as compared to management product and service providers could cause a decline in sales of the investment products and services available on our platform. Poor investment performance could also adversely affect our clients' recognition of our platform.

Our wealth management clients may redeem their investments from time to time, which could reduce our fee revenues.

Some of wealth management products and services available through our platform permit investors to redeem their investments with us. If the return of wealth management products and services does not meet investors' expectations, investors may elect to redeem their investments and invest their assets elsewhere, including with our competitors. Our service fee revenues correlate directly to the amount of our client assets; therefore, redemptions may cause our expected service fee revenues to decrease. Investors may decide to reallocate their capital away from us and to other asset managers for a number of reasons, including poor relative investment performance, changes in prevailing interest rates which make other investment options more attractive, changes in investor perception regarding our focus or alignment of interest, dissatisfaction with, changes in or a broadening of a fund's investment strategy, changes in our reputation, and departures of, or changes in responsibilities of, key investment professionals. For these and other reasons, the pace of investor redemptions and the corresponding reduction in our client assets could accelerate.

Failure to maintain successful strategic relationships with partners may have an adverse impact on our future success.

We anticipate that we will continue to leverage our strategic relationships with existing partners in China's online consumer finance marketplace industry to grow our business while we will also pursue new relationships with additional partners, such as traditional financial institutions and merchants in more sectors. For example, in the future, we may partner with traditional financial institutions to combine the efficiency advantages of online consumer finance marketplaces with the low funding costs of traditional financial institutions. Identifying, negotiating and documenting relationships with partners require significant time and resources as do integrating third-party data and services into our system. Our current agreements with partners often do not prohibit them from working with our competitors or from offering competing services. Our competitors may be effective in providing incentives to our partners to favor their products or services, which may in turn reduce the volume of loans facilitated through our marketplace. Certain types of partners may devote more resources to support their own competing businesses. In addition, these partners may not perform as expected under our agreements with them, and we may have disagreements or disputes with such partners, which could adversely affect our brand and reputation. If we cannot successfully enter into and maintain effective strategic relationships with business partners, our business will be harmed.

Misconduct, errors and failure to function by our employees and third-party service providers could harm our business and reputation.

We are exposed to many types of operational risks, including the risk of misconduct and errors by our employees and third-party service providers. Our business depends on our employees and third-party service providers to interact with potential clients, process large numbers of transactions and support the loan collection process, all of which involve the use and disclosure of personal information. We could be materially and adversely affected if transactions were 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. In addition, the manner in which we store and use certain personal information and interact with clients through our marketplace is governed by various PRC laws. It is not always possible to identify and deter misconduct or errors by employees or third-party service providers, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses. If any of our employees or third-party service providers take, convert or misuse documents or data or fail to follow protocol when interacting with clients, 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 use of documents or data, or the failure to follow protocol, and therefore be subject to civil or criminal liability. In addition, we currently rely on CreditEase and in the future may continue to rely on CreditEase or other third-party service providers for loan collection services.

Aggressive practices or misconduct by any of our third-party service providers, including CreditEase, in the course of collecting loans could damage our reputation.

Furthermore, as we rely on certain third-party service providers, such as third-party payment platforms and custody and settlement service providers, to conduct our business, if these third-party service providers failed to function properly, we cannot assure you that we would be able to find an alternative in a timely and cost-efficient manner, or at all. Any of these occurrences could result in our diminished ability to operate our business, potential liability to borrowers and investors, inability to attract borrowers and investors, reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations.

Fluctuations in interest rates could negatively affect transaction volume and business.

The profitability of our business depends on the interest and fee rates at which our borrowers are willing to borrow, and the interest at which our institutional funding partners are willing to lend, subject to limitations of PRC laws and regulations. We have taken measures to aim to react to the fluctuations in the interest rate environments. However, if we fail to respond to the fluctuations in interest rates in a timely manner and reprice our loan products, our loan products may become less attractive to our institutional funding partners. For example, in a falling interest rate environment, potential borrowers may seek lower priced loans from other channels if we do not lower the interest and fee rates on our loan products.

A severe or prolonged downturn in the Chinese or global economy could materially and adversely affect our business and financial condition.

Our revenues and financial results may be adversely affected by any economic slowdown in China as well as globally. In particular, general economic factors and conditions in China or worldwide, including the general interest rate environment and unemployment rates, may affect borrower willingness to seek loans and investor ability and desire to invest. As a result, our revenues and financial results are impacted to a significant extent by economic conditions in China and globally, as well as economic conditions specific to consumer credit and wealth management businesses. The global macroeconomic environment is facing numerous challenges. The growth rate of the Chinese economy has gradually slowed since 2010 and the trend may continue. Any slowdown could significantly reduce domestic commerce in China, including through the internet generally and through us. In addition, 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. The conflict in Ukraine and the imposition of broad economic sanctions on Russia could raise energy prices and disrupt global markets. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition. For example, many of our investors may delay or reduce their investment through our marketplace. Adverse economic conditions could also reduce the number of qualified borrowers seeking loans through our marketplace, as well as their ability to make payments. Should any of these situations occur, the amount of loans facilitated through our marketplace and our net revenue will decline, and our business and financial condition will be negatively impacted. Additionally, continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

We may need additional capital, and financing may not be available on terms acceptable to us, or at all.

As of December 31, 2019, 2020 and 2021, we had cash and cash equivalents of RMB3,198.1 million, RMB2,469.9 million and RMB2,864.5 million (US\$449.5 million), respectively. Although we believe that our cash on hand and anticipated cash flows from operating activities will be sufficient to meet our anticipated working capital requirements and capital expenditures in the ordinary course of business for the next 12 months, we cannot assure you this will be the case. We may need additional cash resources in the future if we experience changes in business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, capital expenditure or similar actions. 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 would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Our ability to protect the confidential information of our borrowers and investors may be adversely affected by cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions.

Our platform collects, stores and processes certain personal and other sensitive data from our borrowers and investors, which makes it an attractive target and potentially vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. Under the PRC Cyber Security Law, which took effect on June 1, 2017, we are required to formulate security management system and operational procedures, take measures to prevent acts that jeopardize cyber security such as computer virus, network attacks and network intrusion, and safeguard personal information, user information and business secrets. If we are deemed a critical information infrastructure under the PRC Cyber Security Law, we will be subject to additional requirement regarding the construction, security protection, purchase of products and services, secrecy, localization of data, and annual evaluation of the infrastructure. While we have taken steps to protect the confidential information that we have access to, our security measures could be breached. 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 platform could cause confidential borrower and investor information to be stolen and used for criminal purposes. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, adverse regulatory consequences, 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 borrowers and investors could be severely damaged, we could incur significant liability and our business and results of operations could be adversely affected.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud.

We are subject to reporting obligations under the U.S. securities laws. Section 404 of the U.S. Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and related rules require that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F for the fiscal year ended December 31, 2021. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2021. See “Item 15. Controls and Procedures.”

In the future, 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 an adverse opinion audit report 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. In addition, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, or Section 404, we may identify weaknesses and deficiencies in our internal control over financial reporting. Even if no material weakness in our internal control over financial reporting has been identified by the management, we cannot guarantee that there does not exist any deficiency. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

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 us with data communications capacity through local telecommunications lines and internet data centers to host our servers. We 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 the increasing traffic on our platform. We cannot assure you that the internet infrastructure and the fixed telecommunications networks in China will be able to support the demands 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. If the prices we pay for telecommunications and internet 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.

Any significant disruption in service on our platform or in our computer systems, including events beyond our control, could prevent us from processing or posting loans on our marketplace, reduce the attractiveness of our marketplace and result in a loss of borrowers or investors.

In the event of a platform outage and physical data loss, our ability to perform our servicing obligations, process applications or make loans available on our marketplace would be materially and adversely affected. The satisfactory performance, reliability and availability of our platform and our underlying network infrastructure are critical to our operations, customer service, reputation and our ability to retain existing and attract new borrowers and investors. Much of our system hardware is hosted in a leased facility located in Beijing that is operated by our IT staff. We also maintain a real-time backup system at a separate facility also located in Beijing. Our operations depend on our ability to protect our systems against damage or interruption from natural disasters, power or telecommunications failures, air quality issues, environmental conditions, computer viruses or attempts to harm our systems, criminal acts and similar events. If there is a lapse in service or damage to our leased Beijing facilities, we could experience interruptions in our service as well as delays and additional expense in arranging new facilities.

Any interruptions or delays in our service, whether as a result of third-party error, our error, natural disasters or security breaches, whether accidental or willful, could harm our relationships with our borrowers and investors and our reputation. Additionally, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. Our disaster recovery plan has not been tested under actual disaster conditions, and we may not have sufficient capacity to recover all data and services in the event of an outage. These factors could prevent us from processing or posting payments on loans, damage our brand and reputation, divert our employees' attention, subject us to liability and cause borrowers and investors to abandon our marketplace, any of which could adversely affect our business, financial condition and results of operations.

Our platform and internal systems rely on software that is highly technical, and if it contains undetected errors, our business could be adversely affected.

Our platform and internal systems rely on software that is highly technical and complex. In addition, our platform and internal systems depend on the ability of such software to store, retrieve, process and manage immense amounts of data. The software on which we rely has contained, and may now or in the future contain, undetected errors or bugs. Some errors may only be discovered after the code has been released for external or internal use. Errors or other design defects within the software on which we rely may result in a negative experience for borrowers and investors using our platform, delay introductions of new features or enhancements, result in errors or compromise our ability to protect borrower or investor data or our intellectual property. Any errors, bugs or defects discovered in the software on which we rely could result in harm to our reputation, loss of borrowers or investors or liability for damages, any of which could adversely affect our business, results of operations and financial condition.

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

We regard our trademarks, domain names, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality, invention assignment and non-competition agreements with our employees to protect our proprietary rights. As of the date of this annual report, we had 425 registered trademarks and had applied to register 544 trademarks with the Trademark Office of the National Intellectual Property Administration. In addition, we have also obtained a worldwide and royalty-free license from CreditEase to use certain of its trademarks. However, the trademark licenses granted by CreditEase to us have not been filed with the Trademark Office of the National Intellectual Property Administration. See "Item 4. Information on the Company—B. Business Overview—Intellectual Property" and "Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on Intellectual Property Rights." We cannot assure you that any of our intellectual property rights would not be challenged, invalidated, circumvented or misappropriated, or such intellectual property will be sufficient to provide us with competitive advantages. In addition, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third 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, invention assignment and non-competition 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 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 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, patents, copyrights, know-how or other intellectual property rights held by third parties. We may be from time to time in the future subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are infringed by our products, services or other aspects of our business without our awareness. 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 third-party infringement claims are brought against us, we may be forced to divert our management's time and other resources from our business and operations to defend against these claims, regardless of their merits.

Additionally, the application and interpretation of China's intellectual property right laws and the procedures and standards for granting trademarks, patents, copyrights, know-how or other intellectual property rights in China are still evolving and are uncertain, 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 activities 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.

Our business is subject to complex and evolving Chinese and international laws and regulations regarding data privacy and cybersecurity. Failure to protect confidential information of our customers and network against security breaches could damage our reputation and brand and substantially harm our business and results of operations.

As the regulations regarding data privacy and cybersecurity are quickly evolving in China and globally, we may become subject to new laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information that could affect how we store, process and share data with our customers, suppliers and third-party merchants.

For example, in December 2012, the Standing Committee of the PRC National People's Congress promulgated the Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, to enhance the legal protection of information security and privacy on the internet. The Network Information Protection Decision also requires internet operators to take measures to ensure confidentiality of information of users. In July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users to regulate the collection and use of users' personal information in the provision of telecommunication service and internet information service in China. In August 2015, the Standing Committee of the National People's Congress promulgated the Ninth Amendment to the Criminal Law, which became effective in November 2015 and amended the standards of crime of infringing citizens' personal information and reinforced the criminal culpability of unlawful collection, transaction, and provision of personal information. It further provides that any ICP provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders will be subject to criminal liability. In November 2016, the Standing Committee of the National People's Congress promulgated the PRC Cyber Security Law, which requires, among others, that network operators take security measures to protect the network from unauthorized interference, damage and unauthorized access and prevent data from being divulged, stolen or tampered with. Network operators are also required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly within the scope of authorization by the subject of personal information unless otherwise prescribed by laws or regulations. Significant capital, managerial and human resources are required to comply with legal requirements, enhance information security and to address any issues caused by security failures. The Civil Code promulgated in 2020 also provides specific provisions regarding the protection of personal information.

On June 10, 2021, the Standing Committee of the National People's Congress promulgated the PRC Data Security Law, which took effect in September 2021. The Data Security Law, among others, provides for a security review procedure for the data activities that may affect national security. Furthermore, Measures for Cybersecurity Review or the Measures, which became effective on February 15, 2022 further restates and expands the applicable scope of the cybersecurity review. Pursuant to the Measures, critical information infrastructure operators that procure internet products and services, and online platform operators engaging in data processing activities, must be subject to the cybersecurity review if their activities affect or may affect national security. On July 30, 2021, the state council promulgated the Regulations on Protection of Critical Information Infrastructure, which became effective on September 1, 2021. Pursuant to the Regulations on Protection of Critical Information Infrastructure, critical information infrastructure shall mean any important network facilities or information systems of the important industry or field such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, which may endanger national security, people's livelihood and public interest in case of damage, function loss or data leakage. In addition, relevant administration departments of each critical industry and sector, or Protection Departments, shall be responsible to formulate eligibility criteria and determine the critical information infrastructure operator in the respective industry or sector. The operators shall be informed about the final determination as to whether they are categorized as critical information infrastructure operators. As of the date of this annual report, no detailed rules or implementation has been issued by any authority and we have not been informed as a critical information infrastructure operator by any government authorities. Furthermore, the exact scope of "critical information infrastructure operators" under the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. Therefore, it is uncertain whether we would be deemed as a critical information infrastructure operator under PRC law. If we are deemed as a critical information infrastructure operator under the PRC cybersecurity laws and regulations, we must fulfill certain obligations as required under the PRC cybersecurity laws and regulations, including, among others, storing personal information and important data collected and produced within the PRC territory during our operations in China, which we have fulfilled in our business, and we may be subject to cyber security review when purchasing internet products and services or engaging in data processing activities. The Measures further stipulate that online platform operators holding over one million users' personal information shall apply with the Cybersecurity Review Office for a cybersecurity review before any public offering at a foreign stock exchange. Given the recency of the issuance of the Measures, there is a general lack of guidance and substantial uncertainties exist with respect to their interpretation and implementation. For example, it is unclear whether the requirement of cybersecurity review applies to follow-on offerings by an "online platform operator" that is in possession of personal data of more than one million users where the offshore holding company of such operator is already listed overseas.

On November 14, 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations, and accepted public comments before December 13, 2021. The Draft Regulations provide that data processors refer to individuals or organizations that autonomously determine the purpose and the manner of processing data. In accordance with the Draft Regulations, data processors shall apply for a cybersecurity review for the following activities: (i) merger, reorganization or division of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests to the extent that affects or may affect national security; (ii) listing abroad of data processors which process over one million users' personal information; (iii) the listing of data processors in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. However, there have been no clarifications from the authorities as of the date of this annual report as to the standards for determining such activities that "affects or may affect national security." See "Item 4.B. Information on the Company—Business Overview—Regulations." As of the date of this annual report, the Draft Regulations were released for public comment only, and its provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. The Draft Regulations remain unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States and Hong Kong, such as us. We cannot predict the impact of the Measures and the Draft Regulations, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the Measures and the Draft Regulations mandate clearance of cybersecurity review and other specific actions to be completed by China-based companies listed on a U.S. stock exchange and Hong Kong Exchanges, such as us, we face uncertainties as to whether such clearance can be timely obtained, or at all. As of the date of this annual report, we have not been involved in any formal investigations on cybersecurity review made by the CAC on such basis. However, if we are not able to comply with the cybersecurity and network data security requirements in a timely manner, or at all, we may be subject to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the relevant application stores, among other sanctions, which could materially and adversely affect our business and results of operations. In addition to the cybersecurity review, the Draft Regulations requires that data processors processing "important data" or listed overseas shall conduct an annual data security assessment by itself or commission a data security service provider to do so, and submit the assessment report of the preceding year to the municipal cybersecurity department by the end of January each year. If a final version of the Draft Regulations is adopted, we may be subject to review when conducting data processing activities and annual data security assessment and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. Based on the foregoing, our PRC legal counsel does not expect that, as of the date of this annual report, the current applicable PRC laws on cybersecurity would have a material adverse impact on our business.

On August 20, 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. Our mobile apps and websites only collect basic user personal information that is necessary to provide the corresponding services. We do not collect any sensitive personal information or other excessive personal information that is not related to the corresponding services. We update our privacy policies from time to time to meet the latest regulatory requirements of the CAC and other authorities and adopt technical measures to protect data and ensure cybersecurity in a systematic way. Nonetheless, the Personal Information Protection Law raises the protection requirements for processing personal information, and many specific requirements of the Personal Information Protection Law remain to be clarified by the CAC, other regulatory authorities, and courts in practice. We may be required to make further adjustments to our business practices to comply with the personal information protection laws and regulations. See "Item 4.B. Information on the Company—Business Overview—Regulations."

The PRC Cyber Security Law, the Data Security Law and Civil Code are relatively new and subject to interpretation by the regulators. Although we only gain access to user information that is necessary for, and relevant to, the services provided, the data we obtain and use may include information that is deemed as "personal information", "network data" or "important data" under the PRC Cyber Security Law, the Civil Code and related data privacy and protection laws and regulations. As such, we have adopted a series of measures to ensure that we comply with relevant laws and regulations in the collection, use, disclosure, sharing, storage, and security of user information and other data. The Data Security Law also stipulates that the relevant authorities will formulate the catalogues for important data and strengthen the protection of important data, and state core data, i.e. data having a bearing on national security, the lifelines of national economy, people's key livelihood and major public interests, shall be subject to stricter management system. "Item 4.B. Information on the Company—Business Overview—Regulations." The exact scopes of important data and state core data remain unclear and may be subject to further interpretation. If any data that we are in possession of constitutes important data or state core data, we may be required to adopt stricter measures for protection and management of such data.

In addition, we may need to comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data in the U.S., Europe and elsewhere. For example, the European Union adopted the General Data Protection Regulation, or the GDPR, which became effective on May 25, 2018. The GDPR imposes additional obligations on companies regarding the handling of personal data and provides certain individual privacy rights to persons whose data is stored. Compliance with existing, proposed and recently enacted laws (including implementation of the privacy and process enhancements called for under GDPR) and regulations can be costly; any failure to comply with these regulatory standards could subject us to legal and reputational risks.

We generally comply with industry standards and are subject to the terms of our own privacy policies. Compliance with any additional laws could be expensive, and may place restrictions on the conduct of our business and the manner in which we interact with our customers. Any failure to comply with applicable regulations could also result in regulatory enforcement actions against us, and misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against us by governmental authorities or other authorities, damage to our reputation and credibility and could have a negative impact on revenues and profits.

Significant capital and other resources may be required to protect against information security breaches or to alleviate problems caused by such breaches or to comply with our privacy policies or privacy-related legal obligations. The resources required may increase over time as the methods used by hackers and others engaged in online criminal activities are increasingly sophisticated and constantly evolving. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, could cause our customers to lose trust in us and could expose us to legal claims. Any perception by the public that online transactions or the privacy of user information are becoming increasingly unsafe or vulnerable to attacks could inhibit the growth of online retail and other online services generally, which may reduce the number of orders we receive.

From time to time we may evaluate and potentially consummate strategic investments or acquisitions, 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 to further increase the value of our marketplace and better serve borrowers and investors. These transactions could be material to our financial condition and results of operations if consummated. If we are unable 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.

Strategic investments or acquisitions 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;
- difficulties in retaining, training, motivating and integrating key personnel;
- diversion of management's time and resources from our normal daily operations;
- difficulties in successfully incorporating licensed or acquired technology and rights into our platform and loan products;
- difficulties in maintaining uniform standards, controls, procedures and policies within the combined organizations;
- difficulties in retaining relationships with customers, employees and suppliers 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 an 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;
- failure to successfully further develop the acquired technology;
- 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;
- potential disruptions to our ongoing businesses; and
- unexpected costs and unknown risks and liabilities associated with strategic investments or acquisitions.

We may not make any investments or acquisitions, or any future investments or acquisitions 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. In addition, we cannot assure you that any future investment in or acquisition of new businesses or technology will lead to the successful development of new or enhanced products and services or that any new or enhanced products and services, if developed, will achieve market acceptance or prove to be profitable.

Acquisitions could expose us to significant business risks.

We have made and may continue to make strategic acquisitions that could, among other goals, complement our existing services, expand our customer base, improve user acquisition efficiency, lower operating costs and/or enhance technological capabilities. For example, in July 2019, we consummated a business realignment transaction with CreditEase, the controlling shareholder of our company, pursuant to which we have assumed from CreditEase and its affiliates the Acquired Business. After the business realignment, we will continue to receive certain business consulting and other support services from CreditEase. See "Item 4. Information on the Company—A. History and Development of the Company."

While we believe the business realignment would enhance our market position as a leading comprehensive fintech platform, enable us to better leverage synergies between our existing businesses and the businesses we assumed from CreditEase and improve our overall operating efficiency, this transaction, as well as other acquisitions, could expose us to business risks, including but not limited to financial and operational risks.

Financial risks from the business realignment and other acquisitions include, among other things, (i) the use of our cash resources; (ii) paying a price that exceeds the future value realized from the acquisition; (iii) potential known and unknown liabilities of the acquired businesses; (iv) the incurrence of additional debt; (v) the dilutive effect of the issuance of any additional equity securities by our company as consideration for, or to finance, the acquisition; (vi) the financial impact of incorrectly valuing goodwill and other intangible assets involved in any acquisitions; (vii) potential future impairment write-downs of goodwill and indefinite-life intangibles and the amortization of other intangible assets; and (viii) possible adverse tax and accounting effects.

In addition, there are possible operational risks, including, among other things, difficulty in assimilating and integrating the operations, services, products, technology, information systems and personnel of acquired companies; losing key personnel of acquired entities; and compliance with additional laws relating to the acquired business and regulatory risks associated with the past violation of law by the acquired businesses. We may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to the integration of acquired businesses. Acquisitions could expose us to significant integration risks and increased organizational complexity, including more complex and costly accounting processes and internal controls, which may challenge management and may adversely impact the realization of an increased contribution from such acquisitions. In addition, while we execute acquisitions and related integration activities, our attention may possibly be diverted from our ongoing operations, which may have a negative impact on our business. Failure to adequately anticipate and address these risks could adversely affect our business and financial performance.

Although we performed due diligence investigations of the businesses and assets that we will assume, and will also do so for future acquisitions, there may be liabilities related to the acquired business or assets that we fail to, or are unable to, uncover during the due diligence investigation and for which we, as a successor owner, may be responsible. When feasible, we seek to minimize the impact of these types of potential liabilities by obtaining indemnities and warranties from the seller, which may in some instances be supported by a price adjustment mechanism and/or deferring payment of a portion of the purchase price. However, these indemnities and warranties, if obtained, may not fully cover the liabilities because of their limited scope, amount or duration, the financial resources of the indemnitor or warrantor, or for other reasons. These strategic acquisitions involve risks commonly encountered in business relationships, such as potential unknown liabilities for activities of the acquired business before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other unknown liabilities, which may adversely affect our reputation, business and results of operations.

Our business depends on the continued efforts of our senior management. If one or more of our key executives 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, particularly the executive officers named in this annual report. While we have provided different incentives to our management, we cannot assure you that we can continue to retain their services. If one or more of our key executives 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, although we have entered into confidentiality and non-competition agreements with our management, there is no assurance that any member of our management team will not join our competitors or form a competing business. If any dispute arises between our current or former officers 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, including risk management, software engineering, financial and marketing personnel. Our future success depends on our continued ability to attract, develop, motivate and retain qualified and skilled employees. Competition for highly skilled technical, risk management and financial personnel is extremely intense. 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 expenses in training 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 borrowers and investors could diminish, resulting in a material adverse effect on our business.

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

The economy in China has experienced increases in inflation and labor costs in recent years. As a result, average wages in the PRC are expected to continue to increase. In addition, we are required by PRC laws and regulations 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. Unless we are able to control our labor costs or pass on these increased labor costs to our users by increasing the fees of our services, our financial condition and results of operations may be adversely affected.

If we cannot maintain our corporate culture as we grow, we could lose the innovation, collaboration and focus that contribute to our business.

We believe that a critical component of our success is our corporate culture, which we believe fosters innovation, encourages teamwork and cultivates creativity. As we develop the infrastructure of a public company and continue to grow, we may find it difficult to maintain these valuable aspects of our corporate culture. Any failure to preserve our culture could negatively impact our future success, including our ability to attract and retain employees, encourage innovation and teamwork and effectively focus on and pursue our corporate objectives.

We are subject to changing laws and regulations regarding regulatory matters, corporate governance and public disclosure that have increased both our costs and the risk of non-compliance.

We are subject to rules and regulations by various governing bodies, including, for example, the United States Securities and Exchange Commission, which is charged with the protection of investors and the oversight of companies whose securities are publicly traded, and the various regulatory authorities in China and the Cayman Islands, and to new and evolving regulatory measures under applicable law. Our efforts to comply with new and changing laws and regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities.

Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, we may be subject to penalty and our business may be harmed.

We do not have any business insurance coverage.

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 for 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 our incurring substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.

Changes in U.S. and international trade policies, particularly with regard to China, may adversely impact our business and operating results.

The U.S. government has made statements and taken certain actions that may lead to changes in U.S. and international trade policies towards China. In January 2020, the "Phase One" agreement was signed between the United States and China on trade matters. However, it remains unclear what additional actions, if any, will be taken by the U.S. or other governments with respect to international trade agreements, the imposition of tariffs on goods imported into the United States, tax policy related to international commerce, or other trade matters. While cross-border business may not be an area of focus for us, any unfavorable government policies on international trade, such as capital controls or tariffs, may affect the demand for our products and services, impact the competitive position of our products or prevent us from selling products in certain countries. If any new tariffs, legislation and/or regulations are implemented, or if existing trade agreements are renegotiated or, in particular, if the U.S. government takes retaliatory trade actions due to recent U.S.-China trade tensions, such changes could have an adverse effect on our business, financial condition and results of operations.

In addition, we have been closely monitoring domestic policies in the United States designed to restrict certain Chinese companies from supplying or operating in the U.S. market. These policies include the Clean Network project initiated by the U.S. Department of State in August 2020 and new authorities granted to the Department of Commerce to prohibit or restrict the use of information and communications technology and services, or ICTS, and Executive Order on Protecting America's Sensitive Data from Foreign Adversaries published in June 2021. While a substantial majority of our business is conducted in China, policies like these may deter U.S. users from accessing and/or using our apps, products and services, which could adversely impact our user experience and reputation. Similarly, India has permanently banned a large number of apps since 2020 out of national security concerns, many of which are China-based apps, escalating regional political and trade tensions.

Likewise, we are monitoring policies in the United States that are aimed at restricting U.S. persons from investing in or supplying certain Chinese companies. The United States and various foreign governments have imposed controls, license requirements and restrictions on the import or export of technologies and products (or voiced the intention to do so). For instance, the United States is in the process of developing new export controls with respect to "emerging and foundational" technologies, which may include certain AI and semiconductor technologies. In addition, the U.S. government may potentially impose a ban prohibiting U.S. persons from making investments in or engaging in transactions with certain Chinese companies. Measures such as these could deter suppliers in the United States and/or other countries that impose export controls and other restrictions from providing technologies and products to, making investments in, or otherwise engaging in transactions with Chinese companies. As a result, Chinese companies would have to identify and secure alternative supplies or sources of financing, while they may not be able to do so in a timely manner and at commercially acceptable terms, or at all. In addition, Chinese companies may have to limit and reduce their research and development and other business activities, or cease conducting transactions with parties, in the United States and other countries that impose export controls or other restrictions. Like other Chinese companies, our business, financial condition and results of operations could be adversely affected as a result.

We face risks related to natural disasters, health epidemics 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 server interruptions, breakdowns, system failures, technology platform 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 products and services on our platform.

Our business could be adversely affected by the effects of epidemics, including COVID-19, avian influenza, severe acute respiratory syndrome (SARS), influenza A (H1N1), Ebola or another epidemic. Any such occurrences could cause severe disruption to our daily operations, including our fulfillment infrastructure and our customer service centers, and may even require a temporary closure of our facilities. In recent years, there have been outbreaks of epidemics in China and globally. For example, in early 2020, in response to intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included extending the Chinese New Year holiday in 2020, quarantining individuals infected with or suspected of having COVID-19, prohibiting residents from free travel, encouraging employees of enterprises to work remotely from home and cancelling public activities, among others. The COVID-19 had also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We had seen delinquency volatilities and a significant decrease in loan volumes and revenues in the first half of 2020. We had taken a series of measures in response to the outbreak, including, among others, remote working arrangement for some of our employees, suspension of our offline customer acquisition activities and cancellation of non-essential business travels to ensure the safety and health of our employees. These measures reduced the capacity and efficiency of our operations. Since the second half of 2020, many of the quarantine measures within China have been relaxed, and we have resumed normal operations since the second half of 2020. After the initial outbreak of the COVID-19, some instances of COVID-19 infections have emerged in various regions of China from time to time, including the infections caused by the Omicron variants since early 2022, and varying levels of temporary restrictions and other measures are reinstated to contain the infections, such as those in Shanghai since March 2022.

The outbreak of COVID-19 resulted in the suspension of our offline customer acquisition activities in the month of February 2020. This has impacted our operations which resulted in an increase in delinquency volatilities and a significant decrease in revenues and loan volumes in the first quarter of 2020.

In addition, to respond the impact of COVID-19 outbreak and help our customers who suffered financial hardship, we launched special customer care program in the second quarter of 2020, providing discount or payment relief for those who were materially affected by the COVID-19 outbreak, which negatively affected our total revenues generated in the year of 2020.

As COVID-19 has negatively affected the broader Chinese economy and the global economy, China may continue to experience great economic uncertainty, which may impact our business in a materially negative way as our users and clients may be less inclined to borrow or invest in wealth management products and services. Borrowers may also have less propensity or ability to repay their loans as a result of the economic problems caused by COVID-19, which may then impact credit quality. The operations of some of our business partners and service providers have also been constrained and impacted, which may have a negative impact on our business. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this annual report.

While most of the restrictions on movement within China have been relaxed as of the date of this annual report, there is great uncertainty as to the future progress of the virus. Relaxation of restrictions on economic and social life may lead to new cases which may lead to the re-imposition of restrictions. Consequently, the COVID-19 pandemic may continue to materially adversely affect our business, financial condition and results of operations in 2022. The extent to which this pandemic impacts our results of operations will depend on future developments which are highly uncertain and unpredictable, including new outbreaks of COVID-19, the severity of the virus infection, the success or failure of efforts to contain or treat the cases, and future actions we or the authorities may take in response to these developments.

Risks Related to Our Carve-out from CreditEase and Our Relationship with CreditEase

We rely on our parent company, CreditEase, for the successful operation of our business.

We have limited experience operating as a stand-alone company. We commenced our online consumer finance marketplace business in March 2012, and Yirendai Ltd. was incorporated in 2014 in the Cayman Islands (and was renamed as Yiren Digital Ltd. in 2019) as a wholly owned subsidiary of CreditEase. Founded in 2006 by our executive chairman, Mr. Ning Tang, CreditEase is a large financial services company focusing on providing inclusive finance and wealth management products and services in China. Inclusive finance focuses on providing access to affordable and responsible financing solutions to those in China who are often unable to gain such access. We completed our carve-out from CreditEase in the first quarter of 2015. Historically, CreditEase has provided us with origination and servicing, financial, administrative, sales and marketing, risk management, human resources and legal services, and also with the services of a number of its executives and employees. In July 2019, we consummated a business realignment transaction with CreditEase, the controlling shareholder of our company, pursuant to which we have assumed from CreditEase and its affiliates the Acquired Business. On December 31, 2020, as a result of a business restructuring, we had disposed of the Disposed Business, and CreditEase had paid the designated subsidiaries of the Company an aggregate amount of RMB67.0 million in cash.

Although we have become a stand-alone company, we expect CreditEase to continue to provide us with certain support services going forward. We have also relied on CreditEase for the successful operation of our online consumer finance marketplace. After the business realignment with CreditEase closed in July 2019, we will continue to receive certain business consulting and other support services from CreditEase. Although we have entered into a series of agreements with CreditEase relating to our ongoing business cooperation and service arrangements with CreditEase, we cannot assure you that we will continue to receive the same level of support from CreditEase after we become a stand-alone company. The cost of services which CreditEase provides to us may from time to time increase based on commercial negotiations between CreditEase and us. Furthermore, borrowers, investors and business partners may react negatively to our carve-out from or business restructuring with CreditEase. As such, our carve-out from or business restructuring with CreditEase may materially and adversely affect our business. In addition, as a result of our carve-out from or business restructuring with CreditEase, our historical financial performance may not be indicative of our future performances as a stand-alone public company.

Our financial information included in this annual report may not be representative of our financial condition and results of operations if we had been operating as a stand-alone company.

Prior to our establishment, our online consumer finance marketplace business was carried out by various subsidiaries and the consolidated variable interest entities of CreditEase. We completed our carve-out from CreditEase in the first quarter of 2015, and all of our online consumer finance marketplace business is now carried out by our own subsidiaries and the consolidated variable interest entities. Since we and the subsidiaries and the consolidated variable interest entities of CreditEase that operated our online marketplace business are under common control of CreditEase, our consolidated financial statements include the assets, liabilities, revenues, expenses and cash flows that were directly attributable to our business for all periods presented. In particular, our consolidated balance sheets include those assets and liabilities that are specifically identifiable to our business; and our consolidated statements of operations include all costs and expenses related to us, including costs and expenses allocated from CreditEase to us. Allocations from CreditEase, including amounts allocated to origination, servicing and other operating costs, sales and marketing expenses and general and administrative expenses, were made using a proportional cost allocation method and based on headcount or transaction volume for the provision of services attributable to us. We made numerous estimates, assumptions and allocations in our historical financial statements because we did not operate as a stand-alone company prior to our carve-out from CreditEase in the first quarter of 2015. Although our management believes that the assumptions underlying our historical financial statements and the above allocations are reasonable, our historical financial statements may not necessarily reflect our results of operations, financial position and cash flows as if we had operated as a stand-alone company during those periods. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions” for our arrangements with CreditEase and “Item 5. Operating and Financial Review and Prospects” and the notes to our consolidated financial statements included elsewhere in this annual report for our historical cost allocation. In addition, upon becoming a stand-alone company, we have established our own financial, administrative and other support systems to replace CreditEase’s systems, the cost of which may have been significantly different from the cost allocation with CreditEase for the same services. Therefore, you should not view our historical results as indicators of our future performance.

Any negative development in CreditEase’s market position, brand recognition or financial condition may materially and adversely affect our marketing efforts and the strength of our brand.

Prior to our initial public offering, we were a wholly owned subsidiary of CreditEase, and after our initial public offering, CreditEase remains our controlling shareholder. We have benefited significantly and expect to continue to benefit significantly from our association with CreditEase in marketing our brand and our marketplace. We used to rely on CreditEase’s nationwide service network for offline borrower acquisition. As part of a business realignment with CreditEase in 2019, we acquired CreditEase Puhui, an entity managing CreditEase’s national service network for offline borrower acquisition. We also benefit from CreditEase’s strong brand recognition in China, which provides us with credibility and a broad marketing reach. If CreditEase loses its market position, the effectiveness of our marketing efforts through our association with CreditEase may be materially and adversely affected. In addition, any negative publicity associated with CreditEase or any negative development in respect of CreditEase’s market position, financial condition, or in terms of its compliance with legal or regulatory requirements in China, will likely have an adverse impact on the effectiveness of our marketing, as well as our reputation and brand.

Our agreements with CreditEase may be less favorable to us than similar agreements negotiated between unaffiliated third parties. In particular, our second amended and restated non-competition agreement with CreditEase limits the scope of business that we are allowed to conduct.

We have entered into a series of agreements with CreditEase and the terms of such agreements may be less favorable to us than would be the case if they were negotiated with unaffiliated third parties. In particular, under our second amended and restated non-competition agreement with CreditEase, we agree during the non-competition period, which will end on the earliest of (i) the first anniversary of the control ending date, (ii) the date on which the ADSs representing ordinary shares of Yiren Digital cease to be listed on Nasdaq or the New York Stock Exchange (except for temporary suspension of trading of the ADSs), and (iii) December 31, 2035, the fifteenth anniversary of December 31, 2020, the date of the second amended and restated non-competition agreement, not to, subject to certain exceptions, compete with CreditEase in the business or any business that is of the same nature as the business currently conducted by CreditEase, in each case unless as may otherwise be approved in writing by CreditEase. The control ending date refers to the earlier of (i) the first date when CreditEase no longer owns at least 20% of the voting power of our then outstanding securities, or (ii) the first date when CreditEase ceases to be the largest beneficial owner of our then outstanding voting securities (without considering holdings by certain institutional investors).

Such contractual limitations may significantly affect our ability to diversify our revenue sources and may materially and adversely impact our business and prospects should the growth of the online consumer finance marketplace industry in China slow down. In addition, pursuant to our master transaction agreement with CreditEase, we agree to indemnify CreditEase for liabilities arising from litigation and other contingencies related to our business and assume these liabilities as part of our carve-out from CreditEase. The allocation of assets and liabilities between CreditEase and our company may not reflect the allocation that would have been reached by two unaffiliated parties. Moreover, so long as CreditEase continues to control us, we may not be able to bring a legal claim against CreditEase in the event of contractual breach, notwithstanding our contractual rights under the agreements described above and other inter-company agreements entered into from time to time.

CreditEase will control the outcome of shareholder actions in our company.

As of June 30, 2022, CreditEase held 84.0% of our outstanding ordinary shares and total voting power. CreditEase's voting power gives it the power to control certain actions that require shareholder approval under Cayman Islands law, our current memorandum and articles of association and NYSE requirements, including approval of mergers and other business combinations, changes to our memorandum and articles of association, the number of shares available for issuance under any share incentive plans, and the issuance of significant amounts of our ordinary shares in private placements.

CreditEase's voting control may cause transactions that might not be beneficial to the holders of our ADSs to occur and may prevent transactions that would be beneficial to the holders of our ADSs. For example, CreditEase's voting control may prevent a transaction involving a change of control of us, including transactions in which a holder of our ADSs might otherwise receive a premium for the securities held by such holder over the then-current market price. In addition, CreditEase is not prohibited from selling a controlling interest in us to a third party and may do so without the approval of the holders of our ADSs and without providing for a purchase of the ADSs. If CreditEase is acquired or otherwise undergoes a change of control, any acquirer or successor will be entitled to exercise the voting control and contractual rights of CreditEase, and may do so in a manner that could vary significantly from that of CreditEase. In addition, the significant concentration of share ownership may adversely affect the trading price of the ADSs due to investors' perception that conflicts of interest may exist or arise. See “—We may have conflicts of interest with CreditEase and, because of CreditEase's controlling ownership interest in our company, we may not be able to resolve such conflicts on favorable terms for us” below.

We may have conflicts of interest with CreditEase and, because of CreditEase's controlling ownership interest in our company, we may not be able to resolve such conflicts on favorable terms for us.

Conflicts of interest may arise between CreditEase and us in a number of areas relating to our ongoing relationships. Potential conflicts of interest that we have identified include the following:

- *Non-competition arrangements with CreditEase.* We and CreditEase entered into a second amended and restated non-competition agreement on December 31, 2020, under which we agree not to compete with each other's core business. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Carve-out Agreements with CreditEase—Second amended and restated non-competition agreement.”
- *Employee recruiting and retention.* Because both CreditEase and we are engaged in consumer finance related businesses in China, we may compete with CreditEase in the hiring of new employees, in particular with respect to risk management related matters. We have a non-solicitation arrangement with CreditEase that restricts us and CreditEase from hiring any of each other's employees.
- *Our board members or executive officers may have conflicts of interest.* Our executive chairman, Mr. Ning Tang, and one of our directors, Tina Ju, are members of the board of directors of CreditEase, and Mr. Ning Tang is the chief executive officer of CreditEase. Ning Tang has also become our chief executive officer upon the closing of the business realignment with CreditEase in July 2019. See “Item 4. Information on the Company—A. History and Development of the Company.” In addition, we have granted and may in the future continue to grant incentive share compensation to CreditEase's employees and consultants. These relationships could create, or appear to create, conflicts of interest when these persons are faced with decisions with potentially different implications for CreditEase and us.
- *Sale of shares in our company.* CreditEase may decide to sell all or a portion of our shares that it holds to a third party, including to one of our competitors, thereby giving that third-party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of our employees or our other shareholders.

- *Allocation of business opportunities.* Under our second amended and restated non-competition agreement with CreditEase, we agree not to compete with CreditEase in the businesses conducted by CreditEase. There may arise other business opportunities that both we and CreditEase find attractive and which would complement our respective businesses. CreditEase may decide to take such opportunities itself, which would prevent us from taking advantage of those opportunities.
- *Developing business relationships with CreditEase's competitors.* So long as CreditEase remains our controlling shareholder, we may be limited in our ability to do business with its competitors. This may limit our ability to market our services for the best interests of our company and our other shareholders.

Although our company has become a stand-alone public company, we expect to operate, for as long as CreditEase is our controlling shareholder, as an affiliate of CreditEase. CreditEase may from time to time make strategic decisions that it believes are in the best interests of its business as a whole, including our company. These decisions may be different from the decisions that we would have made on our own. For example, we may be required to pay CreditEase for services that we currently enjoy free of charge from CreditEase, such as the information and data sharing. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Carve-out Agreements with CreditEase—Amended and Restated Intellectual Property License Agreement." CreditEase's decisions with respect to us or our business may be resolved in ways that favor CreditEase and therefore CreditEase's own shareholders, which may not coincide with the interests of our other shareholders. We have an audit committee, consisting of three independent directors, to review and approve all proposed related party transactions, including any transactions between us and CreditEase. However, we may not be able to resolve any potential conflicts, and even if we do so, the resolution may be less favorable to us than if we were dealing with a non-controlling shareholder. Even if both parties seek to transact business on terms intended to approximate those that could have been achieved between unaffiliated parties, this may not succeed in practice. Furthermore, if CreditEase sought to alter or violate the terms of the second amended and restated non-competition agreement with us in order to compete with us in the online consumer finance marketplace or otherwise, such conflicts may not be resolved in our favor in light of CreditEase's controlling interest in us. If CreditEase were to compete with us, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our executive chairman and chief executive officer, Mr. Ning Tang, has considerable influence over us and our corporate matters.

Our executive chairman and chief executive officer, Mr. Ning Tang, has considerable influence over us and our corporate matters. Mr. Tang beneficially owns 43.4% of the total outstanding shares of CreditEase, which is our controlling shareholder, as of June 30, 2022. Moreover, as Mr. Tang, as a director of CreditEase, currently holds three out of the four votes of CreditEase's board of directors, he therefore controls the decision-making of CreditEase and indirectly has considerable influence over us, our corporate matters and matters requiring shareholder approval, such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentrated control will limit the ability of the holders of our ordinary shares and our ADSs to influence corporate matters and could also discourage others from pursuing any potential merger, takeover or other change of control transactions, which could have the effect of depriving the holders of our ordinary shares and our ADSs of the opportunity to sell their shares at a premium over the prevailing market price.

We are a "controlled company" within the meaning of the NYSE Listed Company Manual and, as a result, will rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a "controlled company" as defined under the NYSE Listed Company Manual because CreditEase beneficially owns more than 50% of our outstanding ordinary shares. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and will rely, on certain exemptions from corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

Risks Related to Our Corporate Structure

If the PRC government deems that the contractual arrangements in relation to the consolidated variable interest entities 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.

Foreign ownership of internet-based businesses, such as distribution of online information, is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider (except for e-commerce, domestic multi-party communication, storage and forwarding classes and call centers) and any such foreign investor must have experience in providing value-added telecommunications services overseas and maintain a good track record in accordance with the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition), or the 2021 Negative List, effective from January 1, 2022, as amended, and other applicable laws and regulations.

We are a Cayman Islands company and our PRC subsidiaries are considered foreign-invested enterprises. To comply with PRC laws and regulations, we conduct our operations in China through (i) a series of contractual arrangements entered into among YouRace Hengchuang Technology Development (Beijing) Co., Ltd. (formerly known as Yiren Hengye Technology Development (Beijing) Co., Ltd.), or YouRace Hengchuang, (ii) a series of contractual arrangements entered into among Chongqing Hengyuda Technology Co., Ltd., or Hengyuda, Yiren Wealth, and the shareholders of Yiren Wealth, (iii) a series of contractual arrangements entered into among YouRace Hengchuang, Tianjin Linyang, and the shareholders of Tianjin Linyang, and (iv) a series of contractual arrangements entered into among YouRace Hengchuang, CreditEase Puhui, and the shareholders of CreditEase Puhui. As a result of these contractual arrangements, we had ceased conducting the business operations of Hengcheng as of December 31, 2020, and we currently conduct the business operations of Yiren Wealth, Tianjin Linyang and CreditEase Puhui and consolidate their operating results in our financial statements under U.S. GAAP. For a detailed description of these contractual arrangements, see “Item 4. Information on the Company—C. Corporate History and Structure.”

In the opinion of our PRC counsel, Han Kun Law Offices, (i) our current ownership structure, the ownership structure of YouRace Hengchuang and Hengyuda, our PRC subsidiaries, and Yiren Wealth, Tianjin Linyang and CreditEase Puhui, the consolidated variable interest entities, (ii) the contractual agreements among Hengyuda, Yiren Wealth and the shareholders of Yiren Wealth, (iii) the contractual agreements among YouRace Hengchuang, Tianjin Linyang and the shareholders of Tianjin Linyang, (iv) the contractual agreements among YouRace Hengchuang, CreditEase Puhui and the shareholders of CreditEase Puhui, as described in “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the Consolidated Variable Interest Entities,” are, in each case, not in violation of existing PRC laws, rules and regulations; and these contractual agreements are valid, binding and enforceable in accordance with their terms and applicable PRC laws and regulations currently in effect. The equity pledge under each equity pledge agreement has been registered with the competent office of the State Administration for Market Regulation in accordance with the PRC laws.

However, we are a Cayman Islands holding company with no equity ownership in the consolidated variable interest entities and we conduct our operations in China primarily through the consolidated variable interest entities with which we have maintained contractual arrangements. Investors in our Class A ordinary shares or the ADSs thus are not purchasing equity interest in the consolidated variable interest entities in China but instead are purchasing equity interest in a Cayman Islands holding company. If the PRC government deems that our contractual arrangements with the consolidated variable interest entities 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 or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. We may not be able to repay the notes and other indebtedness, and our shares may decline in value or become worthless, if we are unable to assert our contractual control rights over the assets of our PRC subsidiaries, which contribute to 28.7% of our revenues in 2021. Our holding company in the Cayman Islands, the consolidated variable interest entities, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the consolidated variable interest entities and, consequently, significantly affect the financial performance of the consolidated variable interest entities and our company as a group.

Our PRC counsel, Han Kun Law Offices, has also advised us that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations and there can be no assurance that the PRC government will ultimately take a view that is consistent with the opinion of our PRC counsel.

Although we believe we, our PRC subsidiaries and the consolidated variable interest entities comply with current PRC laws and regulations, we cannot assure you that the PRC government would agree that our 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. The PRC government has broad discretion in determining rectifiable or punitive measures for non-compliance with or violations of PRC laws and regulations. If the PRC government determines that we or the consolidated variable interest entities do not comply with applicable law, it could revoke the consolidated variable interest entities' business and operating licenses, require the consolidated variable interest entities to discontinue or restrict the consolidated variable interest entities' operations, restrict the consolidated variable interest entities' right to collect revenues, block the consolidated variable interest entities' websites, require the consolidated variable interest entities to restructure our operations, impose additional conditions or requirements with which the consolidated variable interest entities may not be able to comply, impose restrictions on the consolidated variable interest entities' business operations or on their customers, or take other regulatory or enforcement actions against the consolidated variable interest entities that could be harmful to their business. Any of these or similar occurrences could significantly disrupt our or the consolidated variable interest entities' business operations or restrict the consolidated variable interest entities from conducting a substantial portion of their business operations, which could materially and adversely affect the consolidated variable interest entities' business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of any of the consolidated variable interest entities that most significantly impact its economic performance, and/or our failure to receive the economic benefits from any of the consolidated variable interest entities, we may not be able to consolidate these entities in our consolidated financial statements in accordance with U.S. GAAP.

We rely on contractual arrangements with the consolidated variable interest entities, and their respective shareholders for a portion of our business operations, which may not be as effective as direct ownership.

We have relied and expect to continue to rely on contractual arrangements with the consolidated variable interest entities and their respective shareholders to operate our wealth management website and mobile application, our credit card management mobile application Waka, and our insurance referral business. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organization Structure." These contractual arrangements may not be as effective as direct ownership. For example, Yiren Wealth, Tianjin Linyang and CreditEase Puhui and their respective shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations, including maintaining our website and using the domain names and trademarks, in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership of Yiren Wealth, Tianjin Linyang and CreditEase Puhui, the consolidated variable interest entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of such consolidated variable interest entities, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the current contractual arrangements, we rely on the performance by such consolidated variable interest entities and their respective shareholders of their obligations under the contracts. The shareholders of such consolidated variable interest entities may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with such consolidated variable interest entities. Although we have the right to replace any shareholder of such consolidated variable interest entities under their respective contractual arrangements, if any shareholder of such consolidated variable interest entities is uncooperative or any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC laws and arbitration, litigation and other legal proceedings and therefore will be subject to uncertainties in the PRC legal system. See "—Any failure by the consolidated variable interest entities, or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business" below. Therefore, our contractual arrangements with the consolidated variable interest entities may not be as effective in ensuring us to conduct the business operations of the relevant portion of our business operations as direct ownership would be.

Any failure by the consolidated variable interest entities or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.

If Yiren Wealth, Tianjin Linyang and CreditEase Puhui, the consolidated variable interest entities, or their respective shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective under PRC laws. For example, if the shareholders of such consolidated variable interest entities were to refuse to transfer their equity interest in such consolidated variable interest entities, as the case may be, to us or our designee if we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. 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 system in the PRC is not as developed as in some 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. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC laws, rulings by arbitrators are final and parties cannot appeal arbitration results in court unless such rulings are revoked or determined unenforceable by a competent court. If the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to conduct the business operations of the consolidated variable interest entities, and our ability to conduct our business may be negatively affected. See “—Risks Related to Doing Business in China—Uncertainties with respect to the legal system in Chinese mainland could adversely affect us. Certain laws and regulations in Chinese mainland can evolve quickly, which bring risks and uncertainties to their interpretation and enforcement. Administrative and court proceedings in Chinese mainland may be protracted. Some government policies and internal rules may not be published on a timely manner. These risks and uncertainties may make it difficult for us to meet or comply with requirements under the applicable laws and regulations.”

The shareholders of the consolidated variable interest entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

We have three consolidated variable interest entities, namely Yiren Wealth, Tianjin Linyang, and CreditEase Puhui as of the date of this annual report. The equity interests of Yiren Wealth are held by Mr. Ning Tang, our founder and executive chairman, Pucheng Credit Assessment and Management (Beijing) Co., Ltd., and two other individuals, Mr. Fanshun Kong and Ms. Yan Tian. The equity interests of Tianjin Linyang are held by Mr. Yueyue Chen and Ms. Yang Wang, both of whom are our employees. The equity interests of CreditEase Puhui are held by Mr. Ning Tang and Ms. Mei Zhao. Their interests in such consolidated variable interest entities may differ from the interests of our company as a whole. These shareholders may breach, or cause such consolidated variable interest entities to breach, the existing contractual arrangements we have with them and such consolidated variable interest entities, as the case may be, which would have a material adverse effect on our ability to conduct the business operations of such consolidated variable interest entities and receive economic benefits from such consolidated variable interest entities. For example, the shareholders may be able to cause our agreements with such consolidated variable interest entities to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the exclusive option agreement with these shareholders to request them to transfer all of their equity interests in such consolidated variable interest entities to a PRC entity or individual designated by us, to the extent permitted by PRC laws. If we cannot resolve any conflicts of interest or dispute between us and the shareholders of such consolidated variable interest entities, we would have to rely on legal proceedings, which could result in the disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

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

Under applicable PRC laws and regulations, arrangements and other transactions among related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year when the transactions are conducted. The PRC Enterprise Income Tax Law requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its related parties to the relevant tax authorities. 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. We may face material and adverse tax consequences if the PRC tax authorities determine that (i) the contractual arrangements between Hengyuda, our wholly owned subsidiary in China, Yiren Wealth, the variable interest entity in China, and the shareholders of Yiren Wealth, (ii) the contractual arrangements between YouRace Hengchuang, our wholly owned subsidiary in China, Tianjin Linyang, the variable interest entity in China, and the shareholders of Tianjin Linyang, and (iii) the contractual arrangements between Hengyuda, our wholly owned subsidiary in China, CreditEase Puhui, the variable interest entity in China, and the shareholders of CreditEase Puhui 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, rules and regulations, and adjust the income of Yiren Wealth, Tianjin Linyang and CreditEase Puhui, the consolidated 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 such consolidated variable interest entities for PRC tax purposes, which could in turn increase their tax liabilities without reducing the tax expenses of such consolidated variable interest entities. In addition, if YouRace Hengchuang or Hengyuda requests the shareholders of such consolidated variable interest entities, as the case may be, to transfer their equity interests in such consolidated variable interest entities, as the case may be, at nominal or no value pursuant to these contractual arrangements, such transfer could be viewed as a gift and subject YouRace Hengchuang or Hengyuda to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on such consolidated variable interest entities for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if the consolidated variable interest entities' tax liabilities increase or if they are required to pay late payment fees and other penalties.

We may lose the ability to use and benefit from assets held by the consolidated variable interest entities that are material to the operation of our business if any of these entities goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

Yiren Wealth, Tianjin Linyang and CreditEase Puhui, the consolidated variable interest entities, hold certain assets that are material to the operation of our business. Under the contractual arrangements, the consolidated variable interest entities may not, and their respective shareholders may not cause them to, in any manner, sell, transfer, mortgage or otherwise dispose of their assets or their legal or beneficial interests in the business without our prior consent. However, in the event the shareholders of such consolidated variable interest entities breach these contractual arrangements and voluntarily liquidate such consolidated variable interest entities, or any of such consolidated variable interest entities declares bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If the consolidated variable interest entities undergo a voluntary or involuntary liquidation proceeding, independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

If the chops of YouRace Hengchuang and Hengyuda, our PRC subsidiaries, and the consolidated variable interest entities are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised.

In China, a company chop or seal serves as the legal representation of the company in dealing with third parties even when unaccompanied by a signature. Each legally registered company in China is required to maintain a company chop, which must be registered with the local Public Security Bureau. In addition to this mandatory company chop, companies may have several other chops that can be used for specific purposes. The chops of our principal PRC subsidiaries and the consolidated variable interest entities are generally held securely by personnel designated or approved by us in accordance with our internal control procedures. To the extent those chops are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised and those corporate entities may be bound to abide by the terms of any documents so chopped, even if they were chopped by an individual who lacked the requisite power and authority to do so. In addition, if the chops are misused by unauthorized persons, we could experience a disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources while distracting management from our operations to resolve these issues.

Risks Related to Doing Business in China

Changes in China's or global economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations.

Substantially all of our operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese 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 Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth 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. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations.

In addition, the global macroeconomic environment is facing challenges. 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 Iran, Ukraine, Syria and North Korea. There have also been concerns on the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes, and the current trade tension between the United States and China. In addition, the impact of the decision by the United Kingdom to withdraw from the European Union, commonly referred to as "Brexit," and the resulting effect on the political and economic future of the U.K. and the European Union is uncertain. Brexit could adversely affect European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets. 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.

Uncertainties with respect to the legal system in Chinese mainland could adversely affect us. Certain laws and regulations in Chinese mainland can evolve quickly, which bring risks and uncertainties to their interpretation and enforcement. Administrative and court proceedings in Chinese mainland may be protracted. Some government policies and internal rules may not be published on a timely manner. These risks and uncertainties may make it difficult for us to meet or comply with requirements under the applicable laws and regulations.

The PRC legal system is based on written statutes and prior court decisions have limited value as precedents. Since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities 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. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner, or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

PRC government has significant oversight over the conduct of our business and it has recently indicated an intent to exert more oversight over offerings that are conducted overseas and/or foreign investment in China-based issuers. Any such action could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless.

Uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law, which has become effective on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activity under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. In addition, the Supreme People’s Court issued Certain Opinions Concerning the Application of the Foreign Investment Law on December 16, 2019, or the Foreign Investment Law Judicial Interpretations, which provides that investment contract in relation to the investment by foreign investor in a field which is prohibited from foreign investment under the 2021 Negative List may be invalidated by the courts. Although we believe contractual arrangements would not be deemed as “investment contract” under the Foreign Investment Law Judicial Interpretations, we cannot assure you that the PRC courts would take the same view as us. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council 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. 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. See “—Risks Related to Our Corporate Structure” and “Item 4. Information on the Company—C. Organizational Structure.”

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

We only have contractual control over our websites. We do not directly own the websites due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including internet information provision services. This may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.

The evolving PRC regulatory system for the internet industry may lead to the establishment of new regulatory agencies. For example, in May 2011, the State Council announced the establishment of a new department, the State Internet Information Office (with the involvement of the State Council Information Office, the MIIT, and the Ministry of Public Security). The primary role of this new agency is to facilitate the policy-making and legislative development in this field, to direct and coordinate with the relevant departments in connection with online content administration and to deal with cross-ministry regulatory matters in relation to the internet industry.

Yiren Wealth, the variable interest entity operating our wealth management website and mobile application, may be deemed to be providing commercial internet information services and data processing and transaction processing services, which would require Yiren Wealth to obtain an ICP License and an EDI License.

An ICP License is a value-added telecommunications business operating license required for provision of commercial internet information services. See “Item 4. Information on the Company—B. Business Overview— Regulation—Regulations on Value-Added Telecommunication Services.” As of the date of this annual report, Yiren Wealth is in the process of applying for an ICP License. Furthermore, as we are providing mobile applications to mobile device users, it is uncertain if Yiren Wealth will be required to obtain a separate value-added telecommunications business operating license with respect to the services provided through mobile devices in addition to the ICP License. Although we believe that not obtaining such separate license is in line with the current market practice, there can be no assurance that we will not be required to apply for an operating license for our mobile applications in the future.

An EDI License is a value-added telecommunications business operating license required for provision of data processing and transaction processing services. We plan to apply for any requisite telecommunication services license once the detailed implementation rules become available.

The Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, issued by the MIIT in July 2006, prohibits domestic telecommunication service providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for its illegal operation of a telecommunications business in China. According to this circular, either the holder of a value-added telecommunication services operation permit or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The circular also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered by its license. Yiren Wealth currently owns the relevant domain names and trademarks in connection with our value-added telecommunications business and has the necessary personnel to operate our websites. If an ICP License holder fails to comply with the requirements and also fails to remedy such non-compliance within a specified period of time, the MIIT or its local counterparts have the discretion to take administrative measures against such license holder, including revoking its ICP License.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain new ones. If the PRC government considers that we were operating without the proper approvals, licenses or permits or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business and results of operations.

Any failure by us or our third-party service providers to comply with applicable anti-money laundering laws and regulations could damage our reputation.

In cooperation with our partnering custody banks and payment companies, we have adopted various policies and procedures, such as internal controls and “know-your-customer” procedures, for anti-money laundering purposes. In addition, we rely on our third-party service providers, in particular the custody banks and payment companies that handle the transfer of funds between borrowers and investors, to have their own appropriate anti-money laundering policies and procedures. The custody banks and payment companies are subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations and are regulated in that respect by the PBOC. If any of our third-party service providers fails to comply with applicable anti-money laundering laws and regulations, our reputation could suffer and we could become subject to regulatory intervention, which could have a material adverse effect on our business, financial condition and results of operations. Any negative perception of the industry, such as that arises from any failure of other consumer finance marketplaces to detect or prevent money laundering activities, even if factually incorrect or based on isolated incidents, could compromise our image or undermine the trust and credibility we have established.

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 customer identification program, the monitoring and reporting of suspicious transactions, the preservation of customer 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. On October 11, 2018, the PBOC, the CBIRC, and the China Securities Regulatory Commission, or the CSRC, jointly promulgated the Administrative Measures for Anti-money Laundering and Counter-terrorism Financing by Internet Finance Service Agencies (for Trial Implementation), effective as of January 1, 2019, which specify the anti-money laundering obligations of internet finance service agencies and regulate that the internet finance service agencies shall (i) adopt continuous customer identification measures; (ii) implement the system for reporting large-value or suspicious transactions; (iii) conduct real-time monitoring of the lists of terrorist organizations and terrorists; and (iv) properly keep the information, data and materials such as customer identification and transaction reports etc. We cannot assure you that the anti-money laundering policies and procedures we have adopted will be effective in protecting our marketplace from being exploited for money laundering purposes or will be deemed to be in compliance with applicable anti-money laundering implementing rules if and when adopted.

The PRC government’s significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.

We conduct our business primarily through the consolidated variable interest entities and their subsidiaries in China. Our operations in China are governed by PRC laws and regulations. The PRC government has significant oversight and discretion over the conduct of our business, and it may influence our operations, which could result in a material adverse change in our operation and/or the value of our ADSs. Also, the PRC government has recently indicated an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. For example, on July 6, 2021, the relevant PRC government authorities made public the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. On November 14, 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations, for public comments, which stipulates, among others, that a prior cybersecurity review is required for listing abroad of data processors which process over one million users’ personal information, and the listing of data processors in Hong Kong which affects or may affect national security. On December 28, 2021, the CAC issued the revised Measures for Cybersecurity Review, or the Measures, which stipulates that, among others, operators of “critical information infrastructure” or online platform operators holding over one million users’ personal information shall apply with the Cybersecurity Review Office for a cybersecurity review before any public offering at a foreign stock exchange. Since the Draft Regulations are in the process of being formulated and the Opinions and the Measures remain unclear on how it will be interpreted, amended and implemented by the relevant PRC governmental authorities, it remains uncertain how PRC governmental authorities will regulate overseas listing in general and whether we are required to obtain any specific regulatory approvals from the CSRC, the CAC or any other PRC governmental authorities for our offshore offerings. If the CSRC, the CAC or other regulatory agencies later promulgate new rules or explanations requiring that we obtain their approvals for our future offshore offerings, we may be unable to obtain such approvals in a timely manner, or at all, and such approvals may be rescinded even if obtained. Any such circumstance could significantly limit or completely hinder our ability to continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless. In addition, implementation of industry-wide regulations directly targeting our operations could cause the value of our securities to significantly decline. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

We rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require YouRace Hengchuang and Hengyuda to adjust their taxable income under the contractual arrangements they currently have in place with the consolidated variable interest entities in a manner that would materially and adversely affect their ability to pay dividends and other distributions to us. See “—Risks Related to Our Corporate Structure—Contractual arrangements in relation to the consolidated variable interest entities may be subject to scrutiny by the PRC tax authorities and they may determine that we owe additional taxes, which could negatively affect our financial condition and the value of your investment” above.

Under PRC laws and regulations, our PRC subsidiaries, as wholly foreign-owned enterprises in China, may pay dividends only out of their respective accumulated after-tax profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such funds reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also “—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders” below.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of our initial public offering and the concurrent private placement to make loans to or make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Under PRC laws and regulations, we are permitted to utilize the proceeds from our initial public offering and the concurrent private placement to fund our PRC subsidiaries by making loans to or additional capital contributions to our PRC subsidiaries, subject to applicable government registration and approval requirements.

Any loans to our PRC subsidiaries, which are treated as foreign-invested enterprises under PRC laws, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE. According to the Interim Measures on the Management of Foreign Debts promulgated by SAFE, the Ministry of Finance and the National Development and Reform Commission on January 8, 2003, the statutory limit for the total amount of foreign debts of a foreign-invested company is the difference between the amount of total investment as approved by PRC Ministry of Commerce, or MOFCOM, or its local counterpart and the amount of registered capital of such foreign-invested company or two times the net assets provided in the latest audited financial report of such PRC subsidiary, as applicable. According to the Circular of the People’s Bank of China on Matters relating to the Comprehensive Macro-prudential Management of Cross-border Financing issued by the People’s Bank of China in January 2017, or Circular 9, and Circular of the People’s Bank of China and the State Administration of Foreign Exchange on Adjusting the Macro-prudential Regulation Parameter for Full-covered Cross-border Financing in March 2020, or Circular 64, the maximum amount of foreign debt that each company may borrow is determined by reference to its so-called risk-weighted balance of cross-border financing, which may not exceed two and a half times its net assets as indicated in its latest audited financial report. The risk-weighted balance of cross-border financing of a company is calculated based on its outstanding amounts of RMB and foreign currency cross-border debt, multiplied by risk conversion factors corresponding to their respective remaining terms, loan categories and currency. However, for a one-year grace period starting from January 11, 2017, a foreign-invested company such as our PRC subsidiaries may elect to determine the maximum amount of its foreign debt in accordance with the rules in effect prior to Circular 9, or to comply with Circular 9. On the other hand, PRC domestic companies such as the consolidated variable interest entities must comply with Circular 9. Moreover, according to the Notice of the National Development and Reform Commission on Promoting the Administrative Reform of the Recordation and Registration System for Enterprises’ Issuance of Foreign Debts issued by the National Development and Reform Commission in September 2015, any loans we extend to the consolidated variable interest entities or other PRC operating companies that are domestic PRC entities for more than one year must be filed with the National Development and Reform Commission or its local counterpart and must also be registered with SAFE or its local branches.

We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be filed for record with MOFCOM or its local counterpart. On March 30, 2015, SAFE promulgated Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or Circular 19, which expands a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises nationwide. On June 9, 2016, SAFE promulgated Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or Circular 16, to further expand and strengthen such reform. Under Circular 19 and Circular 16, foreign-invested enterprises in the PRC are allowed to use their foreign exchange funds under capital accounts and RMB funds from exchange settlement for expenditure under current accounts within their business scope or expenditure under capital accounts permitted by laws and regulations, except that such funds shall not be used for (i) expenditure beyond the enterprise's business scope or expenditure prohibited by laws and regulations; (ii) investments in securities or other investments except principal-secured products issued by banks; (iii) granting loans to nonaffiliated enterprises, except where it is expressly permitted in the business license; and (iv) construction or purchase of real estate for purposes other than self-use (except for real estate enterprises). On October 23, 2019, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Facilitating Cross-border Trade and Investment, which, among other things, expanded the use of foreign exchange capital to domestic equity investments. Non-investment foreign-funded enterprises are allowed to lawfully make domestic equity investments on the premise by using capital funds without violation to prevailing special administrative measures for access of foreign investments (negative list) and the authenticity and compliance with the regulations of domestic investment projects. If the consolidated variable interest entities need financial support from us or our wholly owned subsidiaries in the future and we find it necessary to use foreign currency-denominated capital to provide such financial support, our ability to fund the consolidated variable interest entities' operations will be subject to statutory limits and restrictions, including those described above.

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 subsidiaries or future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we received from our initial public offering and our private placement 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.

Fluctuations in exchange rates could result in foreign currency exchange losses and have a material adverse effect on the price of our ADSs.

Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment. The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of RMB against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that RMB will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between RMB and the U.S. dollar in the future.

Any significant appreciation or depreciation of RMB may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, to the extent that we need to convert U.S. dollars we receive into RMB to pay our operating expenses, appreciation of RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure, or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

Governmental control of currency conversion may limit our ability to utilize our net revenue effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our net revenue in RMB. Under our current corporate structure, our company in the Cayman Islands relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by the beneficial owners of our company who are PRC residents. However, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows of China in 2016 due to the weakening RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and a substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. For example, on January 26, 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification, or Circular 3, which sets out certain measures tightening genuineness and compliance verification of cross-border transactions and cross-border capital flow, including (i) improving the statistics of current account foreign currency earnings deposited offshore; (ii) requiring banks to verify board resolutions, tax filing forms, and audited financial statements before wiring foreign-invested enterprises' foreign exchange distributions above US\$50,000; and (iii) strengthening genuineness and compliance verification of foreign direct investments. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs. As a result, the funds in our PRC subsidiaries or the consolidated variable interest entities in Chinese mainland may not be available to fund operations or for other use outside of Chinese mainland due to interventions in, or the imposition of restrictions and limitations on, the ability of our holding company, our subsidiaries, or the consolidated variable interest entities by the PRC government on currency conversion.

Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

We are required under PRC laws and regulations to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. We have accrued the employee benefit according to the local governments' regulations in financial statements, but we have not made adequate employee benefits payments as of the date of this annual report. In addition, certain entities we acquired in March 2019 as part of our business realignment with CreditEase did not make adequate employee benefits payment in the past. Although we have obtained indemnities and warranties from CreditEase to protect us for any potential liability associated with unpaid employee benefits, we may be required to make up the contributions for these plans and pay late penalties and fines in the first place before we could claim compensation from CreditEase. If we are subject to late penalties or fines in relation to the underpaid employee benefits, our financial condition and results of operations may be materially and adversely affected.

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in August 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the PRC Anti-Monopoly Law requires that MOFCOM shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from MOFCOM or its local counterparts, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share. On March 25, 2019, we entered into a set of definitive agreements with CreditEase regarding a business realignment between CreditEase and us. In December 2019, CreditEase Puhui became our wholly owned subsidiary through a series of internal re-organization transactions. If MOFCOM or any of its local counterparts challenges aforementioned the transaction structure or requires us to complete relevant approval process, we may have to adjust the transaction structure, amend or terminate the definitive agreements or be subject to fines and other administrative sanctions. If such situations occur, our business, financial condition and prospects would be materially and adversely affected.

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.

SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. SAFE Circular 37 is issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75. SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment in February 2015, which took effect on June 1, 2015. This notice has amended SAFE Circular 37 requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

If our shareholders who are PRC residents or entities do not complete their registration as required, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

All of our shareholders who directly or indirectly hold shares in our Cayman Islands holding company and who are known to us as being PRC residents have completed the foreign exchange registrations.

However, we may not be informed of the identities of all the PRC residents or entities holding direct or indirect interest in our company, nor can we compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries’ ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

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

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, replacing earlier rules promulgated in March 2007. Pursuant to these rules, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate 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 the PRC subsidiary of such overseas listed company, and complete certain other procedures. In addition, an overseas entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or who have resided in the PRC for a continuous period of not less than one year and who have been granted options or other awards are subject to these regulations. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Foreign Exchange—Regulations on Stock Incentive Plans."

If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.

Under the Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, the criteria set forth in the circular 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 all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. See "Item 10. Additional Information—E. Taxation—People's Republic of China Taxation." 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." As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that Yiren Digital Ltd. or any of our subsidiaries outside of China is a PRC resident enterprise for PRC enterprise income tax purposes, then Yiren Digital Ltd. or such subsidiary could be subject to PRC tax at a rate of 25% on its worldwide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ADSs or ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on the investment in our ADSs.

Discontinuation of preferential tax treatment or imposition of any additional taxes could adversely affect our financial condition and results of operations.

The Enterprise Income Tax Law and its implementing rules have adopted a uniform statutory enterprise income tax rate of 25% to all enterprises in China. The Enterprise Income Tax Law and its implementing rules also permit companies qualified as “software enterprises” to enjoy a two-year income tax exemption starting from the first profit making year, followed by a reduced tax rate of 12.5% for the subsequent three years. YouRace Hengchuang, one of our PRC subsidiaries, was qualified as a “high and new technology enterprise” in November 2018 and the status was reaffirmed in 2021. Accordingly, it has been eligible for a preferential income tax rate of 15%. However, YouRace Hengchuang’s qualification as a “high and new technology enterprise” is subject to evaluation by the relevant authorities in China every three years. If YouRace Hengchuang fails to maintain its “high and new technology enterprise” qualification, its applicable corporate income tax rate would increase to 25%, which could have adverse effects on our financial condition and results of operations. Yiren Hengsheng, one of our PRC subsidiaries, was qualified as a “software enterprise” in March 2021, and accordingly has been eligible for an exemption of enterprise income tax for 2020 and 2021 and a reduced enterprise income tax at the rate of 12.5% from 2022 through 2024. However, Yiren Hengsheng’s qualification as a “software enterprise” is subject to annual evaluation by the relevant authorities in China. If Yiren Hengsheng fails to maintain its “software enterprise” qualification, its applicable corporate income tax rate would increase to 25%, which could have adverse effects on our financial condition and results of operations. In addition, Hengyuda, one of our PRC subsidiaries, was eligible for a reduced enterprise income tax rate of 15% since the year 2017 pursuant to the Catalogue of Encouraged Industries in Western Regions, the Catalogue of Industries for Guiding Foreign Investment, Circular on Issues Concerning Tax Policies for In-depth Implementation of Western Development Strategies, and the related rules granting favorable tax treatment to companies in specified industries in western China under the PRC government’s policy initiative to promote the development of the western region of China. However, Hengyuda’s favorable tax treatment is subject to an annual filing requirement. Moreover, the relevant rules and policy initiative may change, and favorable tax treatment under these rules is available only to companies meeting certain qualifications. Therefore, there is uncertainty as to whether and for how long Hengyuda can continue to enjoy such favorable tax treatment after 2021. If such favorable tax treatment becomes unavailable to Hengyuda in the future, its applicable corporate income tax rate would increase to 25%, which may affect our financial condition and results of operations.

We may not be able to obtain certain benefits under relevant tax treaty on dividends paid by our PRC subsidiaries to us through our Hong Kong subsidiary.

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. Pursuant to the PRC Enterprise Income Tax Law, a withholding tax rate of 10% currently applies to dividends paid by a PRC “resident enterprise” to a foreign enterprise investor, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for preferential tax treatment. Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, or the Double Tax Avoidance Arrangement, such withholding tax rate may be lowered to 5% if a Hong Kong resident enterprise owns no less than 25% of a PRC enterprise. Furthermore, the Administrative Measures for Non-Resident Taxpayers to Enjoy Treaty Benefits, or Circular 35, which became effective on January 1, 2020, require non-resident enterprises to determine whether they are qualified to enjoy the preferential tax treatment under the tax treaties and file relevant report with the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. See “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation.” Our board of directors decided in August 2018 to suspend the previously adopted semi-annual dividend policy. In the event that we make offshore distributions of our earnings, we would be subject to a significant withholding tax. We cannot assure you that our determination regarding our qualification to enjoy the preferential tax treatment will not be challenged by the relevant tax authority or we will be able to complete the necessary filings with the relevant tax authority and enjoy the preferential withholding tax rate of 5% under the Double Taxation Arrangement with respect to dividends to be paid by our PRC subsidiaries to Yiren Digital Hong Kong Limited, our Hong Kong subsidiary.

Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

The PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of certain taxable assets, including, in particular, equity interests in a PRC resident enterprise, by a non-resident enterprise by promulgating and implementing Circular on Issues Concerning Treatment of Enterprise Income Tax in Enterprise Restructuring Business promulgated by the State Administration of Taxation, which became effective in January 2008, or Circular 59, the Announcement of the State Administration of Taxation on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises promulgated by the State Administration of Taxation in February 2015, or Circular 7, and the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source promulgated by the State Administration of Taxation in October 2017 and taken into effect in December 2017 and amended in June 2018, or SAT Circular 37.

Under Circular 7, where a non-resident enterprise conducts an “indirect transfer” by transferring the equity interests of a PRC “resident enterprise” or other taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, may be subject to PRC enterprise income tax, if the indirect transfer is considered to be an abusive use of company structure without reasonable commercial purposes.

In addition, Circular 7 provides clearer criteria on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Circular 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise.

SAT Circular 37 provides certain changes to the current withholding regime. For example, SAT Circular 37 requires that the transferor shall declare to the competent tax authority for payment of tax within seven (7) days after the tax payment obligation comes into being if the withholding agent fails to withhold the tax due or withhold the tax due in full. However, according to SAT Circular 37, if the withholding agent fails to withhold and remit the income tax payable, or is unable to perform its obligation in this regard, as long as the non-resident enterprise that earns the income voluntarily declares and pays the tax payable before the tax authority orders it to do so within required time limits, it shall be deemed that such enterprise has paid the tax in time.

We face uncertainties on the reporting and consequences on future private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises. The PRC tax authorities may pursue such non-resident enterprises with respect to a filing or the transferees with respect to withholding obligation, and request our PRC subsidiaries to assist in the filing. As a result, we and non-resident enterprises in such transactions may become at risk of being subject to filing obligations or being taxed, under Circular 59, Circular 7 and SAT Circular 37, and may be required to expend valuable resources to comply with Circular 59, Circular 7 and SAT Circular 37 or to establish that we and our non-resident enterprises should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Circular 59, Circular 7 and SAT Circular 37 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. We may pursue acquisitions from time to time that may involve complex corporate structures. If we are considered a non-resident enterprise under the PRC Enterprise Income Tax Law and if the PRC tax authorities make adjustments to the taxable income of the transactions under Circular 59, Circular 7 and SAT Circular 37, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and our offshore offerings may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and, even if we obtain such CSRC approval, the approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for any of our offshore offerings, or a rescission of such approval if obtained by us, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As a follow-up, on December 24, 2021, the State Council issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Provisions, and the CSRC issued a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Administration Measures, for public comments.

The Draft Provisions and the Draft Administration Measures propose to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. According to the Draft Provisions and the Draft Administration Measures, an overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the examination and determination of an indirect offering and listing will be conducted on a substance-over-form basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business is in the PRC or carried out in the PRC. According to the Draft Administration Measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. Particularly, the issuer shall submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offering within three business days after completion of the follow-on offering. Failure to comply with the filing requirements may result in fines to the relevant domestic companies, suspension of their businesses, revocation of their business licenses and operation permits and fines on the controlling shareholder and other responsible persons. The Draft Administration Measures also sets forth certain regulatory red lines for overseas offerings and listings by domestic enterprises. For more details of the Draft Provisions and the Draft Administration Measures, please refer to Regulation—Regulations on Overseas Offering and Listing.

As of the date of this annual report, the Draft Provisions and the Draft Administration Measures were released for public comment only. There are uncertainties as to whether the Draft Provisions and the Draft Administration Measures would be further amended, revised or updated. Substantial uncertainties exist with respect to the enactment timetable and final content of the Draft Provisions and the Draft Administration Measures. As the CSRC may formulate and publish guidelines for filings in the future, the Draft Administration Measures does not provide for detailed requirements of the substance and form of the filing documents. In a Q&A released on its official website, the respondent CSRC official indicated that the proposed new filing requirement will start with new companies and the existing companies seeking to carry out activities like follow-on financing. As for the filings for the existing companies, the regulator will grant adequate transition period and apply separate arrangements. The Q&A also addressed the contractual arrangements and pointed out that if relevant domestic laws and regulations have been observed, companies with compliant VIE structure may seek overseas listing after completion of the CSRC filings. Nevertheless, it does not specify what qualify as compliant VIE structures and what relevant domestic laws and regulations are required to be complied with. Given the substantial uncertainties surrounding the latest CSRC filing requirements at this stage, we cannot assure you that we will be able to complete the filings and fully comply with the relevant new rules on a timely basis, if at all.

Relatedly, on December 27, 2021, the NDRC and the Ministry of Finance, or the MOC, jointly issued the 2021 Negative List, which became effective on January 1, 2022. Pursuant to such Special Administrative Measures, if a domestic company engaging in the prohibited business stipulated in the 2021 Negative List seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. Besides, the foreign investors of the company shall not be involved in the company's operation and management, and their shareholding percentage shall be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors. As the 2021 Negative List is relatively new, there remain substantial uncertainties as to the interpretation and implementation of these new requirements, and it is unclear as to whether and to what extent listed companies like us will be subject to these new requirements. If we are required to comply with these requirements and fail to do so on a timely basis, if at all, our business operation, financial conditions and business prospect may be adversely and materially affected.

In addition, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval and filing from the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the enacted version of the revised Measures for Cybersecurity Review and the draft of Regulations on the Network Data Security, are required for our offshore offerings, it is uncertain whether we can or how long it will take us to obtain such approval or complete such filing procedures and any such approval or filing could be rescinded or rejected. Any failure to obtain or delay in obtaining such approval or completing such filing procedures for our offshore offerings, or a rescission of any such approval or filing if obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or filing or other government authorization for our offshore offerings. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our listed securities. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

The PCAOB may be unable to inspect or fully investigate our auditor in relation to their audit work performed for our financial statements. If the PCAOB is unable to conduct such inspection, our investors would be deprived of the benefits of such inspection.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, 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 the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Our current independent registered public accounting firm, Wei Wei, whose audit report is included in this annual report on Form 20-F, is headquartered in Flushing, New York, and has been inspected by the PCAOB on a regular basis. The PCAOB currently has access to inspect the working papers of our auditor. Our auditor is not headquartered in mainland China or Hong Kong and was not identified in the report as a firm subject to the PCAOB determinations announced on December 16, 2021 and as of the filing date of this annual report. Notwithstanding the foregoing, in the future, if either there is any regulatory change or steps taken by the PRC regulators that does not permit Wei Wei to provide audit documentation located in mainland China or Hong Kong to the PCAOB for inspection or investigation or if we change auditors and they are not able to provide audit documentation for the inspection or investigation of the PCAOB, they could become subject to the HFCA Act prohibitions. It is possible that the PCAOB is unable to conduct inspection of audit working papers related to us without the approval of the Chinese authorities. If this is the case, we and investors in our ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspection of audit working paper related to us also makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures performed in their audit on our financial statements as compared to auditors outside of China that are subject to the 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.

On August 26, 2022, the PCAOB signed a Statement of Protocol with the China Securities Regulatory Commission and the Ministry of Finance of the People's Republic of China governing inspections and investigations of audit firms based in China, which marks the first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms in China. The Statement of Protocol sets forth, among other terms, that (i) the PCAOB has independent discretion to select any issuer audits for inspection or investigation; (ii) the PCAOB gets direct access to interview or take testimony from all personnel of the audit firms whose issuer engagements are being inspected or investigated; (iii) the PCAOB has the unfettered ability to transfer information to the SEC in accordance with the Sarbanes-Oxley Act; and (iv) the PCAOB inspectors can see complete audit work papers without any redactions. However, uncertainties exist with respect to the implementation of this framework and there is no assurance that the PCAOB will be able to execute, in a timely manner, its future inspections and investigations in a manner that satisfies the Statement of Protocol.

Our ADSs may be prohibited from trading in the United States under the HFCA Act in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

The Holding Foreign Companies Accountable Act, or the HFCA Act, was signed into law on December 18, 2020. The HFCA Act states if the SEC determines that we have filed audit reports issued by an independent registered public accounting firm that has not been subject to inspection of the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 2, 2021, the SEC adopted final amendments implementing the disclosure and submission requirements of the HFCA Act, pursuant to which the SEC will identify an issuer as a "Commission Identified Issuer" if the issuer has filed an annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or investigate completely, and will then impose a trading prohibition on an issuer after it is identified as a Commission-Identified Issuer for three consecutive years. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in China. Our auditor is not headquartered in mainland China or Hong Kong and was not identified in the report as a firm subject to the PCAOB determinations announced on December 16, 2021 and as of the filing date of this annual report. Our auditor has been inspected by the PCAOB on a regular basis. The PCAOB currently has access to inspect the working papers of our auditor. Notwithstanding the foregoing, in the future, if either there is any regulatory change or steps taken by the PRC regulators that does not permit Wei Wei to provide audit documentation located in mainland China or Hong Kong to the PCAOB for inspection or investigation or if we change auditors and they are not able to provide audit documentation for the inspection or investigation of the PCAOB, they could become subject to the HFCA Act prohibitions. It is possible that the PCAOB is unable to conduct inspection of audit working papers related to us without the approval of the Chinese authorities.

Whether the PCAOB will be able to conduct inspection of audit working papers related to us before the issuance of our financial statements on Form 20-F for the year ending December 31, 2023 which is due by April 30, 2024, or at all, is subject to substantial uncertainty and depends on a number of factors out of our, and our auditor's, control. If our shares and ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. Such a prohibition 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 prohibition 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.

On June 22, 2021, the U.S. Senate passed a bill which would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the HFCA Act from three years to two. On February 4, 2022, the U.S. House of Representatives passed a bill which contained, among other things, an identical provision. If this provision is enacted into law and the number of consecutive non-inspection years required for triggering the prohibitions under the HFCA Act is reduced from three years to two, then our shares and ADSs could be prohibited from trading in the United States in 2023. Furthermore, on December 2, 2021, the SEC adopted final amendments implementing the disclosure and submission requirements under the HFCA Act, pursuant to which the SEC will identify a "Commission-Identified Issuer" if an issuer has filed an annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction, and will then impose a trading prohibition on an issuer after it is identified as a Commission-Identified Issuer for three consecutive years.

On August 26, 2022, the PCAOB signed a Statement of Protocol with the Chinese authorities governing inspections and investigations of audit firms based in China, which marks the first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms in China. See “—The PCAOB may be unable to inspect or fully investigate our auditor in relation to their audit work performed for our financial statements. If the PCAOB is unable to conduct such inspection, our investors would be deprived of the benefits of such inspection.” Furthermore, by the end of 2022, the PCAOB is required to assess whether China remains a jurisdiction where the PCAOB is not able to inspect and investigate completely auditors registered with the PCAOB.

Risks Related to our American Depositary Shares

The market price for our ADSs may be volatile.

The trading price of our ADSs has ranged from US\$2.43 to US\$6.48 per ADS in 2021. The trading prices of our ADSs are 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 the market prices or the underperformance or deteriorating financial results of internet or other companies based in China that have listed their securities in the United States in recent years. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial decline in their trading prices. The trading performances of other Chinese companies’ securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our 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 other matters of us or 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. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, which may have a material adverse effect on the market price of our ADSs.

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

- regulatory developments affecting us, our users or our industry;
- announcements of studies and reports relating to our loan products and service offerings or those of our competitors;
- changes in the economic performance or market valuations of other online consumer finance marketplaces;
- 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 internet and consumer finance industries;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures or capital commitments;
- additions to or departures of our senior management;
- detrimental negative publicity about us, our management or our industry;
- fluctuations of exchange rates between the RMB and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs;
- sales or perceived potential sales of additional ordinary shares or ADSs; and
- any share repurchase program.

We cannot guarantee that any share repurchase program will be fully consummated or that any share repurchase program will enhance long-term shareholder value, and share repurchases could increase the volatility of the price of our ADSs and could diminish our cash reserves.

In June 2018, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$20.0 million of our ADSs or ordinary shares. As of December 31, 2021, we had repurchased a total of 650,527 ADSs at an average price of US\$9.8 per ADS under this program. In September 2022, our board of directors adopted a share repurchase program, which approves and authorizes us to repurchase through one or more transactions up to US\$20 million worth of our ADSs representing our ordinary shares. The share repurchase program previously adopted in 2018 has been simultaneously terminated. Our share repurchase program could affect the price of our stock and increase volatility and may be suspended or terminated at any time.

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

The trading market for our 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 cover us downgrade our ADSs or publish 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 of our ADSs to decline.

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

Our board of directors has discretion as to whether to distribute dividends, subject to our memorandum and articles of association and certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always 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. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. On July 29, 2017, our board of directors approved a semi-annual dividend policy. Under this policy, semi-annual dividends were set at an amount equivalent to approximately 15% of our anticipated net income after tax in each half year commencing from the second half of 2017. The determination to declare and pay such semi-annual dividend and the amount of dividend in any particular half year will be made at the discretion of our board of directors and will be based upon our operations and earnings, cash flow, financial condition and other relevant factors that the board may deem appropriate. Our board of directors decided in August 2018 to suspend the previously adopted semi-annual dividend policy. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our 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 our ADSs and you may even lose your entire investment in our ADSs.

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

Sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of June 30, 2022, we had 170,681,302 ordinary shares outstanding. Among these shares, 26,186,080 ordinary shares are in the form of ADSs. All our ADSs are freely transferable without restriction or additional registration under the Securities Act. The remaining ordinary shares outstanding are available for sale, subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. To the extent shares are sold into the market, the market price of our ADSs could decline.

Certain holders of our ordinary shares may cause us to register under the Securities Act the sale of their shares. 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 registered shares in the form of ADSs in the public market could cause the price of our ADSs to decline.

We have adopted share incentive plans in September 2015, July 2017 and June 2020, under which we have the discretion to grant a broad range of equity-based awards to eligible participants. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plans.” We have registered certain ordinary shares that we may issue under our share incentive plans and intend to register all ordinary shares that we may issue under our share incentive plans. Once we register these ordinary shares, they can be freely sold in the public market in the form of ADSs upon issuance, subject to volume limitations applicable to affiliates and relevant lock-up agreements. If a large number of our ordinary shares or securities convertible into our ordinary shares are sold in the public market in the form of ADSs after they become eligible for sale, the sales could reduce the trading price of our ADSs and impede our ability to raise future capital. In addition, any ordinary shares that we issue under our share incentive plans would dilute the percentage ownership held by the investors who purchased ADSs.

You, as holders of ADSs, may have fewer rights than holders of our ordinary shares and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights as our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will vote the underlying ordinary shares representing your ADSs in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying ordinary shares representing your ADSs unless you withdraw the shares and become the registered holder of such shares prior to the record date of the general meeting. Under our current memorandum and articles of association, the minimum notice period required to convene a general meeting is seven days. When a general meeting is convened, you may not receive sufficient notice of a shareholders’ meeting to permit you to withdraw the shares underlying your ADSs and become the registered holder of such shares prior to the record date of the general meeting to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. Under our current memorandum and 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 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. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the shares underlying your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if the shares underlying your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders’ meeting.

Except in limited circumstances, the depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders’ meetings, which could adversely affect your interests.

Under the deposit agreement for our ADSs, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders’ meetings if you do not give voting instructions to the depositary, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- matter to be voted on at the meeting would materially and adversely affect the rights of shareholders; or
- voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that, if you fail to give voting instructions to the depositary, you cannot prevent our ordinary shares underlying your ADSs from being voted, absent the situations described above. This may make it more difficult for shareholders to influence our management. Holders of our ordinary shares are not subject to this discretionary proxy.

Your rights to pursue claims against the depository as a holder of ADSs are limited by the terms of the deposit agreement.

Under the deposit agreement, any action or proceeding against or involving the depository, arising out of or based upon the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs may only be instituted in a state or federal court in New York, New York, and you, as a holder of our ADSs, will have irrevocably waived any objection which you may have to the laying of venue of any such proceeding, and irrevocably submitted to the exclusive jurisdiction of such courts in any such action or proceeding. However, the depository may, in its sole discretion, require that any dispute or difference arising from the relationship created by the deposit agreement be referred to and finally settled by an arbitration conducted under the terms described in the deposit agreement. Also, we may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the deposit agreement as amended. See “Item 12. Description of Securities Other Than Equity Securities—D. American Depositary Shares” for more information.

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 such 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 cash dividends if the depository decides it is impractical to make them available to you.

The depository will pay cash dividends on the ADSs only to the extent that we decide to distribute dividends on our ordinary shares or other deposited securities, and we do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. To the extent that there is a distribution, the depository of our ADSs has agreed to pay to you the cash dividends or other distributions 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 deem 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.

We were previously subject to two shareholder class action lawsuits that were subsequently dismissed. However, we cannot assure you that we will not be subject to other shareholder class action lawsuits in the future.

We were previously subject to two shareholder class action lawsuits that were subsequently dismissed. On July 12, 2017, the United States District Court for the Central District of California dismissed the class action lawsuits and concluded that the plaintiff’s action, which was not certified as a class action, shall be dismissed with prejudice. However, we cannot assure you that we will not be subject to other shareholder class action lawsuits in the future. If we are subject to other shareholder class action lawsuits, we will be unable to estimate the possible loss or possible range of loss, if any, associated with the resolution of these lawsuits. In the event that our initial defense of these lawsuits is unsuccessful, there can be no assurance that we will prevail in any appeal. Any adverse outcome of these cases, including any plaintiff’s appeal of a judgment in these lawsuits, could have a material adverse effect on our business, financial condition, results of operation, cash flows and reputation. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The litigation process may utilize a significant portion of our resources and divert our management’s attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

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

We are an exempted company limited by shares 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, a majority of our directors and executive officers reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to effect service of process within the United States upon us or these individuals, or to bring an action against us or against these individuals in the United States in the event that you believe 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 and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments), a judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (i) is given by a foreign court of competent jurisdiction, (ii) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (iii) is final, (iv) is not in respect of taxes, a fine or a penalty, and (v) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. Because such a determination has not yet been made by a court of the Cayman Islands, it is uncertain whether such civil liability judgments from U.S. courts would be enforceable in the Cayman Islands.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

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 limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Act (As Revised) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by 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 has 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 or to obtain copies of lists of shareholders of these companies (save for our memorandum and articles of association, our register of mortgages and charges, and special resolutions of our shareholders). Our directors have discretion under our current 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 management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

It may be difficult for overseas regulators to conduct investigations or collect evidence within China.

Shareholder claims or regulatory investigation that are common in the United States 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 providing information needed for regulatory investigations or litigation initiated outside China. Although the 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 cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigations or evidence collection activities within the territory of the PRC. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigations or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

Our memorandum and articles of association contain anti-takeover provisions that could discourage a third party from acquiring us and adversely affect the rights of holders of our ordinary shares and ADSs.

Our memorandum and articles of association contain certain provisions that could limit the ability of others to acquire control of our company, including a provision that grants authority to our board of directors to establish and issue from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. These provisions could have the effect of depriving our shareholders and ADSs holders of the opportunity to sell their shares or ADSs at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

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. We rely on the exemption available to foreign private issuers for the requirements in terms of (i) shareholder approval of equity compensation plans and any material revisions to the terms of such plans under Section 303A.08 of the NYSE Listed Company Manual, (ii) shareholder approval of issuance of common stock in any transaction or series of related transactions under Section 312.03 of the NYSE Listed Company Manual, and (iii) the requirement of holding an annual meeting during each fiscal year under Section 302.00 of the NYSE Listed Company Manual. As a result of our election to follow home country practice with respect to the foregoing matters, our shareholders will not have the same protection that they otherwise would enjoy under the NYSE corporate governance listing standards applicable to U.S. domestic issuers. Other than the home country practice disclosed above, we have followed and intend to continue to follow the applicable corporate governance standards under NYSE rules.

We believe that we were a passive foreign investment company, or PFIC, for United States federal income tax purposes for the taxable year ended December 31, 2021, which could subject United States holders of our ADSs or ordinary shares to significant adverse United States federal income tax consequences.

We will be a “passive foreign investment company,” or “PFIC,” if, in any particular taxable year, either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the value of our assets (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income (the “asset test”). Although the law in this regard is unclear, we intend to treat the consolidated variable interest entities as being owned by us for United States federal income tax purposes, not only because we conduct the business operations of these entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. Based on the market price of our ADSs and the nature and composition of our assets (in particular the retention of a substantial amount of cash), we believe that we were a PFIC for United States federal income tax purposes for our taxable year ended December 31, 2021, and we will likely be a PFIC for our current taxable year unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income.

If we are a PFIC in any taxable year, a U.S. holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations”) may incur significantly increased United States federal income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules and such holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or ordinary shares. For more information see “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

We may incur increased costs as a result of being a public company, particularly after we had ceased to qualify as an “emerging growth company.”

As a public company, we incur 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, impose various requirements on the corporate governance practices of public companies. 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. As 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 and the other rules and regulations of the SEC. 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

A. History and Development of the Company

We commenced our online consumer finance marketplace business in March 2012 as a business unit under our parent company, CreditEase, which remains our parent company and controlling shareholder. CreditEase incorporated Yirendai Ltd. in the Cayman Islands to be our holding company in September 2014. We then established a wholly owned subsidiary in Hong Kong, YouRace Digital Holdings HK Limited (formerly known as Yiren Digital Hong Kong Limited or Yirendai Hong Kong Limited), YouRace HK, in October 2014, and YouRace HK further established YouRace Hengchuang Technology Development (Beijing) Co., Ltd. (formerly known as Yiren Hengye Technology Development (Beijing) Co., Ltd.), or YouRace Hengchuang, our wholly owned subsidiary in China, in January 2015. YouRace HK further established Chongqing Hengyuda Technology Co., Ltd., or Hengyuda, our wholly owned subsidiary in China, in March 2016. YouRace Hengchuang further established Yiren Information Consulting (Beijing) Co., Ltd. or Yiren Information, our wholly owned subsidiary in China, in August 2017. We established a wholly owned subsidiary, Yiren Blue Boyage Limited, or Blue Boyage, in the Cayman Islands in May 2019. We acquired, through Blue Boyage, all outstanding shares of China Glory Securities Company Limited (formerly known as Varengold Capital Securities Limited), or China Glory. We established Yiren Green Management Limited, a limited liability company incorporated in Hong Kong, in December 2019, to support the business operation of China Glory. In February 2022, China Glory discontinued its business to comply with new regulatory guidelines. China Glory had applied to revoke the License of Dealing in Securities and Dealing in Futures Contracts, which had been approved by Hong Kong Securities and Future Commission as of June 28, 2022. In September 2019, we renamed our company as Yiren Digital Ltd. We started conducting the business operations of Shenzhen Zhongbang Information Consulting Service Co., Ltd. as a result of business realignment with CreditEase. Shenzhen Zhongbang Information Consulting Service Co., Ltd. became a wholly owned subsidiary of YouRace Hengchuang in December 2019. Yiren Hengsheng Technology Development (Beijing) Co., Ltd. is currently a wholly owned subsidiary of YouRace Hengchuang, which provides technology and system support to our inter-group companies.

Hengcheng, was established in China in September 2014. We became the primary beneficiary of Hengcheng in February 2015 by entering into a series of contractual arrangements with Hengcheng and its shareholders. Hengcheng acquired Dekai Yichuang, in May 2019 from CreditEase as a part of our business realignment with CreditEase. Dekai Yichuang acquired the majority of the equity interest of Yichuang Data, in May 2019 and Yichuang Data became our wholly owned subsidiary in October 2019. Yichuang Data established two wholly owned subsidiaries, Haijin Yichuang Commercial Factoring (Shenzhen) Co., Ltd., to conduct factoring business, in April 2017, which was deregistered in December 2021, and Yichuang Financial Leasing, to conduct financial leasing business, in March 2017, respectively. Yichuang Data and Yichuang Financial Leasing collectively established Hainan Haijin Yichuang Micro-lending Co., Ltd., holding 50% and 50% equity interests in Hainan Haijin Yichuang Micro-lending Co., Ltd., respectively, to conduct micro-lending business, in May 2017. CreditEase Puhui acquired all the equity interests of Dekai Yichuang in September 2020 from Hengcheng. On December 31, 2020, as a result of a business restructuring, our contractual arrangements with Hengcheng and its shareholders had been terminated and CreditEase had, through its subsidiaries and affiliates, started conducting the business operations of Hengcheng.

On December 18, 2015, our ADSs commenced trading on the NYSE under the symbol "YRD." We raised from our initial public offering approximately US\$64.9 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us. Concurrently with our initial public offering, we sold 2,000,000 ordinary shares to Baidu (Hong Kong) Limited, or Baidu Hong Kong, in a private placement, resulting in net proceeds to us of approximately US\$9.0 million.

To execute our strategy of offering more value-added services to investors, we established Yiren Wealth, in China in October 2016 to mainly conduct our wealth management business, aiming to provide investors with an expanded array of investment options, including fund and insurance products offered by third parties. Pucheng Credit Assessment and Management (Beijing) Co., Ltd., Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian are the shareholders of Yiren Wealth, owning 84.53%, 6.19%, 4.64% and 4.64% of the equity interest in Yiren Wealth, respectively, as of the date of this annual report. We became the primary beneficiary of Yiren Wealth by entering into a series of contractual arrangements with Yiren Wealth and its shareholders in October 2016. In December 2019, we acquired 100% shareholding ownership of Changtuo Technology, a PRC limited liability company, and expect to use Changtuo Technology to conduct finance related business operation. As of the date of this annual report, Changtuo Technology has not engaged in any business operation.

In March 2019, we entered into a series of definitive agreements with CreditEase regarding a business realignment between CreditEase and us. In July 2019, we and CreditEase amended the original definitive agreements and closed the business realignment. Pursuant to the business realignment, we assumed from CreditEase and its affiliates certain target businesses, including online wealth management targeting the mass affluent, unsecured and secured consumer lending, financial leasing, SME lending and other related services and businesses. After the business realignment, we continue to receive certain business consulting and other support services from CreditEase. The target businesses have been consolidated into our consolidated financial statements. Concurrently with the execution of foregoing definitive agreements and as a part of the transactions, we conducted the business operations of CreditEase Puhui, and CreditEase Huimin Investment Management (Beijing) Co., Ltd, or Huimin, through a series of contractual arrangements and started to consolidate their financial results since March 2019. In December 2019, after a series of internal re-organization, CreditEase Puhui became our wholly owned subsidiary and Huimin was divested from us after transferring its online consumer lending business to Hengcheng. Subsequently, we sold Huimin to a subsidiary of CreditEase.

We established Tianjin Linyang in China in June 2019. Mr. Yueyue Chen and Ms. Yang Wang, our employees, are the shareholders of Tianjin Linyang, owning 90% and 10% of the equity interest in Tianjin Linyang, respectively, as of the date of this annual report. We became the primary beneficiary of Tianjin Linyang by entering into a series of contractual arrangements with Tianjin Linyang and its shareholders in December 2019. In August 2019, Tianjin Linyang established Yiding Technology, to conduct our insurance referral business.

On September 30, 2019, with the approval of our shareholders, we changed our name from “Yirendai Ltd.” to “Yiren Digital Ltd.”

We established Kechuang Xinlian, in China in November 2019. Yiren Wealth is the sole shareholder of Kechuang Xinlian as of the date of this annual report.

We acquired, through Yiren Wealth, all outstanding shares of Baijunda Logistics (Wuhan) Co., Ltd., or Baijunda, and Wuhan Linyi Business Consulting Co., Ltd., or Wuhan Linyi, in May 2020. Baijunda and Wuhan Linyi jointly established a subsidiary named Hexiang Insurance Brokers in September 2011. Upon the completion of this acquisition, Hexiang Insurance Brokers and its wholly owned subsidiary, Hejun Auto Rescue (Wuhan) Co., Ltd, or Hejun, have become our wholly owned subsidiaries in May 2020, and Hexiang Insurance Brokers has been operating our insurance brokerage business since then. In 2021, Hejun changed its name to Heanjun Auto Rescue (Wuhan) Co., Ltd.

We established Fujian Jiaying Financing Guarantee Co. Ltd. in September 2020 to provide financing guarantee services for our loan facilitation business and Zhenzhi Youpin (Hainan) Technology Trade Co., Ltd. in October 2020 to operate our e-commerce platform.

On December 31, 2020, we consummated another business restructuring with CreditEase to streamline our service lines and reposition us as a comprehensive digital personal financial management platform in China. In connection with the business restructuring, we had disposed of the online consumer lending platform targeting individual investors as the funding source. The Disposed Business was operated by Hengcheng, and CreditEase had, through its subsidiaries and affiliates, paid the designated subsidiaries of our company an aggregate amount of RMB67.0 million in cash. As a result of the restructuring, the funding source for Yiren Credit will include institutional funding partners only.

We currently conduct our online consumer finance marketplace business in China through two wholly owned subsidiaries, YouRace Hengchuang and Hengyuda, and the two consolidated variable interest entities, Yiren Wealth and CreditEase Puhui. CreditEase Puhui operates www.yxpuhui.com and provides referral and other services through its nationwide service network. Yiren Wealth operates our wealth management website and mobile application, which serves as an online portal for investment products offered by third parties or related parties. Yiren Wealth is in the process of applying for an ICP License.

Our principal executive offices are located at 5/F, Hanwei Plaza, No. 7, Guanghai Road, Chaoyang District, Beijing, People's Republic of China. Our telephone number at this address is +86 10 5090-5315.

B. Business Overview

Since our inception, we have been operating one of China's largest digital personal financial management platforms by leveraging technology to seamlessly deliver wealth management solutions to China's mass affluent population and credit and financial solutions to individual borrowers and small business owners.

Our strategic business realignment with CreditEase in 2019 enables us to operate our business on a more diverse and scalable mix of service platforms. Our wealth management business specifically targets mass affluent investors and provides them with one-stop asset allocation-based wealth management solutions. We believe we are well positioned to capture the significant synergy opportunities presented by this business realignment and deliver long-term operating performance and improvements through our increased scale.

Before our strategic business realignment with CreditEase, (i) Yiren Credit was a pure online peer-to-peer lending platform offering unsecured consumer loan products only and primarily focused on attracting and serving borrowers and investors through online channels, and (ii) the wealth management platform we acquired from CreditEase as part of the business realignment primarily focused on offering fixed-income loan products and had extensive offline user acquisition and service network.

After our strategic business realignment with CreditEase, (i) by integrating the credit business we acquired from CreditEase, Yiren Credit has been transforming to a platform that offers a comprehensive suite of credit products and services, including unsecured and secured consumer lending, financial leasing, SME lending and other related services and businesses; (ii) by integrating the online wealth management platform we acquired from CreditEase, Yiren Wealth is being developed as an omni-channel one-stop wealth management platform targeting the mass affluent and connecting investors with a wide spectrum of wealth management products and services; and (iii) by integrating CreditEase's service network we acquired as part of the business realignment, we are equipped with both online and offline borrower acquisition capabilities and extensive online and offline network and multi-channel asset sourcing capabilities, helping the user acquisition for both our platforms.

When assessing and structuring the business realignment, our management believed that the business realignment would provide for a deeper level of customer engagement and significant meaningful opportunities for revenue generation and operational synergies for both our Yiren Credit and Yiren Wealth platforms. As a result of our strategic business realignment with CreditEase, we have seen an increase in commissions associated with our clients' purchase of third-party financial products available through our platforms. Second, the business realignment further diversifies the operating risk profile of our overall business compared with standalone businesses. Third, the integration of Yiren Credit and Yiren Wealth platforms is expected to bring operational synergies, including (i) a reduction in duplicative executive and administrative headcount and their related expenses, (ii) a reduction in facilities expense due to corporate and other office consolidations, (iii) a reduction in aggregate marketing costs due to deeper relationships with more customers, (iv) integration of complementary technologies and processes, (v) expanded workforce with greater know-how and greater experience, and (vi) the standardization and integration of information technology and accounting functions. Fourth, we are taking a disciplined and thoughtful approach to the integration of the two platforms, a process managed by a dedicated and experienced integration team.

On December 31, 2020, we had disposed of the online consumer lending platform targeting individual investors as the funding source (the "Disposed Business"). The Disposed Business was operated by Hengcheng, and CreditEase had, through its subsidiaries and affiliates, paid the designated subsidiaries of our company an aggregate amount of RMB67.0 million in cash. After the restructuring, the sole funding source for Yiren Credit is from institutional funding partners, and we charge services fees to institutional funding partners for providing technology-enabled borrower acquisition and facilitation services.

Wealth Management Business

Our wealth management consists of two primary business lines, which also integrate with each other: i) Yiren Wealth, our one-stop comprehensive online wealth management platform that targets the mass affluent population with asset-allocation based wealth management solutions; ii) Hexiang Insurance Brokers, our nationwide insurance brokerage company that provides a variety of customized insurance services and products to retail and institutional clients. Strong synergies between the two business operations have been built in product offering, servicing and customer acquisitions.

Our Yiren Wealth platform targets the mass affluent population in China, who are looking for tailored wealth management solutions. The platform connects investors to more than 7,000 financial products from around 200 financial institutions and insurers. We use a proprietary AI system combined with digital consulting services to provide asset allocation strategies that match customers' risk appetite, risk preference and financial objectives with a portfolio of investment options. The platform automates and integrates key aspects of our business, including KYC, investor education, asset allocation and works with financial institutions to provide cross-sale and up-sale services. Products available through our platform include short-term cash management, mutual funds, fund portfolios, and insurance products offered by our partners.

We provide insurance brokerage services through Hexiang Insurance Brokers to both retail and institutional clients. As of December 31, 2021, Hexiang Insurance Brokers had established 40 offline branches nationwide and offers over 520 insurance products from over 100 insurers. As of December 31, 2021, we had served approximately 2.7 million individual clients and 30,442 institutional clients.

China Glory is our digitalized brokerage platform that was launched in December 2020 as a pilot program and offers offshore securities and stock products to China's mass affluent and high-net-worth population. We discontinued this business in February 2022 to comply with new regulatory guidelines. China Glory had applied to revoke the License of Dealing in Securities and Dealing in Futures Contracts, and as of June 28, 2022, Hong Kong Securities and Future Commission had approved such application.

We maintain robust risk management for our businesses. We have put in place a comprehensive product provider selection and risk management system in connection with our business. Each product offered to our wealth management clients would have gone through a strict product screening process, including product selection, product evaluation and risk analysis.

For our wealth management business, we generate revenues primarily in two ways: (i) service fees paid by product providers when clients purchase financial products sourced from our financial institutional partners; and (ii) insurance commission fees paid by insurance companies when clients purchase insurance products through Hexiang Insurance Brokers.

Additionally, in order to better serve our investors and to address the diversified needs of China's mass affluent population, we also provide selected and customized non-financial products and services under "Yiren Select" initiative, which was launched in December 2021. Therefore, we also generate revenue from sales of our customized non-financial products and services. We do not bear any loss from our clients' investments nor do we provide guarantees of return with respect to the products.

Credit-tech Business

We provide credit facilitation services to high-quality borrowers in China. Our credit business automates key aspects of our credit facilitation business and enables us to provide an effective solution to address largely underserved borrower demand in China. Borrowers can access loans products either through a fast and easy-to-use online interface or our service network. Our credit-tech platform enables more efficient credit decisioning, pricing, servicing and support operations. We provide a diversified portfolio of loan products, including both unsecured and secured loans. As of December 31, 2021, we had served approximately 6.1 million borrowers. In 2019, 2020 and 2021, we facilitated RMB39,103.0 million, RMB11,651.5 million and RMB23,195.2 million (US\$3,639.8 million) in loans. Funds provided to our borrowers are sourced from institutional funding partners primarily including banks, trusts, microloan companies, financial leasing companies and consumer finance companies. We have ceased accepting new funding from individual investors on our online lending information intermediary platform since September 2020.

In addition, we believe we have developed an industry leading risk management system using our proprietary credit decisioning and fraud detection modules. After obtaining borrower consent, we accumulate data from our expanding borrower base to continually enhance the sophistication and reliability of our risk management system. Our proprietary risk management system enables us to assess the creditworthiness of borrowers more effectively in a market where reliable credit scores and borrower databases are still at an early stage of development. This system also enables us to appropriately price the risks associated with borrowers and offer quality loan investment opportunities to our institutional funding partners.

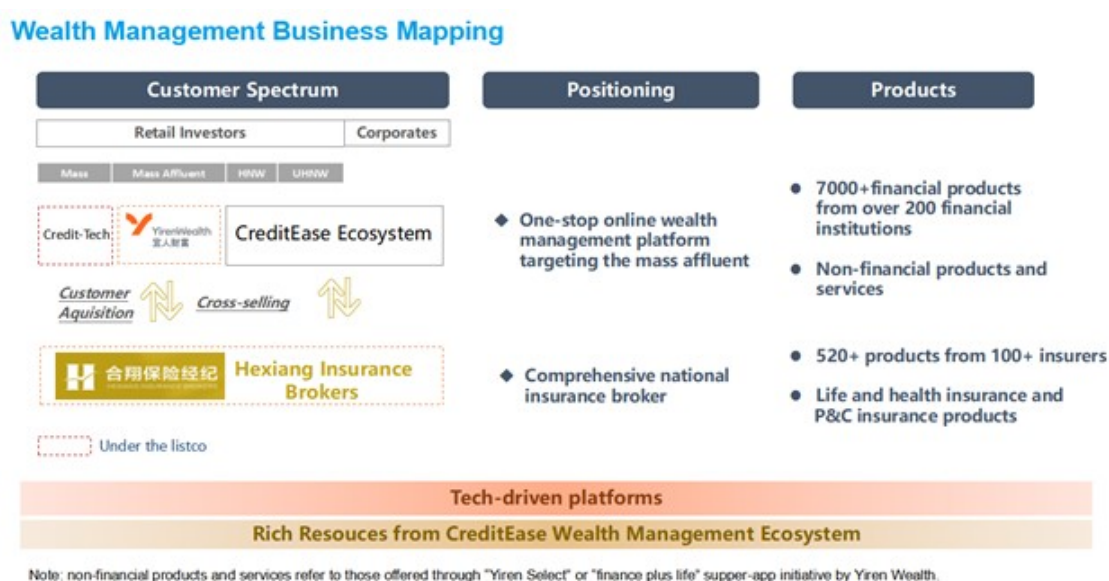
For our credit business, we generate revenue primarily from loan facilitation services we offer to our clients in three ways: (i) loan facilitation service fees paid by institutional partners; (ii) post origination service fees paid by institutional partners; and (iii) financing service fees paid by clients and institutional partners when we use our own capital to make loans through our licensed subsidiaries, including our leasing companies and microloan companies.

In August 2021, we launched an e-commerce channel within Yiren Credit’s APP to better address our users’ consumption needs by offering an array of products and services. We offer a wide variety of competitively priced products on our e-commerce channel across various categories including skin care and beauty, electronics and appliances and allow users to finance purchases through our loan products. The strategic deployment of the e-commerce channel further enhances our customer acquisition capabilities, and effectively increases our user retention and customer value, as well as generating an additional revenue stream, diversifying our current revenue structure. Therefore, we also generate revenue from sales of products and services on our e-commerce channel.

Our total net revenue (reflecting the Acquired Businesses and the Disposed Business) decreased from RMB8,616.8 million in 2019 to RMB3,962.0 million in 2020, and then increased to RMB4,477.9 million (US\$702.7 million) in 2021. Our net income, after reflecting the Acquired Businesses and the Disposed Business, decreased from RMB1,155.6 million in 2019 to a net loss of RMB692.7 million in 2020, and then increased to a net income of RMB1,033.0 million (US\$162.1 million) in 2021.

Wealth Management Solution

Leveraging the large investor base on our Yiren Wealth platform and national network of Hexiang Insurance Brokers, we aim to serve the significant unmet need of mass affluent, high net worth investors and institutional clients by using our proprietary AI-powered systems, digital consultants, and insurance brokers to provide asset allocation solutions that match customers’ risk appetite, risk preference and financial objectives with a portfolio of investment options.



[Table of Contents](#)

As of December 31, 2021, excluding insurance products, the total client assets and the average client asset per investor on our Yiren Wealth platform were RMB18,373.0 million (US\$2,883.1 million) and RMB285,175.5 (US\$44,750.3), respectively.

	Client Assets as of December 31, 2019	Inflows in the Year Ended December 31, 2020	Outflows in the Year Ended December 31, 2020	Disposal of Hengcheng	Client Assets as of December 31, 2020	Associated Revenue for the Year Ended December 31, 2020
Fixed income products	34,264,808	8,507,883	27,463,765	15,308,926	—	921,779
Insurance products	N/A	N/A	N/A	N/A	632,185	430,830
Other products	1,026,858	15,779,686	8,888,028	—	7,918,516	79,755
Total	35,291,666	24,287,569	36,351,793	15,308,926	8,550,701	1,432,364

	Client Assets as of December 31, 2020	Inflows in the Year Ended December 31, 2021	Outflows in the Year Ended December 31, 2021	Client Assets as of December 31, 2021	Associated Revenue for the Year Ended December 31, 2021
Fixed income products	632,185	N/A	N/A	887,987	755,691
Other products	7,918,516	19,144,816	8,690,332	18,373,000	504,822
Total	8,550,701	19,144,816	8,690,332	19,260,987	1,260,513

As of December 31, 2021, the client asset of fixed income products, i.e. our legacy fixed income loan products, was nil as we had disposed of the Disposed Business. We have ceased offering fixed income loan products since September 2020. Other products available through Yiren Wealth primarily include short-term cash management products, mutual funds, fund portfolios and insurance products offered by our licensed financial institutional partners.

Yiren Wealth Investors

Investor Profile and Base

For Yiren Wealth platform, we focus our efforts on attracting mass affluent investors. This large and rapidly growing sector of the Chinese population is currently underserved by traditional financial institutions in China. We seek to attract mass affluent investors because members of this demographic group are a significant untapped source of capital. Based on the information disclosed to us, as of December 31, 2021, our historical investor profile was 50.8% male and 49.2% female, while 59.4% were 40 years of age or less. In 2021, 409,281 individual investors invested a total of RMB21.6 billion (US\$3.4 billion) through Yiren Wealth.

Investor Acquisition

We acquire investors through online direct marketing, CreditEase ecosystem, member referral and channel partnership. Our investor acquisition efforts are primarily directed towards enhancing our brand name, building investor trust, and word-of-mouth marketing.

The following table provides the number of individual investors and new investors who made at least one investment during each quarter presented:

	For the Three Months Ended											
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
Number of new investors	56,625	27,868	16,293	11,489	7,651	5,069	60,578	42,341	67,161	76,461	73,623	89,843
Total number of investors	197,884	156,143	117,410	110,332	87,826	74,756	109,292	108,906	110,072	120,091	127,378	144,987

While we observed fluctuation in the number of new investors in historical periods, the average investment amount of new investors increased continuously. This mainly resulted from our strategy to focus more on acquiring quality investors who are more willing to increase their investment amounts or reinvest on our platform. In 2021, 79.9% of our cumulative investors have made more than one investment on our platform.

As of December 31, 2021, excluding insurance products, total client asset was RMB18,373.0 million (US\$2,883.1 million) and the average client asset per investor was RMB285,175.5 (US\$44,750.3). As of December 31, 2021, approximately 27.9% of the investors on our platforms hold at least two asset classes. In 2021, the number of investors that hold at least two asset classes increased quarterly as our investor education further penetrates and the concept of “balanced asset allocation” continues to gain ground.

Products Offered to Investors

Our wealth management business of Yiren Wealth primarily connects investor with access to a wide range of financial products, including short-term cash management products, mutual funds, fund portfolios and insurance products. We have ceased offering fixed income loan products since September 2020. Using our proprietary AI-powered systems, digital consultants and insurance brokerage team, we provide our investors with asset allocation solutions that matches customers’ risk appetite, risk preference and financial objectives with a portfolio of investment options. With our large customer base and widely-recognized brand reputation, we have established long-term relationships with top tier fund managers, insurance brokers, insurers and asset managers of licensed financial institutions. In 2021, we offered over 6,500 mutual fund products and over 500 insurance products sourced from around 200 product providers.

Services Offered to Investors

In addition to the financial products offered to our customers, we develop and provide tailored value-added financial and related services to better serve their needs. Historically, we offered automated investing tool, self-directed investing tool and a secondary loan market for investors to invest in our fixed-income loan products, though we have ceased to provide these products and services since September 2020.

Meanwhile, in order to better serve our investors, we also provide selected and customized non-financial products and services under “Yiren Select”, which was launched in December 2021. Yiren Select offers products and services across four categories, including health and sports, lifestyle and leisure, self-improvement and study and family and education. Yiren Select’s offerings are designed to specifically meet the diversified needs of China’s mass affluent population.

Investor Education. We offer investor education services online, which cover a wide range of asset allocation and investment topics and offer various types of training programs for the mass affluent investors and their families, including wealth planning, market insights and investment strategies. These programs are offered to investors and aim at enhancing investor engagement on our platform. We believe investor education is an important tool for building our business as it increases the financial sophistication of our customers and enables us to broaden our relationships with them, all of which enhance their loyalty and willingness to invest through us.

Asset Allocation Solutions. Our digital consultant as well as online asset allocation calculator recommends our investors’ asset allocation plans across different asset classes based on each investor’s investment objectives, investment time horizon, risk capacity and risk tolerance.

Insurance Planning Service. We provide one-on-one customized insurance planning services based on clients’ needs, including tailored insurance plans and product portfolios. The services are offered by either digital consultants from Hexiang Insurance Brokers, or via self-directed online planning tool provided by Hexiang Insurance Brokers.

Investors and Clients on Hexiang Insurance Brokers

We also provide customized insurance products to individual clients and corporate clients through our national insurance brokerage company Hexiang Insurance Brokers. As of December 31, 2021, we served 218,042 retail clients and 30,442 corporate clients through Hexiang Insurance Brokers.

Services and Products offered via Hexiang Insurance Brokers

As a nation-wide insurance brokerage company, we have established a comprehensive and diversified product matrix that include both life and health insurance products and property and casualty insurance products. For life and health insurance, we focus on critical illness insurance products, annuity, whole life, term life, endowment life, long term and short term health insurance products, which meet the overall needs of our clients in security health planning, retirement planning, child education fund planning, asset inheritance etc. For property and casualty insurance, we provide liability insurance, corporate property insurance, auto insurance, cargo insurance and accident insurance products, which satisfy different demands of individuals, families and corporate clients in property protection, employee welfare and benefit protection, operation risk transfer etc. The insurance services and products that we offer have competitive edges in customization. Through our in-depth data-driven tech-powered KYC and customer research, we work with insurers and external partners to tailor-make insurance products that target different customer groups based on their particular profiles and demands.

Commission and Service Fees

We generate revenues primarily from financial products and services we offer to our clients in two ways: (i) service fees paid by product providers when clients purchase financial products available through our platform and offered by our licensed institutional partners; and (ii) insurance commission fees paid by insurer partners.

We do not bear any loss from our clients' investments nor do we provide guarantees of return with respect to the products.

Transaction Process

Our platform focuses on meeting the evolving demands of customers by offering sophisticated services through tech-driven KYC processes and rich financial products provided by our financial institutional partners. Each product has gone through a strictly implemented product screening procedure before being available through our platform.

We have also established a complete risk management system for our daily operations. On the product supplier side, we have policies and procedures regarding, among other things, periodically reviewed product ratings, anti-bribery control, as well as post investment monitor and alert system. On the customer side, we have strict KYC process and internal procedures for client risk evaluation, investor education policies to raise investors' risk awareness and give them risk warnings for every product purchased by clients, and we also work with licensed institutional partners to provide regular information disclosure to clients throughout the life cycle of products.

Retail Credit Solution

Our retail credit solution embraces the significant opportunities presented by a financial system that leaves many creditworthy individuals and small business owners underserved or even unserved. Our business model is empowered by our technology-driven, user-centric systems and our nationwide service networks. We provide borrowers with fast and convenient access to credit products at competitive rates.

Borrowers

We target prime individual borrowers, including credit card holders with stable credit performance or secured assets, and small business owners with business operations for more than six months and the ability to generate recurring revenues.

Borrower Profile and Base

Based on the information disclosed to us, as of December 31, 2021, our historical borrower profile was 70.4% male and 29.6% female, while 46.1% were 35 years of age or less. In 2021, we facilitated loans to 1,297,046 borrowers through our platform. The total loan originations in 2021 were RMB23,195.2 million (US\$3,639.8 million).

Borrower Acquisition

We attract borrowers through both online and offline channels. Our online borrower acquisition efforts are supported by our big data capabilities and are primarily directed toward search engine marketing, search engine optimization, mobile application downloads through major application stores, online channels through application programming interfaces, SaaS platforms, e-commerce and consumption platforms, as well as various marketing campaigns. For borrower acquisition through offline channels, we rely on our service networks in different locations in China. Prospective borrowers of our online credit products can also consult with our offline service teams while the customer acquisition process remains online.

The following table provides a breakdown of the number of borrowers on our platform by channel:

	For the Year Ended December 31,		
	2019	2020	2021
Number of borrowers ⁽¹⁾ :			
Borrowers from online channels	254,830	411,290	1,217,938
Borrowers from offline channels	287,125	114,030	79,108
Total number of borrowers	<u>541,955</u>	<u>525,320</u>	<u>1,297,046</u>

(1) The number of borrowers for a specified period represents the number of borrowers whose loans were funded during such period. We do not permit borrowers to hold more than one loan that has been facilitated through our platform at a time. A borrower who obtains loans through our platform from both online and offline channels during a period is counted as a borrower acquired from online channels for the purpose of the table above.

The following table provides a breakdown of our loan volume on our platform by channel:

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	US\$
	(in thousands)					
Amount of loans facilitated	39,103,048	100.0	11,651,463	100.0	23,195,224	3,639,836
Loans generated from online channels	18,601,761	47.6	3,677,979	31.6	16,401,023	2,573,678
Loans generated from offline channels	20,501,287	52.4	7,973,484	68.4	6,794,201	1,066,158

The following table provides the number of borrowers and new borrowers who took out a loan during each quarter presented:

	For the Three Months Ended											
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
Number of new borrowers	94,765	86,219	101,284	102,869	114,391	106,444	125,071	156,956	288,247	342,834	384,316	363,210
Total number of borrowers	149,715	135,246	150,280	125,622	115,420	107,568	143,238	189,117	345,939	434,153	548,495	618,131

As of December 31, 2021, 23.8% of our cumulative borrowers have borrowed more than one loan on our platform.

Funding Sources

Funding sources for loans facilitated by us include banks, trusts, and microloan companies, financial leasing and consumer finance companies. We have ceased accepting new funding from individual investors on our online lending information intermediary platform since September 2020.

We refer qualified borrowers to our institutional funding partners, which provide, based on their risk-and-return requirements, fund to finance those borrowers' loan requests. According to our agreement with our institutional funding partners, we typically agree on an aggregated amount of funds to be provided by each institutional funding partner, maximum credit limit given to each borrower, maximum maturity period, annualized interest rate and investor protection scheme. Depending on the terms of each agreement, we may also be responsible for loan disbursements, collecting monthly repayments from borrowers or engaging in loan servicing and collections. In 2021, 100.0% of loans facilitated on our platform were funded by institutions.

Our Loan Products

Our Yiren Credit platform primarily facilitates loan products to borrowers. We facilitate unsecured consumer loans and secured consumer loans. We believe that these loans are simple and quality credit products that make it easy for borrowers to budget their repayment obligations and meet their financial needs. All of our loan products feature fixed monthly payments. In order to optimize our product mix and enhance our overall operating efficiencies, we started to scale back loan facilitations of secured loan products and reduced the number of our offline networks in 2021. We discontinued secured loan facilitation operations in February, 2022.

Unsecured Consumer Loan Products

General Unsecured Loans. General unsecured loan products are unsecured loans with initial loan amounts ranging from RMB 1,000 to RMB200,000 and terms ranging from 3 months to 24 months. Once approved, we may adjust the credit limit available to a repeat borrower in the future based on our continuing risk monitoring and assessment. In particular, our small revolving loan products, with average ticket size ranging from RMB4,000 to RMB6,000 and terms ranging from 3 months to 12 months, have been taking a growing proportion of our overall loan portfolio. As of December 31, 2021, small revolving loans accounted for 53.4% of total loan facilitation volume in the year 2021.

Small Business Loans. Our small business loans are unsecured and enable business owners to meet their financing needs. Our small business loan products offer loan terms ranging from one month to 24 months with loan amounts ranging from RMB10,000 to RMB4,000,000.

Secured Consumer Loan Products

We facilitate secured financial leasing loans, auto-secured loans and property-secured loans. Our financial leasing loan products offer loan terms of 12, 24 and 36 months with loan amounts ranging from RMB30,000 to RMB300,000. In order to optimize product mix and revenue structure, we discontinued secured loan facilitation operations in February, 2022.

Loan Pricing Mechanism

We use a proprietary credit scoring model to assess the creditworthiness of potential borrowers. Our credit scoring model aggregates and analyzes the data submitted by the borrower as well as the data we collect from a number of internal and external sources after obtaining the borrower's full consent, and then generates a score for the prospective borrower. In addition, we use our credit scoring systems to more accurately characterize a borrower's credit profile. Under our credit scoring systems, we have an upgraded risk grid with various segments. The expected M3+ Net Charge-off Rate and actual observed results for each of these customer groups divide potential borrowers into distinctively different credit segments.

All of the loans offered through our marketplace feature fixed interest rates, which are paid to institutional funding partners. We used to charge borrowers transaction fees for matching them with suitable funding from individual investors. After we disposed of the Disposed Business, we facilitate loans to institutional funding partners only and charge services fees by providing technology-enabled borrower acquisition and facilitation services to our institution partners. For some institutional partners, we also provide post-facilitation services at their request. In addition, guarantee companies that cooperate with us will charge borrowers guarantee fees for the guarantee services they provide. Each of these fees is charged as a percentage of the loan contract. A penalty fee for late payment is imposed as a percentage of the amount past due. All fees are clearly disclosed to the borrower upfront.

Credit Facilitation Transaction Process

We believe that our business model enables a fast loan application process, a credit assessment that more accurately determines an applicant's creditworthiness and a superior overall user experience. Our platform and service network touch each point of our relationship with our borrowers, from the application process through the funding and servicing of loans.

We provide an automated, streamlined application process. The process is designed to appear simple, seamless and efficient but our platform and service network leverage sophisticated, proprietary technology to make it possible. The entire process from initial application to disbursement of funds now typically takes five minutes to two hours, much faster than the 30 minutes to 24 hours that it previously took, due to the improved digital operation efficiency.

Stage 1: Application

Our borrower application process begins with the submission of a loan application by a prospective borrower. Borrowers can apply through our website, mobile applications or via our service network. As part of the application process, the prospective borrower is asked to provide necessary personal details. The specific personal details required will depend upon the borrower's desired loan product, but typically include PRC identity card information, employer information, bank account information and bank card information. For the borrowers who apply for our unsecured small business loan products, they are also required to provide certain information of their business operations and financial data.

Stage 2: Verification

Upon submission of a completed application by borrowers, our credit models are populated with all information contained in the submitted loan application. Additional data from a number of internal and external sources is then inquired and appended with the application, including the following:

Internal	·	historical credit data accumulated;
	·	behavioral data that we glean from an applicant's behavior as they apply to us for loans, such as the self-reported use of proceeds or use of multiple devices to access our platform;
External	·	personal identity information maintained by an organization operated under the Ministry of Public Security;
	·	personal credit information maintained by an organization operated under the PBOC;
	·	online shopping and payment information for their accounts with certain popular Chinese e-commerce websites;
	·	basic business information authorized by applicants;
	·	credit card statement data authorized by applicants;
	·	fraud list and database; and

This data is then aggregated and used to verify an applicant's identity, for possible fraud detection and for assessment and determination of creditworthiness. All the data that we collect are based on the borrowers' full knowledge and consent.

For applications submitted through our offline channels, our offline service teams will first manually prescreen borrowers before performing credit assessment. One of the pre-screening criteria is that the applicant has to be a PRC resident and between the age from 22 to 60.

Stage 3: Anti-Fraud, Credit Assessment and Decisioning

In order to efficiently screen applicants, we have designed an initial qualification phase to review the basic information regarding a prospective borrower that has been submitted with the application and gathered by us from available sources. Once complete, an initial check is performed using our anti-fraud system, and the prospective borrower's loan application either proceeds to the next phase of the application process or the prospective borrower is notified of the decision to decline the application.

Following initial qualification, we commence a credit review utilizing our proprietary credit scoring model to generate an A-Score grade for the prospective borrower that drives the decision whether to extend credit. Our current proprietary credit-scoring model originates from a credit scoring system developed by CreditEase. We have further modified our credit scoring system to adapt it to the realities of the Chinese market, which has historically had no source of widely available consumer credit information. In addition, we use our credit scoring systems, to more accurately characterize borrower's credit profile. Today, our credit scoring system uses our own scoring criteria, and is routinely monitored, tested, updated and validated by our risk management team. Following the generation of credit scores, our credit decisioning system makes a determination as to whether the prospective borrower is qualified. Unqualified borrowers are notified of the decision to decline their applications for failing to meet minimum requirements.

For a potential borrower who passes our initial qualification phase and is applying for our loan products, the application proceeds to the next phase for further review. For SME loan product borrowers or those who apply loan products through our offline channels, depending on the borrower's risk profile, a member of our credit assessment team may conduct telephone or video verification interviews with the applicant, a related family member and/or the applicant's employer that is identified in the application. After the initial verification interviews, at least one member of credit assessment team will analyze the application and credit scores. If a member of the credit assessment team suspects there may be fraud involved with a particular loan application or determines that additional verification is needed to complete the credit decisioning process, that team member will conduct further due diligence and verification. While these additional steps have led us to discover instances of invalid information provided by prospective borrowers in the past, the number of such instances has not been significant. Following this review, the credit assessment team will either approve the loan as is, approve the loan with one or more modified sets of loan characteristics, or decline the loan application. We are also seeking cooperation with third-party credit-enhancing operators in light of the regulatory requirements which prohibit internet platforms from directly providing personal information collected by them to financial institutions. Our data collection and credit scoring processes may further evolve in the future.

Stage 4: Approval and Funding

Post the business restructuring to dispose of the Disposed Business, the funding source for Yiren Credit includes investments from institutional funding partners only. Among the borrowers who have already obtained our preliminary credit assessment and approval, we will refer qualified borrowers to our institutional funding partners based on their specific requirements of borrower profiles. Our institutional funding partners will then review the credit application and our preliminary credit assessment of the borrower introduced by us in accordance with their own credit assessment standards and decide if to approve or decline the loan application. Once the borrower's credit application is approved, the loan agreement between the borrower and our institutional funding partner will be signed on our platform, and our institutional funding partner will then directly disburse the loan amount to the borrower's bank account.

Stage 5: Servicing and Collections

After we disposed of the Disposed Business, we can assist our institutional funding partners in the loan collection services at their request. As of December 31, 2021, most of our institutional funding partners performed loan collection by themselves and we did not provide such services. However, if requested, we can utilize an automated process for collecting scheduled loan payments from our borrowers. Upon loan origination, we establish a payment schedule with payment occurring on a set business day each month. Borrowers then make scheduled loan repayments via a third-party payment platform or a payment platform delegated by the institutional funding partners. As a day-to-day service to borrowers, we provide payment reminder services such as sending reminder text messages and phone calls on the day a repayment is due. Once a repayment is past due, we also send additional reminder text messages during the first fourteen days of delinquency. The collections process commences once a loan is fifteen days delinquent. To facilitate repayment, the collections process is divided into distinct stages based on the severity of delinquency, which dictates the level of collection steps taken. For example, reminder text messages and emails are sent to a delinquent borrower as soon as the collections process commences, and if the payment is still outstanding, the collection team will make phone calls. Although most stages of the collections process are outsourced to CreditEase, we handle all decisions to restructure or defer delinquent loans that are above a certain threshold, while CreditEase collection teams have the discretion to make decisions for the loans that are below such threshold. The collection team also pay close attention to clients who are more than 90 days overdue or with weak repayment willingness or fraud suspicion, and cooperating with professional law firms nationwide, the collection team file lawsuits to the corresponding courts to ensure the compliance of the collection. Juridical conciliation is also an acceptable approach which can accelerate the process of those clients' repayment.

Risk Management

Traditional risk management tools and the types of consumer finance data available in developed economies, such as widely available consumer credit reporting services, are currently at an early stage of development in China. We believe our industry leading risk management capabilities provide us with a competitive advantage in attracting capital to our marketplace by obtaining the confidence from our institutional funding partners.

Proprietary Fraud Detection System

We use a proprietary fraud detection system, which is part of our larger risk management system, to identify and reject potential borrower applications. Our system combines quantitative modeling, big data technologies, such as knowledge graph, offline verification and the use of third-party services. The quantitative modeling aspect of our fraud detection system involves the use of a big data platform to locate potential inconsistencies in a particular borrower application. The internet technology aspect includes IP verification and monitoring. Lastly, we employ third-party services to check the online behavior of potential borrowers, and utilize government agency’s open database to check their identity card numbers against known criminals. We also maintain a blacklist after detecting any fraudulent borrowers.

Proprietary Credit Scoring Model and Loan Qualification System

We have established a credit assessment module to assess the credit quality of borrowers. After obtaining a borrower’s consent, we collect the borrower’s internal and external information, which derives a number of variables from varied dimensions through our data analysis systems. Different scoring models are established and developed based on features of particular products and borrowers to generate accurate assessment of the borrower’s credit status. Given CreditEase’s more-than-a-decade experience and expertise in risk management and the considerable data pools it has accumulated, our relationship with CreditEase will allow us to further improve our credit scoring models and enhance our capabilities of accurate risk control.

The following table presents the key criteria that materially impact a borrower’s credit score:

Criteria	Examples	Effect on Credit Score
Purpose of the loan	Personal consumption	<ul style="list-style-type: none"> ● No monotonic correlation
Customer attributes	Education background	<ul style="list-style-type: none"> ● Positive correlation ● Higher education leads to higher score
Usage and performance of the loans from other financial institutions	Maximum amount of loans that the borrower has borrowed from commercial banks	<ul style="list-style-type: none"> ● Positive correlation ● The larger the amount of bank loans, the higher the score
Credit card usage and payment pattern	Frequency of credit card usage	<ul style="list-style-type: none"> ● Negative correlation ● Above a certain threshold, the higher the frequency of credit card usage, the lower the score
Public record	Court enforcement record	<ul style="list-style-type: none"> ● No monotonic correlation ● A borrower’s score is lower if he/she has been subject to court enforcement ● A borrower’s score is lower if he/she has been subject to court enforcement
Income and debt condition	Salaries	<ul style="list-style-type: none"> ● Positive correlation ● Below a certain threshold, the higher the salary, the higher the score
Geographic location	Province or city where the borrower is located	<ul style="list-style-type: none"> ● No monotonic correlation ● A borrower’s score is lower if he/she is located in a province or city where we face intense market competition
Job stability	Length of employment	<ul style="list-style-type: none"> ● Positive correlation ● The longer the employment, the higher the score
Online merchant purchasing pattern	Recent average consumption level	<ul style="list-style-type: none"> ● Positive correlation ● The higher the recent average consumption level, the higher the score

The credit scores derived from our proprietary credit scoring model containing the criteria mentioned above are used to determine the final grade of a borrower's "A-Score", which reflects the level of his credit quality as a potential new borrower on our platform. A particular amount of credit line will be granted based on the borrower's A-Score grade and his income/debt status. At this stage, if the borrower's grade is below our threshold, his application will be declined. We have established customized loan pricing models based on our A-Score system and risk pricing structures.

We allow prospective borrowers who initially fail to meet our borrower criteria to reapply for a loan after a certain period of time, typically six months, if they are able to demonstrate a verifiable improvement in the criteria that impact their scores. For prospective borrowers that we determine present a fraud risk, reapplications are never permitted.

We continue to monitor the credit performance of our existing borrowers on the platform and re-evaluate their credit quality based on a series of factors, including the amount of the loans applied, repayment performances, etc. We will generate a B-Score grade for each existing borrower regularly based on the re-evaluation of their credit performance. For those who receive a high B-Score grade, we will increase their credit line on the basis of their actual needs.

Meanwhile, for those who demonstrate a fraud risk, a C-Score grade will be generated based on the borrowers' overdue amount, overdue duration, loan tenor and other relevant information. Different levels of collection processes will be initiated based on a borrower's C-Score grade, including reminders from AI robots, text messages, telephone calls, collection methods from out-sourced teams, lawsuits etc.

We are constantly monitoring the operations and performances of our models at a regular basis (weekly/monthly/quarterly) to ensure the stability and effectiveness of the models in responding to the evolving market environment and borrower behaviors from different segments. If any major changes are monitored, our model and strategy teams will immediately start troubleshooting processes and shift/update the models accordingly when needed. Sufficient plans are pre-arranged to ensure timely responses to any changes.

Our Risk Management Division and Credit Assessment Team

We have an independent risk management division, responsible for loan performance analysis, credit model validation and credit decisioning performance. This division engages in various risk management activities, including reporting on performance trends, monitoring of loan concentrations and stability, performing economic stress tests on loans, randomly auditing loan decisions by our credit assessment team members and conducting peer benchmarking and external risk assessments.

Members of our credit assessment team analyze loan applications and also assist with fraud detection and borrower verification, leveraging skills learned through training and on-the-job experience to evaluate loans on the basis of direct communications with potential borrowers.

Loan Servicing and Collections

Our technology platform is capable of monitoring and tracking payment activity. With built-in payment tracking functionality and automated missed payment notifications, the platform allows us to monitor the performance of outstanding loans on a real-time basis.

CreditEase has developed a strategy to optimize the collections process for our delinquent loans. Our collections process is divided into distinct stages based on the severity of delinquency, which dictates the level of collection steps taken. Loans progress through the collection cycle based upon the number of days past due but can be accelerated based on specific circumstances.

Our Technology

We believe our technology platform is a competitive advantage and an important reason that borrowers and investors utilize our marketplace. Key features of our technology platform include:

- *Highly automated process.* Our platform covers all stages of the customer life cycle: application; verification; credit assessment and decisioning and funding; and servicing and collections. Our web and mobile based platform also provide a superior customer experience. We offer a fast and easy-to-use online application process and provide both borrowers and investors with access to live support and online tools throughout the process and for the lifetime of the loan or investment.

- *Mobile applications.* We have developed different user-friendly mobile applications for borrowers and investors of our credit business and wealth management business, which enable borrowers and investors alike to access our platform at any time or location that is convenient.
- *AI-powered system and data-driven services.* We have developed proprietary AI-powered system to provide automated KYC and digital consulting services that match customer risk appetite, risk preference and financial objectives with proper asset allocation portfolio suggestions.
- *Proprietary fraud detection.* We use a combination of current and historical data obtained during the application process, third-party data and sophisticated analytical tools to help determine an application's fraud risk. High risk applications are subject to further investigation. In case where fraud is confirmed, the application is cancelled, and we identify and flag characteristics of the loan to help refine our fraud detection efforts.
- *Scalable platform.* Our platform is built on a distributed, load-balanced computing infrastructure, which is both highly scalable and reliable. The infrastructure can be expanded easily as data storage requirements and user visits increase. We have designed a unified platform, which administrates all systems and servers and can reconfigure or redeploy systems or servers automatically whenever needed.
- *Data security.* Our network is configured with multiple layers of security to isolate our databases from unauthorized access and we use sophisticated security protocols for communication among applications. To prevent unauthorized access to our system we utilize a system of firewalls and also maintain a perimeter network, or DMZ, to separate our external-facing services from our internal systems. Our entire website and public and private APIs use the Secure Sockets Layer networking protocol.
- *Stability.* We have multiple layers of redundancy to ensure the reliability of our network. We also have a working data redundancy model with comprehensive backups of our databases and our development environment conducted every day.

Product Development

We constantly evaluate the popularity of our existing product offerings and develop new products and services that can cater to the ever-evolving needs of our clients.

From the borrower perspective, as we continue to shift towards higher credit quality customer segments and optimize our product structures, we plan to develop more diversified credit products tailor made to meet the specific needs of our target borrowers and our institutional funding partners with reasonable prices under updated regulatory guidelines. And as our marketplace continues to grow, we have been expanding our ability to offer risk-based loan pricing. For example, we plan to enhance our risk-based pricing capability that optimizes loans based on individual credit criteria so that borrowers will be able to receive personalized loans tailored to their credit profile. In addition, we intend to introduce market-based pricing of loans based on macroeconomic factors and regulatory requirements and we believe such ability to continually adjust the pricing of the loans on our marketplace will allow us to better meet the needs of our borrowers and our institutional funding partners.

From the investor perspective, we continue to cooperate with licensed financial institutions with more quality and diversified investment products, such as diversified term investment products and products with lower investment thresholds, which appeal to different investor appetites and demands. Moreover, we continue to focus on insurance product innovation and customization as we expand our client pool and external partners. For example, we have been working with different corporate partners who have considerable customer bases and provide insurance products tailor made for those customer groups based on their particular profiles and needs.

Brand Promotion

Our general marketing efforts are designed to build brand awareness and reputation and to attract and retain borrowers and investors. We believe reputation and word-of-mouth drive continued organic growth in our credit business and wealth management business. In this respect, our association with CreditEase is a valuable marketing and promotion asset.

Competition

For our credit-tech business, we compete with other consumer finance marketplaces and the consumer finance marketplace vertical in China was intensely competitive before the year 2018. However, as the domestic regulations on the industry continue to evolve and barriers to enter the industry continue to increase in recent years, fewer big players that operate in national level, including us, are left in the market while small platforms fail to continue their operations, leaving more market share opportunities for us.

For our wealth management business, major financial institutions in China are developing their own wealth management businesses, and international financial institutions have also been expanding to the Chinese market in recent years. We compete with other online wealth management platforms and insurance brokerage companies. As China's mass affluent group continue to show increased demand for wealth management and domestic investable assets continue to shift from real estate towards wealth management industry, we are navigating towards a large market with high growth potential.

Intellectual Property

We regard our trademarks, domain names, 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-competition agreements with our employees and others to protect our proprietary rights. As of the date of this annual report, we had 405 registered trademarks and had applied to register 554 trademarks with the Trademark Office of the National Intellectual Property Administration. We have also obtained a worldwide and royalty-free license from CreditEase to use certain of its trademarks, including “宜信” (Chinese equivalent for CreditEase).

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our technology is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

In addition, third parties may initiate litigation against us alleging infringement of their proprietary rights or declaring their non-infringement of our intellectual property rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. Moreover, even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations.

See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.”

Insurance

We maintain property insurance policies covering certain equipment and other property that are essential to our business operation to safeguard against risks and unexpected events. We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. We do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain product liability insurance or key-man insurance. We consider our insurance coverage to be sufficient for our business operations in China.

Seasonality

We experience seasonality in our business, reflecting seasonal fluctuations in internet usage and traditional personal consumption patterns, as our individual borrowers typically use their borrowing proceeds to finance their personal consumption needs. For example, we generally experience lower transaction value on our credit-tech platform during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. Overall, the historical seasonality of our business has been mild due to our rapid growth prior to 2018 but may increase further in the future. Due to our limited operating history, the seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future operating results.

Regulation

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China.

As a comprehensive digital personal financial management platform in China, we are regulated by various government authorities, including, among others:

- the Ministry of Industry and Information Technology, or the MIIT, regulating the telecommunications and telecommunications-related activities, including, but not limited to, the internet information services and other value-added telecommunication services;
- the People's Bank of China, or the PBOC, as the central bank of China, regulating the formation and implementation of monetary policy, issuing the currency, supervising the commercial banks and assisting the administration of the financing; and
- China Banking and Insurance Regulatory Commission, or the CBIRC, a newly established public institution in April 2018 which has consolidated the duties of the former China Banking Regulatory Commission, or the CBRC, and the duties of the former China Insurance Regulatory Commission, or the CIRC, regulating financial institutions and promulgating the regulations related to the administration of financial institutions.

Regulations Relating to Foreign Investment

PRC Foreign Investment Law

The Foreign Investment Law was formally adopted by the Second session of the 13th National People's Congress on March 15, 2019, which has become effective on January 1, 2020 and, together with their implementation rules and ancillary regulations, has replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. Meanwhile, the Regulations for the Implementation of the Foreign Investment Law came into effect as of January 1, 2020, which clarified and elaborated the relevant provisions of the Foreign Investment Law. The organization form, organization and activities of foreign-invested enterprises shall be governed, among others, by the laws of the Company Law of the People's Republic of China and the Partnership Enterprise Law of the People's Republic of China. Foreign-invested enterprises established before the implementation of this Law may retain the original business organization and so on within five years after the implementation of this Law.

The 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 Foreign Investment Law, foreign investments are entitled to pre-entry national treatment and are 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 shall not be less favorable than that of domestic investors and their investments. The negative list management system means that the state implements special administrative measures for access of foreign investment in specific fields. The Foreign Investment Law does not mention the relevant concept and regulatory regime of VIE structures, please refer to "Risk Factors — Uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment law and how it may impact the viability of our current corporate structure, corporate governance and business operations."

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. 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. In carrying out business activities, foreign-invested enterprises shall comply with relevant provisions on labor protection, social insurance, tax, accounting, foreign exchange and other matters stipulated in laws and regulations.

Industry Catalog and Negative List Relating to Foreign Investment

Investment activities in the PRC by foreign investors are principally governed by three principal legal documents: (i) the Provisions for Guiding the Foreign Investments Direction promulgated by the State Council on February 11, 2002, pursuant to which foreign investment projects are categorized as encouraged, permitted, restricted and prohibited; (ii) the 2021 Negative List, jointly issued by the National Development and Reform Commission, or the NDRC and MOFCOM on December 27, 2021 and effective from January 1, 2022, which sets forth management measures for the market entry of foreign investors, such as equity requirements and senior manager requirements and provides that foreign investors shall comply with such restrictive requirements when engaging in the restricted activities listed in the 2021 Negative List and shall not engage in the prohibited activities listed in the 2021 Negative List; and (iii) the Catalog of Industries for Encouraged Foreign Investment (2020 Edition), or the Encouraged Catalog, also jointly issued by the NDRC and MOFCOM on December 27, 2020 and effective from January 27, 2021, which sets forth the encouraged foreign investment industries. Industries not listed in the Encouraged Catalog or the 2021 Negative List are generally deemed as constituting a fourth “permitted” category. Establishment of wholly foreign-owned enterprises is generally allowed in encouraged and permitted industries.

Our PRC subsidiaries are mainly engaged in providing investment and financing consultations and technical services, which fall into the “encouraged” or “permitted” category. Our PRC subsidiaries have obtained all material approvals required for its business operations. However, industries such as value-added telecommunication services (except for e-commerce, domestic multi-party communication, storage and forwarding classes and call centers), including internet information services, are restricted from foreign investment. We provide the value-added telecommunication services that are in the “restricted” category through the consolidated variable interest entities.

Foreign Investment in Value-Added Telecommunication Services

The Provisions on Administration of Foreign Invested Telecommunications Enterprises promulgated by the State Council in December 2001 and subsequently amended respectively in September 2008, February 2016 and March 2022 prohibit a foreign investor from owning more than 50% of the total equity interest in any value-added telecommunications service business in China and require the major foreign investor in any value-added telecommunications service business in China have a good and profitable record and operating experience in this industry. The 2021 Negative List and Circular of the Ministry of Industry and Information Technology on Liberalizing the Restrictions on Foreign Shareholding Percentages in Online Data Processing and Transaction Processing Business (For-profit E-commerce Business), or the Circular 196, promulgated by MIIT in June 2015 allow a foreign investor to own more than 50% of the total equity interest in an online data processing and transaction business (e-commerce business).

In July 2006, the Ministry of Information Industry, the predecessor of the MIIT, issued the Circular on Strengthening the Administration of Foreign Investment in the Operation of Value-added Telecommunications Business, pursuant to which a domestic PRC company that holds an operating license for value-added telecommunications business, which we refer to as the VATS License, is prohibited from leasing, transferring or selling the VATS License to foreign investors in any form and from providing any assistance, including resources, sites or facilities, to foreign investors that conduct a value-added telecommunications business illegally in China. Further, the domain names and registered trademarks used by an operating company providing value-added telecommunications services must be legally owned by that company or its shareholders. In addition, the VATS License holder must have the necessary facilities for its approved business operations and to maintain the facilities in the regions covered by its VATS License.

In light of the above restrictions and requirements, in 2020, we operated Yiren Credit and Yiren Wealth primarily through Hengcheng, YouRace Hengchuang, CreditEase Puhui and Yiren Wealth. Yiren Wealth is in the process of applying for an ICP License. After the business restructuring in December 2020, we operated Yiren Credit and Yiren Wealth through YouRace Hengchuang, CreditEase Puhui and Yiren Wealth.

Certain trademarks relating to our value-added telecommunications business have been transferred to us by CreditEase, in order to comply with the requirement that registered trademarks used by an operating company providing value-added telecommunications services must be legally owned by that company or its shareholders.

Regulations on Micro-lending

In May 2008, Guidance on the Pilot Establishment of Micro-lending Companies, or the Micro-lending Guidance, was jointly promulgated by the CBRC and the PBOC, authorizing provincial governments to approve the establishment of micro-lending companies on a test basis. The establishment of a micro-lending company is subject to the approval of the competent government authority at the provincial level. The major sources of funds for a micro-lending company are limited to capital paid by shareholders, donated capital and capital borrowed from up to two financial institutions. Furthermore, the balance of the capital is required to be determined by the company with the banking financial institutions upon consultation, and the interest rate must be determined by using the Shanghai Interbank Offered Rate as the base rate. With respect to the grant of credit, micro-lending companies are required to adhere to the principle of “small sum and decentralization.” The outstanding balance of the loans granted by a micro-lending company to one borrower cannot exceed 5% of the net capital of such company. The interest ceiling used by a micro-lending company may be determined by such companies but in no circumstance shall they exceed the restrictions prescribed by the judicatory authority. The interest floor is 0.9 times the base interest rate published by the PBOC. Micro-lending companies have the flexibility to determine the specific interest rate within the range depending on certain market conditions. In addition, according to the Micro-lending Guidance, micro-lending companies are required to establish and improve their corporate governance structures, the loan management systems, the financial accounting systems, the asset classification systems, the provision systems for accurate asset classification and their information disclosure systems, and such companies are required to make adequate provisions for impairment losses. Micro-lending companies are also required to accept public scrutiny supervision and are prohibited from carrying out illegal fund-raising in any form.

Based on the Micro-lending Guidance, many provincial governments, including that of Hainan Province, promulgated local implementing rules on the administration of micro-lending companies. Hainan Provincial People’s Government issued the Interim Measures for Pilot Management of Micro-lending Companies in November 2009, the Notice of Expanding the Pilot Scope of Micro-lending Companies in March 2011 and the Opinions on Further Promoting the Reform and Development of Micro-lending Companies in June 2012, imposing the management duties upon the relevant regulatory authorities and specifies more detailed requirements on the micro-lending companies.

On November 2, 2020, the CBIRC, the PBOC and other regulatory authorities released a consultation draft of the Interim Administrative Measures for Online Microcredit Business, which states that a microloan company must obtain the official approval of the CBIRC to conduct an online micro lending businesses outside the province where it is registered. In addition, the draft provides the statutory qualified requirements for an online microloan company, covering such things as registered capital, controlling shareholders, and use of the internet to engage in an online microlending business.

On December 31, 2021, the PBOC published the Regulations on Local Financial Supervision and Administration (Draft for Public Comments), or the Draft Local Financial Supervision and Administration Regulation, for public review and comments. Pursuant to the Draft Local Financial Supervision and Administration Regulation, “Local Financial Organizations” refers to microcredit companies, financing guarantee companies, regional equity markets, pawn shops, financial leasing companies, commercial factoring companies, local asset management companies, and other institutions engaged in local financial business that are supervised and managed by laws, administrative regulations, and provincial-level people’s governments authorized by the State Council. The Draft Local Financial Supervision and Administration Regulation specify that provincial governments shall perform their duties of supervision, management, and risk disposal of local financial organizations, and no individual or entity shall set up Local Financial Organizations without prior approval. The merger, division, reduction of registered capital, change of the business scope or operating area, the change of the shareholders holding more than 5% of its equity interests, as well as change of the actual controller of the Local Financial Organization shall be subject to the approval of the provincial local financial supervision and management department. Also, Local Financial Organization shall make filings to provincial local financial supervision and management department for setting up branches within the provincial administrative region, changing the name or address of business, increasing the registered capital, changing the directors, supervisors and senior management personnel. Penalties such as fines or criminal liability may be imposed if the Local Financial Organizations fail to comply with the Draft Local Financial Supervision and Administration Regulation.

Hainan Haijin Yichuang Micro-lending Co., Ltd., which is a subsidiary of the consolidated variable interest entities, is approved by the local governmental authority to conduct micro-lending business.

Regulations on Financing Guarantee

In March 2010, seven governmental authorities including the CBRC, the MOFCOM and Ministry of Finance, or MOF promulgated the Interim Administrative Measures for Financing Guarantee Companies which requires an entity or individual to obtain a prior approval from the relevant governmental authority before engaging in the financing guarantee business. Financing guarantee is defined 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 PRC State Council promulgated the Regulations on the Supervision and Administration of Financing Guarantee Companies, which became effective on October 1, 2017. These regulations define “financing guarantee” as a guarantee provided for the debt financing, including but not limited to the extension of loans or issuance of bonds, and set out that the establishment of a financing guarantee company or engagement in the financing guarantee business without approval may result in several penalties, including but not limited to an order to cease business operation, confiscation of illegal gains, fines of up to RMB1,000,000 and criminal liabilities. These regulations on financing guarantee also set forth that the outstanding guarantee liabilities of a financing guarantee company shall not exceed ten times of its net assets, and that the ratio of the balance amount of outstanding guarantee liabilities of a financing guarantee company for the same guaranteed party shall not exceed 10%, while the ratio of the balance amount of outstanding guarantee liabilities of a financing guarantee company for the same guaranteed party and its affiliated parties shall not exceed 15%.

On October 9, 2019, nine governmental authorities including the CBIRC, the NDRC and the MIIT promulgated the Supplementary Financing Guarantee Provisions (as amended in June 2021), which requires that institutions providing services as customer recommendation and credit assessment for various lending institutions shall not provide, directly or in a disguised form, financing guarantee services without approval. For the companies without the relevant financing guarantee license but actually engaging in financing guarantee business, the regulatory authorities shall cease such companies’ operation and properly make settlement for existing business contracts.

On July 14, 2020, the CBIRC issued the Guidelines for Off-Site Supervision of Financing Guarantee Companies, which took effect on September 1, 2020. The guidelines stipulate the guidelines for the competent regulatory authorities to continuously analyze and evaluate the risk of financing guarantee companies and the financing guarantee industry, by way of collecting report data and other internal and external data of the financing guarantee companies and by carrying out corresponding measures. Pursuant to the guidelines, financing guarantee companies shall establish and implement an off-site supervision information report system and submit related data and non-data information in accordance with the requirements of the competent regulatory authorities. The guidelines note that the corporate governance, internal control, risk management capabilities, guarantee business, associated guarantee risks, asset quality, liquidity indicators and investment conditions of financing guarantee companies shall be the key areas for off-site supervision.

We established Fujian Jiaying Financing Guarantee Co. Ltd. in September 2020 to provide financing guarantee services for our loan facilitation business and Zhenzhi Youpin (Hainan) Technology Trade Co., Ltd. in October 2020 to operate our e-commerce platform.

Regulations on Insurance Brokerage Business

Insurance activities undertaken within the PRC are primarily governed by the Insurance Law of the PRC, which was promulgated by the Standing Committee of the National People’s Congress on June 30, 1995, and last amended in 2015, and the related rules, regulations and judicial interpretations. The Insurance Law of the PRC, comprising general principles, insurance contracts, insurance institutions, insurance operational standards, supervision and regulation of the insurance industry, insurance agencies and insurance brokerage companies, legal liabilities and supplementary provisions, sets out the legal framework for regulating the insurance companies. Pursuant to the Insurance Law of the PRC, an insurance broker is an entity that, in the interest of the insurance applicants, provides intermediary services between the insurance applicants and the insurance companies for the conclusion of insurance contracts, and collects commissions for such services in accordance with relevant laws.

On May 1, 2018, the CIRC promulgated the Provisions on the Supervision and Administration of Insurance Brokers, or the Insurance Brokerage Provisions, which specifies the provisions regarding market access and exit, operating rules, industry self-discipline, monitor and inspection and legal obligations for insurance brokers. Pursuant to the Insurance Brokerage Provisions, to operate insurance brokerage businesses within the PRC, an insurance brokerage company shall satisfy the requirements stipulated by the CIRC and obtain an Insurance Brokerage License. The minimum registered capital of an insurance brokerage company that conducts business in regions not limited to the provincial level is RMB50 million. The minimum registered capital of an insurance brokerage company that conducts business within the provincial level is RMB10 million. An insurance brokerage company shall not operate insurance brokerage business until it obtains the license, and it shall register the relevant information in a regulatory information system as prescribed by the CIRC in time. The Insurance Brokerage Provisions also requires an insurance brokerage company to procure professional liability insurance or pay a deposit within twenty days upon obtaining an Insurance Brokerage License. If an insurance brokerage company intends to procure professional liability insurance, it shall ensure that the insurance remains valid. The maximum compensation for each accident under the professional liability insurance procured by an insurance brokerage company shall be no less than RMB1.0 million. One-year accumulated maximum compensation shall be no less than RMB10 million and no less than the insurance brokerage company's income from principal business in the previous year. If an insurance brokerage company intends to pay a deposit, the deposit shall be paid at 5% of its registered capital; if an insurance brokerage company increases its registered capital, the amount of the deposit shall be increased proportionately. The deposit shall be stored in a designated account in the form of a bank deposit in a commercial bank or in any other form approved by the CIRC. Under any of the following circumstances, an insurance brokerage company may use the deposit: (i) decrease of registered capital; (ii) cancellation of license; (iii) taking out of professional liability insurance in conformity with the conditions; or (iv) other circumstances provided by the CIRC. An insurance brokerage company shall report in written form to the local branch of the CIRC within five days from the day when it uses the deposit.

Pursuant to the Insurance Brokerage Provisions, an insurance broker may operate all or part of the following businesses: (i) draft insurance plans for policyholders, select insurance companies and process insurance application formalities; (ii) assist insured parties or beneficiaries in making claims; (iii) carry out reinsurance brokerage businesses; (iv) provide advisory services on disaster prevention, loss prevention or risk evaluation and risk management to entrusting parties; and (v) any other insurance brokerage-related businesses stipulated by the CIRC. An insurance broker is required to conduct insurance brokerage business within the business scope and business area of the underwriter. An insurance broker and its practitioners may not sell non-insurance financial products, except for non-insurance financial products that have been approved by the relevant financial regulatory authorities. An insurance broker and its practitioners shall have the necessary qualifications before selling non-insurance financial products. The Insurance Brokerage Provisions also requires an insurance broker to set up a designated account book to record the income and expenditure of the insurance brokerage business. An insurance broker shall open an independent designated account for client funds. The following funds shall only be deposited in the designated account for client funds: (i) insurance premiums paid by policyholders to an insurance company; and (ii) surrender value and pay-outs collected on behalf of policyholders, insured parties and beneficiaries. An insurance broker shall open an independent account for commissions it collects.

Pursuant to the Insurance Brokerage Provisions, an insurance broker and its practitioners shall not engage in the following acts or behaviors: (i) deceive or mislead the insurer, the applicant, the insured or the beneficiary; (ii) conceal any important circumstances relating to the insurance contract; (iii) obstruct the applicant from fulfilling his or her obligation to tell the truth, or induce the applicant not to fulfill the same; (iv) grant or commit to grant to the applicant, the insured or the beneficiary any interest other than that provided in the insurance contract; (v) compel or induce the applicant to enter or restrict the applicant from entry into an insurance contract by using their administrative power, position or the advantage of their profession and other improper means; (vi) forge or alter the insurance contract without authorization or providing false evidence for parties to the insurance contract; (vii) misappropriate, retain or embezzle the premiums or insurance benefits; (viii) make use of the advantages of the business to obtain improper benefits for other institutions or individuals; (ix) defraud insurance benefits in collusion with the applicant, the insured or the beneficiary; or (x) disclose trade secrets of the insurer, the applicant or the insured known during the business activities. An insurance broker and its practitioners shall not solicit or accept any remuneration or other property other than those as agreed upon in the contract and granted by any insurance company or its staff or take advantage of executing the insurance brokerage business to obtain other illegal benefits in the course of carrying out the insurance brokerage business.

The Insurance Brokerage Provisions sets out the requirements for senior officers of an insurance broker, such as education, work experience and good character. It also provides that senior officers of an insurance broker shall obtain the employment qualification approved by the local branches of CIRC prior to the assumption of duty. Pursuant to the Insurance Law of the PRC, the examination and approval of the qualification of insurance brokerage practitioners have been cancelled. Pursuant to the Insurance Brokerage Provisions and the Notice on Relevant Issues on the Administration of Practitioners of Insurance Intermediaries, which was promulgated by CIRC on August 5, 2015; before an insurance intermediary practitioner begins to practice, his/her employer shall complete the practicing registration in the insurance intermediary regulatory information system of the CIRC for him or her, and the qualification certificate shall not be served as a necessary condition for the administration of practicing registration.

Pursuant to the Insurance Brokerage Provisions, an insurance broker may not set payment of fees or purchase of insurance products as a condition of employment, may not promise unreasonably high return, or take the number of persons introduced directly or indirectly or sales performance as the main basis of payroll calculation. Pursuant to the Notice on Strictly Regulating Incentive Measures of Insurance Intermediaries promulgated by the CIRC on November 15, 2010, professional insurance intermediaries may only implement equity incentive measures for sales personnel of more than two consecutive years of practice experience within such intermediaries, and may not arbitrarily expand the scope of equity incentives for rapid business growth. In implementing incentives, professional insurance intermediaries may not: (i) conduct deceptive or misleading promotion for the incentive program, including exaggeration or arbitrarily promising uncertain earning from the future listing; (ii) induce sales personnel to purchase self-insurance or purchase insurance with borrowings for incentives; or (iii) offer client equity in the name of incentive as consideration for illicit interests. According to the Circular on Further Regulating the Incentive Plans of Professional Insurance Intermediary Institutions, promulgated on February 28, 2012, by the CIRC, all professional insurance intermediary institutions shall not, by way of connecting the equity incentive plan with their listing and exaggerating proceeds brought by their listing and other means, induce any of the general public to become a salesperson, or induce salespersons or clients to buy insurance products which are inconsistent with their actual insurance needs.

According to the Announcement of the CIRC on Permitting the Establishment of Wholly Foreign-invested Insurance Brokerage Companies by Foreign Insurance Brokerage Companies, which was promulgated by CIRC on December 11, 2006, and became effective on the same day, in five years following China's accession into the WTO, the establishment of a wholly foreign owned enterprise to engage in insurance brokerage services shall be permitted. There shall be no other restrictions except those on the establishment conditions and business scopes. On April 27, 2018, the CBIRC promulgated the Notice on Relaxing Restrictions on the Business Scope of Foreign-Funded Insurance Brokerage Companies, which became effective on April 27, 2018. Pursuant to this notice, the foreign-funded insurance brokerage institutions that obtain insurance brokerage business permits upon approval by the insurance regulatory authority of the State Council may engage in the following insurance brokerage businesses within the PRC: (i) drafting insurance application proposals, selecting insurers, and undergoing the insurance application formalities for insurance applicants; (ii) assisting the insured parties or beneficiaries in claiming compensation; (iii) reinsurance brokerage business; (iv) providing disaster or loss prevention or risk evaluation and management advisory services; and (v) other businesses approved by the CBIRC. The insurance brokerage business is not listed under the 2020 Negative List. However, according to the administrative guidelines published by the CBIRC on its official website in 2019, a foreign investor holding more than 25% of the shares in an insurance brokerage company must satisfy the following requirements before investing in the insurance brokerage industry: (i) it has engaged in insurance brokerage business for more than thirty years within the territories of World Trade Organization members; and (ii) its total assets shall be no less than US\$200 million as of the end of the year prior to its application. On May 1, 2019, the CBIRC released a press indicating that it plans to further open up the insurance brokerage industry to foreign investors by abolishing some of the requirements aforesaid. The State Council also promulgated an Opinions on Further Proper Utilization of Foreign Investment on October 30, 2019 to abolish such aforesaid requirements regarding the track record and total assets; however, no particular laws or regulations have been issued so far. The CBIRC published the Circular on Clarifying the Measures Relating to the Liberalization of the Insurance Intermediary Market, or the Liberalization Circular, on December 3, 2021, abrogating the requirements that the foreign investor to establish a foreign-funded insurance brokerage company in PRC should have a history of business operations of more than 30 years in any WTO member states, have maintained a representative office in China for a period of at least two consecutive years, and have a total asset of not less than US\$200 million in the year immediately prior to the application. The Liberalization Circular allows professional insurance agencies, insurance brokerage organizations, and insurance adjustment organizations funded and established in PRC by foreign insurance group corporations or foreign-funded insurance group corporations in PRC are allowed to operate the related insurance intermediary business.

The Administrative Measures for the Licenses of Banking and Insurance Institutions that was promulgated by the CBIRC on April 28, 2021 and became effective on July 2021 stipulates that no entity or individual may forge, alter, transfer, lease or lend any license of a banking or insurance institution, including the insurance intermediary license.

On October 28, 2021, the CBIRC promulgated the Implementing Measures for Administrative Licensing and Record-filing for Insurance Intermediaries, or the Implementing Measures, which took effect on February 1, 2022, in order to clarify the conditions and procedures for administrative licensing and record-filing matters. According to the Implementing Measures, to apply to operate insurance brokerage business, an applicant shall meet the following conditions: (i) it has obtained a business license, on which the name shall include the words “insurance brokerage”, and its trade name shall not be the same as that of any existing professional insurance intermediary, except for the professional insurance broker whose actual controller is the same as that of any other professional insurance intermediary; (ii) its shareholders meet certain requirements, including (1) in good financial conditions, able to make foreign investments with self-owned funds, and make capital contributions with self-owned, authentic and legitimate funds; (2) for legal person shareholder, a good corporate governance structure or an effective organizational management model, good social reputation, credit records, tax payment records, and good operation and management; its net assets at the end of the previous year of the date of contribution are not negative, and the net assets and monetary funds at the end of the previous month of the date of contribution are greater than the capital contribution; (iii) its registered capital is paid-in monetary capital and is held in custody in accordance with the relevant provisions of the CBIRC; the minimum registered capital of national insurance brokers shall be RMB 50 million, and that of regional insurance brokers RMB 20 million; (iv) the business scope set forth in its business license complies with the relevant provisions of the CBIRC; (v) it has articles of association that comply with the Company Law of the PRC and the Insurance Law of the PRC; (vi) its senior executives meet the required qualifications; (vii) it has a governance structure and an internal control system required by the CBIRC, along with a scientific, reasonable and feasible business model; (viii) it has a fixed domicile commensurate with its business size; (ix) it has business, financial and other computer software and hardware facilities required by the CBIRC; (x) its risk testing meets the requirements; and (xi) it meets other conditions stipulated by laws, administrative regulations and the CBIRC.

The Implementing Measures prohibits applications to operate insurance brokerage business if an entity’s shareholder (i) has been subjected to a criminal penalty or major administrative punishment in the last five years, (ii) is under investigation by the relevant authority due to being suspected of committing any major illegal or criminal offense, (iii) is determined as a target of joint disciplinary action against dishonesty by the relevant authority of the State due to serious dishonesty and shall be subjected to corresponding disciplinary action in the field of insurance, or has any other bad record of serious dishonesty in the last five years; (iv) is not allowed to invest in any enterprise in accordance with laws or administrative regulations; or (v) the CBIRC deems unsuitable for being a shareholder of an insurance broker.

Pursuant to the Implementing Measures, senior executives of insurance brokers, including general manager of the company, the deputy general manager of the company, the main principal of the provincial branch, and other personnel who exercise important functions and powers for the operation and management of the company, are subject to qualification licensing. A proposed senior executive of a professional insurance broker shall (i) have a college degree or above, or ten-year experience in finance industry; (ii) have engaged in finance industry for more than three years or in economic industry for more than five years; (iii) have the operation and management capacity required for the performance of his/her duties, and is familiar with insurance laws, administrative regulations and relevant provisions of the CBIRC; and (iv) act in good faith and behaves well.

We acquired, through Yiren Wealth, all outstanding shares of Baijunda and Wuhan Linyi in May 2020. Baijunda and Wuhan Linyi jointly established a subsidiary, Hexiang Insurance Brokers, in September 2011. Upon the completion of this acquisition, Hexiang Insurance Brokers and its wholly owned subsidiary, Hejun, have become our wholly owned subsidiaries in May 2020, and Hexiang Insurance Brokers has been operating our insurance brokerage business since then. We provide insurance brokerage services and sell various health and life insurance products and property and casualty insurance products on behalf of insurance companies, and we earn brokerage commissions determined as a percentage of premiums paid by the insured. We have identified our promise to sell insurance policies on behalf of an insurance company as the performance obligation in our contracts with the insurance companies. Hexiang Insurance Brokers has obtained the License for Professional Insurance Intermediaries.

Regulations on Internet Insurance Business

On December 14, 2020, the CBIRC promulgated the Regulatory Measures for Online Insurance Business, or the Regulatory Measures, which became effective on February 1, 2021 and supersedes the Interim Regulatory Measures for Internet Insurance Business promulgated by the CIRC on July 22, 2015. Pursuant to the Regulatory Measures, “Internet insurance business” refers to the business whereby insurance institutions form insurance contracts or provide insurance services based on internet. Any entity which is not a qualified insurance institution (including the insurance company and insurance intermediary service providers, such as the insurance brokerage company and insurance agency company) is not allowed to conduct online insurance business, including without limitation consultation of insurance products, comparison of insurance products, trial calculation of insurance premiums, quotation and comparison of quotations, drafting insurance plans for policyholders, processing insurance application formalities and premium collection.

According to the Regulatory Measures, “self-operated online platform” refers to the online platform which is established and operated independently by an insurance institution for the purpose of engaging in internet insurance business. The Regulatory Measures requires that insurance institutions conducting online insurance business via their self-operated online platforms in the form of websites or mobile applications shall complete the filing with the competent authority for the operation of their websites and mobile applications. An insurance institution shall sell internet insurance products or provide insurance brokerage or insurance adjustment services via its self-operated online platform or the self-operated online platform of other insurance institutions, and the online insurance transactions being conducted through online interfaces shall be operated by insurance institutions only. In addition, the Regulatory Measures imposes technical IT requirements for insurance institutions engaged in online insurance business. For example, the self-operated online platforms with online insurance products sales or insuring functions and the information management systems and core business systems that support the operation of such self-operated online platforms shall be certified as Safety Level III Computer Information Systems or above level. As for the self-operated online platforms without online insurance products sales or insuring functions and the information management systems and core business systems that support the operation of such self-operated online platforms shall be certified as Safety Level II Computer Information Systems or above level.

The Regulatory Measures also sets out specific requirements in relation to marketing activities conducted by insurance institutions for the marketing and promotion of insurance products or insurance services via internet media, such as websites, websites and applications, in the form of text, pictures, audio, video or otherwise. An insurance institution shall comply with the Advertising Law of the PRC, laws and regulations on marketing of financial products and other relevant rules promulgated by the CBIRC when carrying out marketing activities to promote their insurance products and services. In addition, the Regulatory Measures also requires insurance institutions to regulate their marketing and sales activities for internet insurances products, including, among others, implementing management protocols on the qualification, training, and behavior of online insurance practitioners and protocols on approval of content on marketing and sales of online insurance products. The online insurance practitioners shall conduct marketing activities of online insurance products within the scope authorized by insurance institutions and disclose relevant information on their marketing web page, such as their personal information and insurance institution’s names. The marketing content published by the practitioners shall be uniformly made by insurance institutions. An insurance institution shall assume the primary responsibility for the internet insurance marketing activities conducted by itself and its practitioners.

The Regulatory Measures also sets forth specific operation and management requirements in relation to an insurance institution, including, among others, (i) an insurance institution shall adopt effective technical methods to verify the authenticity of each policyholder’s identity information, and completely record and keep the main internet insurance business process; (ii) an insurance institution shall complete practice registration for their personnel, and shall identify their qualification to engage in internet insurance business for public inquiry; (iii) the relevant fees paid by insurance companies to insurance intermediary service providers shall not be settled in cash; (iv) an insurance institution shall assume the primary responsibility for the protection of customer information, and shall collect, process and use personal information following the principles of legality, legitimacy and necessity, and ensure the security and legality of the collection, processing and use of information; and (v) an insurance institution shall make several internal operation plans and protocols, for example, an emergency response plan for the interruption of internet insurance business operation, an internal control protocol for anti-money laundering, a customer due diligence protocol, a protocol for keeping customer identity data and transaction records, a protocol for the reporting of large-value transactions and suspicious transactions and an anti-fraud protocol.

The Regulatory Measures sets out a ramp-up process allowing the insurance institutions to achieve full compliance in phases until February 1, 2022. Pursuant to the Regulatory Measures, the insurance institutions shall (i) complete the rectification of the issues on internal protocols, marketing activities, sales management and information disclosure within three months from the effective date of the Regulatory Measure; (ii) complete the rectification of other issues on business and operation within six months from the effective date hereof; and (iii) complete the authentication of classified cybersecurity protection of its self-operated online platform within twelve months from the effective date of the Regulatory Measure.

On April 14, 2016, the CIRC together with 14 authorities issued the Implementation Plan for the Special Campaign on Internet Insurance Risks, which sets out the overall framework for the rectification initiative dedicated to mitigation of online insurance risks, specifying that the special rectification initiative shall focus on regulating business operation model optimizing market environment and improving regulatory rules, to achieve the objective of parallel promotion of innovation and risk mitigation, and the healthy and sustainable development of online insurance.

On April 2, 2019, the CBIRC promulgated the Circular of the General Office of the CBIRC on Issuing the 2019 Plan for the Rectification of Chaos in the Insurance Intermediary Market, or the Rectification Plan, aiming to further curb the chaos of violations of laws and regulations in the insurance intermediary market. The Rectification Plan mainly includes three key tasks: (i) to ascertain insurance companies' responsibility for management and control of various intermediary channels; (ii) to carefully investigate business compliance of insurance intermediaries; and (iii) to strengthen the rectification of insurance business of the third-party online platforms in cooperation with insurance institutions. Pursuant to the Rectification Plan, all insurance institutions (including insurance companies and insurance intermediaries) shall conduct internet insurance business, regulate the business cooperation with third-party online platforms, prohibit third-party platforms from illegally engaging in insurance intermediary business in accordance with the Interim Regulatory Measures for Internet Insurance Business and relevant regulations, and focus their rectification on the following: (i) whether the activities of any cooperative third-party online platform of the insurance institution and its employees are limited to providing sales support services such as insurance product display and description and web links, and whether it illegally engages in insurance sales, underwriting, settlement of claims, and surrender or other insurance business links; (ii) whether there is a cooperation between the insurance institution and any third-party online platform engaging in internet finance involving wealth management, peer-to-peer lending and finance lease, etc.; (iii) whether the insurance institution performs the primary responsibility for supervising and managing its cooperative third-party platforms as required; (iv) whether all cooperative third-party online platforms of the insurance institution conform to relevant provisions of the Interim Regulatory Measures for Internet Insurance Business; (v) whether the insurance institution owns the interfaces where customers purchase insurance policies on its cooperative third-party online platforms and bears the compliance responsibility, and whether any of its third-party platforms engages in the collection of insurance premiums on its behalf and transfer of payments; (vi) whether each cooperative third-party online platform of the insurance institution discloses the information of all its cooperative insurance institutions at an eye-catching position, and that of such third-party online platform disclosed on the information disclosure platform of the Insurance Association of China at an eye-catching position, and indicates that the insurance business is provided by insurance institutions; and (vii) whether any cooperative third-party online platform of the insurance institution restricts such insurance institutions from accessing relevant information of customers in a truthful, complete and timely manner.

On June 22, 2020, the CBIRC promulgated the Circular on Regulating the Retrospective Management of Internet Insurance Sales Practices, which took effect on October 1, 2020, setting out requirements on various aspects of online sales by insurance institutions (including insurance companies and insurance intermediaries), including sales practices, record-keeping for backtracking sales, and disclosure requirements. The Circular on Regulating the Retrospective Management of Internet Insurance Sales Practices provides that, (i) online sales pages should be displayed only on insurance institutions' self-operated online platforms and should be separated from non-sales pages; (ii) important insurance clauses should be presented on a separate page and be confirmed by policyholders or insureds; and (iii) insurance institutions should keep records for five years after the expiry of the policy for policies with a term of one year or less and for ten years for policies with a term longer than one year for purposes of backtracking sales.

We acquired, through Yiren Wealth, all outstanding shares of Baijunda and Wuhan Linyi in May 2020. Baijunda and Wuhan Linyi jointly established a subsidiary, Hexiang Insurance Brokers, in September 2011. Upon the completion of this acquisition, Hexiang Insurance Brokers and its wholly owned subsidiary, Hejun, have become our wholly owned subsidiaries in May 2020, and Hexiang Insurance Brokers has been operating our insurance brokerage business since then. Hexiang Insurance Brokers conducts online insurance brokerage business in the PRC.

Regulations on Financial Leasing

In September 2013, MOFCOM issued the Administration Measures of Supervision on Financing Lease Enterprises, or the Leasing Measures, which became effective on October 1, 2013, to regulate and administer the business operations of financing lease enterprises. According to the Leasing Measures, financing lease enterprises are allowed to carry out financing lease business in such forms as direct lease, sublease, sale-and-lease-back, leveraged lease, entrusted lease and joint lease in accordance with the provisions of relevant laws, regulations and rules. However, the Leasing Measures prohibit financing lease enterprises from engaging in financial business such as accepting deposits, and providing loans or entrusted loans. Without the approval from relevant authorities, financing lease enterprises shall not engage in inter-bank borrowing and other businesses. In addition, financing lease enterprises are prohibited from carrying out illegal fund-raising activities in the name of financing lease. The Leasing Measures require financing lease enterprises to establish and improve their financial and internal risk control systems, and a financing lease enterprise's risk assets shall not exceed ten times of its total net assets. Risk assets generally refer to the adjusted total assets of a financing lease enterprise excluding cash, bank deposits, sovereign bonds and entrusted leasing assets. In May 2020, the CBIRC issued the Interim Measures for the Supervision and Administration of Financial Leasing Companies which came into effect on May 26, 2020, or the Interim Measures for Financial Leasing. The Interim Measures for Financial Leasing defines "financial leasing business" as the transaction activity in which a lessor provides a lessee with, upon the lessee's selection of seller and leased property, the leased property purchased from the seller for use, and the lessee pays corresponding rents. To further standardize business operation, the Interim Measures for Financial Leasing prohibits financial leasing company from (i) illegally raising funds, and absorbing deposits directly or in a disguised way; (ii) granting loans directly or under entrustment; (iii) borrowing funds from or lending funds to any other financial leasing company; and (iv) financing or transferring assets through any online loan information intermediary or private investment fund. As for the leased property, based on the Interim Measures for Financial Leasing, the leased property suitable for financial leasing transactions shall be fixed assets, unless otherwise prescribed, and shall be with clear ownership, authentic existence and availability for yielding returns as carriers. In addition, the CBIRC set forth various explicit regulatory indicators for financial leasing operators. For instance, the proportion of a financial leasing company's assets under financial leasing and other leasing shall not be less than 60% of its total assets; the fixed-income securities investment business carried out by a financial leasing company shall not exceed 20% of its net assets. In December 2020, the Supreme People's Court issued the Interpretation Concerning Laws Applicable to Trials of Disputes over Financial Leasing Contracts, which provides more specific rules regarding the determination, dissolution, liability for breach and other aspects of financial contracts.

On January 21, 2022, the CBIRC issued the Off-site Regulation Procedures for Financing Leasing Companies, or the Off-site Regulation Procedures. The Off-site Regulation Procedures stipulate the guidelines for the competent regulatory authorities to continuously analyze and evaluate the risk of financial leasing companies, by way of collecting report data and other internal and external data of the financial companies, cross-validating and analyzing the collected data and by carrying out corresponding measures. Pursuant to the Off-site Regulation Procedures, financial leasing companies shall establish and implement an off-site supervision information report system and submit related data and non-data information in accordance with the requirements of the competent regulatory authorities. The Off-site Regulation Procedures requires financial leasing companies to establish and implement significant matters report system, and shall report to local authority within five days on significant related transactions, significant pending litigations and arbitrations and other significant matters required to report by the authority. The Off-site Regulation Procedures note that change of external business environment, corporate governance, internal control, risk management capabilities, asset quality and liquidity indicators shall be the key areas for off-site supervision.

Yichuang Financial Leasing, which is a subsidiary of the consolidated variable interest entities, is approved to conduct financial leasing business.

Regulations on Value-Added Telecommunication Services

The Telecommunications Regulations promulgated by the State Council and its related implementation rules, including the Catalog of Classification of Telecommunications Business issued by the MIIT, categorize various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services, while internet information services, or ICP services, and data processing and transaction processing services, or EDI services, are classified as value-added telecommunications businesses. In 2009, the MIIT promulgated the Administrative Measures on Telecommunications Business Operating Licenses, amended in July 2017, which set forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. Under these regulations, a commercial operator of value-added telecommunications services must first obtain a license for value-added telecommunications business, or VATS License, from the MIIT or its provincial level counterparts, which must identify the specific type of value-added telecommunications services it provides. An internet information service provider must obtain a VATS License for internet information services, and a data processing and transaction processing service provider must obtain a VATS License for data processing and transaction processing services, or EDI License.

In September 2000, the State Council also issued the Administrative Measures on Internet Information Services, which was amended in January 2011. Pursuant to these measures, “internet information services” refer to provision of internet information to online users, and are divided into “commercial internet information services” and “non-commercial internet information services.” A commercial internet information services operator must obtain an ICP License, from the relevant government authorities before engaging in any commercial internet information services operations in China. The ICP License has a term of five years and can be renewed within 90 days before expiration.

In addition to the Telecommunications Regulations and other regulations above, mobile internet applications are specially regulated by the Regulations for the Administration of Mobile Internet Applications Information Services, or the APP Provisions, which were promulgated by the CAC in June 2016 and became effective in August 2016. Pursuant to the APP Provisions, the APP information service providers shall satisfy relevant qualifications required by laws and regulations, strictly carry out the information security management responsibilities and fulfill their obligations in various aspects relating to the real-name system, protection of users’ information and the examination and management of information content. On June 14, 2022, the CAC published the revised Administrative Provisions on Mobile Internet Applications Information Services, or the Revised APP Provisions, which will take effect on August 1, 2022. The Revised APP Provisions, among others, purport to prohibit application providers from false propaganda, bundled downloads, improperly inducing users to download application, as well as ranking and comment manipulations.

Yiren Wealth, the variable interest entity operating our wealth management website and mobile application, may be deemed to be providing commercial internet information services and data processing and transaction processing services, which would require Yiren Wealth to obtain an ICP License and an EDI License. Yiren Wealth is in the process of applying for an ICP License. The Guidelines jointly released by ten PRC regulatory agencies in July 2015, purport, among other things, to require internet finance service providers, to complete registration with the relevant local counterpart of the MIIT in accordance with implementation regulations that may be promulgated by the MIIT and/or the Office for Cyberspace Affairs pursuant to the Guidelines. In accordance with the Guidelines, the relevant authorities are in the process of making detailed implementation rules in relation to the record-filing procedures, as well as the application procedures for appropriate telecommunication business license by the internet finance service providers. We plan to apply for any requisite telecommunication services license once the detailed implementation rules become available.

Regulations Relating to E-Commerce

Certain laws and regulations are promulgated in recent years to specifically regulate the e-commerce industry in PRC. In January 2014, the State Administration for Industry and Commerce of the PRC, or SAIC, adopted the Online Transactions Measures, which impose certain stringent requirements and obligations on online trading or service operators as well as the marketplace platform providers. In April 23, 2019, the Standing Committee of the National People’s Congress implemented a newly amended Anti-unfair Competition Law of the PRC. It further emphasized that a business operator shall not engage in any false or misleading publicity for its products, or fictitious transactions to defraud or mislead consumers.

In August 2018, the Standing Committee of the National People’s Congress promulgated the PRC E-Commerce Law, or the E-Commerce Law, which became effective in January 2019. The E-Commerce Law proposes a series of requirements on e-commerce operators, including individuals and entities carrying out business online, e-commerce platform operators and merchants within the platform.

The E-Commerce Law also sets forth certain requirements and/or obligations particularly applicable to the e-commerce platform operators.

On October 23, 2020, the Interim Measures for Seven-day Unconditional Return of Online Purchased Goods (2020 version) was issued by the SAMR and took in effect on the same day, which emphasizes that online goods sellers shall lawfully perform their duties of ensuring the consumers to exercise the rights of “Seven-day Unconditional Return of Purchased Goods” and the provider of an online trading platform shall guide and urge the online goods sellers who use the platform to perform such duties, as well as conduct supervisions and inspections and provide technical support.

On March 15, 2021, the Administrative Regulations on Internet Transactions were released by the SAMR and took into effective on May 1, 2021, which are the supplementary rules to the E-Commerce Law and repealed the Online Transactions Measures. Pursuant to the Administrative Regulations on Internet Transactions, any online business operator who conducts online sales or provides service through online social networking platforms or online live-broadcasting platforms, should comply with both the E-Commerce Law and the Administrative Regulations on Internet Transactions. We are subject to these measures as a result of our online direct sales and online marketplace.

Regulations on Internet Information Security

Internet information in China is also regulated and restricted from a national security standpoint. The National People's Congress, China's national legislative body, has enacted the Decisions on Maintaining Internet Security, 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. In November 2016, the Standing Committee of National People's Congress promulgated the PRC Cyber Security Law taken into effect in June 2017, or the PRC Cyber Security Law, which established a regulatory system with respect to the construction, operation, maintenance and use of internet and set forth provisions on the supervision and administration of cyber security within the territory of the PRC. Pursuant to the PRC Cyber Security Law, the national internet information department shall take charge of the arrangement, coordination, supervision and administration in connection with cyber-security issues, and the telecommunications administrative departments, public security departments as well as other relevant departments shall be responsible for the security protection, supervision and administration within the scope of their respective duties. 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.

In addition, 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 customer and transaction information.

The National People's Congress has enacted legislation that prohibits use of the internet that breaches the public security, disseminates socially destabilizing content or leaks state secrets. Breach of public security includes breach of national security and infringement on legal rights and interests of the state, society or citizens. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

Pursuant to applicable regulations, ICP operators must complete mandatory security filing procedures and regularly update information security and monitoring systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content.

In December 2015, the Standing Committee of the National People's Congress promulgated the Anti-Terrorism Law of the PRC, or the Anti-Terrorism Law, which took effect on January 1, 2016 and was amended on April 27, 2018. According to the Anti-Terrorism Law, telecommunication service operators or internet service providers shall (i) carry out pertinent anti-terrorism publicity and education to society; (ii) provide technical interfaces, decryption and other technical support and assistance for the competent departments to prevent and investigate terrorist activities; (iii) implement network security and information monitoring systems as well as safety and technical prevention measures to avoid the dissemination of terrorism information, delete the terrorism information, immediately halt its dissemination, keep relevant records and report to the competent departments once the terrorism information is discovered; and (iv) examine customer identities before providing services. Any violation of the Anti-Terrorism Law may result in severe penalties, including substantial fines.

In November 2016, the Standing Committee of the National People's Congress promulgated the Cyber Security Law of the PRC, or the PRC Cyber Security Law, which took effect on June 1, 2017. In accordance with the PRC Cyber Security Law, network operators must comply with applicable laws and regulations and fulfill their obligations to safeguard network security in conducting business and providing services. Network service providers must take technical and other necessary measures as required by laws, regulations and mandatory requirements to safeguard the operation of networks, respond to network security effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

For the further purposes of regulating data processing activities, safeguarding data security, promoting data development and utilization, protecting the lawful rights and interests of individuals and organizations, and maintaining national sovereignty, security, and development interests, on June 10, 2021, Standing Committee of the PRC National People’s Congress published the Data Security Law of the People’s Republic of China, or the Data Security Law, which took effect on September 1, 2021. The Data Security Law requires data processing, which includes the collection, storage, use, processing, transmission, provision, publication of data, to be conducted in a legitimate and proper manner. The Data Security Law provides for data security and privacy obligations on entities and individuals carrying out data activities. The Data Security Law also introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and the degree of harm it may cause to national security, public interests, or legitimate rights and interests of individuals or organizations if such data are tampered with, destroyed, leaked, illegally acquired or illegally used. The appropriate level of protection measures is required to be taken for each respective category of data. For example, a processor of important data is required to designate the personnel and the management body responsible for data security, carry out risk assessments of its data processing activities and file the risk assessment reports with the competent authorities. State core data, i.e. data having a bearing on national security, the lifelines of national economy, people’s key livelihood and major public interests, shall be subject to stricter management system. Moreover, the Data Security Law provides a national security review procedure for those data activities which affect or may affect national security and imposes export restrictions on certain data and information. In addition, the Data Security Law also provides that any organization or individual within the territory of the PRC shall not provide any foreign judicial body and law enforcement body with any data without the approval of the competent PRC governmental authorities.

On July 6, 2021, certain PRC regulatory authorities issued Opinions on Strictly Cracking Down on Illegal Securities Activities, which, among others, provides for improving relevant laws and regulations on data security, cross-border data transmission, and confidential information management. It provided that efforts will be made to revise the regulations on strengthening the confidentiality and file management relating to the offering and listing of securities overseas, to implement the responsibility on information security of overseas listed companies, and to strengthen the standardized management of cross-border information provision mechanisms and procedures.

On December 28, 2021, the Cyberspace Administration of China issued the revised Measures for Cybersecurity Review, or the Measures, which took effect in February and replaced the current Measures for Cybersecurity Review. The scope of review under the Measures extends to critical information infrastructure operators that intend to purchase internet products and services and online platform operator engaging in data processing activities, which affect or may affect national security. According to Article 7 of the Measures, online platform operators who possess personal information of over a million users shall apply to the Cybersecurity Review Office for cybersecurity reviews before listing in a foreign country. Besides, the Measures also provides that if the relevant authorities consider that certain network products and services and data processing activities affect or may affect national security, the authorities may initiate a cybersecurity review even if the operators do not have an obligation to report for a cybersecurity review under such circumstances. The Measures also elaborated the factors to be considered when assessing the national security risks of the relevant activities, including among others, risks of core data, important data or a large amount of personal information being stolen, leaked, destroyed, and illegally used or exited the country and risks of critical information infrastructure, core data, important data or a large amount of personal information data being affected, controlled and maliciously used by foreign governments after a foreign listing. Given the recency of the issuance of the Measures, there is a general lack of guidance and substantial uncertainties exist with respect to their interpretation and implementation. For example, it is unclear whether the requirement of cybersecurity review applies to follow-on offerings by an “online platform operator” that is in possession of personal data of more than one million users where the offshore holding company of such operator is already listed overseas.

On November 14, 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations, and accepted public comments before December 13, 2021. The Draft Regulations provide that data processors refer to individuals or organizations that autonomously determine the purpose and the manner of processing data. In accordance with the Draft Regulations, data processors shall apply for a cybersecurity review for the following activities: (i) merger, reorganization or division of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests to the extent that affects or may affect national security; (ii) listing abroad of data processors which process over one million users' personal information; (iii) listing in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. Besides, data processors that are listed overseas shall carry out an annual data security assessment. The Draft Regulations remain unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States and Hong Kong, such as us. We cannot predict the impact of the Measures and the Draft Regulations, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the Measures and the enacted versions of the Draft Regulations mandate clearance of cybersecurity review and other specific actions to be completed by China-based companies listed on a U.S. stock exchange and Hong Kong Exchanges, such as us, we face uncertainties as to whether such clearance can be timely obtained, or at all. In addition, if a final version of the Draft Regulations is adopted, we may be subject to review when conducting data processing activities and annual data security assessment and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. Based on the foregoing, our PRC legal counsel does not expect that, as of the date of this annual report, the current applicable PRC laws on cybersecurity would have a material adverse impact on our business.

On July 30, 2021, the State Council issued the Regulations on Protection of Critical Information Infrastructure, or the Regulations. Pursuant to the Regulations, critical information infrastructure shall mean the important network facilities or information systems of key industries or fields such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, and important network facilities or information systems which may endanger national security, people's livelihood and public interest once there occur damage, malfunctioning or data leakage to them. The Regulations provide that no individual or organization may carry out any illegal activity of intruding into, interfering with, or sabotaging any critical information infrastructures, or endanger the security of any critical information infrastructures. The Regulations also require that critical information infrastructure operators shall establish a cybersecurity protection system and accountability system, and that the main responsible person of a critical information infrastructure operator shall take full responsibility for the security protection of the critical information infrastructures operated by it. In addition, relevant administration departments of each important industry and sector shall be responsible for formulating the rule of critical information infrastructure determination applicable to their respective industry or sector, and determine the critical information infrastructure operators in their industry or sector.

On July 12, 2021, the MIIT and two other authorities jointly issued the Provisions on the Administration of Security Vulnerabilities of Network Products, or the Provisions. The Provisions state that, no organization or individual may abuse the security vulnerabilities of network products to engage in activities that endanger network security, or to illegally collect, sell, or publish the information on such security vulnerabilities. Anyone who is aware of the aforesaid offences shall not provide technical support, advertising, payment settlement and other assistance to the relevant offenders. According to the Provisions, network product providers, network operators, and platforms collecting network product security vulnerabilities shall establish and improve channels for receiving network product security vulnerability information and keep such channels available, and retain network product security vulnerability information reception logs for at least six months. The Provisions also bans provision of undisclosed vulnerabilities to overseas organizations or individuals other than to the product providers.

On July 7, 2022, the CAC issued the Measures for Security Assessment of Cross-border Data Transfer, or the Measures, which will take effect on September 1, 2022. According to the Measures, in addition to the self-risk assessment requirement for provision of any data outside China, a data processor shall apply to the competent cyberspace department for data security assessment and clearance of outbound data transfer in any of the following events: (i) outbound transfer of important data by a data processor; (ii) outbound transfer of personal information by an operator of critical information infrastructure or a data processor which has processed more than one million users' personal data; (iii) outbound transfer of personal information by a data processor which has made outbound transfers of more than one hundred thousand users' personal information or more than ten thousand users' sensitive personal information cumulatively since January 1 of the previous year; (iv) such other circumstances where ex-ante security assessment and evaluation of cross-border data transfer is required by the CAC. In a Q&A released on the official website of the CAC, the respondent CAC official illustrated that outbound data transfer referred to in the Measures mainly includes the following data activities: (i) data collected and generated during domestic operation is transmitted or stored overseas by data processors, and (ii) data collected and generated by data processors and stored domestically can be accessed to or used by overseas institutions, organizations or individuals.

On August 20, 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. The Personal Information Protection Law requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose and should be conducted in a method that has the minimum impact on personal rights and interests, and (ii) the collection of personal information should be limited to the minimum scope as necessary to achieve the processing purpose and avoid the excessive collection of personal information. Personal information processors shall adopt necessary measures to safeguard the security of the personal information they handle. The offending entities could be ordered to correct, or to suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties.

In addition, the State Secrecy Bureau has issued provisions authorizing the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets during online information distribution. Specifically, internet companies in the PRC with bulletin boards, chat rooms or similar services must apply for specific approval prior to operating such services.

Furthermore, the Provisions on Technological Measures for Internet Security Protection, promulgated by the Ministry of Public Security and became effective in March 2006, require all ICP operators to keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations. The Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, which was promulgated by the PRC National People's Congress in December 2012, states that ICP operators must request identity information from users when ICP operators provide information publication services to the users. If ICP operators come across prohibited information, they must immediately cease the transmission of such information, delete the information, keep relevant records, and report to relevant government authorities.

On October 21, 2019, the Supreme People's Court and the Supreme People's Procuratorate of the PRC jointly issued the Interpretations on Certain Issues Regarding the Applicable of Law in the Handling of Criminal Case Involving Illegal Use of Information Networks and Assisting Committing Internet Crimes, which came into effect on November 1, 2019, and further clarifies the meaning of Internet service provider and the severe situations of the relevant crimes.

Regulations on Privacy Protection

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of these rights. In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The Network Information Protection Decision provides that electronic information that identifies a citizen or involves privacy of any citizen is protected by law and must not be unlawfully collected or provided to others. ICP operators collecting or using personal electronic information of citizens must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. ICP operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. ICP operators are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. The Administrative Measures on Internet Information Services prohibit an ICP operator from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. According to the Provisions on Protection of Personal Information of Telecommunication and Internet Users, which was promulgated by MIIT and became effective in September 2013, telecommunication business operators and ICP operators are responsible for the security of the personal information of users they collect or use in the course of their provision of services. Without obtaining the consent from the users, telecommunication business operators and ICP operators may not collect or use the users' personal information. The personal information collected or used in the course of provision of services by the telecommunication business operators or ICP operators must be kept in strict confidence, and may not be divulged, tampered with or damaged, and may not be sold or illegally provided to others. The ICP operators are required to take certain measures to prevent any divulgence of, damage to, tampering with or loss of users' personal information. In accordance with the PRC Cyber Security Law, network operators are required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly within the scope of authorization by the subject of personal information unless otherwise prescribed by laws or regulations. In the event of any unauthorized disclosure, damage or loss of collected personal information, network operators must take immediate remedial measures, notify the affected users and report the incidents to the relevant authorities in a timely manner. If any user knows that a network operator illegally collects and uses his or her personal information in violation of laws, regulations or any agreement with the user, or the collected and stored personal information is inaccurate or wrong, the user has the right to request the network operator to delete or correct the relevant collected personal information.

The relevant telecommunications authorities are further authorized to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability, including warnings, fines, confiscation of illegal gains, revocation of licenses or filings, closing of the relevant websites, administrative punishment, criminal liabilities, or civil liabilities, if they violate relevant provisions on internet privacy. Pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of the National People's Congress in August 2015 and becoming effective in November 2015, the standards of crime of infringing citizens' personal information were amended accordingly and the criminal culpability of unlawful collection, transaction, and provision of personal information has been reinforced. In addition, any ICP provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, will be subject to criminal liability for (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 evidence of criminal activities; or (iv) other severe situations, and any individual or entity that (x) sells or provides personal information to others unlawfully, or (y) steals or illegally obtains any personal information, will be subject to criminal liability in severe situations. In addition, the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate of the PRC on Several Issues Concerning the Application of Law in Handling Criminal Cases of Infringing Personal Information, effective in June 2017, have clarified certain standards for the conviction and sentencing in relation to personal information infringement. The PRC government has the power and authority to order ICP operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet. The Civil Code further provides in a stand-alone chapter of right of personality and reiterate that the personal information of a natural person shall be protected by the law. Any organization or individual shall legitimately obtain such personal information of others in due course on a need-to-know basis and ensure the safety and privacy of such information, and refrain from excessively handling or using such information.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal Information by Apps, which was issued on January 23, 2019, app operators should collect and use personal information in compliance with the PRC Cyber Security Law and should be responsible for the security of personal information obtained from users and take effective measures to strengthen the personal information protection. Furthermore, app operators should not force their users to make authorization by means of bundling, suspending installation or in other default forms and should not collect personal information in violation of laws, regulations or breach of user agreements. Such regulatory requirements were emphasized by the Notice on the Special Rectification of Apps Infringing upon User's Personal Rights and Interests, which was issued by MIIT on October 31, 2019. On November 28, 2019, the CAC, the MIIT, the Ministry of Public Security and the State Administration for Market Regulation, or SAMR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information. This regulation further illustrates certain commonly-seen illegal practices of apps operators in terms of personal information protection, including "failure to publicize rules for collecting and using personal information", "failure to expressly state the purpose, manner and scope of collecting and using personal information", "collection and use of personal information without consent of users of such App", "collecting personal information irrelevant to the services provided by such app in violation of the principle of necessity", "provision of personal information to others without users' consent", "failure to provide the function of deleting or correcting personal information as required by laws" and "failure to publish information such as methods for complaints and reporting". Among others, any of the following acts of an app operator will constitute "collection and use of personal information without consent of users": (i) collecting an user's personal information or activating the permission for collecting any user's personal information without obtaining such user's consent; (ii) collecting personal information or activating the permission for collecting the personal information of any user who explicitly refuses such collection, or repeatedly seeking for user's consent such that the user's normal use of such app is disturbed; (iii) any user's personal information which has been actually collected by the app operator or the permission for collecting any user's personal information activated by the app operator is beyond the scope of personal information which such user authorizes such app operator to collect; (iv) seeking for any user's consent in a non-explicit manner; (v) modifying any user's settings for activating the permission for collecting any personal information without such user's consent; (vi) using users' personal information and any algorithms to directionally push any information, without providing the option of non-directed pushing such information; (vii) misleading users to permit collecting their personal information or activating the permission for collecting such users' personal information by improper methods such as fraud and deception; (viii) failing to provide users with the means and methods to withdraw their permission of collecting personal information; and (ix) collecting and using personal information in violation of the rules for collecting and using personal information promulgated by such app operator.

On August 22, 2019, the CAC promulgated the Children Information Protection Provisions, which took effect on October 1, 2019, requiring that before collecting, using, transferring or disclosing the personal information of a child, the Internet service operator should inform the child’s guardians in a noticeable and clear manner and obtain their consents. Meanwhile, internet service operators should take measures like encryption when storing children’s personal information. On March 12, 2021, the CAC and three other authorities jointly issued the Rules on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications. The Rules specifies the scope of necessary personal information to be collected each for a variety of common mobile internet applications, such as maps and navigation apps, online ride-hailing apps, instant messaging apps, online community apps. Operators of such apps shall not refuse to provide basic services to users on the ground of users’ refusal to provide their personal non-essential information. On April 26, 2021, the MIIT issued the Interim Administrative Provisions on Personal Information Protection in Internet Mobile Applications (Draft for Comment). The draft of the Interim Administrative Provisions on Personal Information Protection in Internet Mobile Applications sets forth two principles of collection and utilization of personal information, namely “explicit consent” and “minimum necessity.”

On August 20, 2021, the Standing Committee of the National People’s Congress adopted the Personal Information Protection Law which took effect on November 1, 2021. The Personal Information Protection Law requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose, in a method that has the least impact on personal rights and interests, and (ii) the collection of personal information should be limited to the minimum scope necessary to achieve the processing purpose to avoid the excessive collection of personal information. Different types of personal information and personal information processing will be subject to various rules on consent, transfer, and security. Entities handling personal information shall bear responsibilities for their personal information handling activities, and adopt necessary measures to safeguard the security of the personal information they handle. The entities failing to comply could be ordered to correct, or suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties. On December 31, 2021, the MIIT, the CAC, the SAMR and the PBOC issued the Provisions on the Administration of Algorithm-generated Recommendations for Internet Information Services which took effect on March 1, 2022, stipulating rules for algorithm-generated recommendations for Internet information services. Also, on June 27, 2022, the CAC issued the Administrative Provisions for Internet User Account Information, which will take effect on August 1, 2022, specifying rules of users accounts information for internet-based information service provider as well as its users.

Regulations on Intellectual Property Rights

The PRC has adopted comprehensive legislation governing intellectual property rights, including trademarks. The PRC Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Law has adopted a “first-to-file” principle with respect to trademark registration. The Trademark Office of the National Intellectual Property Administration is responsible for the registration and administration of trademarks throughout the PRC, and grants a term of ten years to registered trademarks and another ten years if requested upon expiry of the initial or extended term. Trademark license agreements must be filed with the Trademark Office for record. As of the date of this annual report, we had 109 trademark applications, all of which are pending with the Trademark Office of the National Intellectual Property Administration. We also have obtained a worldwide and royalty-free license from CreditEase to use certain of its trademarks, including “宜信” (Chinese equivalent for CreditEase).

Regulations Relating to Dividend Withholding Tax

Pursuant to the Enterprise Income Tax Law and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced withholding tax: (i) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (ii) it must have directly owned such percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. In August 2015, the State Administration of Taxation promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Tax Treaties, or Circular 60, which became effective on November 1, 2015. Circular 60 provides that non-resident enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax rate. Instead, non-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 file necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. On October 14, 2019, the State Administration of Taxation promulgated a new Administrative Measures for Non-Resident Taxpayers to Enjoy Treaty Benefits, or Circular 35, which became effective on January 1, 2020 and replaced and repealed Circular 60. However, Circular 35 sets forth similar rules that non-resident enterprises and their withholding agents shall enjoy treaty benefit by means of “self-judgment of eligibility, declaration of entitlement, and retention of relevant materials for future reference.” Accordingly, YouRace HK, our Hong Kong subsidiary, may be able to enjoy the 5% withholding tax rate for the dividends they receive from YouRace Hengchuang and Hengyuda, our PRC subsidiaries, if they satisfy the conditions prescribed under Circular 81 and other relevant tax rules and regulations. However, according to Circular 81 and Circular 35, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future. According to the Circular on Several Issues regarding the “Beneficial Owner” in Tax Treaties, which was issued on February 3, 2018 by the SAT and has taken effect from April 1, 2018, or Circular 9, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in a third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties levies any tax or grants tax exemption on relevant incomes or levies tax at an extremely low rate, will be taken into account, and such determination will be analyzed according to the actual circumstances of the specific cases. Circular 9 further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax authority according to Circular 35. However, if a competent tax authority finds out that it is necessary to apply the general anti-tax avoidance rules, it may start general investigation procedures for anti-tax avoidance and adopt corresponding measures for subsequent administration.

Regulations on Overseas Offering and Listing

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.

On December 27, 2021, the NDRC and the MOC jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version), or the 2021 Negative List, which became effective on January 1, 2022. Pursuant to such Special Administrative Measures, if a domestic company engaging in the prohibited business stipulated in the 2021 Negative List seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. Besides, the foreign investors of the company shall not be involved in the company’s operation and management, and their shareholding percentage shall be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors.

On December 24, 2021, the State Council issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Provisions, and the CSRC issued a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Administration Measures, for public comments. According to the Draft Provisions and the Draft Administration Measures, the overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the determination of an indirect offering and listing will be conducted on a “substance over form” basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer’s audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business is in the PRC or carried out in the PRC. According to the Draft Provisions, an overseas offering and listing is prohibited under any of the following circumstances: (i) if the intended securities offering and listing is specifically prohibited by national laws and regulations and relevant provisions; (ii) if the intended securities offering and listing may constitute a threat to or endangers national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) if there are material ownership disputes over the equity, major assets, and core technology, etc. of the issuer; (iv) if, in the past three years, the domestic enterprise or its controlling shareholders or actual controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offenses disruptive to the order of the socialist market economy, or are currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations; (v) if, in past three years, directors, supervisors, or senior executives have been subject to administrative punishments for severe violations, or are currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations; (vi) other circumstances as prescribed by the State Council. Non-compliance with the Draft Provisions or an overseas listing completed in breach of Draft Provisions may result in a warning on the relevant domestic companies or a fine of 1-10 million RMB on them. If the circumstances are serious, they may be ordered to suspend their business or suspend their business pending rectification, or their permits or businesses license may be revoked. Furthermore, the controlling shareholder, actual controllers, directors, supervisors, and other legally appointed persons of the domestic enterprises may be warned, or fined between 500,000 to 5 million RMB either individually or collectively.

According to the Draft Administration Measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC (i) with respect to its initial public offering and listing within three business days, after its initial filing of the listing application to the regulator in the place of the intended listing, (ii) with respect to its follow-on offering within three business days after completion of the follow-on offering, (iii) with respect to its follow-on offering for purpose of acquiring specific assets, within three business days after the first public announcement of the transaction, and (iv) with respect to listing by means of reverse takeover, share swap, acquisition and similar transactions, within three business days after its initial filing of the listing application or the first public announcement of the transaction, as case may be. Failure to comply with the filing requirements may result in fines to the relevant domestic companies, suspension of their businesses, revocation of their business licenses and operation permits and fines on the controlling shareholder and other responsible persons.

Regulations Relating to Foreign Exchange

Regulations on Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, most recently amended in August 2008. Under the PRC foreign exchange regulations, payments of current account items, such as profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside of China.

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, most recently amended in December 2019, which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds derived by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated another circular in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC must be conducted by way of registration and banks must process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches. On February 13, 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, or SAFE Notice 13. After SAFE Notice 13 became effective on June 1, 2015, instead of applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from SAFE, entities and individuals may apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of SAFE, may directly review the applications and conduct the registration.

On March 30, 2015, SAFE promulgated Circular 19, which expands a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises nationwide. On June 9, 2016, SAFE promulgated Circular 16 to further expand and strengthen such reform. Under Circular 19 and Circular 16, foreign-invested enterprises in the PRC are allowed to use their foreign exchange funds under capital accounts and RMB funds from exchange settlement for expenditure under current accounts within its business scope or expenditure under capital accounts permitted by laws and regulations, except that such funds shall not be used for (i) expenditure beyond the enterprise's business scope or expenditure prohibited by laws and regulations; (ii) investments in securities or other investments than banks' principal-secured products; (iii) granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license; and (iv) construction or purchase of real estate for purposes other than self-use (except for real estate enterprises).

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

SAFE issued SAFE Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, that became effective in July 2014, replacing the previous SAFE Circular 75. SAFE Circular 37 regulates 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. Under SAFE Circular 37, a SPV refers to 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" refers to 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 provides that, before making contribution into an SPV, PRC residents or entities are required to complete foreign exchange registration with SAFE or its local branch. SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment in February 2015, which took effect on June 1, 2015. This notice has amended SAFE Circular 37 requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch 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 relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.

We are aware that our PRC resident beneficial owners subject to these registration requirements have registered with the Beijing SAFE branch and/or qualified banks to reflect the recent changes to our corporate structure.

Regulations on Stock Incentive Plans

SAFE promulgated the Stock Option Rules in February 2012, replacing the previous rules issued by SAFE in March 2007. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of the participants. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is 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 share 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 share 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 before distribution to such PRC residents.

We have adopted three share incentive plans, under which we have the discretion to grant a broad range of equity-based awards to eligible participants. See "Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plans." We plan to advise the recipients of awards under our share incentive plans to handle foreign exchange matters in accordance with the Stock Option Rules. However, we cannot assure you that they can successfully register with SAFE in full compliance with the Stock Option Rules. Any failure to complete their registration pursuant to the Stock Option Rules and other foreign exchange requirements may subject these PRC individuals to fines and legal sanctions, and may also limit our ability to contribute additional capital to our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends to us or otherwise materially adversely affect our business.

Regulations on Dividend Distribution

Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from YouRace Hengchuang, which is a wholly foreign-owned enterprise incorporated in China, to fund any cash and financing requirements we may have. The principal regulations governing distribution of dividends of foreign-invested enterprises include the Company Law and the Foreign Investment Law. Under the current laws and regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. Wholly foreign-owned companies may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds.

Regulations Relating to Employment

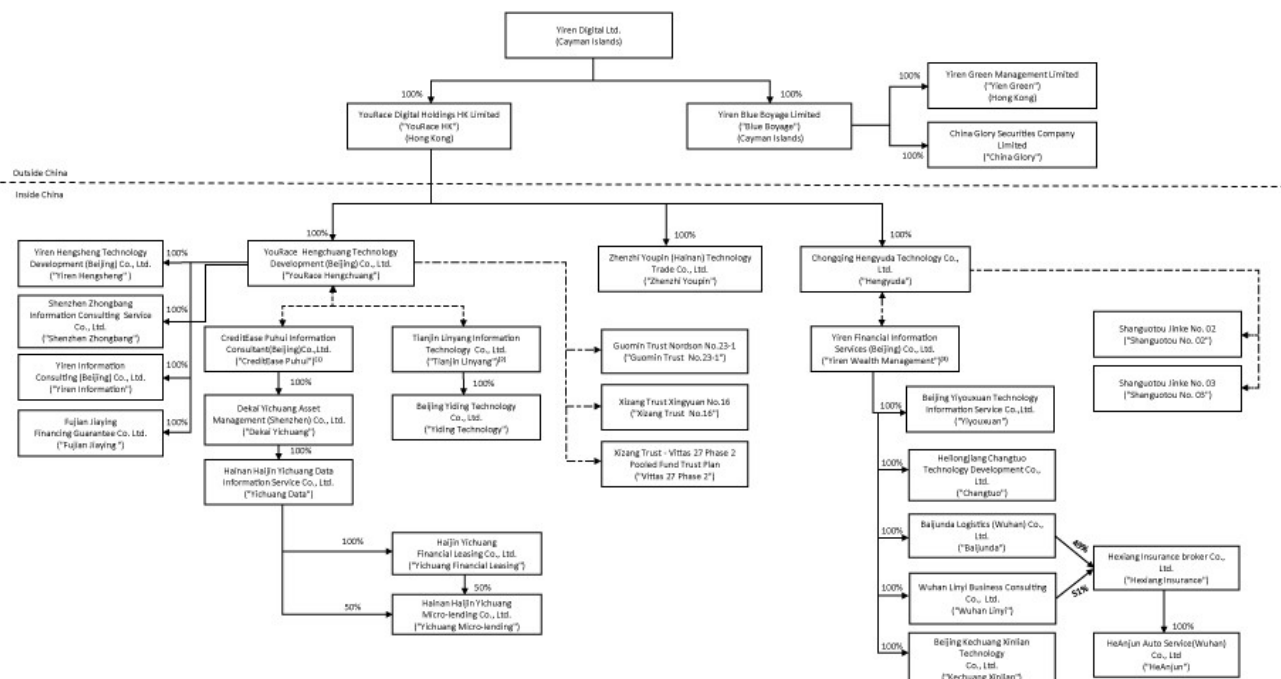
The PRC Labor Law and the Labor Contract Law require that employers must execute written employment contracts with full-time employees. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee's salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. 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 result in criminal liabilities.

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. Failure to make adequate contributions to various employee benefit plans may be subject to fines and other administrative sanctions.

We failed to make contribution to the social insurance plans and housing provident fund for some of our employees based on their actual wages. The probability that we may be subject to late penalties or fines in relation to the underpaid employee benefits is remote. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties."

C. Organizational Structure

The following diagram illustrates our corporate structure, including our subsidiaries, the consolidated variable interest entities, and our consolidated assets backed financing entities, as of the date of this annual report:



- (1) The shareholders of CreditEase Puhui are Mr. Ning Tang and Ms. Mei Zhao, each owning 99% and 1% of CreditEase Puhui's equity interest, respectively. Mr. Ning Tang is our executive chairman and Ms. Mei Zhao is one of our employees.
- (2) The shareholders of Tianjin Linyang are Mr. Yueyue Chen and Ms. Yang Wang, each owning 90% and 10% of Tianjin Linyang's equity interest, respectively. Mr. Yueyue Chen and Ms. Yang Wang are two our employees.
- (3) The shareholders of Yiren Wealth are Pucheng Credit Assessment and Management (Beijing) Co., Ltd., Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian, each owning 84.53%, 6.19%, 4.64% and 4.64% of Yiren Wealth's equity interest, respectively. The shareholder of Pucheng Credit Assessment and Management (Beijing) Co., Ltd. is Qiyun Technology Development Co., Ltd., whose shareholder is CreditEase Weijia Technology Development (Beijing) Co. Ltd., ultimately owned by Mr. Ning Tang and Ms. Yan Tian, by 95% and 5% of its equity interest, respectively. Mr. Ning Tang is our executive chairman, Mr. Fanshun Kong is a non-executive PRC employee of CreditEase, and Ms. Yan Tian is a third-party individual designated by CreditEase.

Contractual Arrangements with the Consolidated Variable Interest Entities

Due to PRC legal restrictions on foreign ownership and investment in value-added telecommunications services, and internet content provision services in particular, we currently conduct these activities through Yiren Wealth, Tianjin Linyang and CreditEase Puhui, which we conduct the business operations through a series of contractual arrangements. These contractual arrangements allow us to:

- conduct the business operations of Yiren Wealth, Tianjin Linyang and CreditEase Puhui;
- receive substantially all of the economic benefits of Yiren Wealth, Tianjin Linyang and CreditEase Puhui; and

- have an exclusive option to purchase all or part of the equity interests in Yiren Wealth, Tianjin Linyang and CreditEase Puhui when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we have become the primary beneficiary of Yiren Wealth, Tianjin Linyang and CreditEase Puhui, and we treat Yiren Wealth, Tianjin Linyang and CreditEase Puhui as the consolidated variable interest entities under U.S. GAAP. We have consolidated the financial results of Yiren Wealth, Tianjin Linyang and CreditEase Puhui in our consolidated financial statements in accordance with U.S. GAAP.

Before our business restructuring with CreditEase in December 2020, we also conducted those activities through Hengcheng, which we conducted the business operations until December 31, 2020 through a series of contractual arrangements. These contractual arrangements allowed us to:

- conduct the business operations of Hengcheng;
- receive substantially all of the economic benefits of Hengcheng; and
- have an exclusive option to purchase all or part of the equity interests in Hengcheng when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we were the primary beneficiary of Hengcheng and treated Hengcheng as the variable interest entity under U.S. GAAP before December 31, 2020. We had consolidated the financial results of Hengcheng in our consolidated financial statements in accordance with U.S. GAAP before December 31, 2020. Our contractual arrangements with Hengcheng and its shareholders had been terminated on December 31, 2020.

Contractual Arrangements with Yiren Wealth

The following is a summary of the currently effective contractual arrangements by and among our wholly owned subsidiary, Hengyuda, the variable interest entity, Yiren Wealth, and the shareholders of Yiren Wealth.

Agreements that Allow Us to Conduct the Business Operations of Yiren Wealth

Amended and Restated Equity Interest Pledge Agreements. Pursuant to amended and restated the equity interest pledge agreements, each shareholder of Yiren Wealth has pledged all of his or her equity interest in Yiren Wealth to guarantee the shareholder's and Yiren Wealth's performance of their obligations under the exclusive business cooperation agreement, exclusive option agreement, loan agreement and power of attorney. If Yiren Wealth or any of its shareholders breaches their contractual obligations under these agreements, Hengyuda, as pledgee, will be entitled to certain rights regarding the pledged equity interests, including receiving proceeds from the auction or sale of all or part of the pledged equity interests of Yiren Wealth in accordance with the law. Each of the shareholders of Yiren Wealth agrees that, during the term of the equity interest pledge agreements, he or she will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without the prior written consent of Hengyuda. The equity interest pledge agreements remain effective until Yiren Wealth and its shareholders discharge all their obligations under the contractual arrangements. We have registered the equity pledge with the relevant office of the Administration for Industry and Commerce in accordance with the PRC Property Rights Law.

Powers of Attorney. Pursuant to the powers of attorney, each shareholder of Yiren Wealth has irrevocably appointed Hengyuda to act as such shareholder's exclusive attorney-in-fact to exercise all shareholder rights, including, but not limited to, voting on all matters of Yiren Wealth requiring shareholder approval, disposing of all or part of the shareholder's equity interest in Yiren Wealth, and appointing directors and executive officers. Hengyuda is entitled to designate any person to act as such shareholder's exclusive attorney-in-fact without notifying or the approval of such shareholder, and if required by PRC law, Hengyuda shall designate a PRC citizen to exercise such right. Each power of attorney will remain in force for so long as the shareholder remains a shareholder of Yiren Wealth. Each shareholder has waived all the rights which have been authorized to Hengyuda and will not exercise such rights.

Agreement that Allows us to Receive Economic Benefits from Yiren Wealth

Exclusive Business Cooperation Agreement. Under the exclusive business cooperation agreement between Hengyuda and Yiren Wealth, Hengyuda has the exclusive right to provide Yiren Wealth with technical support, consulting services and other services. Without Hengyuda's prior written consent, Yiren Wealth agrees not to accept the same or any similar services provided by any third party. Hengyuda may designate other parties to provide services to Yiren Wealth. Yiren Wealth agrees to pay service fees on a monthly basis and at an amount determined by Hengyuda after taking into account multiple factors, such as the complexity and difficulty of the services provided, the time consumed, the content and commercial value of services provided and the market price of comparable services. Hengyuda owns the intellectual property rights arising out of the performance of this agreement. In addition, Yiren Wealth has granted Hengyuda an irrevocable and exclusive option to purchase any or all of the assets and businesses of Yiren Wealth at the lowest price permitted under PRC law. Unless otherwise agreed by the parties or terminated by Hengyuda unilaterally, this agreement will remain effective permanently.

Agreements that Provide Us with the Option to Purchase the Equity Interest in Yiren Wealth

Amended and Restated Exclusive Option Agreement. Pursuant to the amended and restated exclusive option agreements, each shareholder of Yiren Wealth has irrevocably granted Hengyuda an exclusive option to purchase, or have its designated person or persons to purchase, at its discretion, to the extent permitted under PRC law, all or part of the shareholder's equity interests in Yiren Wealth. The purchase price shall be the higher of the amount equal to the registered capital contributed by the respective shareholders of Yiren Wealth (or such other price then accepted by Hengyuda) or the minimum price required by PRC law, which purchase price could be paid by way of offset of the outstanding debts owed by the shareholders of Yiren Wealth to Hengyuda (including without limitation the outstanding amount of the loan owed by the shareholders of Yiren Wealth to Hengyuda and any interest thereon under the respective loan agreement). If Hengyuda exercises the option to purchase part of the equity interest held by a shareholder of Yiren Wealth, the purchase price shall be calculated proportionally. Yiren Wealth and each of its shareholders have agreed to appoint any persons designated by Hengyuda to act as Yiren Wealth's directors. Without Hengyuda's prior written consent, Yiren Wealth shall not amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of, or create or allow any encumbrance on its assets or beneficial interest with a value of more than RMB500,000, provide any loans to any third parties, enter into any material contract with a value of more than RMB500,000 (except those contracts entered into in the ordinary course of business), merge with or acquire any other persons or make any investments, or distribute dividends to the shareholders. The shareholders of Yiren Wealth have agreed that, without Hengyuda's prior written consent, they will not dispose of their equity interests in Yiren Wealth or create or allow any encumbrance on their equity interests. Moreover, without Hengyuda's prior written consent, no dividend will be distributed to Yiren Wealth's shareholders, and if any of the shareholders receives any profit, interest, dividend or proceeds of share transfer or liquidation, the shareholder must give such profit, interest, dividend and proceeds to Hengyuda. These agreements will remain effective until all equity interests of Yiren Wealth held by its shareholders have been transferred or assigned to Hengyuda or its designated person(s).

Amended and Restated Loan Agreements. Pursuant to the loan agreements between Hengyuda and the shareholders of Yiren Wealth, Hengyuda agreed to provide loans of RMB104.0 million, RMB78.0 million, RMB78.0 million and RMB720.0 million to Mr. Ning Tang, Mr. Fanshun Kong, Ms. Yan Tian and Pucheng Credit Assessment and Management (Beijing) Co., Ltd., respectively, who are the shareholders of Yiren Wealth, solely for the capitalization of Yiren Wealth. Pursuant to the loan agreement, the shareholders can only repay the loans by the sale of all their equity interest in Yiren Wealth to Hengyuda or its designated person(s) pursuant to their respective exclusive option agreements. The shareholders must pay all of the proceeds from sale of such equity interests to Hengyuda. In the event that shareholders sell their equity interests to Hengyuda or its designated person(s) with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to Hengyuda as the loan interest. The loan must be repaid immediately under certain circumstances, including, among others, if a foreign investor is permitted to hold majority or 100% equity interest in Yiren Wealth and Hengyuda elects to exercise its exclusive equity purchase option. The term of the loans is ten years and can be extended upon mutual written consent of the parties.

Contractual Arrangements with Tianjin Linyang

The following is a summary of the currently effective contractual arrangements by and among our wholly owned subsidiary, YouRace Hengchuang, the variable interest entity, Tianjin Linyang, and the shareholders of Tianjin Linyang.

Agreements that Allow Us to Conduct the Business Operations of Tianjin Linyang

Equity Interest Pledge Agreements. Pursuant to the equity interest pledge agreements, each shareholder of Tianjin Linyang shall pledge all of his or her equity interest in Tianjin Linyang to guarantee the shareholder's and Tianjin Linyang's performance of their obligations under the exclusive business cooperation agreement, loan agreement, exclusive option agreement and power of attorney. If Tianjin Linyang or any of its shareholders breaches their contractual obligations under these agreements, YouRace Hengchuang, as pledgee, will be entitled to certain rights regarding the pledged equity interests, including receiving proceeds from the auction or sale of all or part of the pledged equity interests of Tianjin Linyang in accordance with the law. Each of the shareholders of Tianjin Linyang agrees that, during the term of the equity interest pledge agreements, he or she will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without the prior written consent of YouRace Hengchuang. The equity interest pledge agreements remain effective until Tianjin Linyang and its shareholders discharge all their obligations under the contractual arrangements. The shareholders of Tianjin Linyang had completed the process of applying with the competent office of the State Administration for Market Regulation for registration of their equity interest pledge.

Powers of Attorney. Pursuant to the powers of attorney, each shareholder of Tianjin Linyang has irrevocably appointed YouRace Hengchuang to act as such shareholder's exclusive attorney-in-fact to exercise all shareholder rights, including, but not limited to, voting on all matters of Tianjin Linyang requiring shareholder approval, disposing of all or part of the shareholder's equity interest in Tianjin Linyang, and appointing directors and executive officers. YouRace Hengchuang is entitled to designate any person to act as such shareholder's exclusive attorney-in-fact without notifying or the approval of such shareholder, and if required by PRC law, YouRace Hengchuang shall designate a PRC citizen to exercise such right. Each power of attorney will remain in force for so long as the shareholder remains a shareholder of Tianjin Linyang. Each shareholder has waived all the rights which have been authorized to YouRace Hengchuang and will not exercise such rights.

Agreement that Allows us to Receive Economic Benefits from Tianjin Linyang

Exclusive Business Cooperation Agreement. Under the exclusive business cooperation agreement between YouRace Hengchuang and Tianjin Linyang, YouRace Hengchuang has the exclusive right to provide Tianjin Linyang with technical support, consulting services and other services. Without YouRace Hengchuang's prior written consent, Tianjin Linyang agrees not to accept the same or any similar services provided by any third party. YouRace Hengchuang may designate other parties to provide services to Tianjin Linyang. Tianjin Linyang agrees to pay service fees on a monthly basis and at an amount determined by YouRace Hengchuang after taking into account multiple factors, such as the complexity and difficulty of the services provided, the time consumed, the content and commercial value of services provided and the market price of comparable services. YouRace Hengchuang owns the intellectual property rights arising out of the performance of this agreement. In addition, Tianjin Linyang has granted YouRace Hengchuang an irrevocable and exclusive option to purchase any or all of the assets and businesses of Tianjin Linyang at the lowest price permitted under PRC law. Unless otherwise agreed by the parties or terminated by YouRace Hengchuang unilaterally, this agreement will remain effective permanently.

Agreements that Provide Us with the Option to Purchase the Equity Interest in Tianjin Linyang

Exclusive Option Agreement. Pursuant to the exclusive option agreements, each shareholder of Tianjin Linyang has irrevocably granted YouRace Hengchuang an exclusive option to purchase, or have its designated person or persons to purchase, at its discretion, to the extent permitted under PRC law, all or part of the shareholder's equity interests in Tianjin Linyang. The purchase price is equal to the higher of the amount of registered capital contributed by each shareholder of Tianjin Linyang or the minimum price required by PRC law. If YouRace Hengchuang exercises the option to purchase part of the equity interest held by a shareholder, the purchase price shall be calculated proportionally. Tianjin Linyang and each of its shareholders have agreed to appoint any persons designated by YouRace Hengchuang to act as Tianjin Linyang's directors. Without YouRace Hengchuang's prior written consent, Tianjin Linyang shall not amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of its assets or beneficial interest, create or allow any encumbrance on its assets or other beneficial interests, provide any loans to any third parties, enter into any material contract with a value of more than RMB100,000 (except those contracts entered into in the ordinary course of business), merge with or acquire any other persons or make any investments, or distribute dividends to the shareholders. The shareholders of Tianjin Linyang have agreed that, without YouRace Hengchuang's prior written consent, they will not dispose of their equity interests in Tianjin Linyang or create or allow any encumbrance on their equity interests. Moreover, without YouRace Hengchuang's prior written consent, no dividend will be distributed to Tianjin Linyang's shareholders, and if any of the shareholders receives any profit, interest, dividend or proceeds of share transfer or liquidation, the shareholder must give such profit, interest, dividend and proceeds to YouRace Hengchuang. These agreements will remain effective until all equity interests of Tianjin Linyang held by its shareholders have been transferred or assigned to YouRace Hengchuang or its designated person(s).

Loan Agreements. Pursuant to the loan agreements between YouRace Hengchuang and the shareholders of Tianjin Linyang, YouRace Hengchuang agreed to provide loans in an aggregate amount of RMB1.0 million to the shareholders of Tianjin Linyang solely for the capitalization of Tianjin Linyang. Pursuant to the loan agreement, the shareholders can only repay the loans by the sale of all their equity interest in Tianjin Linyang to YouRace Hengchuang or its designated person(s) pursuant to their respective exclusive option agreements. The shareholders must pay all of the proceeds from sale of such equity interests to YouRace Hengchuang. In the event that shareholders sell their equity interests to YouRace Hengchuang or its designated person(s) with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to YouRace Hengchuang as the loan interest. The loan must be repaid immediately under certain circumstances, including, among others, if a foreign investor is permitted to hold majority or 100% equity interest in Tianjin Linyang and YouRace Hengchuang elects to exercise its exclusive equity purchase option. The term of the loans is ten years and can be extended upon mutual written consent of the parties.

Contractual Arrangements with CreditEase Puhui

The following is a summary of the currently effective contractual arrangements by and among our wholly owned subsidiary, YouRace Hengchuang, the variable interest entity, CreditEase Puhui, and the shareholders of CreditEase Puhui.

Agreements that Allow Us to Conduct the Business Operations of CreditEase Puhui

Equity Interest Pledge Agreements. Pursuant to the equity interest pledge agreements, each shareholder of CreditEase Puhui has pledged all of his or her equity interest in CreditEase Puhui to guarantee the shareholder's and CreditEase Puhui's performance of their obligations under the exclusive business cooperation agreement, exclusive option agreement, loan agreement and power of attorney. If CreditEase Puhui or any of its shareholders breaches their contractual obligations under these agreements, YouRace Hengchuang, as pledgee, will be entitled to certain rights regarding the pledged equity interests, including receiving proceeds from the auction or sale of all or part of the pledged equity interests of CreditEase Puhui in accordance with the law. Each of the shareholders of CreditEase Puhui agrees that, during the term of the equity interest pledge agreements, he or she will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without the prior written consent of YouRace Hengchuang. The equity interest pledge agreements remain effective until CreditEase Puhui and its shareholders discharge all their obligations under the contractual arrangements.

Powers of Attorney. Pursuant to the powers of attorney, each shareholder of CreditEase Puhui has irrevocably appointed YouRace Hengchuang to act as such shareholder's exclusive attorney-in-fact to exercise all shareholder rights, including, but not limited to, voting on all matters of CreditEase Puhui requiring shareholder approval, disposing of all or part of the shareholder's equity interest in CreditEase Puhui, and appointing directors and executive officers. YouRace Hengchuang is entitled to designate any person to act as such shareholder's exclusive attorney-in-fact without notifying or the approval of such shareholder, and if required by PRC law, YouRace Hengchuang shall designate a PRC citizen to exercise such right. Each power of attorney will remain in force for so long as the shareholder remains a shareholder of CreditEase Puhui. Each shareholder has waived all the rights which have been authorized to YouRace Hengchuang and will not exercise such rights.

Agreement that Allows us to Receive Economic Benefits from CreditEase Puhui

Exclusive Business Cooperation Agreement. Under the exclusive business cooperation agreement between YouRace Hengchuang and CreditEase Puhui, YouRace Hengchuang has the exclusive right to provide CreditEase Puhui with technical support, consulting services and other services. Without YouRace Hengchuang's prior written consent, CreditEase Puhui agrees not to accept the same or any similar services provided by any third party. YouRace Hengchuang may designate other parties to provide services to CreditEase Puhui. CreditEase Puhui agrees to pay service fees on a monthly basis and at an amount determined by YouRace Hengchuang after taking into account multiple factors, such as the complexity and difficulty of the services provided, the time consumed, the content and commercial value of services provided and the market price of comparable services. YouRace Hengchuang owns the intellectual property rights arising out of the performance of this agreement. In addition, CreditEase Puhui has granted YouRace Hengchuang an irrevocable and exclusive option to purchase any or all of the assets and businesses of CreditEase Puhui at the lowest price permitted under PRC law. Unless otherwise agreed by the parties or terminated by YouRace Hengchuang unilaterally, this agreement will remain effective permanently.

Agreements that Provide Us with the Option to Purchase the Equity Interest in CreditEase Puhui

Exclusive Option Agreement. Pursuant to the exclusive option agreements, each shareholder of CreditEase Puhui has irrevocably granted YouRace Hengchuang an exclusive option to purchase, or have its designated person or persons to purchase, at its discretion, to the extent permitted under PRC law, all or part of the shareholder's equity interests in CreditEase Puhui. The purchase price is equal to the higher of the amount of registered capital contributed by each shareholder of CreditEase Puhui or the minimum price required by PRC law. If YouRace Hengchuang exercises the option to purchase part of the equity interest held by a shareholder of CreditEase Puhui, the purchase price shall be calculated proportionally. CreditEase Puhui and each of its shareholders have agreed to appoint any persons designated by YouRace Hengchuang to act as CreditEase Puhui's directors. Without YouRace Hengchuang's prior written consent, CreditEase Puhui shall not amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of, or create or allow any encumbrance on its assets or beneficial interest with a value of more than RMB100,000, provide any loans to any third parties, enter into any material contract with a value of more than RMB100,000 (except those contracts entered into in the ordinary course of business), merge with or acquire any other persons or make any investments, or distribute dividends to the shareholders. The shareholders of CreditEase Puhui have agreed that, without YouRace Hengchuang's prior written consent, they will not dispose of their equity interests in CreditEase Puhui or create or allow any encumbrance on their equity interests. Moreover, without YouRace Hengchuang's prior written consent, no dividend will be distributed to CreditEase Puhui's shareholders, and if any of the shareholders receives any profit, interest, dividend or proceeds of share transfer or liquidation, the shareholder must give such profit, interest, dividend and proceeds to YouRace Hengchuang. These agreements will remain effective until all equity interests of CreditEase Puhui held by its shareholders have been transferred or assigned to YouRace Hengchuang or its designated person(s).

Loan Agreements. Pursuant to the loan agreements between YouRace Hengchuang and the shareholders of CreditEase Puhui, YouRace Hengchuang agreed to provide loans in an aggregate amount of RMB10.0 million to the shareholders of CreditEase Puhui solely for the capitalization of CreditEase Puhui. Pursuant to the loan agreement, the shareholders can only repay the loans by the sale of all their equity interest in CreditEase Puhui to YouRace Hengchuang or its designated person(s) pursuant to their respective exclusive option agreements. The shareholders must pay all of the proceeds from sale of such equity interests to YouRace Hengchuang. In the event that shareholders sell their equity interests to YouRace Hengchuang or its designated person(s) with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to YouRace Hengchuang as the loan interest. The loan must be repaid immediately under certain circumstances, including, among others, if a foreign investor is permitted to hold majority or 100% equity interest in CreditEase Puhui and YouRace Hengchuang elects to exercise its exclusive equity purchase option. The term of the loans is ten years and can be extended upon mutual written consent of the parties.

In the opinion of Han Kun Law Offices, our PRC counsel:

- the ownership structures of our subsidiaries, YouRace Hengchuang and Hengyuda, and the consolidated variable interest entities, Yiren Wealth, Tianjin Linyang and CreditEase Puhui, will not result in any violation of PRC laws or regulations currently in effect; and
- the contractual agreements relating to Yiren Wealth, Tianjin Linyang and CreditEase Puhui, the consolidated variable interest entities, as described in "Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the Consolidated Variable Interest Entities," governed by PRC law are valid, binding and enforceable, and do not and will not result in any violation of PRC laws or regulations currently in effect. The equity pledge under each equity pledge agreement has been registered with the competent office of the State Administration for Market Regulation in accordance with the PRC laws.

However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. On March 15, 2019, the National People’s Congress approved the Foreign Investment Law, which has become effective on January 1, 2020. Under the Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Although it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activity under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. If the PRC government finds that the agreements that establish the structure for operating our online consumer finance marketplace business do not comply with PRC government restrictions on foreign investment in value-added telecommunications services businesses, such as internet content provision services, we could be subject to severe penalties, including being prohibited from continuing operations. See “Item. 3 Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government deems that the contractual arrangements in relation to the consolidated variable interest entities, 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,” “Item. 3 Key Information—D. Risk Factors—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations,” “Item. 3 Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the legal system in Chinese mainland could adversely affect us. Certain laws and regulations in Chinese mainland can evolve quickly, which bring risks and uncertainties to their interpretation and enforcement. Administrative and court proceedings in Chinese mainland may be protracted. Some government policies and internal rules may not be published on a timely manner. These risks and uncertainties may make it difficult for us to meet or comply with requirements under the applicable laws and regulations” and “Item. 3 Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment law and how it may impact the viability of our current corporate structure, corporate governance and business operations.”

D. Property, Plant and Equipment

Our principal executive offices are located on leased premises comprising 756.0 square meters in Beijing, China. We have leased additional office spaces of 8,522.2 and 45,081.0 square meters in Beijing and other cities in China, respectively. We lease our premises from unrelated third parties under operating lease agreements. The lease for our principal executive offices expired in May 2023. Our servers are primarily hosted at internet data centers owned by major domestic internet data center providers. The hosting services agreements typically have a three-year term. 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

The following discussion of our financial condition and results of operations is based upon, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this annual report on Form 20-F. This report contains forward-looking statements. See “Forward-Looking Information.” In evaluating our business, you should carefully consider the information provided under the caption “Item 3. Key Information—D. Risk Factors” in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

We are a leading comprehensive digital financial management platform in China. Since our inception, we have been operating one of China’s largest digital financial management platforms by leveraging technology to seamlessly deliver wealth management solutions to China’s mass affluent population through our wealth management business as well as credit and financial solutions to individual borrowers and small business owners.

Our strategic business realignment with CreditEase in 2019 enables us to operate our business on a more diverse and scalable mix of service platforms. Our wealth management business specifically targets mass affluent investors and provides them with one-stop asset allocation-based wealth management solutions. We believe we are well positioned to capture the significant synergy opportunities presented by this business realignment and deliver long-term operating performance and improvements through our increased scale.

As of December 31, 2021, we had served approximately 6.1 million borrowers and approximately 2.7 million investors. In 2019, 2020 and 2021, we facilitated RMB39,103.0 million, RMB11,651.5 million and RMB23,195.2 million (US\$3,639.8 million) in loans. In 2019, 2020 and 2021, we facilitated RMB17,583.9 million, RMB3,003.2 million and RMB14,637.2 million (US\$2,296.9 million) in loans through our mobile applications, respectively, representing 45.0%, 25.8% and 63.1% of the total amount of loans facilitated through our marketplace in the respective periods.

Our wealth management business primarily distributes short-term cash management products, mutual fund investment products, insurance products and securities and stock products. As of December 31, 2021, the total client assets and the average client assets per investor on our Yiren Wealth platform, excluding insurance products, were RMB18,373.0 million (US\$2,883.1 million) and RMB285,175.5 (US\$44,750.3), respectively. We terminated Peer-to-Peer Online Lending on December 31, 2020.

In 2021, the majority of our revenues was generated from our credit business. Our credit business generates revenues primarily from the fee charged for our technology-enabled borrower acquisition and facilitation services provided to our institutional funding partners. Our wealth management business generates revenues primarily from financial products and services we offer to our clients in two ways: (i) commissions paid by product providers when clients purchase financial products offered by us, and (ii) insurance commission fees paid by insurance companies when clients purchase insurance products through Hexiang Insurance Brokers; and (iii) sales of our customized non-financial products and services. We do not bear any loss from our clients’ investments nor do we provide guarantees of return with respect to the products we distribute.

Basis of Management’s Discussion of Operating Results

In March 2019, we entered into definitive agreements with CreditEase, the controlling shareholder of our company, pursuant to which we have assumed from CreditEase and its affiliates certain business operations, mainly including online wealth management targeting the mass affluent, unsecured and secured consumer lending, small-and-medium-enterprise (SME) lending and other related services or businesses (the “Acquired Businesses”). This transaction was consummated in July 2019. The discussion of our operating results for the periods indicated in this annual report reflects the inclusion of the Acquired Businesses.

On December 31, 2020, we consummated another business restructuring with CreditEase to streamline our service lines and reposition us as a comprehensive digital personal financial management platform in China. In connection with the business restructuring, we had disposed of the online consumer lending platform targeting individual investors as the funding source. The Disposed Business was operated by Hengcheng, and CreditEase had, through its subsidiaries and affiliates, paid the designated subsidiaries of our company an aggregate amount of RMB67.0 million in cash.

Major Factors Affecting Our Results of Operations

Major factors affecting our results of operations include the following:

Economic Conditions in China

The demand for online consumer finance and wealth management marketplace services from borrowers and investors is dependent upon overall economic conditions in China. General economic factors, including the interest rate environment and unemployment rates, may affect borrowers' willingness to seek loans and investors' ability and desire to invest. For example, significant increases in interest rates could cause potential borrowers to defer obtaining loans as they wait for interest rates to become stable or decrease. Additionally, a slowdown in the economy, such as from a rise in the unemployment rate and a decrease in real income, may affect individuals' level of disposable income. This may negatively affect borrowers' repayment capability, which in turn may decrease their willingness to seek loans and potentially cause an increase in default rates.

Ability to Acquire Borrowers and Investors Effectively

For Yiren Credit business, our ability to increase the loan volume facilitated through our marketplace largely depends on our ability to attract potential borrowers through sales and marketing efforts. Our sales and marketing efforts include those related to borrower acquisition and retention, and general marketing. We intend to continue to dedicate significant resources to our sales and marketing efforts and constantly seek to improve the effectiveness of these efforts, in particular with regard to borrower acquisition.

We utilize online channels and offline channels for borrower acquisition. We attract a fast growing number of our borrowers through various online channels. We used to rely on CreditEase's nationwide service network for offline borrower acquisition. In 2017 and 2018, 41.2% and 38.4% of our borrowers were acquired through referrals from CreditEase, respectively, contributing 48.5% and 43.1% of the total amount of loans facilitated through our marketplace, respectively. As part of a business realignment with CreditEase in 2019, we acquired CreditEase Puhui, an entity managing CreditEase's national service network for offline borrower acquisition. In 2019, 2020 and 2021, 53.0%, 21.7% and 6.1% of our borrowers were acquired through CreditEase Puhui, contributing 52.4%, 68.4% and 29.3% of the total amount of loans facilitated through our marketplace, respectively. We believe the acquisition of CreditEase Puhui will enable us to acquire more borrowers and increase the volume of loans facilitated over our marketplace.

For Yiren Wealth business, our revenue growth has been driven primarily by the increasing number of investors we serve. An increase in the number of investors would contribute to the growth of the total value of the products we distribute and the services we provide, which ultimately affects commissions we receive and in the long-run the recurring service fees we receive. We expect that the number of investors will continue to be a key factor affecting our revenue growth of wealth management business. The number of new investors we may acquire is affected by the breadth of our coverage network. Our capability to cultivate and serve new investors depends on our ability to expand our coverage network.

Currently, our investor acquisition efforts are primarily directed towards enhancing our brand name, building investor trust and word-of-mouth marketing.

Effectiveness of Risk Management

Our ability to effectively segment borrowers into appropriate risk profiles affects our ability to offer attractive pricing to borrowers as well as our ability to refer qualified borrowers to our institutional funding partners, both of which directly relate to the level of user confidence in our marketplace. Our proprietary risk management system is built upon data accumulated through our operations, and is further supported by an extensive database accumulated by CreditEase over the past ten years. Our risk management model utilizes big data capabilities to automatically evaluate a borrower's credit characteristics. At the same time, we use automated verification and fraud detection tools to ensure the quality of the loans facilitated on our marketplace, and supplement these technology-driven tools with manual processes when necessary. Furthermore, our ability to effectively evaluate a borrower's risk profile and likelihood of default may directly affect our results of operations.

Prior to May 2018, we operated a quality assurance program for investor protection purposes. See “Item 4. Information on the Company—B. Business Overview—Risk Management—Investor Protection.” The funding and operation of the quality assurance program may have a material impact on our financial condition. In particular, a significant increase in our expected quality assurance program net payouts would have a negative impact on our net revenue and net income. Our ability to assess the expected quality assurance program net payouts depends on our ability to manage and forecast the performance, or the charge-off rates, of the loans facilitated through our marketplace. Our financial condition is no longer subject to the foregoing impact after we discontinued the operation of the quality assurance program and transferred all our liabilities associated with the quality assurance program to a third-party guarantee company at fair value in May 2018. Since then, we have ceased providing guarantee services.

We have started to provide guarantee services in connection with some of the loans facilitated through our marketplace by institutional funding partners, through one of our wholly owned subsidiaries, Fujian Jiaying, since October 2020. The outstanding balance of the loans guaranteed by Fujian Jiaying was immaterial as of December 31, 2021.

Product Mix and Pricing

Our ability to maintain profitability largely depends on our ability to continually optimize our product mix and to accurately price the loans facilitated through our platform. The expected net charge-off rate and actual observed results for each of these customer groups divide potential borrowers into distinctively different credit segments. See “Item 4. Information on the Company— Business Overview—Risk Management—Proprietary Credit Scoring Model and Loan Qualification System.” In response to market competition or further developments, we may spend more effort promoting certain loan products, managing the growth in volume of other loan products, introducing new products with new risk grades or adjusting the pricing of our existing products. Any material change in the product mix could have a significant impact on our profitability and net income margin.

Client Assets

Client assets refers to the total market value of the investments that wealth management business manages on behalf of our investors. Client assets under our Yiren Wealth business affects the amount of our revenues, primarily recurring service fees. As of December 31, 2021, the total client assets and the average client assets per investor on our Yiren Wealth platform, excluding insurance products, were RMB18,373.0 million (US\$2,883.1 million) and RMB285,175.5 (US\$44,750.3), respectively. The growth of revenues on our wealth management business depends on our ability to continuously increase the client assets. If the return of our wealth management products and services does not meet investors’ expectations, investors may elect to redeem their investments and invest their assets elsewhere, including with our competitors, which could lead to the decrease in our recurring service fee revenues correlate directly to the amount of our client assets.

Ability to Innovate

Our success to date has depended on, and our future success will depend in part on, successfully meeting borrower and investor demand with new and innovative loan and wealth management products and services. We have made and intend to continue to make efforts to develop loan and wealth management products and services for borrowers and investors. We constantly evaluate the popularity of our existing product offerings and develop new products and services that cater to the ever evolving needs of our borrowers and investors. Over time we will continue to expand our offerings by introducing new products. From the borrower perspective, we will continue to develop tailored credit products to meet the specific needs of our target borrowers and our institutional funding partners. We plan to expand our ability to implement risk-based pricing by developing more risk grades to optimize loans based on individual credit criteria, enabling us to facilitate customized loans tailored to individual borrowers’ specific credit profiles. See “—C. Product Development.” Failure to continue to successfully develop and offer innovative products and for such products to gain broad customer acceptance could adversely affect our operating results and we may not recoup the costs of launching and marketing new products.

Ability to Compete Effectively

Our business and results of operations depend on our ability to compete effectively in the markets in which we operate. For our credit business, the consumer finance marketplace industry in China is intensely competitive and we compete with other consumer finance marketplaces. In light of the low barriers to entry in the online consumer finance industry, more players may enter this market and increase the level of competition. We anticipate that more established internet, technology and financial services companies that possess large, existing user bases, substantial financial resources and established distribution channels may enter the market in the future. For our wealth management business, major financial institutions in China are developing their own wealth management businesses, and international financial institutions have also been expanding to the Chinese market in recent years. We compete with the private banking departments of domestic and global banks, insurance companies and securities firms that provide wealth management products and services. If we are unable to compete effectively, the demand for our marketplace could stagnate or substantially decline, we could experience reduced revenues or our marketplace could fail to maintain or achieve more widespread market acceptance, any of which could harm our business and results of operations.

Regulatory Environment in China

The regulatory environment for the online consumer finance industry in China is developing and evolving, creating both challenges and opportunities that could affect our financial performance. The Chinese government has been putting the pieces in place for a more mature regulatory framework covering all aspects of our business. New regulations may result in both opportunities and challenges for us by weeding out weaker players, triggering consolidation within the industry and increasing compliance risk. We will continue to make efforts to ensure that we are compliant with the existing laws, regulations and governmental policies relating to our industry and to comply with new laws and regulations or changes under existing PRC laws and regulations that may arise in the future. While new laws and regulations or changes to existing laws and regulations could make wealth management products and services more difficult to be accepted by investors or borrowers on terms favorable to us, or at all, these events could also provide new product and market opportunities. We will continue to diversify funding sources, expand our loan product mix and enhance our risk management to support our business growth.

Impact of COVID-19 on Our Operations

Substantially all of our net revenue are generated in China. Our results of operations and financial condition in 2020 had been affected by the spread of COVID-19. The extent to which COVID-19 impacts our results of operations in the future will depend on the future developments of the outbreak, including new information concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the Chinese economy in general.

The Chinese government took a number of actions, which included extending the Chinese New Year holiday in 2020, quarantining individuals infected with or suspected of having COVID-19, prohibiting residents from free travel, encouraging employees of enterprises to work remotely from home and cancelling public activities, among others. The COVID-19 had also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We had seen delinquency volatilities and a significant decrease in loan volumes and revenues in the first half of 2020. We had taken a series of measures in response to the outbreak, including, among others, remote working arrangement for some of our employees, suspension of our offline customer acquisition activities and cancellation of non-essential business travels to ensure the safety and health of our employees. These measures reduced the capacity and efficiency of our operations.

In addition, to respond the impact of COVID-19 outbreak and help our customers who suffered financial hardship, we launched special customer care program in the second quarter of 2020, providing discount or payment relief for those who were materially affected by the COVID-19 outbreak, which negatively affected our total revenues generated in the second quarter of 2020.

The outbreak of COVID-19 resulted in the suspension of our offline customer acquisition activities from February 2020. This has impacted our operations which resulted in an increase in delinquency volatilities and a significant decrease in revenues and loan volumes in the first quarter of 2020.

As COVID-19 has negatively affected the broader Chinese economy and the global economy, China may continue to experience great economic uncertainty, which may impact our business in a materially negative way as our users and clients may be less inclined to borrow or invest in wealth management products and services. Borrowers may also have less propensity or ability to repay their loans as a result of the economic problems caused by COVID-19, which may then impact credit quality. The operations of some of our business partners and service providers have also be constrained and impacted, which may have a negative impact on our business. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this annual report.

While most of the restrictions on movement within China have been relaxed as of the date of this annual report, there is great uncertainty as to the future progress of the virus. Relaxation of restrictions on economic and social life may lead to new cases which may lead to the re-imposition of restrictions. Consequently, the COVID-19 pandemic may continue to materially adversely affect our business, financial condition and results of operations in the future. The extent to which this pandemic impacts our results of operations will depend on future developments which are highly uncertain and unpredictable, including new outbreaks of COVID-19, the severity of the virus infection, the success or failure of efforts to contain or treat the cases, and future actions we or the authorities may take in response to these developments.

As of December 31, 2021, we had cash and cash equivalents of RMB2,864.5 million (US\$449.5 million). We believe this level of liquidity is sufficient to successfully navigate an extended period of uncertainty. See also “Risk Factors—Risks Related to Our Business and Industry—We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.”

Loan Performance Data

Delinquency Rates

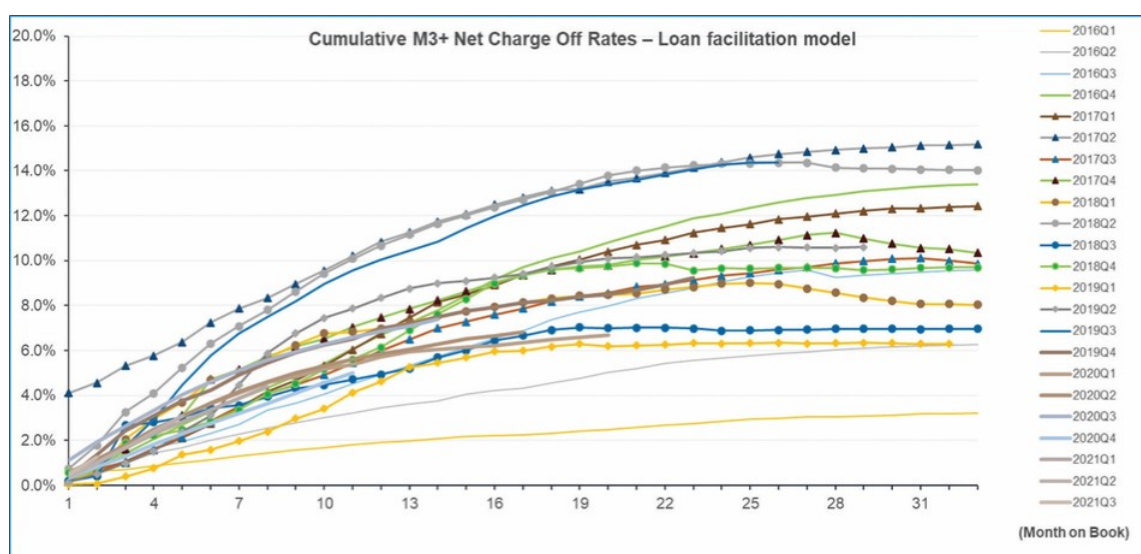
As of December 31, 2021, the delinquency rates for loans under our loan facilitation model that are past due for 15-29 days, 30-59 days and 60-89 days are set forth below:

	Delinquent for		
	<u>15-29 days</u>	<u>30-59 days</u>	<u>60-89 days</u>
All Loans			
December 31, 2019	0.8 %	1.3 %	1.0 %
December 31, 2020	0.5 %	0.7 %	0.6 %
December 31, 2021	0.9 %	1.5 %	1.2 %
Online Channels			
December 31, 2019	1.0 %	2.1 %	1.6 %
December 31, 2020	0.6 %	1.0 %	1.1 %
December 31, 2021	0.8 %	1.3 %	1.1 %
Offline Channels			
December 31, 2019	0.7 %	0.9 %	0.7 %
December 31, 2020	0.4 %	0.6 %	0.4 %
December 31, 2021	1.0 %	1.8 %	1.4 %

M3+ Net Charge-off Rates

We currently define M3+ Net Charge-off Rate, with respect to loans facilitated during a specified time period, which we refer to as a vintage, as the difference between (i) the total balance of outstanding principal of loans that become over three months delinquent during a specified period and (ii) the total amount of recovered past due payments of principal and accrued interest in the same period with respect to all loans in the same vintage that have ever become over three months delinquent, divided by (iii) the total initial principal of the loans facilitated in such vintage.

The following chart displays the historical lifetime cumulative M3+ Net Charge-off Rates through December 31, 2021, by vintage, for all loan products facilitated under our loan facilitation model for each of the months shown:



The expected M3+ Net Charge-off Rates and actual observed results for each of these customer groups divide potential borrowers into distinctively different credit segments. See “Item 4. Information on the Company—Business Overview—Risk Management—Proprietary Credit Scoring Model and Loan Qualification System.”

The following table provides the amount of loans facilitated under our loan facilitation model during each of the periods presented and the corresponding accumulated M3+ Net Charge-off and M3+ Net Charge-off Rate data as of December 31, 2021 for the loans facilitated during each of the periods.

Period	Amount of loans facilitated during the period (in RMB thousands)	Accumulated M3+ Net Charge-off as of December 31, 2021 (in RMB thousands)	Net Charge-off Rate as of December 31, 2021 %
2018	4,211,573	413,071	9.8
2019	3,431,443	390,252	11.4
2020	9,614,819	560,733	5.8
2021 Q1~Q3	17,025,066	374,843	2.2

- (1) We define M3+ Net Charge-off, with respect to loans facilitated during a specified time period, which we refer to as a vintage, as the difference between (i) the total balance of outstanding principal of loans that become over three months delinquent during a specified period and (ii) the total amount of recovered past due payments of principal and accrued interest in the same period with respect to all loans in the same vintage that have ever become over three months delinquent.
- (2) We define M3+ Net Charge-off Rate, with respect to loans facilitated during a specified time period, which we refer to as a vintage, as the M3+ Net Charge-off divided by the total initial principal of the loans facilitated in such vintage.

Our business and financial performance depend on our ability to manage and forecast net charge-off rates. However, given our limited operating history, we have limited information on historical charge-off rates, and as a result, we may not be able to conduct an accurate charge-off forecast for our target borrower group. In addition, due to the uncertainty of industry regulations, we expect borrower credit performance may be volatile in the foreseeable future, which may lead to higher default rates and adverse impacts on our reputation, business, results of operations and financial position. See “Item 4. Information on the Company—B. Business Overview—Risk Management.”

Selected Statements of Operations Items

Net revenue

Our revenues consist of revenues from loan facilitation services, post-origination services, account management services, insurance brokerage services and others. The following table sets forth the breakdown of our net revenue, both in absolute amount and as a percentage of our total net revenue, for the periods presented:

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Net revenue:							
Loan facilitation services	5,182,028	60.1	1,329,720	33.6	2,105,776	330,442	47.0
Post-origination services	757,783	8.8	670,440	16.9	174,255	27,344	3.9
Account management service	2,016,678	23.4	921,779	23.3	—	—	—
Insurance brokerage services	—	—	430,830	10.9	755,691	118,584	16.9
Financing services	1,618	0.0	59,658	1.5	524,840	82,359	11.7
Electronic commerce services	—	—	—	—	33,114	5,196	0.7
Others	658,677	7.7	549,535	13.8	884,253	138,760	19.8
Total net revenue	8,616,784	100.0	3,961,962	100.0	4,477,929	702,685	100.0

Revenues from loan facilitation are recognized at the time a loan is originated, 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, if any, are recognized through performance of the guarantees (by making payments for defaults).

Under Topic 606, the transaction price of account management service is the management fee charged to investors monthly as the excess of actual return over the expected return. The service fees derived from investors using the automated investment tool are initially estimated based on historical experience of returns on similar investment products and current trends. The service fees are recognized on a straight-line basis over the term of the investment period. On December 31, 2020, we had disposed of the online consumer lending platform targeting individual investors, and there has been no revenue from account management service since January 2021.

Transaction and service fees. We charged borrowers transaction fees for the work we perform through our platform in connecting borrowers with investors and for facilitating loan transactions, which are recognized as loan facilitation service and post-origination service revenue. The amount of the transaction fee charged is based upon the pricing and amount of the underlying loan. After we disposed of the online consumer lending platform targeting individual investors, we charge our institutional funding partners for technology-enabled borrower acquisition and facilitation services provided to them, which are recognized as revenues of loan facilitation services and post-origination services.

The expected net charge off rate and actual observed results for each of these customer groups divide potential borrowers into distinctively different credit segments. See “Item 4. Information on the Company—Business Overview—Risk Management—Proprietary Credit Scoring Model and Loan Qualification System.”

The transaction and service fee rate that we charge varies depending on the risk grade of the loan facilitated. For loans within the same risk grade, the transaction and service fee rate also varies depending on the term of the loan and repayment schedule. The rate for transaction and service fees we charge is a component of the total cost of borrowing for borrowers, with the other component being the fixed interest rate to funding source and fees related to the credit assurance program or insurance charges from PICC Property and Casualty Company Limited, or PICC, from May 2018 to August 2020 for each risk grade. See “Item 4. Information on the Company—B. Business Overview—Risk Management—Proprietary Credit Scoring Model and Loan Qualification System.”

In 2019, 2020 and 2021, our weighted average transaction and service fee rate was 20.0%, 16.8% and 14.4%, respectively. The decrease in the weighted average transaction fee rate from 2019 to 2020 was primarily due to a decrease in the total transaction and service fees, attributable to a decrease in the average term of the loans due to the change of regulatory environment and the requirements of our institutional funding partners. The decrease in the weighted average transaction fee rate from 2020 to 2021 was primarily due to the decrease in the average term and transaction fee rate of the loans due to business transition.

We have implemented and will continue to implement a tighter risk policy to proactively control our business growth in order to improve the asset quality of new loans facilitated through our marketplace.

Monthly management fees. We used to charge individual investors monthly management fee for using the automated investing tool and the self-directed investing tool, which was recognized as account management services revenue. The service fees charged to individual investors for the automated investing tool or self-directed investing tool were collected on a monthly basis through the investment period or on maturity of investment. On December 31, 2020, we consummated another business restructuring with CreditEase to streamline our service lines and reposition us as a comprehensive digital personal financial management platform in China. In connection with the business restructuring, we had disposed of the online consumer lending platform targeting individual investors as the funding source.

Insurance brokerage commissions. We provide insurance brokerage services and sell various health and life insurance products and property and casualty insurance products on behalf of insurance companies, and we earn brokerage commissions determined as a percentage of premiums paid by the insured. We have identified our promise to sell insurance policies on behalf of an insurance company as the performance obligation in our contracts with the insurance companies. Our performance obligation to the insurance company is satisfied and commission revenue is recognized at the point in time when an insurance policy becomes effective. The terms for health and life insurance products sold by us are typically five and ten years. The insurance company pays the brokerage commission to us annually based on the underlying cash flows of the insurance policy.

Others. We also charge referral service fees, fund distribution fees and other fees contingent on future events, such as penalty fee for loan prepayment or late payment, one-time fees for transferring loans over our secondary loan market and other service fees. Penalty fee for late payment is charged to borrowers as a certain percentage of the past due amount and penalty fee for prepayment is charged to borrowers as a certain percentage of interest over the prepaid amount of loan principal. All the loans we charge penalty fee are made our own capital through our licensed subsidiaries, including our leasing companies and microloan companies.

Operating Costs and Expenses

Our operating costs and expenses consist of sales and marketing expenses, origination, servicing and other operating costs, general and administrative expenses, provision for contingent liability and allowance for contract assets, receivables and others. The following table sets forth our operating costs and expenses, both in absolute amount and as a percentage of our total operating costs and expenses, for the periods indicated:

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
Operating costs and expenses:							
Sales and marketing (including expenses from related parties of RMB434,875, RMB111,550 and RMB1,548 for the years ended December 31, 2019, 2020 and 2021, respectively)	4,457,353	59.5	1,905,095	40.8	1,553,344	243,754	48.7
Origination, servicing and other operating costs (including costs from related parties of RMB409,287, RMB718,734 and RMB354,985 for the years ended December 31, 2019, 2020 and 2021, respectively)	665,083	8.9	1,104,682	23.7	760,858	119,395	23.9
General and administrative (including expenses from related parties of RMB122,338, RMB 192,934 and RMB135,118 for the years ended December 31, 2019, 2020 and 2021, respectively)	731,806	9.8	627,368	13.4	508,869	79,853	15.9
Provision for contingent liability	9,462	0.1	3,187	0.1	(2,629)	(413)	(0.1)
Allowance for contract assets, receivables and others	1,625,051	21.7	371,629	8.0	370,154	58,085	11.6
Loss of disposal	—	—	655,839	14.0	—	—	—
Total operating costs and expenses	7,488,755	100.0	4,667,800	100.0	3,190,596	500,674	100.0

Sales and marketing expenses. Sales and marketing expenses consist primarily of variable marketing expenses, including those related to borrower and investor acquisition and retention and general brand and awareness building. Our user acquisition expenses represent the primary costs that are associated with our loan facilitation services.

The following table presents the sales and marketing expenses allocated to each segment, both in absolute amount and as a percentage of total sales and marketing expenses, during the periods indicated:

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Sales and marketing expenses:						
Wealth management services	643,542	14.4	195,671	10.3	199,336	31,281
Consumer credit services	3,813,811	85.6	1,709,424	89.7	1,353,244	212,353
Others	—	—	—	—	764	120
Total sales and marketing expenses	4,457,353	100.0	1,905,095	100.0	1,553,344	243,754

The sales and marketing expenses for each of our wealth management products and services and consumer credit services decreased from 2019 to 2021 primarily due to our strategy to streamline our operation efficiency and prioritize risk management and quality of asset growth.

Origination, servicing and other operating costs. Origination, servicing and other operating costs consist primarily of variable expenses and vendor costs, including costs related to credit assessment, customer and system support, payment processing services and collection associated with facilitating and servicing loans. It also consists of costs in connection with the distribution of insurance products, including payroll and related expenses for insurance agents and transaction fee charged by third-party payment platforms.

General and administrative expenses. General and administrative expenses consist primarily of salaries and benefits related to technology, accounting and finance, business development, legal, human resources and other personnel.

Provision for contingent liability. Provision for contingent liability represents the provision recognized in excess of stand-ready liability related to quality assurance program, prior to the discontinuation of our quality assurance program in May 2018.

Allowance for contract assets, receivables and others. Allowance for contract assets, receivables and others was the credit loss of contract assets, which represented our right to consideration in exchange for services that we had transferred to the customer before payment was due.

Taxation

Cayman Islands

We are incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. 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. In addition, the Cayman Islands does not impose withholding tax on payments of dividends to shareholders.

Hong Kong

Our subsidiaries incorporated in Hong Kong are subject to 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong for the years of assessment 2015/2016, 2016/2017 and 2017/2018. Commencing from the year of assessment 2018/2019, the first HK\$2 million of profits earned by our subsidiaries incorporated in Hong Kong will be taxed at half the current tax rate (i.e., 8.25%) while the remaining profits will continue to be taxed at the existing 16.5% tax rate. Under the Hong Kong tax laws, we are exempted from the Hong Kong income tax on our foreign-derived income. In addition, payments of dividends from our incorporated in Hong Kong to us are not subject to any Hong Kong withholding tax.

China

Generally, our subsidiaries and the consolidated variable interest entities in China are subject to enterprise income tax on their taxable income in China at a rate of 25%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards. YouRace Hengchuang, one of our PRC subsidiaries, was qualified as a "high and new technology enterprise" in November 2018 and the status was reaffirmed in 2021. Accordingly, it has been eligible for a preferential income tax rate of 15%. However, YouRace Hengchuang's qualification as a "high and new technology enterprise" is subject to evaluation by the relevant authorities in China every three years. If YouRace Hengchuang fails to maintain its "high and new technology enterprise" qualification, its applicable corporate income tax rate would increase to 25%, which could have adverse effects on our financial condition and results of operations. Yiren Hengsheng, one of our PRC subsidiaries, was qualified as a "software enterprise" in March 2021, and accordingly has been eligible for an exemption of enterprise income tax for 2020 and 2021 and a reduced enterprise income tax at the rate of 12.5% from 2022 through 2024. However, Yiren Hengsheng's qualification as a "software enterprise" is subject to annual evaluation by the relevant authorities in China. If Yiren Hengsheng fails to maintain its "software enterprise" qualification, its applicable corporate income tax rate would increase to 25%, which could have adverse effects on our financial condition and results of operations. In addition, Hengyuda, one of our PRC subsidiaries, is eligible for a reduced enterprise income tax rate of 15% since 2017 pursuant to the Catalogue of Encouraged Industries in Western Regions, the Catalogue of Industries for Guiding Foreign Investment, Circular on Issues Concerning Tax Policies for In-depth Implementation of Western Development Strategies, and the related rules granting favorable tax treatment to companies in specified industries in western China under the PRC government's policy initiative to promote the development of the western region of China. However, Hengyuda's favorable tax treatment is subject to an annual filing requirement. Moreover, the relevant rules and policy initiative may change, and favorable tax treatment under these rules are available only to companies meeting certain qualifications.

We are subject to VAT at a rate of 6% on the services we provide to borrowers and investors, less any deductible VAT we have already paid or borne. We are also subject to surcharges on VAT payments in accordance with PRC law. During the periods presented, we were not subject to business tax on the services we provide.

Dividends paid by our wholly foreign-owned subsidiaries 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, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5% by filing necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business."

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—D. Risk Factors—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders."

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated, both in absolute amount and as a percentage of our net revenue. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report.

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Net revenue (including revenue from related parties of RMB142,477, RMB145,442 and RMB573,158 for the years ended December 31, 2019, 2020 and 2021, respectively) ⁽¹⁾	8,616,784	100.0	3,961,962	100.0	4,477,929	702,685	100.0
Operating costs and expenses:							
Sales and marketing (including expenses from related parties of RMB434,875, RMB111,550 and RMB1,548 for the years ended December 31, 2019, 2020 and 2021, respectively)	(4,457,353)	(51.7)	(1,905,095)	(48.1)	(1,553,344)	(243,754)	(34.7)
Origination, servicing and other operating costs (including costs from related parties of RMB409,287, RMB718,734 and RMB354,985 for the years ended December 31, 2019, 2020 and 2021, respectively)	(665,083)	(7.7)	(1,104,682)	(27.9)	(760,858)	(119,395)	(17.0)
General and administrative (including expenses from related parties of RMB122,338, RMB192,934 and RMB135,118 for the years ended December 31, 2019, 2020 and 2021, respectively)	(731,806)	(8.5)	(627,368)	(15.8)	(508,869)	(79,853)	(11.4)
Provision for contingent liability	(9,462)	(0.1)	(3,187)	(0.1)	2,629	413	0.1
Allowance for contract assets, receivables and others	(1,625,051)	(18.9)	(371,629)	(9.4)	(370,154)	(58,085)	(8.3)
Loss of disposal	—	—	(655,839)	(16.6)	—	—	—
Total operating costs and expenses	(7,488,755)	(86.9)	(4,667,800)	(117.8)	(3,190,596)	(500,674)	(71.3)
Interest income/(expense), net	73,367	0.9	61,623	1.6	(73,383)	(11,515)	(1.6)
Fair value adjustments related to the Consolidated ABFE ⁽²⁾	3,866	0.0	(143,988)	(3.6)	(37,442)	(5,875)	(0.8)
Gain on disposal of loan receivables and other beneficial rights	159,392	1.8	—	—	—	—	—
Other income, net	32,365	0.4	14,844	0.4	26,665	4,183	0.6
Total other income/(loss), net	268,990	3.1	(67,521)	(1.7)	(84,160)	(13,207)	(1.8)
Income/(loss) before provision for	1,397,019	16.2	(773,359)	(19.5)	1,203,173	188,804	26.9
Income tax (expenses)/benefits	(239,228)	(2.8)	80,611	2.0	(170,189)	(26,706)	(3.8)
Share of results of equity investees	(2,180)	(0.0)	—	—	—	—	—
Net income/(loss)	1,155,611	13.4	(692,748)	(17.5)	1,032,984	162,098	23.1

(1) Net revenue is broken down as follows:

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Net revenue:							
Loan facilitation services	5,182,028	60.1	1,329,720	33.6	2,105,776	330,442	47.0
Post-origination services	757,783	8.8	670,440	16.9	174,255	27,344	3.9
Account management services	2,016,678	23.4	921,779	23.3	—	—	—
Insurance brokerage services	—	—	430,830	10.9	755,691	118,584	16.9
Financing services	1,618	0.0	59,658	1.5	524,840	82,359	11.7
Electronic commerce services	—	—	—	—	33,114	5,196	0.7
Others	658,677	7.7	549,535	13.8	884,253	138,760	19.8
Total net revenue	8,616,784	100.0	3,961,962	100.0	4,477,929	702,685	100.0

(2) We consolidated certain trusts or Asset Backed Special Plan (“ABS plan”) as a whole, which we refer to in this annual report collectively as “Consolidated Assets Backed Financing Entities” or the “Consolidated ABFE.” For more information about the Consolidated ABFE, please see “—Critical Accounting Policies, Judgments and Estimates—Basis of Presentation, Combination and Consolidation.”

Segment Information

As a result of the acquisition of the Acquired Businesses under common control, we changed our internal organization structure and our reportable segments and currently have two reportable segments, namely Yiren Wealth and Yiren Credit. Yiren Credit is our credit-tech platform that has the capability to provide individual borrowers and small business owners with a full spectrum of online and offline, multi-channel loan products funded by investors, and since September 2020, loans provided on our credit-tech platform have been funded by institutional funding partners only. Yiren Wealth is our wealth management platform that specifically targets the mass affluent investors and provides them with one-stop asset allocation-based wealth management solutions. In 2021, we launched an e-commerce channel and “Yiren Select” initiative to better address our users’ needs by offering a wide variety of competitively priced products on our e-commerce channel across various categories including skin care and beauty, electronics and appliances and allow users to finance purchases through our loan products, and providing selected and customized non-financial products and services under “Yiren Select” initiative. Therefore, we added an other reportable segment in 2021.

The table below provides a summary of our operating segment results for the years ended December 31, 2019, 2020 and 2021:

	For the Year ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net revenue:				
Wealth management	2,176,215	1,432,364	1,260,513	197,803
Consumer credit	6,440,569	2,529,598	3,184,302	499,686
Others	—	—	33,114	5,196
Total net revenue	8,616,784	3,961,962	4,477,929	702,685
Operating costs and expenses:				
Wealth management	(915,202)	(760,180)	(952,224)	(149,426)
Consumer credit	(6,194,071)	(3,703,031)	(2,130,221)	(334,278)
Others	—	—	(10,340)	(1,622)
Income/(loss) from operations:				
Wealth management	1,261,013	672,184	308,289	48,377
Consumer credit	246,498	(1,173,433)	1,054,081	165,408
Others	—	—	22,774	3,574
Total segment income/(loss) from operations	1,507,511	(501,249)	1,385,144	217,359
Unallocated expenses	(379,482)	(204,589)	(97,811)	(15,348)
Other income/(expenses)	268,990	(67,521)	(84,160)	(13,207)
Income/(loss) before provision for income taxes	1,397,019	(773,359)	1,203,173	188,804

Set forth below is a breakdown of net revenue for each segment, both in absolute amount and as a percentage of total net revenue.

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Consumer Credit Segment:							
Loan facilitation services	5,182,028	60.1	1,329,720	33.6	2,105,776	330,442	47.0
Post-origination services	757,783	8.8	670,440	16.9	174,255	27,344	3.9
Financing services	1,618	—	59,658	1.5	524,840	82,359	11.7
Others	499,140	5.8	469,780	11.9	379,431	59,541	8.5
Subtotal	6,440,569	74.7	2,529,598	63.8	3,184,302	499,686	71.1
Wealth Management Segment:							
Account management services	2,016,678	23.4	921,779	23.3	—	—	—
Insurance brokerage services	—	—	430,830	10.9	755,691	118,584	16.9
Others	159,537	1.9	79,755	2.0	504,822	79,219	11.3
Subtotal	2,176,215	25.3	1,432,364	36.2	1,260,513	197,803	28.2
Other Segment:							
Electronic commerce services	—	—	—	—	33,114	5,196	0.7
Subtotal	—	—	—	—	33,114	5,196	0.7
Total net revenue	8,616,784	100.0	3,961,962	100.0	4,477,929	702,685	100.0

Consumer Credit Segment

Revenue from our consumer credit segment increased by 25.9% to RMB3,184.3 million (US\$499.7 million) in 2021 from RMB2,529.6 million in 2020, primarily driven by the growth in the volume of loans facilitated through our marketplace, which increased to RMB23,195.2 million (US\$3,639.8 million) in 2021 from RMB11,651.5 million in 2020. In particular, revenue from our loan facilitation services reached RMB2,105.8 million (US\$330.4 million) in 2021, representing a 58.4% increase from RMB1,329.7 million in 2020. Revenue from our financing services was RMB524.8 million (US\$82.4 million) in 2021, representing a 779.7% increase from RMB59.7 million in 2020. The overall growth in both loan volume and number of borrowers was due to our enhanced digital operating capabilities and improved servicing standards, as we expand our products into more diversified consumption scenarios and effectively increase our customer base.

Revenue from our consumer credit segment decreased by 60.7% to RMB2,529.6 million in 2020 from RMB6,440.6 million in 2019, primarily due to the declined volume of loans facilitated through our marketplace amid the challenging operating environment during the pandemic, which decreased to RMB11,651.5 million in 2020 from approximately RMB39,103.0 million in 2019. Specifically, revenue from our loan facilitation services was RMB1,329.7 million in 2020, representing a 74.3% decrease from RMB5,182.0 million in 2019. Revenue from our post-origination services reached RMB670.4 million in 2020, showing an 11.5% decrease from RMB757.8 million in 2019. Both the number of borrowers and loan volume facilitated through our marketplace decreased in 2020 as we implemented a tighter risk policy to proactively control our business growth in order to improve the asset quality of new loans facilitated through our marketplace. The COVID-19 outbreak also adversely affected our borrower acquisition in 2020.

Wealth Management Segment

Revenue from our wealth management segment decreased by 12.0% from RMB1,432.4 million in 2020 to RMB1,260.5 million (US\$197.8 million) in 2021, primarily due to a 100% decrease in the revenue from our account management services from RMB921.8 million in 2020 to nil in 2021, partially offset by the increase in revenue from insurance brokerage services from RMB430.8 million in 2020 to RMB755.7 million (US\$118.6 million) in 2021. The decrease in the revenue from our wealth management segment was primarily due to the spinoff of our legacy business.

Revenue from our wealth management segment decreased by 34.2% from RMB2,176.2 million in 2019 to RMB1,432.4 million in 2020, primarily due to a 54.3% decrease in the revenue from our account management services from RMB2,016.7 million in 2019 to RMB921.8 million in 2020, partially offset by the increase in revenue from insurance brokerage services from nil in 2019 to RMB430.8 million in 2020. The decrease in the revenue from our wealth management segment was primarily due to a decrease in the total volume of our legacy fixed income products that we ceased to offer in September, 2020.

Other Segment

Revenue from our other segment in 2021 was RMB33.1 million (US\$5.2 million), as we launched an e-commerce channel and “Yiren Select” initiative to better address our users’ needs by offering an array of products and services in 2021.

All of our revenue was generated from the PRC and all of long-lived assets of us were located in the PRC. Depreciation and amortization expenses of wealth management for the years ended December 31, 2019, 2020 and 2021 were RMB2.7 million, RMB1.9 million and RMB1.4 million (US\$0.2 million), respectively. Depreciation and amortization expenses of consumer credit for the years ended December 31, 2019, 2020 and 2021 were RMB89.9 million, RMB78.8 million and RMB29.2 million (US\$4.6 million), respectively.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Net revenue. Our net revenue increased from RMB3,962.0 million in 2020 to RMB4,477.9 million (US\$702.7 million) in 2021, primarily due to a 25.9% increase in the revenue from our consumer credit services from RMB2,529.6 million in 2020 to RMB3,184.3 million (US\$499.7 million) in 2021. The increase in the revenue from our consumer credit services was primarily due to the increase in the volume of loans facilitated through our marketplace, which increased from approximately RMB11,651.5 million in 2020 to RMB23,195.2 million (US\$3,639.8 million) in 2021. Both the number of borrowers and loan volume facilitated through our marketplace increased in 2021 driven by our enhanced digital operating capabilities and improved servicing standards, as we expand our products into more diversified consumption scenarios and effectively increase our customer base. The revenue from our wealth management products and services decreased by 12.0% from RMB1,432.4 million in 2020 to RMB1,260.5 million (US\$197.8 million) in 2021, primarily due to the spinoff of our legacy business.

Operating costs and expenses. Our total operating costs and expenses decreased from RMB4,667.8 million in 2020 to RMB3,190.6 million (US\$500.7 million) in 2021, primarily attributable to the decrease in sales and marketing expenses, origination, servicing and other operating costs, and the one-time loss of disposal on business restructuring completed in 2020.

Sales and marketing expenses. Our sales and marketing expenses decreased from RMB1,905.1 million in 2020 to RMB1,553.3 million (US\$243.8 million) in 2021, primarily due to a 20.8% decrease in sales and marketing expenses for consumer credit services from RMB1,709.4 million in 2020 to RMB1,353.2 million (US\$212.4 million) in 2021. The decrease was primarily due to the optimization of cost structure. The sales and marketing expenses for wealth management products and services increased by 1.9% from RMB195.7 million in 2020 to RMB199.3 million (US\$31.3 million) in 2021. Our sales and marketing expenses as a percentage of our total revenues decreased from 48.1% to 34.7% during the same period.

Origination, servicing and other operating costs. Our origination, servicing and other operating costs decreased from RMB1,104.7 million in 2020 to RMB760.9 million (US\$119.4 million) in 2021. Our origination, servicing and other operating costs as a percentage of our total revenues decreased from 27.9% to 17.0% during the same period, primarily attributable to the spinoff of our legacy business.

General and administrative expenses. Our general and administrative expenses decreased from RMB627.4 million in 2020 to RMB508.9 million (US\$79.9 million) in 2021. Our general and administrative expenses as a percentage of our total revenues decreased from 15.8% to 11.4% during the same period, primarily due to the optimization of our offline business and team structure.

Provision for contingent liability. Our provision for contingent liability decreased from RMB3.2 million in 2020 to negative RMB2.6 million (US\$0.4 million) in 2021, primarily due to actual losses being lower than estimated.

Allowance for contract assets, receivables and others. Our allowance for contract assets, receivables and others decreased from RMB371.6 million in 2020 to RMB370.2 million (US\$58.1 million) in 2021, primarily due to the spinoff of our legacy business.

Interest income/(expense), net. Our interest income, net decreased from income of RMB61.6 million in 2020 to expense of RMB73.4 million (US\$11.5 million) in 2021, primarily due to an increase in secured borrowings.

Fair value adjustments related to the Consolidated ABFE. Our fair value adjustments increased from a fair value loss of RMB144.0 million in 2020 to a fair value loss of RMB37.4 million (US\$5.9 million) in 2021, primarily as the outstanding balance of loans under Consolidated ABFE decreased.

Other income, net. Our other income, net increased from RMB14.8 million in 2020 to RMB26.7 million (US\$4.2 million) in 2021, primarily due to tax preference and governmental incentives.

Income tax (expenses)/benefits. We recorded income tax expenses of RMB170.2 million (US\$26.7 million) in 2021 compared to income tax benefits of RMB80.6 million in 2020, which was mainly due to the increase in taxable income as a result of business recovery post restructuring.

Net income/(loss). As a result of the foregoing, our net income increased from net loss of RMB692.7 million in 2020 to net income of RMB1,033.0 million (US\$162.1 million) in 2021.

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

Net revenue. Our net revenue decreased from RMB8,616.8 million in 2019 to RMB3,962.0 million in 2020, primarily due to a 60.7% decrease in the revenue from our consumer credit services from RMB6,440.6 million in 2019 to RMB2,529.6 million in 2020. The decrease in the revenue from our consumer credit services was primarily due to the decrease in the volume of loans facilitated through our marketplace, which decreased from approximately RMB39,103.0 million in 2019 to RMB11,651.5 million in 2020. Both the number of borrowers and loan volume facilitated through our marketplace decreased in 2020 as we implement tighter risk policy to proactively control our business growth in order to improve the asset quality of new loans facilitated through our marketplace. In addition, our business scale had been adversely affected by the COVID-19 outbreak in 2020. The revenue from our wealth management products and services decreased by 34.2% from RMB2,176.2 million in 2019 to RMB1,432.4 million in 2020, primarily due to a decrease in the total scale of fixed income products we offered in 2020.

Operating costs and expenses. Our total operating costs and expenses decreased from RMB7,488.8 million in 2019 to RMB4,667.8 million in 2020, primarily attributable to the decrease in sales and marketing expenses, general and administrative expenses, and allowance for contract assets, receivables and others.

Sales and marketing expenses. Our sales and marketing expenses decreased from RMB4,457.4 million in 2019 to RMB1,905.1 million in 2020, primarily due to a 55.2% decrease in sales and marketing expenses for consumer credit services from RMB3,813.8 million in 2019 to RMB1,709.4 million in 2020. The decrease was primarily due to the decrease in the volume of loans facilitated through our marketplace and the increased marketing efficiencies. The sales and marketing expenses for wealth management products and services decreased by 69.6% from RMB643.5 million in 2019 to RMB195.7 million in 2020, primarily due to the decrease in the amount of in legacy products, which decreased from approximately RMB41,203.6 million in 2019 to RMB12,372.8 million in 2020. Our sales and marketing expenses as a percentage of our total revenues decreased from 51.7% to 48.1% during the same period.

Origination, servicing and other operating costs. Our origination, servicing and other operating costs increased from RMB665.1 million in 2019 to RMB1,104.7 million in 2020. Our origination, servicing and other operating costs as a percentage of our total revenues increased from 7.7% to 27.9% during the same period, primarily attributable to an increase in the commission expenses due to an increase in the total volume of insurance products sold under our wealth management business.

General and administrative expenses. Our general and administrative expenses decreased from RMB731.8 million in 2019 to RMB627.4 million in 2020. Our general and administrative expenses as a percentage of our total revenues increased from 8.5% to 15.8% during the same period, primarily due to the decrease in net revenue which was in line with the decreases in the loan volume facilitated through our marketplace and weighted average transaction and service fee rate.

Provision for contingent liability. Our provision for contingent liability decreased from RMB9.5 million in 2019 to RMB3.2 million in 2020, primarily due to a decrease in the outstanding balance of loans under the guarantee services we provided.

Allowance for contract assets, receivables and others. Our allowance for contract assets, receivables and others decreased from RMB1,625.1 million in 2019 to RMB371.6 million in 2020, primarily due to a decrease in the loan volume and a better risk performance resulting from the evolution of our credit business model.

Loss of disposal. Our loss of disposal in 2020 was attributable to the restructuring in which the difference between the disposal consideration and the book value of the disposed businesses was recognized. The disposal consideration factored in the future expected losses of the disposed business.

Interest income, net. Our interest income, net decreased slightly from RMB73.4 million in 2019 to RMB61.6 million in 2020, primarily due to a decrease in available-for-sale investments and held-to-maturity investments.

[Table of Contents](#)

Fair value adjustments related to the Consolidated ABFE. Our fair value adjustments decreased from a fair value gain of RMB3.9 million in 2019 to a fair value loss of RMB144.0 million in 2020, primarily due to the loss of principal and interest from the loans issued by Consolidated ABFE.

Gain on disposal of loan receivables and other beneficial rights. Gain on disposal of loan receivables and other beneficial rights decreased from RMB159.4 million in 2019 to nil in 2020, primarily due to the decrease in gains on disposal of consolidated ABFE in 2019.

Other income, net. Our other income, net decreased from RMB32.4 million in 2019 to RMB14.8 million in 2020, primarily due to the decrease in additional VAT deduction based on deductible input VAT in 2020.

Income tax (expenses)/benefits. We recorded income tax benefits of RMB80.6 million in 2020 compared to income tax expenses of RMB239.2 million in 2019, which was mainly due to the decrease in the taxable income as a result of the reduction of legacy business.

Net income/(loss). As a result of the foregoing, our net income decreased from net income of RMB1,155.6 million in 2019 to net loss of RMB692.7 million in 2020.

Discussion of Certain Balance Sheet Items

The following selected consolidated balance sheet as of December 31, 2020 and 2021 have been derived from our audited consolidated financial statements included in this annual report beginning on page F-1. The following selected consolidated balance sheet as of December 31, 2019 have been derived from our audited recast consolidated financial statements not included in this annual report.

	As of December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Assets:				
Cash and cash equivalents	3,198,086	2,469,909	2,864,543	449,511
Restricted cash	71,056	237,239	80,800	12,679
Contract assets, net (net of allowance of RMB1,515,627, RMB467,306 and RMB350,686 as of December 31, 2019, 2020 and 2021, respectively)	2,398,685	750,174	1,105,905	173,541
Prepaid expenses and other assets	1,333,221	278,591	352,015	55,239
Loans at fair value	418,492	192,156	73,734	11,571
Financing receivables (net of allowance of nil, RMB32,975 and RMB65,489 as of December 31, 2019, 2020 and 2021, respectively)	29,612	1,253,494	1,697,962	266,449
Available-for-sale investments	460,991	175,515	177,360	27,832
Total assets	9,644,420	6,702,253	7,739,440	1,214,487
Liabilities:				
Payable to investors at fair value	—	52,623	50,686	7,954
Accrued expenses and other liabilities	2,324,552	1,208,915	1,182,783	185,604
Secured borrowings	18,590	500,500	1,028,600	161,410
Refund liabilities	1,801,535	10,845	5,732	899
Total liabilities	5,154,330	2,924,589	2,918,008	457,899
Total (deficit)/equity	4,490,090	3,777,664	4,821,432	756,588
Total liabilities and equity	9,644,420	6,702,253	7,739,440	1,214,487

Cash and Cash Equivalents

Our cash and cash equivalents decreased by 22.8% from RMB3,198.1 million as of December 31, 2019 to RMB2,469.9 million as of December 31, 2020, primarily due to the disposal of Hengcheng.

Our cash and cash equivalents increased by 16.0% from RMB2,469.9 million as of December 31, 2020 to RMB2,864.5 million (US\$449.5 million) as of December 31, 2021, primarily due to continuing improvement of cash management.

Restricted Cash

Restricted cash represents cash held by the consolidated ABFE through segregated bank accounts which is not available to fund our general liquidity needs and guarantee deposit in a restricted bank account. The following table sets forth a breakdown of our restricted cash as of December 31, 2019, 2020 and 2021:

	As of December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Restricted cash:				
Consolidated ABFE	43,833	213,033	56,678	8,894
Guarantee deposit	27,223	24,206	24,122	3,785
Total restricted cash	71,056	237,239	80,800	12,679

Restricted cash increased by 233.9% from RMB71.1 million as of December 31, 2019 to RMB237.2 million as of December 31, 2020, primarily due to the establishment of new trusts and the collection of principal and interest from the loans issued by Consolidated ABFE.

Restricted cash decreased by 65.9% from RMB237.2 million as of December 31, 2020 to RMB80.8 million (US\$12.7 million) as of December 31, 2021, primarily due to the disposal of our direct investments in trusts.

Contract Assets, Net

Contract assets decreased by 68.7% from RMB2,398.7 million, net of allowance of RMB1,515.6 million as of December 31, 2019 to RMB750.2 million, net of allowance of RMB467.3 million as of December 31, 2020, primarily due to the transaction and service fees received in 2020 as well as the disposal of Hengcheng, partially offset by contract assets recognized in relation to the loans facilitated in 2020.

Contract assets increased by 47.4% from RMB750.2 million, net of allowance of RMB467.3 million as of December 31, 2020 to RMB1,105.9 million (US\$173.5 million), net of allowance of RMB350.7 million (US\$55.0 million) as of December 31, 2021, primarily due to the loans facilitated in 2021.

Prepaid Expenses and Other Assets

The following table sets forth a breakdown of our prepaid expenses and other assets as of December 31, 2019, 2020 and 2021:

	As of December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Prepaid Expenses and Other Assets:				
Loans to third parties	516,079	—	—	—
Funds receivable from external payment network providers	331,534	105,741	82,976	13,021
Funds receivable from insurance and guarantee companies	289,752	—	—	—
Prepaid expenses	64,923	34,789	35,618	5,589
Receivable from Tianda Xinan (Beijing) Guarantee Co., Ltd.	16,891	24,851	—	—
Prepaid VAT and surcharge tax	889	—	—	—
Deposits	76,994	54,298	213,852	33,558
Guarantee receivable	—	20,244	6,015	944
Interest receivable	8,194	14,660	697	109
Others	27,965	24,008	12,857	2,018
Total prepaid expenses and other assets	<u>1,333,221</u>	<u>278,591</u>	<u>352,015</u>	<u>55,239</u>

Prepaid expenses and other assets decreased by 79.1% from RMB1,333.2 million as of December 31, 2019 to RMB278.6 million as of December 31, 2020, primarily due to (i) the decrease in funds receivable from external payment network providers and funds receivable from insurance and guarantee companies as a result of the disposal of Hengcheng and (ii) the decrease in loans to third parties as a result of the debt liquidation within the group.

Prepaid expenses and other assets increased by 26.4% from RMB278.6 million as of December 31, 2020 to RMB352.0 million (US\$55.2 million) as of December 31, 2021, primarily due to the increase in deposits for business cooperation.

Loans at Fair Value

Loans at fair value represented the fair value of loans invested by the Consolidated ABFE, which decreased by 54.1% from RMB418.5 million as of December 31, 2019, to RMB192.2 million as of December 31, 2020, and further decreased to RMB73.7 million (US\$11.6 million) as of December 31, 2021, primarily due to the decrease in the balance of loans invested by the Consolidated ABFE.

Financing receivables

Financing receivables represented loans issued by Hainan Haijin Yichuang Micro-lending Co., Ltd. and lease receivables arising from direct financing leases issued by Yichuang Financial Leasing. Financing receivables increased by 4,133.1% from RMB29.6 million, net of allowance of nil as of December 31, 2019 to RMB1,253.5 million, net of allowance of RMB33.0 million as of December 31, 2020, primarily due to an increase in the volume of direct financing leases issued by Yichuang Financial Leasing.

Financing receivables increased by 35.5% from RMB1,253.5 million, net of allowance of RMB33.0 million as of December 31, 2020 to RMB1,698.0 million (US\$266.4 million), net of allowance of RMB65.5 million (US\$10.3 million) as of December 31, 2021, primarily due to the steady growth of financing leases business.

Available-for-sale Investments

Available-for-sale investments primarily included debt securities which can be redeemed on a T+1 basis or upon maturity. Available-for-sale investments decreased by 69.1% from RMB461.0 million as of December 31, 2019 to RMB175.5 million as of December 31, 2020, primarily due to redemption of securities, and slightly increased to RMB177.4 million (US\$27.8 million) as of December 31, 2021.

Payable to Investors at Fair Value

Payable to investors at fair value represented the amount payable by the Consolidated ABFE to its investors, which increased from nil as of December 31, 2019 to RMB52.6 million in 2020, primarily due to the external contribution to our consolidated ABFE, and decreased to RMB50.7 million (US\$8.0 million) in 2021, primarily due to principal payments to the consolidated ABFE.

Accrued Expenses and Other Liabilities

The following table sets forth a breakdown of our accrued expenses and other liabilities as of December 31, 2019, 2020 and 2021:

	As of December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Accrued Expenses and Other Liabilities:				
Accrued payroll and welfare	772,590	668,197	538,910	84,567
Tax payable	803,116	194,406	250,445	39,300
Funds collected on behalf of third-party guarantee companies	425,920	27,925	20,048	3,146
Accrued customer incentives	81,297	54,703	25,967	4,075
Accrued advertisement expenses	62,472	15,467	77,205	12,115
Payable to investors	68,011	110,227	124,147	19,481
Guarantee liabilities	4,397	42,229	42,934	6,737
Others	106,749	95,761	103,127	16,183
Total accrued expenses and other liabilities	2,324,552	1,208,915	1,182,783	185,604

Accrued expenses and other liabilities decreased from RMB2,324.6 million as of December 31, 2019 to RMB1,208.9 million as of December 31, 2020, primarily due to the decrease in tax payable and funds collected on behalf of third-party guarantee companies as a result of disposal of Hengcheng.

Accrued expenses and other liabilities decreased from RMB1,208.9 million as of December 31, 2020 to RMB1,182.8 million (US\$185.6 million) as of December 31, 2021, primarily due to (i) the decrease in accrued payroll and welfare as a result of a decrease in the number of our personnel and (ii) the increase in tax payable and accrued advertisement expense as a result of business growth.

Secured borrowings

Secured borrowings were primarily generated from several financing arrangements of Yichuang Financial Leasing, with a principal amount of RMB862.0 million and RMB541.6 million (US\$85.0 million) during the year of 2020 and 2021, respectively. It increased from RMB18.6 million as of December 31, 2019 to RMB500.5 million as of December 31, 2020, and further increased to RMB1,028.6million (US\$161.4 million) as of December 31, 2021, which was primarily due to the growth of external borrowings. Apart from that, an addition of RMB361.5 million and RMB334.8 million (US\$52.5 million) were recorded in “amount due to related parties” on the consolidated balance sheets as of December 31, 2010 and 2021, respectively.

Refund liabilities

Refund liabilities represented the transaction fees which have been received but were expected to be refunded, which decreased from RMB1,801.5 million as of December 31, 2019 to RMB10.8 million as of December 31, 2020, and further decreased to RMB5.7 million (US\$0.9 million) as of December 31, 2021, primarily due to the net payout of refunds.

Off-Balance Sheet Arrangements

Starting January 2015, we operated a quality assurance program to provide a certain level of assurance to investors who invest in loans through our marketplace, until May 2018 when we discontinued the quality assurance program for purposes of complying with regulatory requirements by transferring all our liabilities associated with the quality assurance program to a third-party guarantee company. Since then, majority of loans funded by individual investor and facilitated through our online marketplace were either covered by guarantee provided by third-party guarantee companies or by PICC's surety insurance program and we have ceased providing guarantee services. See "Item 4. Information on the Company—B. Business Overview—Risk Management—Investor Protection." Other than the quality assurance program, we have not entered into any other commitments to guarantee the payment obligations of any third parties.

On December 31, 2020, we consummated another business restructuring with CreditEase and had disposed of the Disposed Business. In connection with the business restructuring, we are no longer engaged in online lending information intermediary business. CreditEase takes over the investor protection program and is responsible to ensure the winding-down of the outstanding loan collection activities relating the Disposed Business in an orderly manner in accordance with the related rules and regulations.

We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

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.

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 2019, 2020 and 2021 were increases of 4.5%, 0.2% and 1.5%, 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.

B. Liquidity and Capital Resources

Cash Flows and Working Capital

Our principal sources of liquidity have been cash generated from operating activities, proceeds from the issuance and sale of our shares, and proceeds from loans borrowed from third parties. In December 2015, we completed our initial public offering in which we issued and sold an aggregate of 7,500,000 ADSs, representing 15,000,000 ordinary shares, resulting in net proceeds to us of approximately US\$64.9 million. Concurrently with our initial public offering, we sold 2,000,000 ordinary shares to Baidu Hong Kong in a private placement, resulting in net proceeds to us of approximately US\$9.0 million. As of December 31, 2021, we had cash and cash equivalents of approximately RMB2,864.5 million (US\$449.5 million), as compared to cash and cash equivalents of approximately RMB2,469.9 million as of December 31, 2020.

As of December 31, 2021, we had restricted cash of approximately RMB80.8 million (US\$12.7 million), as compared to RMB237.2 million as of December 31, 2020. The decrease in restricted cash was mainly due to the disposal of our direct investments in trusts. As of December 31, 2021, the restricted cash represented the cash held by the remaining Consolidated ABFE and the cash set aside for guarantee deposit.

Unlike financial institutions, we are not subject to any capital adequacy requirement that is applicable to financial institutions in China. We believe that our cash on hand and anticipated cash flows from operating activities will be sufficient to meet our anticipated working capital requirements and capital expenditures in the ordinary course of business for the next 12 months. We may, however, need additional cash resources in the future if we experience changes in business conditions or other developments, or if we find and wish to pursue opportunities for investment, acquisition, capital expenditure or similar actions. 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 would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may need additional capital, and financing may not be available on terms acceptable to us, or at all.”

Our ability to manage our working capital, including accounts receivable, prepaid expenses and other assets and accrued expenses and other liabilities, may materially affect our financial position and results of operations. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Failure to manage our liquidity and cash flows may materially and adversely affect our financial position and results of operations.”

Our accounts receivable primarily include the commission receivable from insurance brokerage service, the transaction fees receivable from borrowers and service fees receivable from industry partners. As of December 31, 2019, 2020 and 2021, we had accounts receivable of RMB3.4 million, RMB122.7 million and RMB305.0 million (US\$47.9 million), respectively. The increase in our accounts receivable from 2019 to 2020 and the increase from 2020 to 2021 were primarily due to the increase in service fees receivable from industry partners and commission receivable from insurance brokerage service. As of December 31, 2021, we had RMB93.8 million (US\$14.7 million) in service fees receivable from industry partners and RMB159.7 million (US\$25.1 million) in commission receivable from insurance brokerage service.

Our prepaid expenses and other assets include primarily funds receivable from external payment networks, loans to third parties and funds receivable from insurance and guarantee companies, and our accrued expenses and other liabilities include primarily accrued payroll and welfare, tax payable, accrued customer incentives, and accrued advertisement expense, and funds collected on behalf of third-party guarantee companies.

Although we consolidated the results of operations of Yiren Wealth, Tianjin Linyang and CreditEase Puhui, the consolidated variable interest entities, we only have access to the cash balances and the future earnings of Yiren Wealth, Tianjin Linyang and CreditEase Puhui through our contractual arrangements with them. See “Item 4. Information on the Company—A. History and Development of Our Company.” In addition, although we consolidate the cash flow of the Consolidated ABFE into our cash flow, the cash balance of the Consolidated ABFE is not available to fund our general liquidity needs. For more information about the Consolidated ABFE, please see “—Critical Accounting Policies, Judgments and Estimates—Basis of Presentation, Combination and Consolidation” below. For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “—Holding Company Structure” below.

In utilizing the cash that we hold offshore, we may (i) make additional capital contributions to our PRC subsidiaries, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiaries, or (iv) acquire offshore entities with business operations in China in offshore transactions. However, most of these uses are subject to PRC regulations and approvals. For example:

- capital contributions to our PRC subsidiaries, whether existing or newly established ones, must be filed for record with MOFCOM or its local counterparts; and
- loans by us to our PRC subsidiaries, which are foreign-invested enterprises, to finance their activities cannot exceed statutory limits and must be registered with SAFE or its local branches.

See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of any offering outside China to make loans to or make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.”

Substantially all of our future revenues are likely to continue to be in the form of RMB. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Our PRC subsidiaries are required to set aside at least 10% of its after-tax profits after making up previous years' accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with SAFE and its local branches. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Governmental control of currency conversion may limit our ability to utilize our net revenue effectively and affect the value of your investment."

The following table sets forth a summary of our cash flows for the periods indicated.

	Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Summary Consolidated Cash Flow Data:				
Net cash (used in)/provided by operating activities	274,168	282,028	158,192	24,824
Net cash provided by/(used in) investing activities	1,110,001	(1,796,663)	(346,507)	(54,374)
Net cash (used in)/provided by financing activities	(1,149,705)	955,448	427,446	67,076
Effect of foreign exchange rate changes	193	(2,807)	(936)	(147)
Net (decrease)/increase in cash, cash equivalents and restricted cash	234,657	(561,994)	238,195	37,379
Cash, cash equivalents and restricted cash, beginning of year	3,034,485	3,269,142	2,707,148	424,811
Cash, cash equivalents and restricted cash, end of year	3,269,142	2,707,148	2,945,343	462,190

Operating Activities

Net cash generated provided by operating activities was RMB158.2 million (US\$24.8 million) in 2021. The difference between our net income and our net cash provided by operating activities was primarily attributable to certain non-cash items, including allowance for contract assets, receivables and others of RMB370.2 million (US\$58.1 million), partially offset by changes in certain working capital items, including an increase in contract assets of RMB668.2 million (US\$104.9 million), and a decrease in amounts related to related parties of RMB437.8 million (US\$68.7 million).

Net cash generated provided by operating activities was RMB282.0 million in 2020. The difference between our net loss and our net cash provided by operating activities was primarily attributable to certain non-cash items, including loss of disposal of RMB655.8 million related to Heng cheng, allowance for contract assets, receivables and others of RMB371.6 million and amortization of right-of-use assets of RMB235.7 million, partially offset by changes in certain working capital items, including a decrease in contract assets of RMB817.5 million, a decrease in refund liabilities of RMB627.9 million, a decrease in accrued expenses and other liabilities of RMB458.0 million and a decrease in deferred revenue of RMB246.3 million.

Net cash generated provided by operating activities was RMB274.2 million in 2019. The difference between our net income and our net cash provided by operating activities was primarily attributable to changes in certain working capital items, including a change in amounts due from/to related parties of RMB1,548.2 million and a decrease in refund liability of RMB344.2 million, partially offset by certain non-cash expenses or loss, including allowance for contract assets, receivables and others of RMB1,625.1 million. The change in amounts due from/to related parties was primarily due to the payment to related parties associated with referral service, collection service and other services provided by CreditEase. The decrease in refund liability was primarily due to the payment of transaction fee which was refunded due to the borrower's early repayment. We made allowance for contract assets primarily due to the credit risk of borrowers.

Investing Activities

Net cash used in investing activities was RMB346.5 million (US\$54.4 million) in 2021, which was primarily attributable to origination of financing receivables, partially offset by repayments of financing receivables.

[Table of Contents](#)

Net cash used in investing activities was RMB1,796.7 million in 2020, which was primarily attributable to disposal of subsidiaries under common control, net of cash disposed, investment in financing receivables, purchase of available-for-sale investments, partially offset by proceeds from disposal of available-for-sale investments, and collection of principal of loans to third parties.

Net cash provided by investing activities was RMB1,110.0 million in 2019, which was primarily attributable to proceeds on disposal of available-for-sale investments, collection of principal of loans to related parties and collection of principal of loans at fair value, partially offset by loan to a related party and purchase of available-for-sale investments.

Financing Activities

Net cash provided by financing activities was RMB427.4 million (US\$67.1 million) in 2021, which was mainly attributable to RMB575.9 million (US\$90.4 million) of loan from third parties.

Net cash provided by financing activities was RMB955.4 million in 2020, which was mainly attributable to RMB500.5 million of loan from external parties, RMB361.5 million of loans from related parties and RMB174.0 million of external contribution to our consolidated ABFE, partially offset by RMB47.0 million of acquisition of subsidiaries under common control.

Net cash used in financing activities was RMB1,149.7 million in 2019, which was mainly attributable to RMB1,410.0 million deferred payment of contingent consideration, partially offset by RMB747.7 million loans from related party.

Capital Expenditures

We made capital expenditures of RMB48.0 million, RMB13.7 million and RMB9.4 million (US\$1.5 million) in 2019, 2020 and 2021, respectively. In these periods, our capital expenditures were mainly used for purchases of property, equipment and software. We will continue to make capital expenditures to meet the requirements of our business operations.

Holding Company Structure

Yiren Digital Ltd. is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiaries and the consolidated variable interest entities in China. As a result, Yiren Digital Ltd.'s ability to pay dividends depends upon dividends paid by YouRace Hengchuang and Hengyuda, our PRC subsidiaries, and Yiren Wealth, Tianjin Linyang and CreditEase Puhui, the consolidated variable interest entities. If our existing PRC subsidiaries or any newly formed ones 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, each of our wholly foreign-owned subsidiaries 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 the consolidated variable interest entities in China 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 wholly foreign-owned subsidiaries in China 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 each of the consolidated variable interest entities 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 PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2021:

	As of December 31, 2021
	RMB in thousands
2022	31,854
2023	21,800
2024	18,718
2025	2,776
2026 and thereafter	—
Total	<u>75,148</u>

Our operating lease obligations relate to our leases of office premises. We lease our principal office premises under a non-cancelable operating lease with an expiration date in May 2023. Rental expenses under operating leases for 2019, 2020 and 2021 were RMB283.8 million, RMB244.9 million and RMB99.0 million (US\$15.5 million), respectively.

Payables to investors related to the Consolidated ABFE have been excluded from the table above. We will make such payments to the investors related to the Consolidated ABFE if and when we receive the related loan payments from borrowers. We do not have any contractual obligations to make such payments out of our own liquidity resources.

We also have obligations relate to secured borrowings. In 2020 and 2021, Yichuang Financial Leasing entered into several financing arrangements, with a principal amount of RMB862.0 million and RMB541.6 million (US\$85.0 million), respectively. According to the arrangements, Yichuang Financial Leasing transferred its creditor's right of certain financial receivables totaling RMB909.1 million and RMB550.0 million (US\$86.3 million), respectively, with remaining lease terms ranging from one to three years originating from its finance leasing services business to external creditors. As the transfer of creditor's right of financial receivables did not constitute a real asset transformation under the PRC law, the proceeds from the external creditors were considered as secured borrowings. Our secured borrowings have maturities ranging from one to three years. As of December 31, 2021, we recorded secured borrowings of RMB1,028.6 million (US\$161.4 million) and amount due to related parties of RMB334.8million (US\$52.5 million) on our consolidated balance sheets as of December 31, 2021.

Other than those shown above, we did not have any significant capital and other commitments, long-term obligations, or guarantees as of December 31, 2021.

C. Product Development

We had a dedicated product development team consisting of 49 full-time employees as of December 31, 2021. This team is responsible for developing and implementing new consumer finance products to introduce on to our marketplace.

We constantly evaluate the popularity of our existing product offerings and develop new products and services that can cater to the ever-evolving needs of our borrowers and investors. From the borrower and our institutional funding partner perspective, we will continue to develop tailored credit products to meet their specific needs. As our marketplace continues to grow, we plan to expand our ability to offer risk-based loan pricing. For example, we plan to enhance our risk-based pricing capability that optimizes loans based on individual credit criteria so that borrowers will be able to receive personalized loans tailored to their credit profile. In addition, we intend to introduce market-based pricing of loans based on macroeconomic factors and we believe such ability to continually adjust the pricing of the loans on our marketplace will allow us to better meet the needs of our borrowers.

From the investor perspective, we continue to develop new investment products, such as diversified term investment products and products with lower investment thresholds, that appeal to different investor appetites and demands. We also intend to provide investors with enhanced tools and offer more valued-added services, such as investment portfolio services, enabling them to better monitor and manage their investments on our online marketplace.

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, 2021 that are reasonably likely to have a material and adverse effect on our net revenue, 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.

E. Critical Accounting Policies, Judgments and Estimates

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

While our significant accounting policies are described in more detail in Note 2 – Summary of Significant Accounting Policies to our consolidated financial statements appearing in Item 8 of this Annual Report, we believe the following critical accounting estimates used in the preparation of our consolidated financial statements require the most difficult, subjective and complex judgments and estimates and have had, or are reasonably likely to have a material impact on our financial condition or results of operations.

Revenue

We provide loan facilitation services, post-origination services and guarantee services (the amounts of the loans guaranteed by us was immaterial). Revenues from loan facilitation are recognized at the time a loan is originated. 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, if any, are recognized amortized during the guarantee term.

Significant management judgment is applied to the determination and allocation of the transaction price, including: (i) estimation of variable consideration, and (ii) determination of standalone selling price of each performance obligation.

We do 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. As a result, the estimation of standalone selling price involves significant judgments. We use expected cost plus margin approach to estimate the standalone selling prices of loan facilitation services as the basis of revenue allocation. In estimating its standalone selling price for the loan facilitation 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. However, for post-origination services, given the main services are about loan collecting and cash processing, we can refer to other companies performing the same services, therefore a direct observable standalone selling price for similar services in the market is available. We estimate the standalone selling prices of loan facilitation services and post-facilitation services based on historical cost data adjusted by current service patterns such as tenure, which could change with the evolution of our product mix. There has been no material change to the allocation ratio between the two performance obligations during the year ended December 31, 2021.

The transaction price includes variable consideration in the form of prepayment risk of the borrowers, and we estimate 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. A decrease in the amount of loans to be repaid in advance or an increase in tenure of early repayment would result in a greater amount of total transaction price than initially expected and vice versa. If the estimate of the prepayment rates suffers 0.5 percentage point increase/decrease, it would result in a decrease of RMB23.0 million (US\$3.6 million) and an increase of RMB22.4 million (US\$3.5 million) for revenue recognized for the year ended December 31, 2021.

Allowance for contract assets

Contract assets are stated at the historical carrying amount net of write offs and allowance for uncollectible accounts. Allowance for contract assets are based on net cumulative expected loss rates, taking the historical default rate of loans originated in the same vintage, as well as national or local economic conditions that correlate with defaults on loans into consideration. We regularly review the methodology and assumptions used for estimating the net cumulative expected loss rates.

As of December 31, 2021, allowance for contract assets is RMB350.7 million (US\$55.0 million). If the estimate of the net cumulative expected loss rates suffers 0.5 percentage point increase/decrease, it would result in an increase of RMB22.3 million (US\$3.5 million) and a decrease of RMB15.5 million (US\$2.4 million) for allowance for contract assets.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

Directors and Executive Officers*	Age	Position/Title
Ning Tang	49	Executive Chairman and Chief Executive Officer
Tina Ju	57	Director
Qing Li	45	Director
Jingsheng Huang	64	Director
Sam Hanhui Sun	49	Independent Director
Chaomei Chen	63	Independent Director
Hao Li	44	Independent Director
Na Mei	41	Chief Financial Officer
George Liu	59	Chief Risk Officer

* We also have a non-voting observer on our board of directors, Mr. Kwok King Kingsley Chan, a managing director at Morgan Stanley Private Equity Asia.

Mr. Ning Tang is our founder, and has served as our executive chairman of the board of directors since our inception and our chief executive officer since July 2019. He is also the founder of our parent company, CreditEase, and has served as the chairman of the board of directors and chief executive officer of CreditEase since its inception in 2006. In December 2014, Mr. Tang was elected to be the chairman of the Beijing P2P Association, founded by CreditEase together with approximately 30 member enterprises and the first association in the industry in China that is officially registered and overseen by regulators. In July 2011, Mr. Tang won the nomination of “Leader of the Year” in the “Global Microfinance Achievement Awards 2011,” initiated by the London-based C5 Group to recognize the efforts, innovations and services that ensure maximum business and social returns in the microfinance sector. Mr. Tang is also a member of the advisory board to the Ministry of Industry and Information Technology with respect to small and medium-sized enterprises related policies, and a director at the China Microfinance Institution Association. Prior to founding CreditEase, Mr. Tang served as the director of strategic investments and acquisitions at AsiaInfo-Linkage, Inc., a leading provider of telecommunication software solutions and services in China then listed on Nasdaq, since July 2000. Prior to that, Mr. Tang served as an investment banker at Donaldson, Lufkin & Jenrette, a U.S. investment bank now owned by Credit Suisse, since July 1998. Mr. Tang is an active angel investor and has made several successful investments in the education and training, financial services, human resources services, internet, technology and media industries. Mr. Tang studied mathematics at Peking University and received his bachelor’s degree in economics, summa cum laude, from the University of the South in Sewanee, Tennessee. He is also a member of the Phi Beta Kappa Society.

Ms. Tina Ju has served as our director since January 2015. Ms. Ju is a founding and managing partner of KPCB China and TDF Capital, and currently a managing member of the general partner of both funds. She has more than 25 years of experience in venture capital, investment banking and operations. Ms. Ju began her venture capital career in 1999. She co-founded VTDF China in 2000 and KPCB China in 2007. Earlier in her career, Ms. Ju spent 11 years in investment banking at Deutsche Bank with her last position as the head of TMT and Transport Asia, Merrill Lynch with her last position as head of Asia Technology and Corporate Finance Team, and Goldman Sachs. Ms. Ju currently serves as a director on the board of various private companies. Ms. Ju received a bachelor’s degree in industrial engineering and operations research from the University of California, Berkeley and an MBA degree from Harvard Business School.

Mr. Qing Li has served as our director since December 17, 2015. Mr. Li is the founder and chief executive officer of Sciencast Management L.P., a limited partnership formed in Delaware. Prior to founding Sciencast, Mr. Li was a portfolio manager at SAC Capital Advisors from April 2009 to February 2014, a quantitative researcher at Tykhe Capital LLC from October 2005 to April 2009, a vice president at Fortress Investment Group from September 2004 to October 2005 and an associate from August 2002 to September 2004 at Lehman Brothers. Mr. Li received a Ph.D. in finance from Columbia University and a B.S. in mathematics from Peking University.

Mr. Jingsheng Huang has served as our director since December 17, 2015. Mr. Huang is Senior Advisor to CreditEase on impact and private equity investment since January 1, 2020. Prior to that, he was the managing executive director at Harvard Center Shanghai. Mr. Huang has also served as an independent non-executive director of SOHO China, a company listed on the Hong Kong Stock Exchange, since August 2018. Mr. Huang has served as a non-executive director of Gushengtang, a company listed on the Hong Kong Stock Exchange, since July 2021. Prior to that, he was a partner of TPG Growth and RMB Funds based in Shanghai, China. Before joining TPG, he was a managing director at Bain Capital LLC, where he set up and ran its Shanghai operations. Prior to that, Mr. Huang served multiple positions in the investment industry, including managing director in China at SOFTBANK Asia Infrastructure Fund, partner at SUNeVision Ventures and senior manager of strategic investment at Intel Capital. Before starting his investment career, Mr. Huang was the director of research operations at GartnerGroup, a cofounder and vice president of marketing at Mtone Wireless and an English lecturer at Communication University of China. Before joining Harvard, Mr. Huang served as a member of the board of China Venture Capital Association and a deputy chairman of Shanghai Private Equity Association. Mr. Huang served as an independent director of Besunyen Holdings Company Limited, a company listed on the Hong Kong Stock Exchange, until June 2019. Mr. Huang currently serves as an independent director of SOHO China Ltd., a company listed on the Hong Kong Stock Exchange. Mr. Huang received an M.B.A degree from Harvard Business School, an M.A. from Stanford University and a B.A. from Beijing Foreign Studies University.

Mr. Sam Hanhui Sun has served as our director since December 17, 2015. Mr. Sun currently serves as an independent director and audit committee chair of iQIYI Inc., a Nasdaq-listed company, and an independent director and audit committee chair of Zhihu Inc., a NYSE-listed company. From January 2010 to September 2015, Mr. Sun assumed a couple of positions at Qunar Cayman Islands Limited, a mobile and online travel platform then listed on Nasdaq, including serving as Qunar’s president from May 2015 to September 2015 and its chief financial officer from January 2010 to April 2015. Prior to joining Qunar, Mr. Sun was the chief financial officer of KongZhong Corporation, an online game developer and operator then listed on Nasdaq-listed company, from 2007 to 2009. Mr. Sun was also an independent director and audit committee member of KongZhong Corporation from July 2005 through January 2007. From 2004 to 2007, Mr. Sun served in several financial controller positions at Microsoft China R&D Group, Maersk China Co. Ltd. and SouFun.com. From 1995 to 2004, Mr. Sun worked in KPMG’s auditing practice group, including eight years at the Beijing office of KPMG, where he was an audit senior manager, and two years at KPMG in Los Angeles, California. Mr. Sun currently serves as an independent director and audit committee chair of CAR Inc., a company listed on the Hong Kong Stock Exchange and an independent director and audit committee chair of iQIYI Inc., a Nasdaq-listed company. Mr. Sun received a B.E. in business administration from Beijing Institute of Technology in 1993. He is a Certified Public Accountant in China.

Ms. Chaomei Chen has served as our director since December 18, 2016. Ms. Chen had been part of our Advisory Committee from January 2016 to December 2016. Previously, Ms. Chen served as chief risk officer of LendingClub from June 2011 to December 2015. Before LendingClub, she served as chief risk officer of WaMu Card Services at JPMorgan Chase from October 2005 to August 2009. Prior to JPMorgan Chase, Ms. Chen was vice chairman and chief credit officer at Provident Financial Services from August 2002 to September 2005. Ms. Chen graduated with a B.S. degree in mathematics from the Southwestern Jiaotong University in China and earned an M.S.E. degree in mathematical science from Whiting School of Engineering at the Johns Hopkins University.

Mr. Hao Li has served as our director since January 1, 2020. Mr. Li is the founder and chairman of the board of CTG Group, a human resource services provider in China. As a well-regarded business pioneer, Mr. Li founded CTG Group in his early twenties in 2003 and developed the company into an industry giant that has served over 25,000 corporate clients covering 500 cities over the past 16 years. Mr. Li also established Anhui Ensan Charitable Foundation in 2013. Mr. Li is also the executive director of World Chinese Merchants Union Association and vice president of

Asia Pacific Chinese Entrepreneurial Leaders Association. During the past two decades, Mr. Li has been granted various of awards, including “Most Innovative Chinese Business Leader in Asia Pacific,” “Top 10 Outstanding Figures in China’s HR Industry,” “Top 10 Innovator for China’s New Economy,” etc. Mr. Li received his bachelor’s degree from Beijing Institution of Technology and an E.M.B.A. degree from China Europe International Business School.

Ms. Na Mei has served as our chief financial officer since September 2020. Ms. Mei joined CreditEase Consumer Credit Division, now part of Yiren Digital, in 2015. She has served as the financial controller for this business unit and the head of business finance department. Prior to joining CreditEase, Ms. Mei had worked 12 years at PricewaterhouseCoopers. She brought in seasoned experience in finance management, taxation, internal control and consulting, along with years of first-hand exposure dealing with publicly listed companies in China and abroad. Ms. Mei obtained her bachelor’s degree from Capital Economic University and is a certified public accountant.

Mr. George Liu has served as our chief risk officer since December 2020. Dr. Liu has decades of experience in data and risk management, both in China and the United States. Before joining the Company, he took a series of executive roles and built rich experience in entrepreneurship, including serving as the Chief Data Executive and VP for Mashang Consumer Finance, a leading consumer finance company in China. Dr. Liu worked at Capital One for over a decade where he served as the Senior Director of Decision Science and led the efforts of risk control for the company's credit card business before returning to China. Dr. Liu received his Ph.D. in statistical science from the Pennsylvania State University and received his two master's degrees, one in mathematics and one in statistical science, from the University of Pittsburgh and the University of Science and Technology of China respectively.

B. Compensation

For the fiscal year ended December 31, 2021, we paid an aggregate of approximately RMB9.3 million (US\$1.5 million) in cash to our directors and officers. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiaries and the consolidated variable interest entities are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund. For information regarding the share-based incentive awards that we have granted to our officers and directors, please refer to "—Share Incentive Plans."

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. We may also terminate an executive officer's employment without cause upon three-month advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time with a three-month advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

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 one year following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, customers 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 each of our directors and executive officers. Under these agreements, we 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 a director or officer of our company.

We have entered into director agreements with each of our independent directors. These agreements set forth the services to be provided and compensation to be received by our independent directors, as well as the independent directors' obligations in terms of confidentiality, non-competition and non-solicitation. Pursuant to these agreements, the directorship of our independent directors will last until the earlier of (i) the date on which the director ceases to be a member of our board of directors for any reason or (ii) the date of termination of these agreements. Each party to a director agreement may terminate the agreement through a 30-day prior written notice or such shorter period as the parties may agree upon.

Share Incentive Plans

We have adopted three share incentive plans, namely, the 2015 Share Incentive Plan, 2017 Share Incentive Plan, and 2020 Share Incentive Plan, which allow us to offer a variety of share-based incentive awards to employees, officers, directors and individual consultants who render services to us. These three plans are referred to as the 2015 Plan, 2017 Plan and 2020 Plan, respectively. Pursuant to the 2015 Plan, the maximum number of shares that may be issued pursuant to all awards under the 2015 Plan is 3,939,100 ordinary shares. As of June 30, 2022, there was no restricted share unit outstanding under the 2015 Plan. Pursuant to the 2017 Plan, the maximum aggregate number of shares which may be issued is 6,060,900. As of June 30, 2022, 154,146 restricted share units were outstanding under the 2017 Plan. Pursuant to the 2020 Plan, the maximum number of shares that may be issued pursuant to all awards under the 2020 Plan is 18,560,000 ordinary shares. As of June 30, 2022, 1,367,208 restricted share units were outstanding under the 2020 Plan.

The following table summarizes, as of June 30, 2022, the outstanding restricted share units that we granted to our current directors and executive officers and to other individuals as a group under our 2015 Plan, 2017 Plan and 2020 Plan:

Name	Ordinary Shares Underlying Restricted Share Units	Grant Date
Jingsheng Huang	*	July 1, 2018 and 2019
Sam Hanhui Sun	*	July 1, 2018, 2019 and June 30, 2020 and 2021
Chaomei Chen	*	July 1, 2018, 2019 and June 30, 2020 and 2021
Hao Li	*	June 30, 2020 and 2021
Na Mei	*	July 1, 2018 and June 30, 2020 and 2021
George Liu	*	December 31, 2020
Other Individuals as a Group	*	July 1, 2017, 2018 and June 30, 2020 and 2021 and December 31, 2020 and January 1, 2022

* Less than 1% of our total outstanding ordinary shares.

The following paragraphs summarize the terms of the 2015 Plan, the 2017 Plan and the 2020 Plan:

Plan Administration. Our board of directors, or a committee designated by our board of directors, will administer the plan. The committee or the full board of directors, as appropriate, will determine the provisions and terms and conditions of each option grant.

Award Agreements. Options and other awards granted under the plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each grant, which may include the term of the award and the provisions applicable in the event of the grantee's employment or service terminates. The exercise price of granted options may be amended or adjusted in the absolute discretion of our board of directors, or a committee designated by our board of directors, without the approval of our shareholders or the recipients of the options.

Eligibility. We may grant awards to employees, directors and consultants of our company or any of our affiliates, which include our parent company, subsidiaries and any entities in which our parent company or a subsidiary of our company holds a substantial ownership interest.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Acceleration of Awards upon Change in Control. If a change-of-control corporate transaction occurs, the plan administrator may, in its sole discretion, provide for (i) all awards outstanding to terminate at a specific time in the future and give each participant the right to exercise the vested portion of such awards during a specific period of time, or (ii) the purchase of any award for an amount of cash equal to the amount that could have been attained upon the exercise of such award, or (iii) the replacement of such award with other rights or property selected by the plan administrator in its sole discretion, or (iv) payment of award in cash based on the value of ordinary shares on the date of the change-of-control corporate transaction plus reasonable interest.

Term of the Options. The term of each option grant shall be stated in the award agreement, provided that the term shall not exceed ten years from the date of the grant.

Transfer Restrictions. Awards may not be transferred in any manner by the recipient other than by will, the laws of succession or other exceptions as set forth in the plan, except as otherwise provided by the plan administrator.

Termination of the Plan. Unless terminated earlier, each plan will have a term of ten years. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval to the extent necessary to comply with applicable law. However, no such action may impair the rights of any award recipient unless agreed by the recipient.

C. Board Practices

Board of Directors

Our board of directors consists of seven directors. A director is not required to hold any shares in our company to qualify to serve as a director. A director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our company must declare the nature of his interest at a meeting of the directors. Subject to NYSE rules and disqualification by the chairman of the relevant board meeting, a director may vote in respect of any contract or transaction or proposed contract or transaction 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 the relevant board meeting at which such contract or transaction or proposed contract or transaction is considered. The directors may exercise all the powers of the company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

We have established three committees under the board of directors: an audit committee, a compensation committee and a nominating and corporate governance committee. 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 Sam Hanhui Sun, Chaomei Chen and Hao Li. Sam Hanhui Sun is the chairman of our audit committee. We have determined that Sam Hanhui Sun, Chaomei Chen and Hao Li satisfy the "independence" requirements of Section 303A of the Corporate Governance Rules of the NYSE and Rule 10A-3 under the Securities Exchange Act of 1934. 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:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions, including any transactions between us and CreditEase;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of Sam Hanhui Sun, Chaomei Chen and Hao Li. Sam Hanhui Sun is the chairman of our compensation committee. We have determined that Sam Hanhui Sun, Chaomei Chen and Hao Li satisfy the “independence” requirements of Section 303A of the Corporate Governance Rules of the NYSE. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Chaomei Chen, Sam Hanhui Sun and Hao Li. Chaomei Chen is the chairman of our nominating and corporate governance committee. Chaomei Chen, Sam Hanhui Sun and Hao Li satisfy the “independence” requirements of Section 303A of the Corporate Governance Rules of the NYSE. The nominating and corporate governance committee assists the board of directors in selecting 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:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly and a duty to act in what they consider in good faith to be in our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her 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 memorandum and articles of association, as amended and restated from time to time, and the class rights vested thereunder in the holders of the shares. In certain limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders’ annual and extraordinary general meetings;
- declaring dividends and distributions;

- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Executive Officers

Our directors may be elected by a resolution of our board of directors, or by an ordinary resolution of our shareholders. Each of our directors will hold office until the expiration of his or her term as provided in the written agreement with our company, if any, and until his or her successor has been elected or appointed. A director will cease to be a director if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found by our company to be or becomes of unsound mind, (iii) resigns his office by notice in writing to the company, (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our directors resolve that his office be vacated, or (v) is removed from office pursuant to any other provision of our memorandum and articles of association. Our officers are elected by and serve at the discretion of the board of directors.

D. Employees

As of December 31, 2019, 2020 and 2021, we had a total of 31,388, 13,728 and 3,797 employees, respectively. The following table sets forth the breakdown of our employees as of December 31, 2021 by function:

Function	Number of Employees	% of Total
Sales and Marketing	3,371	88.8
Operations	43	1.1
Technology	162	4.3
Risk Management	62	1.6
General and Administrative	110	2.9
Product Development	49	1.3
Total	3,797	100.0

As of December 31, 2021, all of our employees are based in China.

We believe we offer our employees competitive compensation packages and a work environment that encourages initiative and is based on merit, and as a result, we have generally been able to attract and retain qualified personnel and maintain a stable core management team. We plan to hire additional employees as we expand our business.

As required by PRC regulations, we participate in various government statutory employee benefit plans, including social insurance funds, namely a pension contribution 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. We are required under PRC law to make contributions to employee benefit 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 have not made adequate contributions to our employee benefits plans as required by the applicable PRC laws and regulations, including potential late fees or fines. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.”

We enter into standard labor, confidentiality and non-competition agreements with our employees. The non-competition restricted period typically expires one year after the termination of employment, and we agree to compensate the employee with a certain percentage of his or her pre-departure salary during the restricted period.

We believe that we maintain a good working relationship with our employees, and we have not experienced any major labor disputes.

E. Share Ownership

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares as of June 30, 2022 by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our total outstanding ordinary shares.

The calculations in the table below are based on 170,681,302 ordinary shares outstanding as of June 30, 2022.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. 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.

	Ordinary Shares Beneficially Owned as of June 30, 2022	
	Number	%†
Directors and Executive Officers**:		
Ning Tang ⁽¹⁾	62,244,893	36.5
Tina Ju ⁽²⁾	—	—
Qing Li	*	*
Jingsheng Huang	*	*
Sam Hanhui Sun	*	*
Chaomei Chen	*	*
Hao Li	*	*
Na Mei	*	*
George Liu	*	*
All Directors and Executive Officers as a Group	62,595,675	36.7
Principal Shareholders:		
CreditEase Holdings (Cayman) Limited ⁽³⁾	143,421,412	84.0

* Less than 1% of our total outstanding shares.

** Except for Ms. Tina Ju, Mr. Qing Li, Mr. Sam Hanhui Sun, Mr. Jingsheng Huang, Ms. Chaomei Chen, Mr. Hao Li, Mr. George Liu, and Ms. Na Mei, the business address of our directors and executive officers is 5/F, Hanwei Plaza, No. 7, Guanghua Road, Chaoyang District, Beijing 100022, People's Republic of China. The business address of Ms. Tina Ju is Level 19, Cheung Kong Center, 2 Queens Road, Central, Hong Kong. The business address of Mr. Qing Li is 23 Coniston Ct, Princeton, NJ 08540, USA. The business address of Mr. Sam Hanhui Sun is 64 Dong-gong Street, Dongcheng District, Beijing 100009, People's Republic of China. The business address of Mr. Jingsheng Huang is B2-7B, Gemdale International Garden, 91 Jianguo Road, Beijing 100022, People's Republic of China. The business address of Ms. Chaomei Chen is 338 Spear Street, 31-D, San Francisco, CA 94105, USA. The business address of Mr. Hao Li is Building G2, No. 56 Jianguo Road, Chaoyang District, Beijing, the People's Republic of China. The business address of Mr. George Liu is 1912 Liesfeld Pky, Glen Allen, VA 23060, USA. The business address of Ms. Na Mei is 5/F, Hanwei Plaza, No. 7, Guanghua Road, Chaoyang District, Beijing, People's Republic of China.

† For each person and group included in this column, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the total number of shares outstanding and the number of shares such person or group has the right to acquire upon exercise of option, warrant or other right within 60 days after June 30, 2022. The total number of ordinary shares outstanding as of June 30, 2022 is 170,681,302.

(1) Mr. Ning Tang does not hold any ordinary share in our company directly. Mr. Tang, through a trust controlled by him, holds all equity interest of a British Virgin Islands company, which in turn owns 43.4% of the total outstanding shares of CreditEase, our parent company, on an as-converted basis.

(2) Ms. Tina Ju is a founding and managing partner of KPCB China, which holds certain equity interest in CreditEase through its affiliated funds.

- (3) CreditEase Holdings (Cayman) Limited is incorporated in the Cayman Islands, and its business address is 3/F, Winterless Center Building A, Chaoyang District, Beijing, People's Republic of China. CreditEase is owned by Mr. Ning Tang, our executive chairman, and a few investors, including IDG, KPCB China and Morgan Stanley Private Equity Asia, through their respective investment vehicles.

As of June 30, 2022, 26,186,080 of our outstanding ordinary shares were held by one record holder in the United States, which is the depository of our ADS program, representing 15.3% of our total issued and outstanding ordinary shares as of such date. None of our existing shareholders has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

B. Related Party Transactions

Agreements with CreditEase

We are a majority-owned subsidiary of CreditEase. Prior to our initial public offering in 2015, we entered into a series of agreements with CreditEase with respect to various ongoing relationships between us. These agreements include a master transaction agreement, a transitional service agreement, a non-competition agreement, a cooperation framework agreement, and an intellectual property license agreement.

On March 25, 2019, we entered into a set of definitive agreements with CreditEase regarding a business realignment between CreditEase and us. These agreements include, among other things, a share subscription agreement, an amended and restated transitional service agreement, an amended and restated non-competition agreement, an amended and restated cooperation framework agreement, and an amended and restated intellectual property license agreement.

On December 31, 2020, we entered into a set of definitive agreements with CreditEase regarding a business restructuring between CreditEase and us. These agreements include, among other things, a restructuring agreement and a second amended and restated non-competition agreement (which amended and restated the amended and restated non-competition agreement in its entirety).

The following are summaries of the above-mentioned agreements.

Master Transaction Agreement

The master transaction agreement contains provisions relating to our carve-out from CreditEase. Pursuant to this agreement, we are responsible for all financial liabilities associated with the current and historical online consumer finance marketplace business and operations that have been conducted by or transferred to us, and CreditEase is responsible for financial liabilities associated with all of CreditEase's other current and historical businesses and operations, in each case regardless of the time those liabilities arise. The master transaction agreement also contains indemnification provisions under which we and CreditEase agree to indemnify each other with respect to breaches of the master transaction agreement or any related inter-company agreement.

In addition, we agree to indemnify CreditEase against liabilities arising from misstatements or omissions in the prospectus for our initial public offering or the registration statement of which it is a part, except for misstatements or omissions relating to information that CreditEase provided to us specifically for inclusion in the prospectus for our initial public offering or the registration statement of which it forms a part. We also agree to indemnify CreditEase against liabilities arising from any misstatements or omissions in our subsequent SEC filings and from information we provide to CreditEase specifically for inclusion in CreditEase's reports and filings, if any, following the initial filing of the registration statement with the SEC of which the prospectus for our initial public offering is a part, but only to the extent that the information pertains to us or our business or to the extent CreditEase provides us prior written notice that the information will be included in its reports or other subsequent filings, if any, and the liability does not result from the action or inaction of CreditEase. Similarly, CreditEase will indemnify us against liabilities arising from misstatements or omissions in its subsequent filings, if any, or with respect to information that CreditEase provided to us specifically for inclusion in the prospectus for our initial public offering, the registration statement of which the prospectus for our initial public offering forms a part, or our annual reports or other SEC filings following the initial filing of the registration statement with the SEC of which the prospectus for our initial public offering is a part, but only to the extent that the information pertains to CreditEase or CreditEase's business or to the extent we provide CreditEase prior written notice that the information will be included in our annual reports or other SEC filings, and the liability does not result from our action or inaction.

The master transaction agreement also contains a general release, under which the parties will release each other from any liabilities arising from events occurring on or before the initial filing date of the registration statement of which the prospectus for our initial public offering forms a part, including in connection with the activities to implement our initial public offering. The general release does not apply to liabilities allocated between the parties under the master transaction agreement or the other inter-company agreements.

Furthermore, under the master transaction agreement, we agree to use our reasonable best efforts to engage the same independent certified public accounting firm selected by CreditEase and to maintain the same fiscal year as CreditEase until the first CreditEase fiscal year-end following the earlier of (i) the first date when CreditEase no longer owns at least 20% of the voting power of our then outstanding securities or (ii) the first date when CreditEase ceases to be the largest beneficial owner of our then outstanding voting securities (without considering holdings by certain institutional investors). We refer to this earlier date as the control ending date. We also agree to use our reasonable best efforts to complete our audit and provide CreditEase with all financial and other information on a timely basis so that CreditEase may meet its deadlines for its filing of annual and quarterly financial statements, if applicable.

The master transaction agreement will automatically terminate five years after the control ending date. This agreement can be terminated early or extended by mutual written consent of the parties. The termination of this agreement will not affect the validity and effectiveness of the amended and restated transitional services agreement, the amended and restated non-competition agreement, the amended and restated cooperation framework agreement and the amended and restated intellectual property license agreement.

Amended and Restated Transitional Services Agreement

Under the amended and restated transitional services agreement, CreditEase agrees that, during the service period, as described below, CreditEase will provide us with various corporate support services, including but not limited to:

- operational management support;
- administrative support;
- legal support;
- human resources support;
- corporate communications;
- marketing;
- global security & continuity; and
- accounting, internal control and internal audit support.

CreditEase also may provide us with additional services that we and CreditEase may identify from time to time in the future.

The price to be paid for the services provided under the amended and restated transitional service agreement will be the actual direct and indirect costs of providing such services. Direct costs include compensation and travel expenses attributable to employees, temporary workers, and contractors directly engaged in performing the services, as well as materials and supplies consumed in and agency fees arising from performing the services. Indirect costs include occupancy, information technology support and other overhead costs of the department incurring the direct costs of providing the services.

The amended and restated transitional service agreement provides that the performance of a service according to the agreement will not subject the provider of such service to any liability whatsoever except as directly caused by the gross negligence or willful misconduct of the service provider. Liability for gross negligence or willful misconduct is limited to the lower of the price paid for the particular service or the cost of the service's recipient performing the service itself or hiring a third party to perform the service. Under the amended and restated transitional services agreement, the service provider of each service is indemnified by the recipient against all third-party claims relating to provision of services or the recipient's material breach of a third-party agreement, except where the claim is directly caused by the service provider's gross negligence or willful misconduct.

The service period under the amended and restated transitional services agreement commenced on December 23, 2015, the closing date of our initial public offering, and will end on the earlier of (i) March 25, 2024, the fifth anniversary of March 25, 2019, and (ii) one year after the control ending date. We may terminate the amended and restated transitional services agreement with respect to either all or part of the services by giving a 90-day prior written notice to CreditEase and paying all fees accrued through the termination and costs actually incurred by CreditEase resulting from the early termination. Upon the control ending date, CreditEase may terminate this agreement with respect to either all or part of the services by giving us a 90-day prior written notice.

Amended and Restated Cooperation Framework Agreement

Under the amended and restated cooperation framework agreement, CreditEase agrees to provide us long-term services and support in terms of user acquisition, collection, technology support, business consulting services, credit assessment and management consulting services, internationalization consulting services, and wealth management consulting services. In terms of borrower acquisition, we will submit our request for borrower leads to CreditEase on a monthly basis and CreditEase will direct borrowers who fall within our target borrower group to our online marketplace. As for investor acquisition, CreditEase will, at its discretion, direct to us or share information on any investors it learns may be interested in our online marketplace. The rate of fees, if any, charged by one party to the other party under the cooperation contemplated by this agreement shall not be higher than the fee rate charged by or to any unrelated third party. The fee rate may be adjusted on a yearly basis based on commercial negotiation, and after taking into consideration the costs to CreditEase for providing such services and with reference to market rates. This agreement became effective on March 25, 2019, the date of the amended and restated cooperation framework agreement, and, unless terminated pursuant to the express provisions of the agreement or as agreed by CreditEase and us in writing, will expire on the earlier of (i) March 25, 2034, the fifteenth anniversary of the date of the agreement, or (ii) one year after the control ending date.

Amended and Restated Intellectual Property License Agreement

Under the amended and restated intellectual property license agreement, CreditEase and we grant to each other and each party's respective subsidiaries and the consolidated variable interest entities a worldwide, royalty-free, fully paid-up, non-sublicensable, non-transferable, limited, non-exclusive license of intellectual property owned by the licensing party to use, reproduce, modify, prepare derivative works of, perform, display, or otherwise exploit, except for certain trademarks with regard to which CreditEase agrees to grant us a worldwide, royalty-free, fully paid-up, sublicensable, transferable, unlimited and exclusive license to use, reproduce, modify, prepare derivative works of, perform, display, sublicense, transfer or otherwise exploit, until and unless such trademarks are transferred to our company or any of our subsidiaries or the consolidated variable interest entities.

CreditEase and we also agree, to the extent permitted under applicable laws and regulations, to cooperate in sharing information and data collected from each party's business operation, including without limitation borrower and investor information and credit and loan data, as reasonably requested by the requesting party. This information sharing is free of charge unless otherwise mutually agreed in writing.

This agreement became effective on March 25, 2019, the date of the amended and restated intellectual property license agreement, and, unless terminated pursuant to the express provisions of the agreement or as agreed by CreditEase and us in writing, will expire on the earlier of (i) March 25, 2049, the thirtieth anniversary of the date of the agreement or (ii) one year after the control ending date.

Share Subscription Agreement

On March 25, 2019, we entered into a share subscription agreement with CreditEase. Pursuant to the share subscription agreement, CreditEase transferred to our company certain of its businesses, including online wealth management targeting the mass affluent, unsecured and secured consumer lending, SME lending, and other related services or businesses. At the closing of this transaction on July 10, 2019, we issued 61,981,412 ordinary shares to CreditEase and paid CreditEase RMB258.9 million in cash with the remaining cash consideration of RMB2,626.7 million to be paid by installments afterwards with each payment contingent upon the acquired businesses achieving certain pre-agreed performance targets. We had made a total amount of RMB1,410 million of contingency payments to CreditEase before CreditEase waived the remaining RMB1,217 million contingency payments in December 2019.

Restructuring Agreement

On December 31, 2020, we entered into a restructuring agreement with CreditEase. Pursuant to the restructuring agreement, each of our company and CreditEase has caused the respective subsidiaries or the consolidated variable interest entities to execute and deliver the following agreements on December 31, 2020: (i) the termination agreement to terminate the contractual agreements by and among YouRace Hengchuang, Hengcheng and the shareholders of Hengcheng, including but not limited to the amended and restated equity interest pledge agreements, the powers of attorney, the amended and restated exclusive business cooperation agreement, the amended and restated exclusive option agreement and the amended and restated loan agreements, (ii) the contractual agreements through which CreditEase will conduct the business operations of Hengcheng, and (iii) the second amended and restated non-competition agreement between CreditEase and our company.

In consideration of Yiren Digital obtaining requisite corporate approvals and causing the applicable subsidiaries or the consolidated variable interest entities to execute the relevant agreement, CreditEase had caused its subsidiaries or the consolidated variable interest entities paid an aggregate amount equal to RMB67.0 million to our company's designated subsidiaries or the consolidated variable interest entities at the closing.

Second Amended and Restated Non-competition Agreement

Our second amended and restated non-competition agreement with CreditEase provides for a non-competition period beginning upon December 31, 2020 and ending on the earliest of (i) the first anniversary of the control ending date; (ii) the date on which the ADSs representing ordinary shares of Yiren Digital cease to be listed on Nasdaq or the New York Stock Exchange (except for temporary suspension of trading of the ADSs); and (iii) December 31, 2035, the fifteenth anniversary of December 31, 2020. This agreement can be terminated early by mutual written consent of the parties.

CreditEase agrees not to compete with us during the non-competition period in any of the following business or any business that is of the same nature as the following business, in each case unless as may otherwise be approved in writing by the audit committee of the board of directors of Yiren Digital:

- (i) the online wealth management business targeting the mass affluent (which refer to individuals with RMB1,000,000 to RMB10,000,000 investable financial assets), unsecured and secured consumer lending, financial leasing, small and medium enterprise (SME) lending and other related services and businesses, conducted by the Yiren Digital and its subsidiaries and the consolidated variable interest entities anywhere in the world, and
- (ii) other businesses that we and CreditEase may mutually agree from time to time to be part of the business that CreditEase cannot compete with us.

The second amended and restated non-competition agreement also provides for a mutual non-solicitation obligation that neither CreditEase nor we may, during the non-competition period, hire or solicit for hire, any active employees of or individuals providing consulting services to the other party, or any former employees of or individuals providing consulting services to the other party within six months of the termination of their employment or consulting services, without the other party's consent, except for solicitation activities through generalized non-targeted advertisement not directed to such employees or individuals that do not result in a hiring within the non-competition period.

Transactions with CreditEase Affiliated Entities

Prior to our establishment, our online consumer finance marketplace business was carried out by various subsidiaries and the consolidated variable interest entities of CreditEase, which provided us with origination and servicing, sales and marketing and general and administrative services. Since we completed our carve-out from CreditEase and became a stand-alone company in March 2015, affiliates of CreditEase have continued to provide certain supporting services to us. Expenses of services provided by CreditEase's affiliates were recorded as service expenses charged by related parties in 2019, 2020 and 2021 based on various agreements that we entered into with relevant affiliates of CreditEase.

As part of a business realignment with CreditEase in 2019, we acquired CreditEase Puhui, an entity managing CreditEase's national service network. Our consolidated financial statements for 2019 reflects acquisition of CreditEase Puhui. Accordingly, the borrower acquisition and referral costs incurred by CreditEase Puhui 2019 were not treated as being attributable to CreditEase in our consolidated financial statements for 2019.

The information about costs and expenses incurred for services provided by CreditEase, its subsidiaries and affiliates for the years ended December 31, 2019, 2020 and 2021 is as follows:

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	USD
Customers acquisition and referral services	464,140	387,843	281,633	44,194
System support services	179,458	164,671	135,118	21,203
Credit assessment services	19,025	8,022	56,957	8,938
Collection services	296,493	421,726	17,943	2,816
Rental of equipment	4,384	—	—	—
Management consulting services	3,000	669	—	—
Customer calling center services	—	40,287	—	—
Total costs and expenses	<u>966,500</u>	<u>1,023,218</u>	<u>491,651</u>	<u>77,151</u>

Revenue derived from services provided by us to CreditEase, its subsidiaries and affiliates for the years ended December 31, 2019, 2020 and 2021 is recorded as follows:

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	USD
Customers acquisition and referral service	28,547	138,438	442,570	69,448
Technical services	—	—	85,832	13,469
Post-loan management services	—	—	44,586	6,997
Fund distribution services	113,930	7,004	—	—
Sales of goods	—	—	170	27
Total revenue	<u>142,477</u>	<u>145,442</u>	<u>573,158</u>	<u>89,941</u>

For the years ended December 31, 2019, 2020 and 2021, we provided loans to CreditEase, its subsidiaries and affiliates with amount of RMB710.0 million, nil and nil, respectively. RMB814.5 million, nil and nil were repaid to us for the years ended December 31, 2019, 2020 and 2021, respectively.

For the years ended December 31, 2019, 2020 and 2021, CreditEase, its subsidiaries and affiliates provided loans to us with amount of RMB747.7 million, RMB361.5 million and RMB2.6 million (US\$0.4 million), respectively. RMB108.5 million, nil and RMB29.3 million (US\$4.6 million) were repaid by us for the years ended December 31, 2019, 2020 and 2021, respectively.

Business Relationships in Relation to Trusts

As part of our strategy to expand our institutional investor base, we have established business relationships with trusts, asset backed special plans and funds (collectively referred to as the “assets backed financing entities,” or “ABFEs”) which were administered by third-party trust companies, third-party asset management companies and Zhehao Asset Management (Shanghai) Co., Ltd, or Zhehao, an affiliate of CreditEase. The ABFEs were set up to invest solely in the loans facilitated on our platform and provide returns to the beneficiaries of the ABFEs through interest payments made by the borrowers. Under the arrangements, we normally invest in all of subordinate tranches and portion of senior tranches. We were designated as the service provider for the ABFEs. Through the transaction fees charged, security funds deposited, and direct investment, we have the right to receive benefits or bear losses from the ABFEs.

In the year ended December 31, 2018, Huimin disposed of the delinquent loans repurchased from the trusts upon the liquidation of the trusts to Puze Zhongfu and Shenzhen Tengda, affiliates of CreditEase. The total consideration received from these disposals in the year ended December 31, 2018 was RMB607.5 million. Huimin disposed its beneficiary rights of several trusts to Shenzhen Tengda and CreditEase Qixiang for a total consideration of RMB144.4 million and nil in the year ended December 31, 2019 and 2020, respectively. Since July 2019, Shenzhen Tengda has no longer been a related party of us.

We treat ABFEs as the consolidated variable interest entities under U.S. GAAP for the reasons detailed in “Item 5. Operating and Financial Review and Prospects—E. Critical Accounting Policies, Judgments and Estimates—Basis of Presentation, Combination and Consolidation,” and consolidate the financial results of the Consolidated ABFE in our consolidated financial statements in accordance with U.S. GAAP. The majority of ABFE was disposed of during the year ended December 31, 2019.

Contractual Arrangements with the Consolidated Variable Interest Entities and Their Respective Shareholders

PRC laws and regulations currently restrict foreign ownership and investment in value-added telecommunications services in China. As a result, we operate our relevant business through contractual arrangements among YouRace Hengchuang and Hengyuda, our PRC subsidiaries, Yiren Wealth, Tianjin Linyang and CreditEase Puhui, the consolidated variable interest entities, and the shareholders of Yiren Wealth, Tianjin Linyang and CreditEase Puhui. We also operated relevant business through contractual arrangements among YouRace Hengchuang, Hengcheng and the shareholders of Hengcheng, which had been terminated on December 31, 2020. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the Consolidated Variable Interest Entities.”

Employment Agreements and Indemnification Agreements

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Employment Agreements and Indemnification Agreements.”

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management’s time and attention. For risks and uncertainties relating to the future cases against us, please see “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs—We were previously subject to two shareholder class action lawsuits that were subsequently dismissed. However, we cannot assure you that we will not be subject to other shareholder class action lawsuits in the future.”

Dividend Policy

Our board of directors has discretion on whether to distribute dividends, subject to our memorandum and articles of association and certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always 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. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

On July 29, 2017, our board of directors approved a semi-annual dividend policy. Under this policy, semi-annual dividends were set at an amount equivalent to approximately 15% of our anticipated net income after tax in each half year commencing from the second half of 2017. The determination to declare and pay such semi-annual dividend and the amount of dividend in any particular half year will be made at the discretion of our board of directors and will be based upon our operations and earnings, cash flow, financial condition and other relevant factors that the board may deem appropriate. On July 29, 2017, our board of directors also approved a special cash dividend of US\$0.75 per ordinary share of our company (or US\$1.50 per ADS), which was already paid on October 16, 2017 to holders of our company's ordinary shares of record as of the close of business on September 29, 2017. On March 11, 2018, our board of directors approved another special cash dividend of US\$0.14 per ordinary share of our company (or US\$0.28 per ADS), which was paid on May 15, 2018 to holders of our company's ordinary shares of record as of the close of business on April 30, 2018. In August 2018, our board of directors decided to temporarily suspend the semi-annual dividend policy in consideration of a challenging market environment with business uncertainties.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Dividend Distribution" and "Item 10. Additional Information—E. Taxation—People's Republic of China Taxation."

If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, 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—D. American Depositary Shares." Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, 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

A. Offering and Listing Details

Our ADSs, each representing two of our ordinary shares, have been listed and traded on the NYSE under the symbol "YRD" since December 18, 2015.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs have been listed on the NYSE since December 18, 2015 under the symbol "YRD."

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We are a Cayman Islands exempted company with limited liability and our affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and the Companies Act (As Revised) of the Cayman Islands, which is referred to as the Companies Act below, and the common law of the Cayman Islands.

The following are summaries of material provisions of our memorandum and articles of association, insofar as they relate to the material terms of our ordinary shares.

Ordinary Shares. Our ordinary shares are issued in registered form and are issued when registered in our register of members. Our shareholders who are not residents of the Cayman Islands may freely hold and vote their shares.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. In addition, our shareholders may by an ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or our share premium account, provided that a dividend may not 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.

Voting Rights. In respect of all matters subject to a shareholders' vote, each ordinary share is entitled to one vote. Voting at any shareholders' meeting is by show of hands unless before, or on the declaration of the result of, the show of hands, a poll is demanded. A poll may be demanded by the chairman of such meeting or any one or more shareholders who together hold not less than 10% in par value of the issued ordinary shares carrying the right to attend and vote at the general meeting present in person or by proxy. Each shareholder is entitled to one vote for each ordinary share registered in his or her name on our register of members.

A quorum required for a meeting of shareholders consists of one or more shareholders present and holding shares which represent, in aggregate, not less than one-third of the votes attaching to all issued and outstanding shares in our company entitled to vote at shareholders' meeting. Shareholders may be present in person or by proxy or, if the shareholder is a legal entity, by its duly authorized representative. Shareholders' meetings may be convened by our board of directors on its own initiative or by the chairman of our board of directors or upon a request to the directors by shareholders holding shares which represent, in aggregate, no less than one-third of the votes attaching to our voting share capital in issue. Advance notice of at least seven days is required for the convening of our annual general shareholders' meeting and any other general shareholders' meeting.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Act and our memorandum and articles of association. A special resolution will be required for important matters such as a change of name or making changes to our memorandum or articles of association. Holders of the ordinary shares may, among other things, divide or consolidate their shares by ordinary resolution.

Transfer of Ordinary Shares. Subject to the restrictions set out below, 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 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 three 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 requirements of the NYSE, be suspended and the register 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 closed for more than 30 days in any year.

Liquidation. On a winding up of our company, if the assets available for distribution among our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus will be distributed among 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 in proportion to the par value of the shares held by them. We are a “limited liability” company incorporated under the Companies Act, and under the Companies Act, the liability of our members is limited to the amount, if any, unpaid on the shares respectively held by them. Our memorandum of association contains a declaration that the liability of our members is so limited.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Ordinary Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by a special resolution of our shareholders. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors or by ordinary resolution of our shareholders, or are otherwise authorized by our memorandum and articles of association. Under the Companies Act, the redemption or repurchase of any share may be paid out of our company’s profits or out of the proceeds of a fresh 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 the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act 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. The rights attached to any class of shares (subject to any rights or restrictions for the time being attached to any class) may be varied with the consent in writing of the holders of a majority of the issued shares of that class or with the sanction of a special resolution passed at a separate 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 or in priority or subsequent such existing class of shares or the redemption or purchase of such existing class of shares. In addition, the right of holders of shares shall not be deemed to be varied by the creation or issue of shares with preferred or other rights including, without limitation, the creation of shares with enhanced or weighted voting rights.

Issuance of Additional Shares. Our memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our memorandum and articles of association also authorizes our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preferred shares without action by our shareholders to the extent of available authorized but unissued shares. Issuance of these shares may dilute the voting power of holders of ordinary shares.

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 our memorandum and articles of association, our register of mortgages and charges and special resolutions of our shareholders). However, we will provide our shareholders with annual audited financial statements.

Anti-Takeover Provisions. Some provisions of our memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

General Meetings of Shareholders and Shareholder Proposals. Our shareholders' general meetings may be held in such place within or outside the Cayman Islands as our board of directors considers appropriate.

As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our 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.

Shareholders' annual general meetings and any other general meetings of our shareholders may be convened by a majority of our board of directors or our chairman. Our board of directors shall give not less than seven days' written notice of a shareholders' meeting to those persons whose names appear as members in our register of members on the date the notice is given (or on any other date determined by our directors to be the record date for such meeting) and who are entitled to vote at the meeting.

Cayman Islands 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 memorandum and articles of association allow our shareholders holding shares representing in aggregate not less than one-third of the votes attaching to all of our issued and outstanding ordinary shares which, as at that date of the deposit, carry the right to vote at general meetings of our company, to requisition an extraordinary general meeting of our shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our 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.

Election and Removal of Directors. Unless otherwise determined by our company in general meeting, our memorandum and articles of association provide that our board will consist of not less than three directors. There are no provisions relating to retirement of directors upon reaching any age limit.

The directors have the power to appoint any person as a director either to fill a casual vacancy on the board or as an addition to the existing board. Our shareholders may also appoint any person to be a director by way of ordinary resolution.

A director may be removed with or without cause by ordinary resolution.

In addition, the office of any director shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors, (ii) dies or is found to be or becomes of unsound mind, (iii) resigns his office by notice in writing to our company, (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our board resolves that his office be vacated, or (v) is removed from office pursuant to any other provision of our memorandum and articles of association.

Proceedings of Board of Directors. Our memorandum and articles of association provide that our business is to be managed and conducted by our board of directors. The quorum necessary for board meetings may be fixed by the board and, unless so fixed at another number, will be a majority of the directors then in office.

Our memorandum and articles of association provide that the board may from time to time at its discretion exercise all powers of our company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of our company and issue debentures and other securities of our company, whether outright or as collateral security for any debt, liability or obligation of our company or of any third party.

Changes in Capital. Our shareholders may from time to time by ordinary resolution:

- increase our 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, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; 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 cancelled.

Our shareholders may by special resolution, subject to confirmation by the Grand Court of the Cayman Islands on an application by our company for an order confirming such reduction, 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 under the Companies Act. The Companies Act 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 that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;

- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- 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 (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Register of Members. Under Cayman Islands law, we must keep a register of members and there should be entered therein:

- the names and addresses of the members, together with a statement of the shares held by each member, and such statement shall confirm (i) the amount paid or agreed to be considered as paid, on the shares of each member, (ii) the number and category of shares held by each member, and (iii) whether each relevant category of shares held by each member carries voting rights under our articles of association, and if so, whether such voting rights are conditional;
- the date on which the name of any person was entered on the register as a member; and
- the date on which any person ceased to be a member.

Under Cayman Islands law, the register of members of our company is prima facie evidence of the matters set out therein (i.e., the register of members will raise a presumption of fact on the matters referred to above unless rebutted) and a member registered in the register of members is deemed as a matter of Cayman Islands law to have legal title to the shares as set against its name in the register of members.

If the name of any person is incorrectly entered in or omitted from our register of members, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a member of our company, the person or member aggrieved (or any member of our company or our company itself) may apply to the Grand Court of the Cayman Islands for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

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,” “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions,” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Foreign Exchange.”

E. Taxation

The following summary of the principal Cayman Islands, PRC and U.S. federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, the People’s Republic of China and the United States.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. 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. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of the 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 shares, nor will gains derived from the disposal of the shares be subject to Cayman Islands income or corporation tax.

People's Republic of China Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued a circular, known as Circular 82 and amended in December 2017, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC. Further to Circular 82, the SAT issued a bulletin, known as the Bulletin 45, which took effect in September 2011 and amended in 2015, 2016 and 2018, respectively, to provide more guidance on the implementation of Circular 82. Bulletin 45 provides for procedures and administration details of determination on PRC resident enterprise status and administration on post-determination matters. Although Circular 82 and Bulletin 45 only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in Circular 82 and Bulletin 45 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 all offshore enterprises.

The State Administration of Taxation issued the Notice on Promulgating the Administrative Measures for Special Tax Investigation Adjustments and Mutual Agreement Procedures, or Notice 6, on March 17, 2017. Notice 6 further regulates and strengthens the transfer pricing administration on outbound payments by a PRC enterprise to its overseas related parties. In addition to emphasizing that outbound payments by a PRC enterprise to its overseas related parties must comply with arm’s length principles, Notice 6 specifies certain circumstances whereby such payments that do not comply with arm’s length principles may be subject to the special tax adjustments by the tax authority, including payments to an overseas related party which does not undertake any function, bear any risk or has no substantial operation or activities, payments for services which do not enable the PRC enterprise to obtain direct or indirect economic benefits, royalties paid to an overseas related party which only owns the legal rights of the intangible assets but has no contribution to the value of such intangible assets, royalties paid to an overseas related party for the transfer of the right to use of the intangible assets with no economic benefits, and royalties paid to an overseas related party for the incidental benefits generated from the listing activities. Although we believe all our related party transactions, including all payments by our PRC subsidiaries and the consolidated variable interest entities to our non-PRC entities, are made on an arm’s length basis and our estimates are reasonable, the ultimate decisions by the relevant tax authorities may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. We do not believe that Yiren Digital Ltd. meets all of the conditions above. Yiren Digital Ltd. is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. 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.” There can be no assurance that the PRC government will ultimately take a view that is consistent with us.

However, if the PRC tax authorities determine that Yiren Digital Ltd. is a PRC resident enterprise for enterprise income tax purposes, we may be subject to the special tax adjustments conducted by the PRC tax authority and be further required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of Yiren Digital Ltd. would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that Yiren Digital Ltd. is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, Yiren Digital Ltd., is not deemed to be a PRC resident enterprise, holders of our ADSs and ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. However, under Circular 7, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee or the PRC entity which directly owned such taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under Circular 7, and we may be required to expend valuable resources to comply with Circular 7, or to establish that we should not be taxed under these circulars. See “3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.”

United States Federal Income Tax Considerations

The following discussion is a summary of United States federal income tax considerations relating to the ownership and disposition of our ADSs or ordinary shares by a U.S. holder (as defined below) that holds our ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended (the “Code”). This discussion is based upon existing United States federal income tax law, which is subject to differing interpretations and may be changed, possibly with retroactive effect. There can be no assurance that the Internal Revenue Service (the “IRS”) or a court will not take a contrary position. This discussion does not address all aspects of United States federal income taxation that may be important to particular investors in light of their individual circumstances, including investors subject to special tax rules (for example, certain financial institutions, insurance companies, broker-dealers, pension plans, cooperatives, traders in securities that have elected the mark-to-market method of accounting for their securities, United States expatriates, partnerships and their partners, regulated investment companies, real estate investment trusts, and tax-exempt organizations (including private foundations)), investors who are not U.S. holders, holders who own (directly, indirectly, or constructively) 10% or more of our stock (by vote or value), investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for United States federal income tax purposes, persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation, or investors that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this discussion does not discuss any non-United States, alternative minimum tax, state, or local tax considerations, or the Medicare tax on net investment income. Each U.S. holder is urged to consult its tax advisors regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our ADSs or ordinary shares.

General

For purposes of this discussion, a “U.S. holder” is a beneficial owner of our ADSs or ordinary shares that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the laws of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person under applicable United States Treasury regulations.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or ordinary shares and partners in such partnerships are urged to consult their tax advisors as to the particular United States federal income tax consequences of an investment in our ADSs or ordinary shares.

For United States federal income tax purposes, a U.S. holder of ADSs will generally be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. holder of our ADSs will be treated in this manner. Accordingly, deposits or withdrawals of ordinary shares for ADSs will generally not be subject to United States federal income tax.

Passive Foreign Investment Company Considerations

A non-United States corporation, such as our company, will be a “passive foreign investment company,” or “PFIC,” for United States federal income tax purposes, if, in any particular taxable year, either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. Cash is categorized as a passive asset and the company’s unbooked intangibles associated with active business activities may generally be classified as active assets. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

Although the law in this regard is unclear, we intend to treat the consolidated variable interest entities as being owned by us for United States federal income tax purposes, not only because we conduct the business operations of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. Based on the market price of our ADSs and the nature and composition of our assets (in particular the retention of a substantial amount of cash), we believe that we were a PFIC for United States federal income tax purposes for our taxable year ended December 31, 2021, and we will likely be a PFIC for our current taxable year unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income.

If we are a PFIC for any year during which a U.S. holder holds our ADSs or ordinary shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or ordinary shares even if we cease to meet the threshold requirements for PFIC status, unless a U.S. holder makes a taxable “deemed sale” election that may allow the U.S. holder to eliminate the continuing PFIC status under certain circumstances.

The discussion below under “Dividends” and “Sale or Other Disposition of ADSs or Ordinary Shares” is written on the basis that we will not be or become a PFIC for United States federal income tax purposes. The United States federal income tax rules that apply if we are a PFIC for the current taxable year or any subsequent taxable year are generally discussed below under “Passive Foreign Investment Company Rules.”

Dividends

Subject to the PFIC rules discussed below, any cash distributions (including the amount of any tax withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under United States federal income tax principles, will generally be includible in the gross income of a U.S. holder as dividend income on the day actually or constructively received by the U.S. holder, in the case of ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be reported as a “dividend” for United States federal income tax purposes. A non-corporate recipient of dividend income will generally be subject to tax on dividend income from a “qualified foreign corporation” at a reduced United States federal tax rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period requirements are met.

A non-United States corporation (other than a corporation that is a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) will generally be considered to be a qualified foreign corporation (a) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (b) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Our ADSs are listed on the NYSE, and thus we believe that we are a qualified foreign corporation with respect to dividends paid on the ADSs. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in the current taxable year or future taxable years.

Since we do not expect that our ordinary shares will be listed on an established securities market, we do not believe that dividends that we pay on our ordinary shares that are not represented by ADSs currently meet the conditions required for the reduced tax rate. In the event we are deemed to be a resident enterprise under the PRC Enterprise Income Tax Law, we may be eligible for the benefits of the United States-PRC income tax treaty (the “Treaty”), which the U.S. Treasury Department has determined is satisfactory for this purpose, and in that case we would be treated as a qualified foreign corporation with respect to dividends paid on our ordinary shares or ADSs. Each non-corporate U.S. holder is advised to consult its tax advisors regarding the availability of the reduced tax rate applicable to qualified dividend income for any dividends we pay with respect to our ADSs or ordinary shares. Dividends received on the ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations.

Dividends will generally be treated as income from foreign sources for United States foreign tax credit purposes and will generally constitute passive category income. In the event that we are deemed to be a PRC “resident enterprise” under the Enterprise Income Tax Law, a U.S. holder may be subject to PRC withholding taxes on dividends paid on our ADSs or ordinary shares. (See “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation”) In that case, a U.S. holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any non-refundable foreign withholding taxes imposed on dividends received on ADSs or ordinary shares. A U.S. holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which such U.S. holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. holders are advised to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

As mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2021, and we will likely be classified as a PFIC for our current taxable year. U.S. holders are urged to consult their tax advisors regarding the availability of the reduced tax rate on dividends with respect to the ADSs or ordinary shares in their particular circumstances.

Sale or Other Disposition of ADSs or Ordinary Shares

Subject to the PFIC rules discussed below, a U.S. holder will generally recognize capital gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the U.S. holder’s adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes, which will generally limit the availability of foreign tax credits. Long-term capital gain of non-corporate U.S. holders is generally eligible for a reduced rate of taxation. The deductibility of a capital loss may be subject to limitations.

As described in “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation,” if we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, gains from the disposition of the ADSs or ordinary shares may be subject to PRC income tax and will generally be United States source, which may limit the ability to receive a foreign tax credit. If a U.S. holder is eligible for the benefits of the Treaty, such holder may be able to elect to treat such gain as PRC source income under the Treaty. Pursuant to recently issued United States Treasury regulations, however, if a U.S. holder is not eligible for the benefits of the Treaty or does not elect to apply the Treaty, then such holder may not be able to claim a foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or ordinary shares. The rules regarding foreign tax credits and deduction of foreign taxes are complex. U.S. holders should consult their tax advisors regarding the availability of a foreign tax credit or deduction in light of their particular circumstances, including their eligibility for benefits under the Treaty, and the potential impact of the recently issued United States Treasury regulations.

As mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2021, and we will likely be classified as a PFIC for our current taxable year. U.S. holders are urged to consult their tax advisors regarding the tax considerations of the sale or other disposition of the ADSs or Class A ordinary shares in their particular circumstances.

Passive Foreign Investment Company Rules

As mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2021, and we will likely be classified as a PFIC for our current taxable year. If we are a PFIC for any taxable year during which a U.S. holder holds our ADSs or ordinary shares, and unless the U.S. holder makes a mark-to-market election (as described below), the U.S. holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, for subsequent taxable years, on (i) any excess distribution that we make to the U.S. holder (which generally means any distribution paid during a taxable year to a U.S. holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. holder's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of ADSs or ordinary shares. Under the PFIC rules:

- such excess distribution and/or gain will be allocated ratably over the U.S. holder's holding period for the ADSs or ordinary shares;
- such amount allocated to the current taxable year and any taxable years in the U.S. holder's holding period prior to the first taxable year in which we are a PFIC, or pre-PFIC year, will be taxable as ordinary income;
- such amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to the U.S. holder for that year; and
- an interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than a pre-PFIC year.

If we are a PFIC for any taxable year during which a U.S. holder holds our ADSs or ordinary shares and any of our non-United States subsidiaries is also a PFIC, such U.S. holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. holders are advised to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, a U.S. holder of "marketable stock" in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment described above. "Marketable stock" is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter ("regularly traded") on a qualified exchange or other market, as defined in applicable Treasury regulations. Our ADSs are listed on the NYSE, which is a qualified exchange for these purposes. Therefore, if we are or were to become a PFIC, a U.S. holder generally will be eligible to make a mark-to-market election with respect to our ADSs, provided that the ADSs are regularly traded.

If a mark-to-market election is made, the U.S. holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. holder makes an effective mark-to-market election, in each year that we are a PFIC any gain recognized upon the sale or other disposition of the ADSs will be treated as ordinary income and loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If a U.S. holder makes a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer treated as marketable stock or the IRS consents to the revocation of the election. It should be noted that only the ADSs and not the ordinary shares are listed on the NYSE. Consequently, if a U.S. holder holds ordinary shares that are not represented by ADSs, such holder generally will not be eligible to make a mark-to-market election if we are or were to become a PFIC. If a U.S. holder makes a mark-to-market election in respect of a PFIC and such corporation ceases to be a PFIC, the U.S. holder will not be required to take into account the mark-to-market gain or loss described above during any period that such corporation is not a PFIC.

Because a mark-to-market election cannot technically be made for any lower-tier PFICs that a PFIC may own, a U.S. holder who makes a mark-to-market election with respect to our ADSs may continue to be subject to the general PFIC rules with respect to such U.S. holder's indirect interest in any of our non-United States subsidiaries if any of them is a PFIC.

We do not intend to provide information necessary for U.S. holders to make qualified electing fund elections, which, if available, would result in tax treatment different from the general tax treatment for PFICs described above.

If a U.S. holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, such holder would generally be required to file an annual IRS Form 8621. Each U.S. holder is advised to consult its tax advisors regarding the potential tax consequences to such holder if we are or become a PFIC, including the possibility of making a mark-to-market election.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We previously filed with the SEC our registration statement on Form F-1 (Registration No. 333-208056), as amended, including the annual report contained therein, to register the issuance and sale of our ordinary shares represented by ADSs in relation to our initial public offering. We have also filed with the SEC the registration statement on Form F-6 (Registration No. 333-208437) to register our ADSs.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers, and are required to file reports and other information with the SEC. Specifically, we are required to file annually an annual report on Form 20-F within four months after the end of each fiscal year, which is December 31. All information filed with the SEC can be obtained over the internet at the SEC's website at www.sec.gov. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Deutsche Bank Trust Company Americas, 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.

I. Subsidiary Information

Not applicable.

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 reporting currency was the U.S. dollar prior to April 1, 2016. In our consolidated financial statements prepared before April 1, 2016, our financial information that used RMB as the functional currency had been translated into U.S. dollars. Effective from April 1, 2016, we changed our reporting currency from the U.S. dollar to RMB. Due to foreign currency translation adjustments, we had a foreign currency translation adjustment of a gain of RMB1.6 million, a loss of RMB8.3 million and a loss of RMB3.2 million (US\$0.5 million) in 2019, 2020 and 2021, respectively. Appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between 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.

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. However, we cannot provide assurance that we will not be exposed to material risks due to changes in market interest rate in the future. We currently invest our cash in interest-earning instruments. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

Inflation

To date, inflation in China has not materially impacted 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 2019, 2020 and 2021 were increases of 4.5%, 0.2% and 1.5%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

Item 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

As an ADS holder, you will be required to pay the following service fees to the depository bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs):

Service	Fees
· To any person to which ADSs are issued or to any person to which a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)	Up to US\$0.05 per ADS issued
· Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US\$0.05 per ADS cancelled
· Distribution of cash dividends	Up to US\$0.05 per ADS held
· Distribution of cash entitlements (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other entitlements	Up to US\$0.05 per ADS held
· Distribution of ADSs pursuant to exercise of rights.	Up to US\$0.05 per ADS held
· Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US\$0.05 per ADS held
· Depository services	Up to US\$0.05 per ADS held on the applicable record date(s) established by the depository bank

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs) such as:

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

The depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to pay certain amounts to us in exchange for its appointment as depositary. We may use these funds towards our expenses relating to the establishment and maintenance of the ADR program, including investor relations expenses, or otherwise as we see fit. The depositary may pay us a fixed amount, it may pay us a portion of the fees collected by the depositary from holders of ADSs, and it may pay specific expenses incurred by us in connection with the ADR program. Neither the depositary nor we may be able to determine the aggregate amount to be paid to us because (i) the number of ADSs that will be issued and outstanding and the level of dividend and/or servicing fees to be charged may vary, and (ii) our expenses related to the program may not be known at this time. For the year ended December 31, 2021, we did not receive any reimbursement from the depositary.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

See “Item 10. Additional Information—B. Memorandum and Articles of Association—Ordinary Shares” for a description of the rights of securities holders, which remain unchanged.

The following “Use of Proceeds” information relates to the registration statement on Form F-1 (File No. 333-208056), as amended, in relation to our initial public offering, which was declared effective by the SEC on December 17, 2015. In December 2015, we completed our initial public offering in which we issued and sold an aggregate of 7,500,000 ADSs, representing 15,000,000 ordinary shares, resulting in net proceeds to us of approximately US\$64.9 million. Morgan Stanley & Co. International plc, Credit Suisse Securities (USA) LLC and China Renaissance Securities (Hong Kong) Limited were the representatives of the underwriters for our initial public offering. The total underwriting discounts and commissions relating to the initial public offering amounted to approximately US\$5.9 million.

For the period from December 17, 2015, the date that the F-1 Registration Statement was declared effective by the SEC, to December 31, 2021, we used US\$6.4 million in the net proceeds from our initial public offering for repurchasing ADSs from the open market.

We intend to use the proceeds from our initial public offering, as disclosed in our registration statements on Form F-1, for (i) general corporate purposes, including investments in product development, sales and marketing activities, technology infrastructure, capital expenditure, improvement of corporate facilities and other general and administrative matters, and (ii) acquisition of, or investment in, technologies, solutions or business that complement our business.

Item 15. Controls and Procedures

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, 2021, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish 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.

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 13a15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Exchange Act, based on criteria established in the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2021.

Designing and implementing an effective financial reporting system is a continuous effort that requires us to devote significant resources to maintain a financial reporting system that adequately satisfies our reporting obligation.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting 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 and procedures may deteriorate.

Attestation Report of the Registered Public Accounting Firm

This annual report on Form 20-F does not include an attestation report of our registered public accounting firm because our company is neither an accelerated filer nor a large accelerated filer, as such terms are defined in Rule 12b-2 under the Exchange Act.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or 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. Sam Hanhui Sun, an independent director (under the standards set forth under Section 303A of the Corporate Governance Rules of the New York Stock Exchange and Rule 10A-3 under the Exchange Act) and member of our audit committee, is an audit committee financial expert.

Item 16B. Code of Ethics

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees in September 2015. We have posted a copy of our code of business conduct and ethics on our website at <https://ir.yirendai.com/>.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by our independent registered public accounting firms for the periods indicated.

	2020	2021
	RMB	RMB
	(in thousands)	
Audit fees	19,500	19,874
Audit-related fees	570	1,290
Tax fees	335	—
All other fees	—	—

- (1) “Audit fees” represent the aggregate fees billed for professional services rendered by our principal auditor for the audit of our annual financial statements and the review of our comparative interim financial statements, including audit fees relating to our initial public offering in 2021.
- (2) “Audit-related fees” represent the aggregate fees billed for assurance and related services rendered by our auditor.
- (3) “Tax fees” represents the aggregate fees billed in each of the fiscal years listed for the professional tax services rendered by our auditor.
- (4) “All other fees” represents the aggregate fees billed in each of the fiscal years listed for services rendered by our auditor other than services reported under “Audit fees”, “Audit-related fees” and “Tax fees.”
- (5) On December 13, 2021, we engaged KPMG Huazhen LLP (“KPMG”) as our independent registered public accounting firm, and dismissed Deloitte Touche Tohmatsu Certified Public Accountants LLP (“Deloitte”). The fees for 2020 had been already paid to Deloitte. See also “Item 16F. Change in Registrant’s Certifying Accountant.”

(6) On April 28, 2022, we engaged Wei Wei as our independent registered public accounting firm, and dismissed KPMG. The fees for 2021 had been already paid to KPMG. See also “Item 16F. Change in Registrant’s Certifying Accountant.”

The policy of our audit committee is to pre-approve all audit and non-audit services provided by our independent registered public accounting firms, including audit services, audit-related services, tax services and other services as described above, other than those for de minimis services which are approved by the audit committee prior to the completion of the audit.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In June 2018, our board of directors approved a share repurchase program, whereby we are authorized to repurchase up to US\$20.0 million of our ordinary shares in the form of ADSs. The share repurchase program was publicly announced on June 11, 2018. The table below sets forth a summary of the ADSs repurchased by us in 2021. In addition, we did not repurchase any ADSs in the open market pursuant to the share repurchase programs between January 1, 2022 and the date of this annual report. In September 2022, our board of directors adopted a share repurchase program, which approves and authorizes us to repurchase through one or more transactions up to US\$20 million worth of our ADSs representing our ordinary shares. The share repurchase program previously adopted in 2018 has been simultaneously terminated.

Period	Total Number of ADSs Purchased	Average Price Paid Per ADS (US\$)	Total Number of ADSs Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plan (US\$)
August 2021	23,562	3.5038	23,562	13,981,880
September 2021	85,000	3.3177	85,000	13,699,877
October 2021	20,000	3.0673	20,000	13,638,531
Total	128,562	3.3128	128,562	13,638,531

Item 16F. Change in Registrant’s Certifying Accountant

On December 13, 2021, we replaced Deloitte Touche Tohmatsu Certified Public Accountants LLP (“Deloitte”) as our independent registered public accounting firm. We engaged KPMG Huazhen LLP (“KPMG”) as our independent registered public accounting firm. The change of our independent registered public accounting firm has been approved by the board of director and the audit committee of our board. The decision to replace Deloitte was not made due to any disagreements between us and Deloitte.

The reports of Deloitte on our consolidated financial statements for the fiscal years ended December 31, 2019 and 2020 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

During the fiscal year ended December 31, 2020 and the subsequent interim period through December 13, 2021, there have been no (i) disagreements between us and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or audit scope or procedure, which disagreements if not resolved to the satisfaction of Deloitte would have caused them to make reference thereto in their reports on the consolidated financial statements for such years, or (ii) reportable events as defined in Item 16F(a)(1)(v) of the instructions to Form 20-F.

We have provided Deloitte with a copy of the disclosures hereunder and required under Item 16F of Form 20-F and requested from Deloitte a letter addressed to the SEC indicating whether it agrees with such disclosures. A copy of Deloitte’s letter dated September 21, 2022 is attached as Exhibit 16.1.

During the fiscal years ended December 31, 2019 and 2020, and the subsequent interim period through December 13, 2021, neither we nor anyone on behalf of us has consulted with KPMG regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that KPMG concluded was an important factor considered by us in reaching a decision as to any accounting, audit, or financial reporting issue, (ii) any matter that was the subject of a disagreement

pursuant to Item 16F(a)(1)(iv) of the instructions to Form 20-F, or (iii) any reportable event pursuant to Item 16F(a)(1)(v) of the instructions to Form 20-F.

On April 28, 2022, we dismissed KPMG, and on the same date, we appointed Wei Wei, as our independent registered public accounting firm for the year ended December 31, 2021. The change of our independent registered public accounting firm had been approved by the board of director and the audit committee of our board, and the decision was not made due to any disagreements between us and KPMG. KPMG has never issued an audit report on our consolidated financial statements.

During the fiscal years ended December 31, 2020 and 2021 and the subsequent interim period through April 28, 2022, there were no (i) disagreements between us and KPMG on any matter of accounting principles or practices, financial statement disclosure, or audit scope or procedure, which disagreements if not resolved to the satisfaction of KPMG would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (ii) reportable events pursuant to Item 16F(a)(1)(v) of the instructions to Form 20-F, except that KPMG has advised us, subject to further evidence and assessments, on whether certain entities, which had not been disclosed to KPMG by us as related parties, should be deemed as our related parties. Such matters may have pervasive impact on the disclosures of related party transactions and certain financial statement captions including revenues and expenses, and at the time of KPMG's dismissal, we did not provide adequate information for KPMG to resolve the abovementioned matters to their satisfaction. No conclusions had been reached before we dismissed KPMG as our independent registered public accounting firm.

We have provided KPMG with a copy of the disclosures hereunder and required under Item 16F of Form 20-F and requested from KPMG a letter addressed to the SEC indicating whether it agrees with such disclosures. A copy of KPMG's letter dated April 29, 2022 is attached as Exhibit 16.2.

During the fiscal years ended December 31, 2020 and 2021 and the subsequent interim period through April 28, 2022, neither we nor anyone on behalf of us has consulted with Wei Wei regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that Wei Wei concluded was an important factor considered by us in reaching a decision as to any accounting, audit, or financial reporting issue, (ii) any matter that was the subject of a disagreement pursuant to Item 16F(a)(1)(iv) of the instructions to Form 20-F, or (iii) any reportable event pursuant to Item 16F(a)(1)(v) of the instructions to 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. As of June 30, 2022, CreditEase held more than 50% of our total voting power. As a result, we are a “controlled company” under Section 303A of the NYSE Listed Company Manual. As a controlled company, we rely on certain exemptions that are available to controlled companies from the NYSE corporate governance requirements, including the requirement that a majority of our board of directors consist of independent directors.

In addition, 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. We rely on the exemption available to foreign private issuers for the requirements in terms of (i) shareholder approval of equity compensation plans and any material revisions to the terms of such plans under Section 303A.08 of the NYSE Listed Company Manual, (ii) shareholder approval of issuance of common stock in any transaction or series of related transactions under Section 312.03 of the NYSE Listed Company Manual, and (iii) the requirement of holding an annual meeting during each fiscal year under Section 302.00 of the NYSE Listed Company Manual. As a result of our election to follow home country practice with respect to the foregoing matters, our shareholders will not have the same protection that 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 Related to Our American Depositary Shares—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.” Other than the home country practice disclosed above, we have followed and intend to continue to follow the applicable corporate governance standards under the NYSE Listed Company Manual.

Item 16H. Mine Safety Disclosure

Not applicable.

Item 16I. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections

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 Yiren Digital Ltd., its subsidiaries and the consolidated variable interest entities are included at the end of this annual report.

Item 19. Exhibits

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015)
2.1	Registrant's Specimen American Depositary Receipt (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form F-1 (File No. 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015)
2.2	Registrant's Specimen Certificate for Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015)
2.3	Deposit Agreement dated December 18, 2015 among the Registrant, the depository and holders of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8, as amended (File No. 333-212056) filed with the Securities and Exchange Commission on June 16, 2016)
2.4	Description of securities of the Registrant registered under Section 12 of the Securities Exchange Act of 1934 (incorporated herein by reference to Exhibit 2.4 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on May 15, 2020)
4.1	2015 Share Incentive Plan (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1 (File No. 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015)
4.2	2017 Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form S-8 (File No. 333-219404), filed with the Securities and Exchange Commission on July 21, 2017)
4.3	2020 Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form S-8 (File No. 333-248640), filed with the Securities and Exchange Commission on September 8, 2020)
4.4	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015)
4.5	Form of Director Agreement between the Registrant and its independent directors (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 (File No. 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015)
4.6	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015)

[Table of Contents](#)

Exhibit Number	Description of Document
4.7	Master Transaction Agreement between CreditEase Holdings (Cayman) Limited and the Registrant dated November 9, 2015 (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015)
4.8	Amended and Restated Transitional Services Agreement between CreditEase Holdings (Cayman) Limited and the Registrant dated March 25, 2019 (incorporated herein by reference to Exhibit 4.7 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2019)
4.9	Amended and Restated Cooperation Framework Agreement between CreditEase Holdings (Cayman) Limited and the Registrant dated March 25, 2019 (incorporated herein by reference to Exhibit 4.9 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2019)
4.10	Amended and Restated Intellectual Property License Agreement between CreditEase Holdings (Cayman) Limited and the Registrant dated March 25, 2019 (incorporated herein by reference to Exhibit 4.10 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2019)
4.11	Restructuring Agreement between CreditEase Holdings (Cayman) Limited and the Registrant dated December 31, 2020 (incorporated herein by reference to Exhibit 4.11 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.12	Second Amended and Restated Non-competition Agreement between CreditEase Holdings (Cayman) Limited and the Registrant dated December 31, 2020 (incorporated herein by reference to Exhibit 4.12 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.13	Loan Agreement and Amended and Restated Loan Agreements, dated December 19, 2019, between Hengyuda and the shareholders of Yiren Wealth (incorporated herein by reference to Exhibit 4.16 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on May 15, 2020)
4.14	Equity Interest Pledge Agreement and Amended and Restated Equity Interest Pledge Agreements, dated December 19, 2019, among Hengyuda, Yiren Wealth and the shareholders of Yiren Wealth (incorporated herein by reference to Exhibit 4.17 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on May 15, 2020)
4.15	Powers of Attorney granted to Hengyuda by the shareholders of Yiren Wealth, dated December 19, 2019 (incorporated herein by reference to Exhibit 4.18 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on May 15, 2020)
4.16	Exclusive Business Cooperation Agreement between Hengyuda and Yiren Wealth dated October 13, 2016 (incorporated herein by reference to Exhibit 4.19 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 24, 2017)
4.17	Exclusive Option Agreement and Amended and Restated Exclusive Option Agreements, dated December 19, 2019, among Hengyuda, Yiren Wealth and the shareholders of Yiren Wealth (incorporated herein by reference to Exhibit 4.20 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on May 15, 2020)
4.18	Loan Agreements, dated April 21, 2021, between YouRace Hengchuang (formerly known as Yiren Hengye Technology Development (Beijing) Co., Ltd.) and the shareholders of Tianjin Linyang (incorporated herein by reference to Exhibit 4.18 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.19	Equity Interest Pledge Agreements, dated April 21, 2021, among YouRace Hengchuang (formerly known as Yiren Hengye Technology Development (Beijing) Co., Ltd.), Tianjin Linyang and the shareholders of Tianjin Linyang (incorporated herein by reference to Exhibit 4.19 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)

[Table of Contents](#)

Exhibit Number	Description of Document
4.20	Powers of Attorney granted to YouRace Hengchuang (formerly known as Yiren Hengye Technology Development (Beijing) Co., Ltd.) by the shareholders of Tianjin Linyang, dated April 21, 2021 (incorporated herein by reference to Exhibit 4.20 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.21	Exclusive Business Cooperation Agreement, dated April 21, 2021, between YouRace Hengchuang (formerly known as Yiren Hengye Technology Development (Beijing) Co., Ltd.) and Tianjin Linyang (incorporated herein by reference to Exhibit 4.21 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.22	Exclusive Option Agreements, dated April 21, 2021, among YouRace Hengchuang (formerly known as Yiren Hengye Technology Development (Beijing) Co., Ltd.), Tianjin Linyang and the shareholders of Tianjin Linyang (incorporated herein by reference to Exhibit 4.22 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.23	Loan Agreements, dated October 27, 2020, between YouRace Hengchuang and the shareholders of CreditEase Puhui (incorporated herein by reference to Exhibit 4.23 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.24	Equity Interest Pledge Agreements, dated October 27, 2020, among YouRace Hengchuang, CreditEase Puhui and the shareholders of CreditEase Puhui (incorporated herein by reference to Exhibit 4.24 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.25	Powers of Attorney granted to YouRace Hengchuang by the shareholders of CreditEase Puhui, dated October 27, 2020 (incorporated herein by reference to Exhibit 4.25 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.26	Exclusive Business Cooperation Agreement, dated October 27, 2020, between YouRace Hengchuang and CreditEase Puhui (incorporated herein by reference to Exhibit 4.26 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.27	Exclusive Option Agreements, dated October 27, 2020, among YouRace Hengchuang, CreditEase Puhui and the shareholders of CreditEase Puhui (incorporated herein by reference to Exhibit 4.27 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2021)
4.28	Share Subscription Agreement between the Registrant and CreditEase Holdings (Cayman) Limited dated March 25, 2019 (incorporated herein by reference to Exhibit 4.34 to the Registrant's annual report on Form 20-F (File No. 001-37657), filed with the Securities and Exchange Commission on April 29, 2019)
4.29	Amendment to the Share Subscription Agreement between CreditEase and Yirendai Ltd. dated July 10, 2019 (incorporated herein by reference to Exhibit 99.2 to CreditEase's Schedule 13D filed with the Securities and Exchange Commission on July 16, 2019)
8.1*	List of Subsidiaries and Consolidated Variable Interest Entities
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015)
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

[Table of Contents](#)

Exhibit Number	Description of Document
13.2**	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Han Kun Law Offices
15.2*	Consent of Wei, Wei & Co., LLP
15.3*	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP
16.1*	Letter from Deloitte Touche Tohmatsu Certified Public Accountants LLP to the Securities and Exchange Committee, dated September 21, 2022
16.2	Letter from KPMG Huazhen LLP to the Securities and Exchange Committee, dated April 29, 2022 (incorporated herein by reference to Exhibit 99.2 to the Registrant's current report on Form 6-K (File No. 001-37657), furnished with the Securities and Exchange Commission on April 29, 2022)
101.INS*	Inline XBRL Instance Document—this instance document does not appear in the Interactive Data File because its XBRL tags embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Exhibit 101 Inline XBRL document set)

* 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.

Yiren Digital Ltd.

By: /s/ Ning Tang

Name: Ning Tang

Title: Executive Chairman of the Board of
Directors and Chief Executive Officer

Date: September 21, 2022

Table of Contents

YIREN DIGITAL LTD.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS	PAGE(S)
REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Wei, Wei & Co., LLP PCAOB ID:2388, Deloitte Touche Tohmatsu Certified Public Accountants LLP PCAOB ID:1113)	F-2
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2020 AND 2021	F-6
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021	F-7
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021	F-8
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021	F-9
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021	F-10
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021	F-11
ADDITIONAL INFORMATION — FINANCIAL STATEMENTS SCHEDULE I	F-55

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Yiren Digital Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Yiren Digital Ltd., and its subsidiaries (the “Company”) as of December 31, 2021, and the related consolidated statements of operations, comprehensive income/(loss), changes in equity, and cash flows, for the year then ended, and the related notes and the financial statement schedule (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Convenience translation

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts, and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such United States dollar amounts are presented solely for the convenience of readers outside the People’s Republic of China.

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 audits. 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 provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Contract assets and allowance for contract assets-Refer to Note 2 of the financial statements

Critical Audit Matter Description

The contract assets represent the Company's right to service fees in exchange for facilitation services that the Company provided to borrowers before payment is due. An allowance for contract assets is established for uncollectible accounts based on a projected default rate of service fees. As of December 31, 2021, the Company recorded RMB351 Allowance for contract assets. In determining whether an impairment loss should be recognized in the financial statements, the Company evaluates any observable data that might indicate there is a measurable decrease in the estimated future cash flows from contract assets. This evaluation process includes evidence of observable data indicating whether the borrower might have experienced an adverse change in its credit risk, or change in national or local economic conditions that correlate with defaults on loans. Given the uncertainty related to the collectability of long term loans, the Company makes estimates based on the borrower's credit risk which is adjusted based on the current relevant observable data that reflect the most updated internal and external factors, including forward looking factors regarding the collectability of the long term loans.

How the Critical Audit Matters Were Addressed in the Audit

- (1) Our audit procedures related to the contract assets included the following:
 - We engaged IT Specialists to test the effectiveness of key controls in system development management, system change management, information security management and operation and maintenance management of the Company's New Core system and Epolicy system.
 - We tested the accuracy and evaluated the reliability of the transaction data and the relevant observable rate of origination and renewal insurance services.
 - We tested the integrity of the transaction data from the Company's New Core system and Epolicy system. with the assistance of IT specialists.
 - We tested the accuracy of historical data for the renewal rate of insurance.
- (2) Our audit procedures related to the allowance for contract assets included the following:
 - We evaluated management's ability to accurately estimate by retrospectively evaluating subsequent actual write-off ratios to management's historical estimates.
 - We evaluated the rationality of the computation model and tested the calculation and input used in the model.
 - We tested the accuracy and evaluated the reliability of the historical default data as an input to the model with the assistance of the IT specialists.

Related parties and related party transactions – Refer to Note 8 of the financial statements

Critical Audit Matter Description

The Company conducted transactions with its subsidiaries and affiliates during the normal course of its business in 2021. In addition, there are certain overlapping directors and executive officers between the companies. Each of these entities is a related party. The Company has entered into a number of transactions with these related parties, including agreements for customers acquisition and referral services, system support and loans collection services, which represented as costs and expenses to the Company, and agreements for customers acquisition and referral technical services and post-loan management services, which represented as revenue to the Company. We identified the evaluation of the identification of related parties and related party transactions as a critical audit matter. Auditor judgment was involved in assessing the sufficiency of the procedures performed to identify related parties and related party transactions of the Company.

How the Critical Audit Matter Was Addressed in the Audit

We performed the following procedures to evaluate the identification of related parties and related party transactions by the Company:

- Conducted background checks, and reviewed other public research sources for information related to transactions between the Company and its related parties.
- Performed confirmations for account balances with related parties.
- Reviewed transaction details in the accounts payable system for transactions with related parties.
- Reviewed director and officer questionnaires from the Company's directors and officers.
- Examined the Company's reconciliation of its related parties' transactions and balances.
- Reviewed the Company's minutes from meetings of the Board of Directors.
- Tested sales transactions between the Company and its related parties.

/s/ Wei, Wei & Co., LLP

We have served as the Company's auditor since 2022.

Flushing, New York

September 21, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Yiren Digital Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Yiren Digital Ltd., and its subsidiaries (the “Company”) as of December 31, 2020, the related consolidated statements of operations, comprehensive income/(loss), changes in equity, and cash flows, for each of the two years in the period ended December 31, 2020, and the related notes and the financial statement schedule (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Adoption of Accounting Standards Updates

As discussed in Note 2, effective January 1, 2020, the Company changed its method of accounting for financial instruments as a result of the adoption of ASU 2016-13, Financial Instruments Credit Losses (Topic 326).

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 audits. 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 audits 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 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 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 audits 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 audits provide a reasonable basis for our opinion.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People’s Republic of China

April 29, 2021

We have served as the Company’s auditor since 2015. In 2021, we became the predecessor auditor.

YIREN DIGITAL LTD.

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except for share and per share data, or otherwise noted)

	December 31, 2020	December 31, 2021	December 31, 2021
	RMB	RMB	US\$
Assets including amounts of the consolidated variable interest entities (the "VIEs") and consolidated assets backed financing entities ("ABFE") (Note 2):			
Cash and cash equivalents	2,469,909	2,864,543	449,511
Restricted cash	237,239	80,800	12,679
Accounts receivable (net of allowance of RMB7,361 and RMB8,296 as of December 31, 2020 and 2021, respectively)	122,742	305,018	47,864
Contract assets, net (net of allowance of RMB467,306 and RMB350,686 as of December 31, 2020 and 2021, respectively)	750,174	1,105,905	173,541
Contract cost	65,529	9,959	1,563
Prepaid expenses and other assets	278,591	352,015	55,239
Loans at fair value	192,156	73,734	11,571
Financing receivables (net of allowance of RMB32,975 and RMB65,489 as of December 31, 2020 and 2021, respectively)	1,253,494	1,697,962	266,449
Amounts due from related parties	884,006	879,256	137,974
Held-to-maturity investments	3,286	2,200	341
Available-for-sale investments	175,515	177,360	27,832
Property, equipment and software, net	147,193	102,548	16,092
Deferred tax assets	16,745	7,388	1,159
Right-of-use assets	105,674	80,752	12,672
Total assets	6,702,253	7,739,440	1,214,487
Liabilities including amounts of the consolidated VIEs and the consolidated ABFE without recourse to the Company (Note 2):			
Accounts payable	9,903	19,065	2,992
Amounts due to related parties	970,309	434,127	68,124
Deferred revenue	50,899	12,379	1,943
Payable to investors at fair value	52,623	50,686	7,954
Accrued expenses and other liabilities	1,208,915	1,182,783	185,604
Secured borrowings	500,500	1,028,600	161,410
Refund liabilities	10,845	5,732	899
Deferred tax liabilities	38,741	112,535	17,659
Lease liabilities	81,854	72,101	11,314
Total liabilities	2,924,589	2,918,008	457,899
Commitments and Contingencies (Note 18)			
Equity:			
Ordinary shares (US\$0.0001 par value; 500,000,000 shares authorized; 187,569,640 and 189,856,980 shares issued as of December 31, 2020 and 2021, respectively; 167,965,710 and 169,995,926 shares outstanding as of December 31, 2020 and 2021, respectively)	121	123	19
Treasury stock (1,043,930 and 1,301,054 shares as of December 31, 2020 and 2021, respectively)	(40,147)	(42,897)	(6,731)
Additional paid-in capital	5,058,176	5,100,486	800,378
Accumulated other comprehensive income	17,108	11,553	1,812
Accumulated deficit	(1,257,594)	(247,833)	(38,890)
Total equity	3,777,664	4,821,432	756,588
Total liabilities and equity	6,702,253	7,739,440	1,214,487

YIREN DIGITAL LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except for share and per share data, or otherwise noted)

	Years ended December 31,			
	2019	2020	2021	2021
	RMB	RMB	RMB	US\$
Net revenue (including revenue from related parties of RMB142,477, RMB145,442 and RMB573,158 for the years ended December 31, 2019, 2020 and 2021, respectively)	8,616,784	3,961,962	4,477,929	702,685
Operating costs and expenses:				
Sales and marketing (including expenses from related parties of RMB434,875, RMB111,550 and RMB1,548 for the years ended December 31, 2019, 2020 and 2021, respectively)	(4,457,353)	(1,905,095)	(1,553,344)	(243,754)
Origination, servicing and other operating costs (including costs from related parties of RMB409,287, RMB718,734 and RMB354,985 for the years ended December 31, 2019, 2020 and 2021, respectively)	(665,083)	(1,104,682)	(760,858)	(119,395)
General and administrative (including expenses from related parties of RMB122,338, RMB192,934 and RMB135,118 for the years ended December 31, 2019, 2020 and 2021, respectively)	(741,268)	(630,555)	(506,240)	(79,440)
Allowance for contract assets, receivables and others	(1,625,051)	(371,629)	(370,154)	(58,085)
Loss of disposal	—	(655,839)	—	—
Total operating costs and expenses	(7,488,755)	(4,667,800)	(3,190,596)	(500,674)
Interest income/(expenses), net	73,367	61,623	(73,383)	(11,515)
Fair value adjustments related to the consolidated ABFE	3,866	(143,988)	(37,442)	(5,875)
Gain on disposal of loan receivables and other beneficial rights	159,392	—	—	—
Other income, net	32,365	14,844	26,665	4,183
Total other income /(expenses), net	268,990	(67,521)	(84,160)	(13,207)
Income/(loss) before provision for income taxes	1,397,019	(773,359)	1,203,173	188,804
Income tax (expenses)/benefits	(239,228)	80,611	(170,189)	(26,706)
Share of results of equity investees	(2,180)	—	—	—
Net income/(loss)	1,155,611	(692,748)	1,032,984	162,098
Basic net income/(loss) per share	6.2391	(3.8422)	6.1113	0.9590
Weighted average number of ordinary shares outstanding, basic	185,219,586	180,301,898	169,029,826	169,029,826
Diluted net income/(loss) per share	6.1951	(3.8422)	6.0554	0.9502
Weighted average number of ordinary shares outstanding, diluted	186,535,464	180,301,898	170,590,203	170,590,203

The accompanying notes are an integral part of these consolidated financial statements.

YIREN DIGITAL LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(Amounts in thousands, except for share and per share data, or otherwise noted)

	Years ended December 31,			
	2019	2020	2021	2021
	RMB	RMB	RMB	US\$
Net income/(loss)	1,155,611	(692,748)	1,032,984	162,098
Other comprehensive income/(loss), net of tax of nil:				
Foreign currency translation adjustment	1,626	(8,293)	(3,193)	(501)
Unrealized gain /(loss) on available-for-sale investments	3,839	3,546	(2,362)	(371)
Comprehensive income/(loss)	<u>1,161,076</u>	<u>(697,495)</u>	<u>1,027,429</u>	<u>161,226</u>

The accompanying notes are an integral part of these consolidated financial statements.

YIREN DIGITAL LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands, except for share and per share data, or otherwise noted)

	Ordinary shares			Treasury stock		Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total (deficit)/equity
	Issued shares	Outstanding shares	Amount RMB	Shares	Amount RMB				
Balance as of December 31, 2018 (Note i)	123,132,842	123,128,842	77	4,000	(254)	1,293,968	16,390	(1,673,594)	(363,413)
Acquisition under common control (Note 1)	61,981,412	61,981,412	43	—	—	2,521,491	—	—	2,521,534
Contribution from CreditEase (Note 1)	—	—	—	—	—	1,216,734	—	—	1,216,734
Disposal under common control (Note 1)	—	—	—	—	—	(54,706)	—	—	(54,706)
Purchase of non-controlling interest	—	—	—	—	—	1,767	—	—	1,767
Share-based awards provided to employees	803,880	803,880	1	—	—	43,940	—	—	43,941
Share-based awards provided to employees of consolidated group of CreditEase	414,310	414,310	—	—	—	15,497	—	(15,497)	—
Repurchase of ordinary shares	—	(733,372)	—	733,372	(36,843)	—	—	—	(36,843)
Foreign currency translation adjustments	—	—	—	—	—	—	1,626	—	1,626
Unrealized gains on available-for-sale investments	—	—	—	—	—	—	3,839	—	3,839
Net income	—	—	—	—	—	—	—	1,155,611	1,155,611
Balance as of December 31, 2019	186,332,444	185,595,072	121	737,372	(37,097)	5,038,691	21,855	(533,480)	4,490,090
Cumulative effect of changes in accounting standards related to credit losses of financial instruments	—	—	—	—	—	—	—	(26,054)	(26,054)
Share-based awards provided to employees	940,736	940,736	—	—	—	14,173	—	—	14,173
Share-based awards provided to employees of consolidated group of CreditEase	296,460	296,460	—	—	—	5,312	—	(5,312)	—
Surrender and cancellation of ordinary shares (Note ii)	—	(18,560,000)	—	—	—	—	—	—	—
Repurchase of ordinary shares	—	(306,558)	—	306,558	(3,050)	—	—	—	(3,050)
Foreign currency translation adjustments	—	—	—	—	—	—	(8,293)	—	(8,293)
Unrealized gains on available-for-sale investments	—	—	—	—	—	—	3,546	—	3,546
Net loss	—	—	—	—	—	—	—	(692,748)	(692,748)
Balance as of December 31, 2020	187,569,640	167,965,710	121	1,043,930	(40,147)	5,058,176	17,108	(1,257,594)	3,777,664
Share-based awards provided to employees	1,160,438	1,160,438	1	—	—	19,088	—	—	19,089
Share-based awards provided to employees of consolidated group of CreditEase	1,126,902	1,126,902	1	—	—	23,222	—	(23,223)	—
Repurchase of ordinary shares	—	(257,124)	—	257,124	(2,750)	—	—	—	(2,750)
Foreign currency translation adjustments	—	—	—	—	—	—	(3,193)	—	(3,193)
Unrealized gains on available-for-sale investments	—	—	—	—	—	—	(2,362)	—	(2,362)
Net income	—	—	—	—	—	—	—	1,032,984	1,032,984
Balance as of December 31, 2021	189,856,980	169,995,926	123	1,301,054	(42,897)	5,100,486	11,553	(247,833)	4,821,432

- (i) Retrospectively adjusted to reflect the acquisitions under common control, as discussed in Note 1.
- (ii) During the year ended December 31, 2020, CreditEase surrendered 18,560,000 ordinary shares for no consideration. The Company treated the transaction as a contribution from shareholder combined with a repurchase of shares for no consideration.

The accompanying notes are an integral part of these consolidated financial statements.

YIREN DIGITAL LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands, except for share and per share data, or otherwise noted)

	Years ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US\$
Cash Flows from Operating Activities:				
Net income/(loss)	1,155,611	(692,748)	1,032,984	162,098
Adjustments to reconcile net income / (loss) to net cash provided by operating activities:				
Depreciation and amortization	125,850	91,772	43,236	6,785
Amortization of right-of-use assets	268,758	235,691	96,714	15,177
Disposal of property, equipment and software	4,266	7,382	2,610	410
Share of results of equity investees	2,180	—	—	—
Fair value adjustments related to the consolidated ABFE	(3,866)	143,988	37,442	5,875
Share-based compensation	43,941	14,173	19,089	2,995
Provision for contingent liability	9,462	3,187	(2,629)	(413)
Allowance for contract assets, receivables and others	1,625,051	371,629	370,154	58,085
Gain on disposal of loan receivables and other beneficial rights	(159,392)	—	—	—
Gain recognized on remeasurement of previously held equity interest in the acquiree as of its acquisition date fair value	(4,534)	—	—	—
Loss of disposal	—	655,839	—	—
Changes in operating assets and liabilities				
Accounts receivable	(1,828)	(135,700)	(185,777)	(29,152)
Contract assets	(112,444)	817,463	(668,245)	(104,862)
Contract cost	(14,542)	64,705	55,570	8,720
Prepaid expenses and other assets	(164,276)	278,999	(82,165)	(12,893)
Change in the consolidated ABFE related assets/liabilities	(197,544)	42,045	17,528	2,751
Financing receivables	3,088	(10,868)	(81,483)	(12,786)
Amounts due from/to related parties	(1,548,225)	75,155	(437,782)	(68,697)
Deferred tax assets/liabilities	(131,718)	(151,654)	84,937	13,328
Accounts payable	6,609	1,239	9,162	1,438
Deferred revenue	(135,865)	(246,268)	(38,520)	(6,045)
Accrued expenses and other liabilities	115,654	(458,039)	(30,148)	(4,731)
Refund liabilities	(344,213)	(627,897)	(5,113)	(802)
Lease liabilities	(267,855)	(198,065)	(79,372)	(12,457)
Net cash provided by operating activities	274,168	282,028	158,192	24,824
Cash Flows from Investing Activities:				
Purchase of property, equipment and software	(48,005)	(13,722)	(9,404)	(1,476)
Disposal of property, equipment and software	78	1,283	612	96
Purchase of held-to-maturity investments	—	(2,200)	(780,000)	(122,399)
Redemption of held-to-maturity investments	322,970	5,541	781,086	122,569
Purchase of available-for-sale investments	(653,150)	(423,000)	(341,234)	(53,547)
Proceeds from disposal of available-for-sale investments	1,050,443	706,655	334,942	52,560
Acquisition of subsidiaries, net of cash acquired of RMB23,871, RMB9,307 and nil for the years ended December 31, 2019, 2020 and 2021, respectively	(4,929)	(15,172)	—	—
Prepayment of investments	(373,032)	(725,593)	—	—
Return of prepayment of investments	368,182	725,593	—	—
Acquisition of subsidiaries under common control	(258,895)	—	—	—
Disposal of subsidiaries, net of cash disposed of RMB306,555, RMB1,307,982 and nil for the years ended December 31, 2019, 2020 and 2021, respectively	18,445	(1,184,286)	—	—
Proceeds from disposal of other long-term investments	189,546	—	—	—
Investment in loans at fair value	—	(153,750)	(60,201)	(9,445)
Collection of principal of loans at fair value	593,350	193,898	125,969	19,767
Disposal of financing receivables	117	—	—	—
Proceeds from disposal of loan receivables and other beneficial rights	144,389	—	—	—
Loan to related parties	(710,000)	—	—	—
Collection of principal of loans to related parties	814,500	—	—	—
Origination of financing receivables	—	(1,356,379)	(1,825,473)	(286,457)
Repayments of financing receivables	—	110,390	1,427,196	223,958
Loans to third parties	(484,100)	(152,000)	—	—
Collection of principal of loans to third parties	140,092	486,079	—	—
Net cash provided by/(used in) investing activities	1,110,001	(1,796,663)	(346,507)	(54,374)
Cash Flows from Financing Activities:				
Deferred payment of acquisition of subsidiaries under common control	—	(47,046)	—	—
Principal payments to the consolidated ABFE	(121,296)	(11,866)	(71,861)	(11,275)
Contribution from investors of the consolidated ABFE	—	174,000	657	103
Principal payments to financial assets sold under repurchase agreement	(30,000)	—	—	—
Loans from related parties	747,737	361,500	2,600	408
Principal payments of loans from related parties	(108,487)	—	(29,300)	(4,598)
Loan from third parties	—	500,500	575,900	90,371
Repayment of loan to a third party	(173,829)	(18,590)	(47,800)	(7,501)
Repurchase of ordinary shares	(36,843)	(3,050)	(2,750)	(432)
Purchase of non-controlling interest	(16,987)	—	—	—
Deferred payment of contingent consideration	(1,410,000)	—	—	—
Net cash (used in)/provided by financing activities	(1,149,705)	955,448	427,446	67,076
Effect of foreign exchange rate changes	193	(2,807)	(936)	(147)
Net increase / (decrease) in cash, cash equivalents and restricted cash	234,657	(561,994)	238,195	37,379
Cash, cash equivalents and restricted cash, beginning of year	3,034,485	3,269,142	2,707,148	424,811
Cash, cash equivalents and restricted cash, end of year	3,269,142	2,707,148	2,945,343	462,190
Supplemental disclosures of cash flow information:				
Cash paid for income taxes	178,112	103,731	63,313	9,935
Cash paid for interest	11,419	1,641	85,261	13,379
Forgiveness of amount due from/(due to) related parties, and other receivable from a third party in relation to the acquisition under common control	5,147,163	—	—	—
Reconciliation to amounts on the consolidated balance sheets:				
Cash and cash equivalents	3,198,086	2,469,909	2,864,543	449,511
Restricted cash	71,056	237,239	80,800	12,679
Total cash, cash equivalents, and restricted cash	3,269,142	2,707,148	2,945,343	462,190

The accompanying notes are an integral part of these consolidated financial statements.

YIREN DIGITAL LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Yiren Digital Ltd. (the “Company” or “Yiren Digital” or the “Parent Company”) was incorporated under the laws of the Cayman Islands in September 2014 by CreditEase Holdings (Cayman) Limited (“CreditEase”). The Company, its subsidiaries, the consolidated VIEs and the consolidated VIEs’ subsidiaries (collectively referred to as the “Group”) have been operating one of China’s largest digital personal financial management platforms by leveraging technology to seamlessly deliver wealth management solutions, including insurance solutions, to China’s mass affluent population and credit-tech solutions to individual borrowers and small business owners.

The Group started its online consumer finance marketplace business in March 2012 as a business unit under the Group’s parent company, CreditEase, which remains the Group’s parent company and controlling shareholder. CreditEase incorporated the Company in the Cayman Islands to be the Group’s holding company in September 2014. The Company established a wholly owned subsidiary in Hong Kong, YouRace Digital Holdings HK Limited (formerly known as Yiren Digital Hong Kong Limited), or YouRace HK, in October 2014, and YouRace HK further established YouRace Hengchuang Technology Development (Beijing) Co., Ltd. (formerly known as Yiren Hengye Technology Development (Beijing) Co., Ltd.), or YouRace Hengchuang, its wholly owned subsidiary in China, in January 2015. YouRace HK further established Chongqing Hengyuda Technology Co., Ltd., or Hengyuda, its wholly owned subsidiary in China, in March 2016.

As the PRC laws and regulations prohibit or restrict foreign ownership of the companies where the PRC operating licenses are required, the Company, via its wholly-owned subsidiaries in the PRC, YouRace Hengchuang and Hengyuda, entered into a series of agreements with Hengcheng Technology Development (Beijing) Co., Ltd (“Hengcheng”), Yiren Financial Information Service (Beijing) Co., Ltd. (“Yiren Wealth Management”) and CreditEase Puhui Information Consultant (Beijing) Co., Ltd. (“CreditEase Puhui”) and their shareholders. Consequently, YouRace Hengchuang and Hengyuda became the primary beneficiary of Hengcheng, Yiren Wealth Management and CreditEase Puhui and consolidate Hengcheng, Yiren Wealth Management and CreditEase Puhui (see VIE arrangements in Note 2).

Starting from 2015, the Group began to expand its investor base from individual investors to institutional investors, who invest in the loans from the Group’s platform through a series of arrangements among assets backed financial entities. The Group consolidated such assets backed financial entities if the Group is considered as their primary beneficiary. Refer to Note 2 for further details.

During the year of 2019, the Group acquired several subsidiaries from CreditEase to expand its service lines.

The group acquired, through Yiren Wealth Management, Hexiang Insurance Brokerage Co. Ltd. (“Hexiang Insurance”) and its shareholders and wholly owned subsidiary, in April 2020. Hexiang Insurance has been operating our insurance brokerage business since then.

On December 31, 2020, as a result of a business restructuring, the Group disposed its online consumer lending platform targeting individual investors as the funding source to CreditEase. Refer to below for further details.

Acquisitions of subsidiaries under common control

On March 25, 2019, CreditEase entered into definitive agreements, which contemplated the separation and transfer of its online wealth management targeting the mass affluent investors, unsecured and secured consumer lending and other related services or businesses to the Group. As of March 31, 2019, the business of unsecured and secured consumer lending, operated by CreditEase Puhui, CreditEase Huimin Investment Management (Beijing) Co., Ltd. (“Huimin”) and its subsidiaries, as well as the Zhiwang wealth management business operated by CreditEase Zhuoyue Wealth Investment Management (Beijing) Co., Ltd. (“Zhuoyue”) (collectively referred to as the “Acquired Businesses”) have been transferred to the Group for an aggregated consideration comprising of RMB233 million in cash, RMB2,627 million in contingent consideration and 61,981,412 shares of the Company. As part of the transaction, the related parties’ receivables and payables from/to the Acquired Businesses, and Tianda Xinan (Beijing) Guarantee Co., Ltd. (“Tianda Xinan”)’s payable to the Acquired Businesses were transferred to Zhuoyue. Zhuoyue subsequently unconditionally waived a net receivables amounting to RMB5,147 million from the Acquired Businesses. In May 2019, the Company also acquired Dekai Yichuang Asset Management (Shenzhen) Co., Ltd. (“Dekai Yichuang”, a consolidated VIE of CreditEase) and its subsidiaries from CreditEase for a consideration of RMB29 million. Cash consideration of RMB230 million and RMB29 million were paid in March and May, respectively, for the aforementioned acquisitions.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES — continued

At the closing of the business transactions with CreditEase on July 11, 2019, the Company issued a total of 61,981,412 ordinary shares with a total fair value of RMB2,754 million. The contingent consideration is to be paid by monthly installments in an 18-month period after the closing with each payment contingent upon the Acquired Businesses achieving certain pre-agreed performance targets which are based on the total monthly loan volume facilitated by CreditEase Puhui. The Group made contingent payments to CreditEase amounting to RMB1,410 million until November 2019 as the pre-agreed performance targets were met. In December 2019, CreditEase waived the remaining contingent consideration, amounting to RMB1,217 million, which was accounted for as a contribution from CreditEase.

As the Company and the acquired entities were under common control of CreditEase for all the periods presented, the above acquisitions have been accounted for in a manner akin to a pooling-of-interests as if the Company had owned the acquired entities from the time they were incorporated. Accordingly, the Company retrospectively adjusted its consolidated financial statements to include the transferred net assets of the acquired entities and any related operations for all periods presented. Any difference between the net book value of the acquirees and the amounts paid by the Company has been accounted for as a capital contribution in the consolidated statements of changes in equity.

Disposal transactions

On November 30, 2019, Hengcheng, one of the Group's VIEs, acquired Huimin's services to connect borrowers and investors. Subsequently, the Group sold Huimin to Puxin Hengye Technology Development (Beijing) Co., Ltd. ("Puxin"), a subsidiary of CreditEase, for an aggregated consideration of RMB47 million. The difference between the consideration and the carrying value of the net assets, amounting to RMB55 million was recorded in additional paid-in capital. The disposal of Huimin under common control was not retrospectively reflected in the consolidated financial statements.

In September 2020, following recent changes in the industry and regulatory environment, the Group ceased to facilitate new loans to individual investors. The remaining outstanding loans continued to be serviced by the Company. On December 31, 2020, to further streamline its service lines and reposition itself as a comprehensive personal financial service platform, the Group completed a business restructuring with CreditEase to dispose Hengcheng to CreditEase (the "Disposal"). Hengcheng provided loan facilitation and post origination services to borrowers under the consumer credit segment and provided account management services to individual investors under the wealth management segment. Hengcheng's pre-tax (loss)/income prior to the disposal amounted to RMB(2,048) million during the year ended December 31, 2020 and RMB373 million and RMB292 million during the years ended December 31, 2019 and 2018. Prior to the Disposal, Hengcheng operated its online consumer lending platform targeting individual investors as the funding source. As part of the Disposal, all the remaining net asset associated with the disposed operations of Hengcheng mainly consisting of financial assets and contract assets associated with the completed performance obligations related to the online consumer lending platform operated by Hengcheng were disposed to CreditEase. In addition, control over continuing services activities related to the outstanding loans balances of the online consumer lending platform operated by Hengcheng were transferred to CreditEase as well. In exchange for the Disposal, CreditEase paid the Company cash consideration amounting to RMB67 million, which represented the fair value of Hengcheng at the time of Disposal determined by the Company with the assistance of a fairness opinion report provided by an independent financial advisor. The fair value was determined based on the underlying value of the assets of Hengcheng, net of the liabilities and taking into account future cash inflows and cash outflows related to the remaining operations of Hengcheng. Cash outflows are mainly related to the service activities of the outstanding loan balances that required to continue to provide, including expected operating costs related to loan collections, payment processing, labor cost and other post origination expenses. Cash inflows are related to service fee expected to be collected from the remaining outstanding loans. Subsequent to the Disposal, CreditEase also become responsible to ensure the winding-down of the outstanding loan collection activities occur in an orderly manner in accordance with the related rules and regulations. After the Disposal, by entering contracts with the Company, CreditEase has outsourced certain services to the Company relating to the servicing of the outstanding loans transferred as part of the Disposal.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES — continued

The Company determined that the Disposal did not represent a strategic shift mainly because the Group (1) will continue to facilitate and service loans between borrowers and institutional funding partners other than individual investors subsequent to the Disposal and (2) will continue to perform some portion of the servicing of the outstanding loans subsequent to the Disposal. Further, the Company concluded that the Disposal had economic substance as it reflects the Group's decision to avoid the obligations to continue to service the outstanding loans required in the winding-down of the online consumer lending platform operated by Hengcheng. Additionally, the Company determined that the cash consideration received represents the fair value of Hengcheng at the time of Disposal and the loss related to the Disposal is substantially attributable to the existing customer vendor relationship associated to servicing the outstanding loans. Accordingly, the Company recorded the difference between the cash consideration received and the carrying value of the net assets (RMB723 million) of Hengcheng, amounting to RMB 656 million, as loss of disposal on the consolidated statements of operations.

As of December 31, 2021, the Company's principal subsidiaries, the consolidated VIEs and the consolidated VIEs' subsidiaries are as follows:

	Date of incorporation/ establishment	Place of incorporation/ establishment	Percentage of legal ownership	Principal activities
<i>Wholly owned subsidiaries</i>				
YouRace HK	October 8, 2014	Hong Kong	100 %	Investment holding
YouRace Hengchuang	January 8, 2015	PRC	100 %	Provision of consultancy service, information technology support and technology-enabled borrower acquisition and facilitation services
Hengyuda	March 21, 2016	PRC	100 %	Provision of services relating to IT, system maintenance and customer support
Yiren Information Consulting (Beijing) Co., Ltd. ("Yiren Information")	August 10, 2017	PRC	100 %	Provision of borrower acquisition and referral services to institutional funding providers
<i>Variable interest entities and its subsidiaries</i>				
Yiren Wealth Management	October 13, 2016	PRC		Wealth management consulting service
CreditEase Puhui	March 3, 2011	PRC		Provision of borrower acquisition and borrowers related customer maintenance services
Haijin Yichuang Financial Leasing Co., Ltd. ("Yichuang Financial Leasing")	March 22, 2017	PRC		Provision of services for financing lease business
Hexiang Insurance	September 28, 2011	PRC		Provision of services for insurance brokerage business

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries, and the consolidated VIEs and the consolidated VIEs' subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

VIEs

The VIE arrangements

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of value-added telecommunication services and other restricted businesses, the Company operates substantially all of its business through its VIEs. The Company through its wholly owned subsidiaries (Foreign Owned Subsidiaries, the "FOS") located in the PRC entered into a series of contractual agreements with the VIEs and their shareholders. Through the contractual agreements below, the Company has (1) the power to direct the activities that most significantly affect the economic performance of the VIEs, and (2) the right to receive the economic benefit of the VIEs that could potentially be significant to the VIEs. As a result, the shareholders of the VIEs lack the power to direct the activities of the VIEs that most significantly impact the entity's economic performance, the obligation to absorb the expected losses, and the right to receive the expected residual returns of the entity. Accordingly, the Company is considered as the primary beneficiary of the VIEs, and the Company has consolidated the financial results of the VIEs and their subsidiaries in its consolidated financial statements.

The Group's principal VIEs that are material to the Group's business and operations are Yiren Wealth Management and CreditEase Puhui as of December 31, 2020 and 2021.

In concluding that the Company is the primary beneficiary of the VIEs, the Company believes that the FOS's rights under the terms of the exclusive option agreements provide it with a substantive kick out right. More specifically, the Company believes the terms of the exclusive option agreements are valid, binding and enforceable under the PRC laws and regulations currently in effect. A simple majority vote of the Company's board of directors is required to pass a resolution to exercise the FOS's rights under the exclusive option agreements, for which consent of the shareholders of the VIEs is not required. The FOS's rights under the exclusive option agreements give the Company the power to control the shareholders of the VIEs and thus the power to direct the activities that most significantly impact the VIEs' economic performance. In addition, the FOS's rights under the powers of attorney also reinforce the Company's abilities to direct the activities that most significantly impact the VIEs' economic performance. The Company also believes that this ability to exercise control ensures that the VIEs will continue to execute and renew service agreements and pay service fees to the Company. The exclusive business cooperation agreements will be terminated upon the expiration of the operation term of either party if the application for renewal of its operation term is not approved by the relevant government authorities. As a result, the Company believes that it has the rights to receive substantially all of the economic benefits from the VIEs.

- Agreements that provide the FOS effective control over the VIEs

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Basis of consolidation — continued

VIEs — continued

Power of Attorney The shareholders of the VIEs have executed an irrevocable power of attorney in favor of the FOS, or entity or individual designated by the FOS. Pursuant to this powers of attorney, the FOS or their designees have full power and authority to exercise all of such shareholder's rights with respect to his equity interest in the VIEs. The power of attorney will remain in force for so long as the shareholder remains a shareholder of the VIEs.

Exclusive Option Agreements The VIEs and their shareholders have also entered into exclusive option agreements with the FOS. Pursuant to this agreements, the shareholders of the VIEs have granted an exclusive option to the FOS or their designees to purchase all or part of such shareholders' equity interest, at a purchase price equal to the higher of the amount of loan extended by the FOS to each shareholder of the VIEs under the respective loan agreements or the minimum price required by the PRC law at the time of such purchase.

Equity Interest Pledge Agreements The shareholders of the VIEs have also entered into equity pledge agreements with the FOS, pursuant to which each shareholder pledged his/her interest in the VIEs to guarantee the performance of obligations of the VIEs and their shareholders under the exclusive business cooperation agreements, loan agreements, exclusive option agreements and power of attorney. The Company is in the process to register some of the equity pledge with the competent government authorities.

- Agreements that transfer economic benefits to the FOS

Exclusive Business Cooperation Agreements The FOS have entered into exclusive business cooperation agreements with the VIEs. Pursuant to this exclusive business cooperation agreements, the FOS provide comprehensive technical support, consulting services and other services to the VIEs in exchange for service fees. The FOS have the sole discretion to determine the amounts of the service fees.

During the term of exclusive business cooperation agreements, both the FOS and the VIEs shall renew their operation terms prior to the expiration thereof so as to enable the exclusive business cooperation agreements to remain effective. The exclusive business cooperation agreements shall be terminated upon the expiration of the operation term of either the FOS or the VIEs, if the application for renewal of their operation terms is not approved by relevant government authorities. In addition, the shareholders of the VIEs have granted an irrevocable and exclusive option to the FOS to purchase any or all of the assets and businesses of the VIEs at the lowest price permitted under the PRC law.

The agreements may be terminated only at the option of the FOS and the VIEs have no authority to terminate the exclusive business cooperation agreements.

- Agreements that provide the FOS with the option to purchase the equity interest in the VIEs

Loan Agreements Under the loan agreements between the FOS and each of the shareholders of the respective VIEs, the FOS made interest-free loans to the shareholders for the exclusive purpose of the initial capitalization and the subsequent financial needs of the VIEs. The loans can only be repaid with the proceeds derived from the sale of all of the equity interests in the VIEs to the FOS or its designated representatives pursuant to the exclusive option agreements. The shareholders must pay all of the proceeds from sale of such equity interests to the FOS. The loans must be repaid immediately under certain circumstances, including, among others, if a foreign investor is permitted to hold majority or 100% equity interest in the VIEs and the FOS elected to exercise their exclusive equity purchase option. The term of the loans is ten years and can be extended upon mutual written consent of the parties.

YIREN DIGITAL LTD.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Basis of consolidation — continued

VIEs — continued

Risks in relation to the VIE structure

The Company believes that the contractual arrangements with the VIEs and their current shareholders are in compliance with the PRC laws and regulations 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 the PRC laws and regulations, the PRC government could:

- Revoke the business and operating licenses of the FOS and the VIEs;
- Discontinue or restrict the operations of any related-party transactions among the FOS and the VIEs;
- Impose fines or other requirements on the FOS and the VIEs;
- Require the Company or the FOS and the VIEs to revise the relevant ownership structure or restructure operations;
- Restrict or prohibit the Company's use of the proceeds of the additional public offering to finance the Company's business and operations in the PRC;
- Shut down the Company's servers or block the Company's online platform;
- Discontinue or place restrictions or onerous conditions on the Company's operations; and/or
- Require the Company to undergo a costly and disruptive restructuring.

The Company's ability to conduct its business may be negatively affected if the PRC government were to carry out any of the aforementioned actions. As a result, the Company may not be able to consolidate the VIEs in its consolidated financial statements as it may lose the ability to exert effective control over the VIEs and their shareholders, and it may lose the ability to receive economic benefits from the VIEs.

The interests of the shareholders of the VIEs may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing the VIEs not to pay the service fees when required to do so. The Company cannot assure that when conflicts of interest arise, the shareholders of the VIEs will act in the best interests of the Company or that conflicts of interests will be resolved in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest the shareholders of the VIEs may encounter in its capacity as beneficial owners and directors of the VIEs, on the one hand, and as beneficial owners and directors of the Company, on the other hand. The Company believes the shareholders of the VIEs will not act contrary to any of the contractual arrangements and the exclusive option agreements provide the Company with a mechanism to remove the current shareholders of the VIEs should they act to the detriment of the Company. The Company relies on certain current shareholders of the VIEs to fulfill their fiduciary duties and abide by laws of the PRC and act in the best interest of the Company. If the Company cannot resolve any conflicts of interest or disputes between the Company and the shareholders of the VIEs, the Company would have to rely on legal proceedings, which could result in disruption of its business, and there is substantial uncertainty as to the outcome of any such legal proceedings.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Basis of consolidation — continued

VIEs — continued

Risks in relation to the VIE structure — continued

The following financial statement amounts and balances of the consolidated VIEs and the consolidated VIEs' subsidiaries were included in the consolidated financial statements after elimination of intercompany transactions and balances:

	December 31, 2020	December 31, 2021
	RMB	RMB
Assets		
Cash and cash equivalents	999,774	1,392,968
Accounts receivable	100,250	217,282
Contract assets, net	541,969	563,235
Contract cost	64,099	8,800
Prepaid expenses and other assets	228,094	145,330
Financing receivables	1,253,494	1,697,960
Amounts due from related parties	261,937	801,791
Available-for-sale investments	10,000	—
Property, equipment and software, net	109,061	80,866
Deferred tax assets	16,379	7,388
Right-of-use assets	96,861	46,222
	<u>3,681,918</u>	<u>4,961,842</u>
Liabilities		
Accounts payable	9,026	18,782
Amounts due to related parties	775,655	384,855
Deferred revenue	43,607	10,320
Accrued expenses and other liabilities	1,054,259	953,843
Secured borrowing	500,500	1,028,600
Deferred tax liabilities	13,985	40,584
Lease liabilities	73,537	39,486
	<u>2,470,569</u>	<u>2,476,470</u>

	Years ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Net revenue	8,303,900	2,549,869	3,192,329
Net income	1,503,455	235,360	752,164

	Years ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Net cash provided by /(used in) operating activities	846,367	974,840	(236,406)
Net cash provided by /(used in) investing activities	441,983	(1,202,842)	(393,659)
Net cash (used in)/provided by financing activities	(787,737)	862,000	501,400

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Basis of consolidation — continued

VIEs — continued

Risks in relation to the VIE structure — continued

In accordance with the VIE contractual arrangements, the FOS have the power to direct activities of the VIEs, and can have assets transferred out of the VIEs. There are no consolidated VIEs' assets that are collateral for the VIEs' obligations and can only be used to settle the VIEs' obligations. There are no creditors (or beneficial interest holders) of the VIEs that have recourse to the general credit of the Company. There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests, which require the Company or its subsidiaries to provide financial support to the VIEs. However, if the VIEs ever need financial support, the Company or its subsidiaries 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. Relevant PRC laws and regulations restrict the VIEs from transferring a portion of their net assets, equivalent to the balance of their paid-in capital, capital reserve and statutory reserves, to the Company in the form of loans and advances or cash dividends. Please refer to Note 17 for disclosure of restricted net assets.

Consolidated ABFE

As part of the Group's strategy to expand its investor base from individual investors to institutional investors, the Group established a business relationship with certain trusts or Asset Backed Special Plan ("ABS plan"), collectively referred to as consolidated assets backed financing entities or ABFE, which were administered by third-party trust companies. The ABFE 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.

The Group provides loan facilitation and post-origination services to the ABFE. The Group also has power to direct the activities that have most significant impact on the economic performance of the ABFE by providing the loan servicing and default loan collection services of the ABFE.

Through the transaction fees charged, guarantee deposit, and direct investment, the Group has the right to receive benefits or bear losses from the ABFE that could potentially be significant to the ABFE. The Group holds significant variable interest in the ABFE through the transaction fees charged, guarantee provided in the form of guarantee deposit, or direct investment. Accordingly, the Company is considered the primary beneficiary of the ABFE and has consolidated the ABFE's assets, liabilities, results of operations, and cash flows in the consolidated financial statements.

The assets of the ABFE are not available to creditors of the Company. In addition, the investors of the ABFE have no recourse against the assets of the Company.

During the year ended December 31, 2018, the Group disposed the delinquent loans repurchased by the Group from the consolidated ABFE upon the liquidation of the consolidated ABFE to related parties. Additionally, in March 2019, the Group also disposed its beneficial rights of several trusts to related parties (see Note 8). The disposal of the delinquent loans and the disposal of the beneficial rights of the several trusts is accounted for as a true sales under Accounting Standards Codification 860, *Transfers and Servicing* ("ASC Topic 860") with any gains and losses recorded as "gain on disposal of loan receivables and other beneficial rights" in the consolidated statements of operations. Refer to the accounting policy of "Sales and Transfers of Financial Instruments" for further details.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Consolidated ABFE — continued

The following financial statement amounts and balances of the consolidated ABFE were included in the consolidated financial statements after elimination of intercompany transactions and balances:

	December 31, 2020 RMB	December 31, 2021 RMB
Assets		
Restricted cash	213,033	56,678
Prepaid expenses and other assets	169	540
Loans at fair value	192,156	73,734
Held-to-maturity investments	3,286	1,700
Total assets	408,644	132,652
Liabilities		
Accounts payable	421	144
Amount due to related party	109,502	42,423
Payable to investors at fair value	52,623	50,686
Accrued expenses and other liabilities	896	659
Total liabilities	163,442	93,912

	Years ended December 31,		
	2019 RMB	2020 RMB	2021 RMB
Net income/(loss)	41,723	(117,969)	(38,720)

	Years ended December 31,		
	2019 RMB	2020 RMB	2021 RMB
Net cash provided by operating activities	134,848	44,843	17,016
Net cash provided by investing activities	639,717	33,160	65,576
Net cash (used in)/provided by in financing activities	(121,296)	162,134	(71,204)

All assets of the consolidated ABFE are collateral for the consolidated ABFE's obligations and can only be used to settle the consolidated ABFE's obligations.

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates. Significant accounting estimates are used for, but not limited to, revenue recognition and its related accounts, allowance for accounts receivable and contract assets, allowance for financing receivable, guarantee liabilities, fair value measurement of loans at fair value, payable to investors at fair value, available-for-sale investments, depreciable lives of property, equipment and software, the discount rate for leases, consolidation of the VIEs, share-based compensation and income tax. Actual results may differ materially from those estimates.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued**Revenue**

All of the Group's revenue for the years ended December 31, 2019, 2020 and 2021 were generated from the PRC. The following table illustrates the disaggregation of revenue in 2019, 2020 and 2021 under ASC 606:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
	RMB	RMB	RMB
Consumer Credit Segment:			
Loan facilitation services	5,182,028	1,329,720	2,105,776
Post origination services	757,783	670,440	174,255
Financing services	1,618	59,658	524,840
Others	499,140	469,780	379,431
Subtotal	<u>6,440,569</u>	<u>2,529,598</u>	<u>3,184,302</u>
Wealth Management Segment:			
Account management services	2,016,678	921,779	—
Insurance brokerage services	—	430,830	755,691
Others	159,537	79,755	504,822
Subtotal	<u>2,176,215</u>	<u>1,432,364</u>	<u>1,260,513</u>
Other Segment :			
Electronic commerce services	—	—	33,114
Subtotal	<u>—</u>	<u>—</u>	<u>33,114</u>
Total net revenue	<u>8,616,784</u>	<u>3,961,962</u>	<u>4,477,929</u>

(a) *Consumer credit business:*

Revenue from loan facilitation and post-origination services

The Group provides services as an online marketplace connecting borrowers and investors. The investors consist of individual investors and institutional investors. In 2020, the Group ceased to facilitate new loans to individual investors.

The Group provides loan facilitation services, guarantee services and post-origination services (e.g. cash processing, collection for some lenders and SMS services).

The Group has determined that it is not the legal lender or borrower in the loan origination and repayment process, but acts as an agent to bring the lender and the borrower together. Except for loans and payable to investors in the consolidated ABFE, loans and lease receivables arising from direct financing leases issued by the Group, the Group does not record the loans receivable or payable arising from the loans facilitated between the investors and borrowers on its platform.

The Group charges fees upfront or on a monthly basis. The Group also receives service fees contingent on future events (e.g., penalty fees for loan prepayment and late payment and other service fees, and etc.).

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Revenue — continued

The Group determines its customers to be both the investors and borrowers. The Group assesses ability and intention to pay the service fees of both borrowers and investors when they become due and determines if the collection of the service fees is probable, based on historical experiences as well as the credit due diligence performed on each borrower prior to loan origination. While the post-origination services are within the scope of ASC Topic 860, ASC Topic 606 revenue recognition model is applied due to the lack of definitive guidance in ASC Topic 860. The loan facilitation services and post-origination services 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 transaction price of loan facilitation services and post-origination services to be the service fees chargeable from the borrowers, net of value-added tax. The transaction price includes variable consideration in the form of prepayment risk of the borrowers. The Group reflects, in the transaction price, the borrower 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 services, if any, and the two performance obligations described above.

The Group first allocates the transaction price to the guarantee liabilities, if any, in accordance with ASC Topic 460, Guarantees, which requires the guarantee to be measured initially at fair value based on the stand ready obligation. The remaining considerations are then allocated to the loan facilitation services and post-origination services using their relative standalone selling prices consistent with the guidance in Topic 606. 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 judgments. The Group uses expected cost plus margin approach to estimate the standalone selling prices of loan facilitation services as the basis of revenue allocation. In estimating its standalone selling price for the loan facilitation 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. However, for post-origination services, given the main services are about loan collecting and cash processing, the Group can refer to other companies performing the same services, therefore a direct observable standalone selling price for similar services in the market is available to the Group.

For each type of the services, the Group recognizes revenue when (or as) the entity satisfies the service/performance obligation by transferring a promised service to a customer. Revenues from loan facilitation are recognized at the time a loan is originated between the investor and the borrower and the loan principal 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, if any, are recognized amortized during the guarantee term.

Remaining performance obligations represents the amount of the transaction price for which services have not been performed under post-origination services. The Group collects service fees upfront, monthly or both. For upfront fees that are partially refundable to the borrowers, the Group estimates the refund based on historical prepayment probability and the corresponding predetermined refundable amount, and records corresponding refund liabilities upon receiving such fees.

The aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied pertaining to post-origination services were RMB99.8 million and RMB29.6 million as of December 31, 2020 and 2021, respectively, among which approximately 74% and 93% of the remaining performance obligations will be recognized over the following 12 months, respectively and with the remainder recognized thereafter.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Revenue — continued

Other revenue of consumer credit business

Other revenue included in consumer credit business includes penalty fees for loan prepayment and late payment, fees charged for early repayment and referral service fees. The penalty fees, which are fees paid to the investors that are assigned to the Group by the investors, will be received as a certain percentage of past due amounts in case of late payment or a certain percentage of interest over the prepaid amount of loan principal in case of prepayment. The Group also refers potential borrowers to third-party companies and related parties and charges them fixed rate fees. Referral services revenue is recognized when successful referrals were completed by the Group.

(b) Wealth management business:

Revenue from account management services

The Group charged account management services fees to individual investors for using the automated investment tool equal to the entire excess of actual return over the expected return. The Group determined that the automated investment tool service represents one performance obligation.

The account management service fees were initially estimated based on historical experience of returns on similar investment products and current trends and was due at the end of the investment period, which is the period of time when the individual investor's investment were matched with loans. The expected actual return of the loan was estimated on a portfolio basis using the expected value approval based on current loan portfolio and interest rates. The expected return rates offered have been relatively stable during the historical periods presented. Because all loans matched with individual investors' investments have been covered by third party credit guarantees, the estimated service fee is not affected by the fluctuations of default rates of the underlying loans. The Group believes the estimates of variable consideration is not constrained as it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

The account management service fees were recognized on a straight-line basis over the term of the investment period, as the Group stood ready to provide the automated investment tool service while the individual investors simultaneously received and consumed the benefits of such service throughout the investment period.

As the Group ceased to facilitate new loans to individual investors, and disposed the Hengcheng as discussed in Note 1, there wasn't revenue from account management services beginning in January 2021.

Customer incentives

To expand its market presence, the Group provides cash incentives to investors from time to time. Each individual incentive program only lasts between a week and a few weeks. During the relevant incentive program period, the Group sets certain thresholds for the investor to qualify to enjoy the cash incentive. When a qualified investment is made, the cash payment is provided to the investor as a percentage of the investment amount. The Group also distributed interest plus coupons and renewal reward coupons to investors free of charge. The cash incentives, interest plus coupons and renewal reward coupons provided are accounted for as reduction of the contract price.

The Group has established a membership reward program wherein investors can earn Yiren coins when purchases are made on the Group's platforms reached a certain amount. Yiren coins earned by investors represent a material right to free or discounted goods or services in the future, which are accounted for as a separate performance obligation. For the transactions that granted Yiren coins to the investors, a portion of transaction price is deferred for the obligation related to the Yiren coins, which are allocated based on the relative standalone selling prices. The standalone selling price of Yiren coins is calculated by taking the estimated value of Yiren coins that are expected to be used incorporating estimated breakage based on historical redemption patterns. The revenue associated with Yiren coins is deferred until the points are redeemed. As of December 31, 2020 and 2021, the liabilities related to Yiren coins were immaterial.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Revenue — continued

Revenue from insurance brokerage services

The Group provides insurance brokerage services distributing various health and life insurance products and property and casualty insurance products on behalf of insurance companies. As an agent of the insurance company, the Group sells insurance policies on behalf of the insurance company and earns brokerage commissions determined as a percentage of premiums paid by the insured. The Group has identified its promise to sell insurance policies on behalf of an insurance company as the performance obligation in its contracts with the insurance companies. The Group's performance obligation to the insurance company is satisfied and commission revenue is recognized at the point in time when an insurance policy becomes effective.

The terms for health and life insurance products sold by the Group are mainly 5 and 10 years, while the term for property and casualty insurance products is one year. The insurance company pays the Group a commission annually based on the underlying cash flows of the insurance policy. The Group's contract terms can give rise to variable consideration due to the nature of its commission structure (e.g. policy changes or cancellations).

The Group determines the transaction price of its contracts by estimating commissions that the entity expects to be entitled to over the premium collection term of the policy based on assumption about future customer behavior and market conditions. Such estimates are 'constrained' in accordance with ASC 606. That is, the Group uses the expected value method and only includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized for such transactions will not occur.

Other revenue of wealth management business

Other revenue of wealth management business mainly includes referral service fee. Referral services revenue is recognized when successful referrals are completed by the Group.

(c) Other business:

Revenue from electronic commerce services

The Group launched an e-commerce channel and "Yiren Select" initiative in 2021, where a variety of products are available, including skin care and beauty products, 3C products, home appliances, snacks as well as other selected and customized non-financial products and services. In accordance with ASC 606, the Group recognizes revenues when the Group satisfies a performance obligation by transferring a promised good or service (that is, an asset) to a customer. An asset is transferred when the customer obtains control of that asset.

The Group evaluates whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When the Group is a principal, that the Group obtains control of the specified goods or services before they are transferred to the customers, the revenues should be recognized in the gross amount of consideration to which it expects to be entitled in exchange for the specified goods or services transferred. When the Group is an agent and its obligation is to facilitate third parties in fulfilling their performance obligation for specified goods or services, the 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. Revenues are recorded net of value-added taxes.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued**Revenue** — continued*Contract assets*

Under ASC 606, contract assets represent the Group's rights to consideration in exchange for services that the Group has transferred to the customer before payment is due.

For the consumer credit business, the Group's rights to consideration for the monthly fees related to facilitation services are conditional on the borrowers' actual payment, as the borrowers have the rights to early terminate the loan contracts prior to the loan maturity and are not obligated to pay the remaining monthly fees. As such, the Group records a corresponding contract assets for the monthly service fees allocated to loan facilitation services and post-origination services that have already been delivered in relation to loans facilitated on the Group's platform when recognizing revenue from loan facilitation services and post-origination services.

For insurance brokerage services, contract assets are recorded for arrangements when the Group has provided the services but for which the related payments are not yet due. Contract assets are attributable to the brokerage commission that is contingent upon the future premium payment of the policy holders.

The facilitation service monthly fee that are past the payment due date but have not been paid are reclassified to accounts receivable. The Group only recognizes contract assets to the extent that the Group believes it is probable that it will collect substantially all of the consideration to which it will be entitled in exchange for the services transferred to the customer.

The contract assets, net of allowance are RMB750,174 and RMB1,105,905 as of December 31, 2020 and 2021, respectively. Per ASC 606-10-45-3, an entity shall assess a contract asset for impairment in accordance with Topic 310 on receivables. Contract assets are stated at the historical carrying amount net of write offs and allowance for uncollectible accounts. In determining whether an impairment loss should be recorded in the financial statements, the Group makes judgements as to whether there is any observable data indicating that there is a measureable decrease in the estimated future cash flows from contract assets. This evidence may include observable data indicating that there has been an adverse change in the borrower's credit risk, or national or local economic conditions that correlate with defaults on loans. When contract assets are assessed for impairment, the Group uses estimates based on the historical borrower's credit risk. The historical borrower's credit risk is adjusted on the basis of the relevant observable data that reflects current economic conditions. The Group regularly reviews the methodology and assumptions used for estimating the amount of collectable contract assets.

Contract assets are identified as uncollectible if any repayment of the underlying loan is 90 days past due, and no other factor evidences the possibility of collecting the delinquent amounts. The Group will write off contract assets and corresponding allowance if any repayment of the underlying loan is 90 days past due.

Contract assets as of December 31, 2020 and 2021 are as follows:

	<u>As of December 31, 2020</u>	<u>As of December 31, 2021</u>
	<u>RMB</u>	<u>RMB</u>
Contract assets	1,217,480	1,456,591
Allowance	(467,306)	(350,686)
Contract assets, net	<u>750,174</u>	<u>1,105,905</u>

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued**Revenue — continued***Contract assets — continued*

The following table presents the movement of allowance for contract assets for the years ended December 31, 2020 and 2021:

	<u>Year ended December 31, 2020</u>	<u>Year ended December 31, 2021</u>
	RMB	RMB
Balance at beginning of the year	1,515,627	467,306
Allowance for contract assets	298,200	312,798
Write-off	(984,472)	(429,418)
Disposal of Hengcheng (Note 1)	(362,049)	—
Balance at end of the year	<u>467,306</u>	<u>350,686</u>

Contract cost

The Group pays commissions for successful referring of borrowers or investors and insurance customers to the Group. The commissions paid based on successful referrals are considered as contract acquisition cost, and are capitalized when the commission becomes payable. The amount of amortization for the years ended December 31, 2020 and 2021 are RMB116.3 million and RMB60.3 million, respectively.

Amortization of the capitalized contract cost is charged to the consolidated statements of operations when the revenue to which the asset relates is recognized. Contract cost is recognized as an expense when incurred if the amortization period of the asset that the Group otherwise would have recognized is one year or less. The Group recorded RMB29,769 and nil impairment loss for contract cost as of December 31, 2020 and 2021, respectively.

Deferred revenue

Deferred revenue consists of post-origination service fees received from borrowers upfront for which services have not yet been provided. Deferred revenue is recognized ratably as revenue when the post-origination services are delivered over the loan period.

The amounts of revenue recognized during the years ended December 31, 2020 and 2021 that were included in the opening deferred revenue were RMB263.8 million and RMB31.2 million, respectively.

Refund liabilities

Refund liabilities are recognized for the estimated amounts of service fees which are received but are expected to be refunded. It represents the consideration received that the Group does not expect to be entitled to earn and thus is not included in the transaction price because it will be refunded to customers. The refund liabilities are remeasured at each reporting date to reflect changes in the estimate, with a corresponding adjustment to revenue.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued**Revenue — continued***Refund liabilities — continued*

The Group's refund liabilities are the expected refund of service fees to borrowers in the case of early repayment of loans. The refund liabilities as of December 31, 2020 and 2021 amounted to RMB10,845 and RMB5,732, respectively. The following table sets forth the movement of refund liabilities:

	RMB
As of January 1, 2020	1,801,535
Addition	15,935
Payouts during the year	(643,832)
Disposal of Hengcheng (as discussed in Note 1)	(1,162,793)
As of December 31, 2020	<u>10,845</u>
Addition	(1,609)
Payouts during the year	(3,504)
As of December 31, 2021	<u>5,732</u>

Guarantee liabilities

The Group provided guarantee services in connection with some of the loans facilitated to its institutional funding partners, who are entitled to receive unpaid interest and principal as contracted from the Group.

On January 1, 2020, the Group adopted ASC 326, Financial Instruments—Credit Losses, which requires gross accounting for guarantee liability. As a result, at inception of the guarantee, the Group will recognize both a stand-ready guarantee liability under ASC 460 with an associated guarantee receivable, and a contingent guarantee liability with an allowance for credit losses under Current expected credit loss (“CECL”) model. Subsequent to the initial recognition, the ASC 460 stand-ready guarantee is released into guarantee revenue on a straight-line basis over the term of the guarantee, while the contingent guarantee is reduced by the payouts made by the Group to compensate the investors upon borrowers' default. The impact of adoption to the Company's financial statements is not material.

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.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Fair value — continued

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 are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Fair value option

The Group has elected the fair value option for the assets and liabilities of the consolidated ABFE 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. See Note 4 for the disclosure on financial instruments of the consolidated ABFE for which the fair value option has been elected.

Fair value of loans and payable to investors at fair value

The Group has elected the fair value option for loans and related payable to investors of the consolidated ABFE and loans repurchased from the consolidated ABFE 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 the contractual cash flows, taking into consideration of projected prepayments and net charge off to project future losses and net cash flows on loans. Changes in fair value of loans and payable to investors are reported net and recorded in "Fair value adjustments related to the consolidated ABFE" in the consolidated statements of operations.

Cash and cash equivalents

Cash and cash equivalents include the Group's unrestricted deposits with financial institutions in checking, money market and short-term certificate of deposit accounts. The Group considers all highly liquid investments with stated maturity dates of three months or less from the date of purchase to be cash equivalents.

Restricted cash

Restricted cash represents cash held by the consolidated ABFE through segregated bank accounts which is not available to fund the general liquidity needs of the Group and guarantee deposit in restricted bank account.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued**Accounts receivable and allowance for uncollectible accounts**

Accounts receivable are stated at the historical carrying amount net of write-offs and allowance for uncollectible accounts. The Group establishes an allowance for uncollectible accounts receivable and other receivables based on estimates, historical experience and other factors surrounding the credit risk of specific customers. Uncollectible receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when the Group has determined the balance will not be collected. The Group recorded RMB7,361 and RMB8,296 allowance for accounts receivable as of December 31, 2020 and 2021, respectively.

Financing receivables

Financing receivables represent loans and lease receivables arising from direct financing leases issued by the Group. Financing receivables are measured at amortized cost and reported on the consolidated balance sheets based on the outstanding principal adjusted for any write-off, and the allowance for credit losses. Amortized cost of a financing receivables is equal to the unpaid principal balance, plus net deferred origination cost if any. The Group recognizes interest and financial service income over the terms of the financing receivables using the effective interest rate method. The Company applied a consistent credit risk management framework to the entire portfolio of financing receivables. The allowance for financing receivables is calculated based on expected loss using probability of default.

The Group's financing receivable as of December 31, 2020 and 2021 are as follows:

	<u>As of December 31, 2020</u>	<u>As of December 31, 2021</u>
	RMB	RMB
Financing receivable	1,286,469	1,763,451
Allowance	(32,975)	(65,489)
Financing receivable, net	<u>1,253,494</u>	<u>1,697,962</u>

The movement of allowance for financing receivable for the years ended December 31, 2020 and 2021 is as follows:

	<u>Year ended December 31, 2020</u>	<u>Year ended December 31, 2021</u>
	RMB	RMB
Balance at beginning of the year	—	32,975
Adjustment related to ASC 326 adoption	776	—
Adjusted opening balance of the year	<u>776</u>	<u>32,975</u>
Current year net provision	32,689	35,293
Write-off	(490)	(2,779)
Balance at end of the year	<u>32,975</u>	<u>65,489</u>

The Group has provided financing that are secured by pledged assets, which value is in excess of the financing granted to clients. As of December 31, 2021, the loan term of the majority of financing receivables are over 24 months.

The Group has not recorded any financing income on an accrual basis for the loans that are overdue for more than 90 days in 2021. For the years ended December 31, 2020 and 2021, the Group has written-off loans receivable of RMB0.5 million and RMB2.8 million, respectively.

As of December 31, 2020 and 2021, the balance of overdue loans are RMB12.5 million and RMB172.2 million, respectively, among which RMB5.2 million and RMB86.5 million are overdue for more than 90 days.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Investments

The Group's investments consist of held-to-maturity investments and available-for-sale investments.

Held-to-maturity investments

Investments are classified as held-to-maturity when the Group has the positive intent and ability to hold the security to maturity, and are recorded at amortized cost.

The Group reviews its investments in held-to-maturity investments for impairment periodically, recognizing an allowance, if any, by applying an estimated loss rate. The Group considers available quantitative and qualitative evidence in evaluating the potential impairment of its investments in held-to-maturity investments. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net carrying value at the amount expected to be collected on the held-to-maturity investments.

Available-for-sale investments

Investments that do not meet the criteria of held-to-maturity or trading securities are classified as available-for-sale, and are reported at fair value with unrealized gains and losses recorded in the consolidated statements of comprehensive income/(loss). Realized gains or losses are included in the consolidated statements of operations during the period in which the gains or losses are realized.

The Group evaluates each individual investment periodically for impairment. For investments where the Group does not intend to sell, the Company evaluates whether a decline in fair value is due to deterioration in credit risk. Credit-related impairment losses, not to exceed the amount that fair value is less than the amortized cost basis, are recognized through an allowance for credit losses on the consolidated balance sheet with corresponding adjustment in the consolidated statements of operations and comprehensive income. Subsequent increases in fair value due to credit improvement are recognized through reversal of the credit loss and corresponding reduction in the allowance for credit loss. Any decline in fair value that is non-credit related is recorded in accumulated other comprehensive income as a component of shareholder's equity. As of December 31, 2021, there were no investments held by the Group that had been in continuous unrealized loss position.

Business Acquisition

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed and any noncontrolling interests of the acquiree at the acquisition date, if any, are measured at their fair values as of the acquisition date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interests of the acquiree and fair value of previously held equity interest in the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition.

In April 2020, the Group acquired an insurance brokerage licensee company for total consideration of RMB15.5 million. The purchase price allocated to the fair value of assets acquired and liabilities assumed were RMB53.8 million and RMB38.3 million, respectively. RMB4.8 million of goodwill was recognized in this acquisition.

YIREN DIGITAL LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued****Asset Acquisition**

If the transaction involves the acquisition of an asset or group of assets that does not meet the definition of a business, it is accounted for as an asset acquisition. An asset acquisition is recorded at cost, which includes capitalized transaction costs, and does not result in the recognition of goodwill. The cost of the acquisition is allocated to the assets acquired on the basis of relative fair values.

In January 2020, the Group acquired a securities dealer company registered with Hong Kong Securities and Future Commission possessing Type 1 and Type 2 License for a total consideration of RMB13.2 million. The Group considered it an asset acquisition as substantially all of the fair value of the gross assets acquired was concentrated in the license as a single identifiable asset.

Property, equipment and software, net

Property, equipment and software consists of building, computer and transmission equipment, furniture and office equipment, software, and leasehold improvements, which 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, while the estimate residual value of the building and furniture and office equipment are 5%.

Building	20 years
Computer and transmission equipment	3 years
Furniture and office equipment	5 years
Software	1-5 years
Leasehold improvements	Over the shorter of the lease term or expected useful lives

Impairment of long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group recognizes an impairment loss based on the fair value of the assets. The Group did not record any impairment losses on its long-lived assets during the years ended December 31, 2019, 2020 and 2021.

Origination, servicing and other operating costs

Origination and servicing expenses consist primarily of variable expenses and vendor costs, including costs related to credit assessment, customer and system support, payment processing services and collection associated with facilitating and servicing loans. It also consists of costs in connection with the distribution of insurance products, including payroll and related expenses for insurance agents and transaction fee charged by third-party payment platform.

Leases

Before January 1, 2019, the Group adopted ASC Topic 840 (“ASC 840”), Leases. Each lease was classified at the inception date as either a capital lease or an operating lease. On January 1, 2019, the Group adopted the new lease accounting standard, ASC Topic 842, Leases (“ASC 842”), using the modified retrospective transition approach through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients. The Group categorizes leases with contractual terms longer than twelve months as either operating or finance lease. The Group has no finance leases for any of the periods presented.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Leases — continued

Right-of-use (“ROU”) assets represent the Group’s rights to use underlying assets for the lease term and lease liabilities represent the Group’s obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term, reduced by lease incentives received, plus any initial direct costs, using the discount rate for the lease at the commencement date. As the implicit rate in lease is not readily determinable for the Group’s operating leases, the Group uses the incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. Lease expenses for lease payments are recognized on a straight-line basis over the lease term.

The Group estimates its incremental borrowing rate based on an analysis of publicly traded debt securities of companies with credit and financial profiles similar to its own. The Group begins recognizing lease expenses when the lessor makes the underlying assets available to the Group. The Group’s leases have remaining lease terms of up to four years, some of which include options to extend the leases for an additional period which has to be agreed with the lessors based on mutual negotiation. After considering the factors that create an economic incentive, the Group did not include renewal option periods in the lease term for which it is not reasonably certain to exercise.

The Company elected not to record a ROU assets for short-term leases that have a term of 12 months or less. The cost of short-term leases was recognized in the consolidated statements of operations on a straight-line basis over the lease term.

Share-based compensation

All share-based awards to employees and directors, such as stock options and restricted share units, are measured at the grant date based on the fair value of the awards. Share-based compensation, net of forfeitures, is recognized as expenses on an accelerated basis during the vesting period with a corresponding impact reflected in the additional paid-in capital. Share-based compensation expenses are classified in the consolidated statements of operations based upon the job functions of the grantees.

Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ, or are expected to differ, from those estimates. Changes in estimated forfeiture rate are recognized through a cumulative catch-up adjustment in the period of change and also impact the amount of share-based compensation expenses to be recognized in future periods. The Group uses historical data to estimate pre-vesting option and records share-based compensation expenses only for those awards that are expected to vest.

According to Issue 21 of EITF Issue 00-23¹, the awards granted to employees of CreditEase, and other subsidiaries in the consolidated group of CreditEase, should be recognized as a deemed dividend from the Group to the parent company at the fair value as of the grant date. Share-based compensation, net of forfeitures, is recognized as a deemed dividend to CreditEase on an accelerated basis during the vesting period with a corresponding impact reflected in the additional paid-in capital.

Share-based awards to non-employees are measured based on the fair value at grant date. The Group recognizes the compensation cost using the graded vesting attribution method.

¹Although Issue 00-23 has also been nullified, the guidance in Issue 21 of EITF Issue 00-23 remains applicable by analogy since it is the only available guidance on accounting for these awards.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

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 consolidated financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to be reversed. 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 considers all positive and negative evidence, including future reversals of projected future taxable income and results of recent operation.

The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes are classified as a component of the provisions for income taxes. The Group 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, 2020 and 2021, respectively.

Value added taxes (“VAT”)

The Group is subject to VAT at the rate of 3% or 6%, depending on whether the entity is a general tax payer or small-scale taxpayer, and related surcharges on revenue generated from providing services. VAT are reported as a deduction to revenue when incurred and amounted to RMB916,316, RMB1,493,717 and RMB779,116 for the years ended December 31, 2019, 2020 and 2021, 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 as accrued expenses, and other liabilities on the consolidated balance sheets.

Net income/loss per share

Basic net income per share is computed by dividing net income attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted net income per share is calculated by dividing net income attributable to the ordinary shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares include shares issuable upon the vesting of restricted share units using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be antidilutive.

As described in Note 1, during the year ended December 31, 2019, the Group completed a number of acquisitions that were accounted for as acquisitions under common control and issued 61,981,412 ordinary shares as part of the total consideration. For purposes of calculating net income/(loss) per share, weighted average shares prior to this acquisition have been retroactively adjusted to give effect to this transaction for all historical periods presented in the consolidated financial statements.

Comprehensive income/(loss)

Comprehensive income/(loss) is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments from shareholders and distributions to shareholders. Comprehensive income/(loss) for the periods presented includes net income/(loss), change in unrealized (loss)/gains on available-for-sale investments, and foreign currency translation adjustment.

YIREN DIGITAL LTD.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

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:

- The financial assets are isolated from the transferor and its consolidated affiliates as well as its creditors;
- The transferee or beneficial interest holders have the right to pledge or exchange the transferred financial assets; and
- The transferor does not maintain effective control of the transferred asset.

The Group provides loan facilitation and post-origination services to the trusts. Upon the liquidation of the trusts, the Group purchased the delinquent loans from the trusts and subsequently disposed the loans to related parties.

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 the transfer. The transfer is accounted for as a sale as (1) the transferred loans are considered legally isolated from the assets of the Group and its creditors even in bankruptcies under the PRC laws and regulations, (2) the investors (transferees) can freely pledge or exchange the transferred loans, and (3) the Group does not maintain effective control over the transferred loans. The difference between the proceeds received from related parties and the fair value of the loans and other beneficial rights is recognized as “Gain on disposal of loan receivables and other beneficial rights” in the consolidated statements of operations.

The Group extended loans with automobiles as collaterals and transferred its financing receivables to other assets management companies (Note 9). As the transfer of financial assets does not qualify for sale accounting, the transaction was accounted for as a borrowings. Accordingly, the related financing receivables remain on the Company’s consolidated balance sheets and continue to be reported and accounted for as if the transfer had not occurred. Cash proceeds from these transfers are reported as liabilities, with attributable interest expense recognized over the life of the related transactions.

Foreign currency translation

The reporting currency of the Company is the Renminbi (“RMB”). The functional currency of the Company is the US dollar (“US\$”). The functional currency of the Group’s subsidiaries and VIEs in the PRC is the RMB.

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are included in earnings as a component of other income.

The financial statements of the Group are translated from the functional currency into the reporting currency. Assets and liabilities denominated in foreign currencies are translated using the applicable exchange rates at the balance sheet date. Equity accounts other than earnings generated in current period are translated at the appropriate historical rates. Revenues, expenses, gains and losses are translated using the periodic average exchange rates. The resulting foreign currency translation adjustment are recorded in other comprehensive (loss)/income.

Translations of amounts from RMB into US\$ are solely for the convenience of the reader and were calculated at the rate of US\$1.00 = RMB6.3726 on December 31, 2021, the last business day in the fiscal year 2021, representing the certificated exchange rate published by the Federal Reserve Board. No representation is intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at such rate, or at any other rate.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Significant risks and uncertainties

Foreign currency risk

RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. 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 Group's cash and cash equivalents denominated in RMB amounted to RMB2,408,924 and RMB2,844,484 as of December 31, 2020 and 2021, respectively.

Concentration of credit risk

Financial instrument that potentially exposes the Group to significant concentration of credit risk primarily includes cash and cash equivalents, restricted cash, accounts receivable, contract assets, prepaid expenses and other assets, loans at fair value, and amounts due from related parties. As of December 31, 2021, substantially all of the Group's cash and cash equivalents and restricted cash were deposited in financial institutions located in the PRC. According to the China Bank Deposit Insurance Ordinance, the deposits at each bank are covered by insurance with an upper limit of RMB500 thousands at each bank. Accounts receivable and contract assets are typically unsecured and are derived from revenue earned from customers in the PRC. The credit risk from prepaid expenses and other assets arises from loans to third parties. The risk with respect to accounts receivable, contract assets and loans to third parties is mitigated by credit evaluations the Group performs on its customers or third parties and its ongoing monitoring process of outstanding balances. The Group believes that there is no significant credit risk associated with amounts due from related parties.

Credit of loans at fair value is controlled by the application of credit approval, limit and monitoring procedures.

There are no revenues from customers which individually represent greater than 10% of the total net revenues for any year of the three years ended December 31, 2021.

There was one customer of the Group accounts for 46% and 42% of the Group's account receivables as of December 31, 2020 and 2021, respectively.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Reclassification

Certain prior period amount recorded in accrued expenses and other liabilities was reclassified to secured borrowings to conform to the current period presentation and had no effect on previously reported consolidated net income (loss) or accumulated deficit. In addition, certain prior period amount recorded in liabilities from quality assurance program and guarantee was reclassified to accrued expenses and other liabilities and had no effect on previously reported consolidated net income (loss) or accumulated deficit. Certain prior period amount recorded in provision for contingent liability was reclassified to general and administrative and had no effect on previously reported consolidated net income (loss) or accumulated deficit.

Recently accounting pronouncements not yet adopted

In January 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2020-01, Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) (ASU 2020-01), which clarifies the interaction of the accounting for equity securities under Topic 321, the accounting for equity method investments in Topic 323, and the accounting for certain forward contracts and purchased options in Topic 815. The Group does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

The Group does not believe that other recently issued accounting standards, if currently adopted, will have a material effect on the Group's consolidated financial statements.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

3. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2020	December 31, 2021
	RMB	RMB
Deposits (i)	54,298	213,852
Funds receivable from external payment network providers (ii)	105,741	82,976
Prepaid expenses	34,789	35,618
Guarantee receivable	20,244	6,015
Interest receivable	14,660	697
Receivable from Tianda Xinan (Beijing) Guarantee Co.,Ltd (“Tianda Xinan”)	24,851	—
Others	24,008	12,857
Total	<u>278,591</u>	<u>352,015</u>

(i) As of December 31, 2021, the balance of deposit mainly includes the business cooperation deposit of RMB180 million.

(ii) The Group opened accounts with external online payment service providers to collect and transfer loan funds and interest to investors or borrowers, repay and collect the default loan principal and interest. The Group also uses such accounts to collect the transaction fees and service fees. The balance of funds receivable from external payment network providers mainly includes accumulated amounts of transaction fees, service fees received at the balance sheet date, which was collected subsequently.

4. FAIR VALUE OF ASSETS AND LIABILITIES

Assets and Liabilities Recorded at Fair Value

The Group does not have assets or liabilities measured at fair value on a non-recurring basis.

The fair value hierarchy for assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition is as follows:

December 31, 2020	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Balance at Fair Value
	RMB	RMB	RMB	RMB
Assets				
Cash and cash equivalents	2,469,909	—	—	2,469,909
Restricted cash	237,239	—	—	237,239
Loans at fair value	—	—	192,156	192,156
Available-for-sale investments	73,990	60,000	41,525	175,515
Total Assets	<u>2,781,138</u>	<u>60,000</u>	<u>233,681</u>	<u>3,074,819</u>
Liabilities				
Payable to investors at fair value (Note 1)	—	—	161,996	161,996
Total Liabilities	<u>—</u>	<u>—</u>	<u>161,996</u>	<u>161,996</u>

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

4. FAIR VALUE OF ASSETS AND LIABILITIES — continued

Assets and Liabilities Recorded at Fair Value — continued

December 31, 2021	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Balance at Fair Value
	RMB	RMB	RMB	RMB
Assets				
Cash and cash equivalents	2,864,543	—	—	2,864,543
Restricted cash	80,800	—	—	80,800
Loans at fair value	—	—	73,734	73,734
Available-for-sale investments	88,987	47,000	41,373	177,360
Total Assets	3,034,330	47,000	115,107	3,196,437
Liabilities				
Payable to investors at fair value (Note 1)	—	—	93,109	93,109
Total Liabilities	—	—	93,109	93,109

Note 1: Among the payable to investors at fair value, RMB109,373 and RMB42,423 are recorded as amount due to related parties as of December 31, 2020 and 2021, respectively.

As the Group's loans and related payable to investors do not trade in an active market with readily observable prices, the Group uses discounted cash flow methodology involving significant unobservable inputs to measure the fair value of these assets and liabilities, including discount rates, net cumulative expected loss rates, and cumulative prepayment rates. Financial instruments are categorized as Level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement. The Group did not transfer any assets or liabilities in or out of Level 3 during the years ended December 31, 2020 and 2021.

Significant Unobservable Inputs

Financial Instrument	Unobservable Input	December 31, 2020 Range of Inputs Weighted- Average	December 31, 2021 Range of Inputs Weighted- Average
Loans at fair value	Discount rates	12.0%-36.0 %	28.9%-36.0 %
	Net cumulative expected loss rates (1)	7.7%-31.7 %	4.8%-31.5 %
	Cumulative prepayment rates (2)	7.5%-27.0 %	12.6%-27.3 %
Payable to investors at fair value	Discount rates	6.8%-8.7 %	7.1%-8.6 %

(1) Expressed as a percentage of the loan volume.

(2) Expressed as a percentage of remaining principal of loans.

The above inputs in isolation can cause significant increases or decreases in fair value. Specifically, increases in the discount rate can significantly lower the fair value of loans; conversely a decrease in the discount rate can significantly increase the fair value of loans. The discount rate is determined based on the market rates.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

4. FAIR VALUE OF ASSETS AND LIABILITIES — continued**Significant Unobservable Inputs — continued**

Changes in fair value of loans and payable to investors are reported net as “Fair value adjustments related to the consolidated ABFE” in the consolidated statements of operations. The additional information about Level 3 loans and payable to investors measured at fair value on a recurring basis for the years ended December 31, 2020 and 2021 is as follows:

	Loans At Fair Value
	RMB
Balance as of December 31, 2019	418,492
Origination of loans	153,750
Collection of principals	(193,916)
Change in fair value	(186,170)
Balance as of December 31, 2020	192,156
Changes in fair value related to balance outstanding as of December 31, 2020	(133,501)
	Loans At Fair Value
	RMB
Balance as of December 31, 2020	192,156
Origination of loans	60,201
Collection of principals	(125,969)
Change in fair value	(52,654)
Balance as of December 31, 2021	73,734
Changes in fair value related to balance outstanding as of December 31, 2021	(14,168)
	Payable to investors At Fair Value
	RMB
Balance as of December 31, 2019	—
Contribution from investors of the consolidated ABFE	174,000
Interest and penalties received	49,702
Deductible expenses associated with the consolidated ABFE operation	(4,650)
Principal and interest payments to investors of the consolidated ABFE	(14,874)
Changes in fair value	(42,182)
Amount due to related parties (Note 1)	(109,373)
Balance as of December 31, 2020	52,623
Changes in fair value related to balance outstanding as of December 31, 2020	(42,182)

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

4. FAIR VALUE OF ASSETS AND LIABILITIES — continued**Significant Unobservable Inputs — continued**

	Payable to investors At Fair Value
	RMB
Balance as of December 31, 2020	52,623
Contribution from investors of the consolidated ABFE	657
Interest and penalties received	36,760
Deductible expenses associated with the consolidated ABFE operation	(6,995)
Principal and interest payments to investors of the consolidated ABFE	(84,098)
Changes in fair value	(15,211)
Amount due to related parties (Note 1)	66,950
Balance as of December 31, 2021	50,686
Changes in fair value related to balance outstanding as of December 31, 2021	(15,211)

Note 1: Among the investors of the ABFE, RMB109,373 and RMB42,423 are recorded as amount due to related parties as of December 31, 2020 and 2021, respectively.

Financial Instruments Not Recorded at Fair Value

Financial instruments, including accounts receivable, other receivables, financing receivables, loans to third parties, prepaid expenses and other assets, held-to-maturity investments and amounts due from/to related parties, accounts payable, accrued expenses and other liabilities are not recorded at fair value. The fair values of these financial instruments are approximate their carrying value reported in the consolidated balance sheets due to the short-term nature of these assets and liabilities.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

5. INVESTMENTSHeld-to-maturity investments

As of December 31, 2021, the Group's held-to-maturity investments mainly consisted of principal-guaranteed products that have stated maturity within one year. While these fixed-income financial products are not publicly traded, the Group estimated that their fair value approximated their amortized costs considering their short-term maturities and high credit quality. No allowance for credit loss was recognized for the years ended December 31, 2019, 2020 and 2021.

Interest income of held-to-maturity investments of RMB5,833, RMB73 and RMB2,963 was recognized in the consolidated statements of operations for the years ended December 31, 2019, 2020 and 2021, respectively.

Available-for-sale investments

As of December 31, 2021, the Group's available-for-sale investments mainly consisted of investments in debt securities. The Group measured the available-for-sale investments at fair value, with changes in fair value deferred in other comprehensive income/(loss). Changes in fair value of available-for-sale investments, net of tax, for the years ended December 31, 2019, 2020 and 2021 were RMB3,839, RMB3,546 and RMB(2,362), respectively, recorded in other comprehensive income/(loss). No impairment loss was recognized for the years ended December 31, 2019, 2020 and 2021.

Interest income of available-for-sale investments of RMB24,394, RMB11,454 and RMB5,238 was recognized in the consolidated statements of operations for the years ended December 31, 2019, 2020 and 2021, respectively.

The additional information about cost and fair value of available-for-sale investments as of December 31, 2020 and 2021 is as follows:

December 31, 2020	<u>Cost</u> RMB	<u>Unrealized gains in accumulated other comprehensive income</u> RMB	<u>Impact of exchange rate</u> RMB	<u>Fair value</u> RMB
<u>Available-for-sale investments:</u>				
Debt securities	171,189	4,559	(233)	175,515
December 31, 2021	<u>Cost</u> RMB	<u>Unrealized gains in accumulated other comprehensive income</u> RMB	<u>Impact of exchange rate</u> RMB	<u>Fair value</u> RMB
<u>Available-for-sale investments:</u>				
Debt securities	175,468	2,197	(305)	177,360

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

6. PROPERTY, EQUIPMENT AND SOFTWARE, NET

	December 31, 2020	December 31, 2021
	RMB	RMB
Building	38,464	38,464
Computer and transmission equipment	156,991	15,757
Furniture and office equipment	54,117	36,273
Leasehold improvements	70,276	50,951
Software	75,718	64,571
Total property, equipment and software	395,566	206,016
Accumulated depreciation and amortization	248,373	103,468
Property, equipment and software, net	<u>147,193</u>	<u>102,548</u>

Depreciation and amortization expenses on property, equipment and software for the years ended December 31, 2019, 2020 and 2021 were RMB125,850, RMB91,772 and RMB43,236, respectively.

7. ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31, 2020	December 31, 2021
	RMB	RMB
Accrued payroll and welfare	668,197	538,910
Tax payable	194,406	250,445
Payable to investors (i)	110,227	124,147
Accrued advertisement expenses	15,467	77,205
Guarantee liabilities	42,229	42,934
Accrued customer incentives	54,703	25,967
Funds collected on behalf of third-party guarantee companies	27,925	20,048
Others	95,761	103,127
Total accrued expenses and other liabilities	<u>1,208,915</u>	<u>1,182,783</u>

(i) Payable to investor represents interest and principal collected by the Group on behalf of lenders.

YIREN DIGITAL LTD.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)**

8. RELATED PARTY BALANCES AND TRANSACTIONS

The Group accounts for related party transactions based on various service agreements and reflects for all periods presented herein. The major related parties and their relationships with the Group, and the nature of their services provided to the Group are summarized as follows:

<u>Company name</u>	<u>Relationship with the Group</u>	<u>Major transaction with the Group</u>
Pucheng Credit Assessment and Management (Beijing) Co., Ltd. (“Pucheng Credit”)	Subsidiary of Consolidated VIE of CreditEase	Collection services, management consulting services, customers acquisition and referral services and related party loans
Puxin	Subsidiary of CreditEase	System support services and sales of goods
Zhuoyue	Consolidated VIE of CreditEase	Customers acquisition and referral services and related party loans
Beijing Zhicheng Credit Service Co., Ltd. (“Beijing Zhicheng”)	Consolidated VIE of CreditEase	Credit assessment services
Zhicheng A’Fu Technology Development Co.,Ltd. (“Zhicheng A’Fu”)	Consolidated VIE of CreditEase	Credit assessment services
Hengcheng	Consolidated VIE of CreditEase (from January 2021)	Post-loan management services, technical services and acquisition and referral services
CreditEase Bocheng Insurance Sales and Service Co., Ltd. (“Bocheng”)	Consolidated VIE of CreditEase	Customers acquisition and referral services
Huichuang Financial Leasing (Shanghai) Co., Ltd.	Subsidiary of CreditEase	Customers acquisition and referral services
Xinda Hongtao Technology Development (Beijing) Co., Ltd. (“Xinda Hongtao”)	Consolidated VIE of CreditEase	Customers acquisition and referral services
Zhehao Asset Management (Shanghai)Co., Ltd. (“Zhehao”)	Consolidated VIE of CreditEase	Fund distribution services
Beijing Hanfu Asset Management Co., Ltd. (“Hanfu”)	Consolidated VIE of CreditEase	Fund distribution services
CreditEase Qixiang Technology (Beijing) Co., Ltd. (“CreditEase Qixiang”)	Consolidated VIE of CreditEase	Rental of equipment and disposal of loan receivables and the beneficial rights in the consolidated ABFE
Beijing Yuying Asset Management Co., Ltd.	Consolidated VIE of CreditEase	Fund distribution services
Creditease Puze (Beijing) Fund Sales Co., Ltd. (“Creditease Puze”)	Subsidiary of CreditEase	Customers acquisition and referral services
Hengda Hongyuan International Technology Development (Beijing) Co., Ltd.	Subsidiary of CreditEase	Financing services through transfer of financial lease receivables
Huimin	Consolidated VIE of CreditEase (from November 2019)	Customer hotline services
Chongqing Chengyuan Future E-commerce Service Co., Ltd	Consolidated VIE of CreditEase	System support services
Hainan CreditEase Puhui Small Loan Co., Ltd. (“Hainan CreditEase”)	Subsidiary of Consolidated VIE of CreditEase	Customers acquisition and referral services
Toumi Technology Development (Beijing) Co., Ltd.	Subsidiary of Consolidated VIE of CreditEase	Customers acquisition and referral services
CreditEase Securities (HK) Limited.	Subsidiary of Consolidated VIE of CreditEase	Management consulting services
Good Hope Entry-Exit Consulting Service (Beijing) Co., Ltd.	Consolidated VIE of CreditEase	Customers acquisition and referral services
Lord Abbett China Asset Management Co., Ltd.	Subsidiary of Consolidated VIE of CreditEase	Fund distribution services
Shenzhen Puze Zhongfu Asset Management Co., Ltd.(“Puze Zhongfu”)	Subsidiary of CreditEase	Fund distribution services

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

8. RELATED PARTY BALANCES AND TRANSACTIONS — continued

The information about costs and expenses incurred for services provided by CreditEase, its subsidiaries and affiliates for the years ended December 31, 2019, 2020 and 2021 is as follows:

	Years ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Customers acquisition and referral services	464,140	387,843	281,633
System support services	179,458	164,671	135,118
Credit assessment services	19,025	8,022	56,957
Collection services	296,493	421,726	17,943
Rental of equipment	4,384	—	—
Management consulting services	3,000	669	—
Customer calling center services	—	40,287	—
Total costs and expenses	<u>966,500</u>	<u>1,023,218</u>	<u>491,651</u>

Revenue derived from services provided by the Group to CreditEase, its subsidiaries and affiliates for the years ended December 31, 2019, 2020 and 2021 is recorded as other revenue and is as follows:

	Years ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Customers acquisition and referral service	28,547	138,438	442,570
Technical services	—	—	85,832
Post-loan management services	—	—	44,586
Fund distribution services	113,930	7,004	—
Sales of goods	—	—	170
Total revenue	<u>142,477</u>	<u>145,442</u>	<u>573,158</u>

Huimin disposed its beneficiary rights of several trusts to Shenzhen Tengda and CreditEase Qixiang for a total consideration of RMB144,389 during the year ended December 31, 2019. Since July 2019, Shenzhen Tengda is no longer a related party of the Group.

The information about loans collected from/(issued to) CreditEase, its subsidiaries and affiliates recorded in investing activities of the Company's consolidated statements of cash flows for the years ended December 31, 2019, 2020 and 2021 is as follows:

	Years ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Pucheng Credit	100,000	—	—
Zhuoyue	4,500	—	—
Total	<u>104,500</u>	<u>—</u>	<u>—</u>

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

8. RELATED PARTY BALANCES AND TRANSACTIONS — continued

The information about loans received from/(repaid to) CreditEase, its subsidiaries and affiliates recorded in financing activities of the Company's consolidated statements of cash flows for the years ended December 31, 2019, 2020 and 2021 is as follows:

	Years ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Zhuoyue	706,250	—	—
Pucheng Credit	1,000	—	—
Fuan Yida	(68,000)	—	—
Hengda Hongyuan (a)	—	361,500	(26,700)
Total	<u>639,250</u>	<u>361,500</u>	<u>(26,700)</u>

(a) Amounts related to transfer financial receivable to related party which only include principal, as discussed in Note 9.

Details of related party balances as of December 31, 2020 and 2021 are as follows:

(i) Amounts due from related parties

	December 31,	December 31,
	2020	2021
	RMB	RMB
Zhuoyue (Note a)	90,814	467,214
Puxin (Note b)	65,542	123,261
Hengcheng (Note c)	579,633	144,961
Huichuang (Note d)	105,130	109,499
Hainan Xiaodai (Note d)	3,512	16,185
Creditease Puze (Note d)	2,282	5,093
Others	37,093	13,043
Total	<u>884,006</u>	<u>879,256</u>

(ii) Amounts due to related parties

	December 31,	December 31,
	2020	2021
	RMB	RMB
Hengda Hongyuan (Note e)	367,134	340,216
Pucheng Credit (Note b)	34,834	31,141
Hengcheng (Note c)	379,202	16,361
Huicong International (Note b)	51,798	15,974
Puxin (Note b)	9,540	—
Zhuoyue (Note b)	75,017	—
Others	52,784	30,435
Total	<u>970,309</u>	<u>434,127</u>

(a) Amounts relate to the prepayment of referral services provided by the related parties and referral services provided to related party as of December 31, 2020 and 2021, respectively.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

8. RELATED PARTY BALANCES AND TRANSACTIONS — continued

- (b) Amounts relate to the provision of credit assessment, collection, system support, identity verification, referral services and trust investment provided by the related parties.
- (c) Amounts due from and due to Hengcheng were related to the disposal of Huimin as discussed in Note 1 and customer services provided.
- (d) Amounts related to the referral services provided to the related parties.
- (e) In 2021, based on the financing arrangement with Haijin Yichuang, RMB340,216 related to financing receivables was transferred to related party, which includes the principal and interests.

Non-competition arrangement

The Group entered into a non-competition agreement with CreditEase, under which they agreed not to compete with each other's core business. The non-competition agreement was amended and restated on December 31, 2020. CreditEase agreed not to compete with the Group in a business that is of the same nature as (i) the online wealth management business targeting the mass affluent (which refers to individuals with RMB1 million to RMB10 million investable financial assets), unsecured and secured consumer lending, financing leasing, small and medium enterprise lending and other related services and businesses ("Yiren Digital Business"), and (ii) other businesses that the Group and CreditEase may mutually agree from time to time. The Group agreed not to compete with CreditEase in the business conducted by CreditEase, other than (i) the Yiren Digital Business and (ii) other businesses that the Group and CreditEase may mutually agree from time to time.

9. SECURED BORROWINGS

In 2020 and 2021, Yichuang Financial Leasing entered into several financing arrangements, with a principal amount of RMB862.0 million and RMB541.6 million, respectively. According to the arrangements, Yichuang Financial Leasing transferred its creditor's right of certain financial receivables totaling RMB909.1 million and RMB550.0 million with remaining lease terms ranging from 1 to 3 years originating from its finance leasing services business to external creditors. As the transfer of creditor's right of financial receivables does not constitute a real asset transformation under PRC law, the proceeds from the external creditors were considered as secured borrowings. The Group's secured borrowings have maturities ranging from 1 to 3 years.

As of December 31, 2021, the principal balance of secured borrowing is RMB1,363.4 million, among which RMB334.8 million secured borrowings is included in "Amounts due to related parties", refer to Note 8.

10. INCOME TAXES

Yiren Digital is a company incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, Yiren Digital is not subject to tax on either income or capital gain.

Under the current Hong Kong Inland Revenue Ordinance, YouRace HK is subject to 8.25% Profits Tax rate on assessable profits up to HK\$2 million, and 16.5% on any part of assessable profits over HK\$2 million.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

10. INCOME TAXES — continued

Under the PRC Enterprise Income Tax Law (the “EIT Law”), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. YouRace Hengchuang was recognized as a Software Enterprise and thereby entitled to full exemption from EIT for two years beginning with its first profitable year, i.e., 2015 and 2016, and a 50% reduction for the subsequent three years. In 2020, YouRace Hengchuang qualified as “high and new technology enterprise strongly supported by the State” (“HNTE”) under the EIT Law and was entitled to preferential income tax rate of 15%. Yiren Hengsheng Technology Development (Beijing) Co., Ltd. (“Yiren Hengsheng”) obtained the software enterprise certificate in March 2021, and was qualified as a Software Enterprise and thereby entitled to full exemption from EIT for two years beginning with its first profitable year, i.e., 2020 and 2021, and a 50% reduction for the subsequent three years. In addition, Hengyuda has been recognized as within encouraged industries in the Western Regions of China and enjoyed a preferential income tax rate of 15%. Except for the small low-profit enterprises, whose taxable income not exceed RMB1 million is computed at a reduced rate of 2.5%, taxable income from RMB1 million to RMB3 million at a reduced rate of 50%, and subject to income tax of 20%, Yiren Digital’s other subsidiaries, the consolidated VIEs and the consolidated VIEs’ subsidiaries established in the PRC are subject to income tax rate of 25%, according to the EIT Law. The consolidated ABFE are not subject to income tax.

Under the EIT Law and its implementation rules which became effective on January 1, 2008, dividends generated after January 1, 2008 and payable by foreign-invested enterprise in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the taxation arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident which is the “beneficial owner” and directly holds 25% or more of the equity interest in a PRC resident enterprise is entitled to a reduced withholding tax rate of 5%. The Cayman Islands, where the Company is incorporated, does not have a tax treaty with the PRC.

Since January 1, 2014, the relevant tax authorities of the Group’s subsidiaries have not conducted a tax examination on the Group’s PRC entities. In accordance with relevant PRC tax administration laws, tax years from 2015 of the Group’s PRC subsidiaries and VIEs, remain subject to tax audits as of December 31, 2021, at the tax authority’s discretion.

Income tax expenses / (benefits) are comprised of the following:

	December 31, 2019	December 31, 2020	December 31, 2021
	RMB	RMB	RMB
Current tax	370,946	77,274	85,198
Deferred tax	(131,718)	(157,885)	84,991
Total	<u>239,228</u>	<u>(80,611)</u>	<u>170,189</u>

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

10. INCOME TAXES — continued

Reconciliation between the income tax at the PRC statutory tax rate and income tax expenses is as follows:

	Years ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Income before provision for income taxes	1,397,019	(773,359)	1,203,173
Statutory tax rate in the PRC	25 %	25 %	25 %
Income tax expenses / (benefits) at statutory tax rate	349,255	(193,340)	300,793
Non-deductible expenses	22,077	9,126	12,663
Research and development super deduction	(10,820)	(5,460)	(8,508)
Effect of income not taxable	(12,786)	—	(24,604)
Effect of tax holiday and preferential tax rate	(126,577)	(178,938)	(132,485)
Adjustment on current income tax of the prior periods	(384)	6	(5,614)
Effect of different tax rates of subsidiaries operating in other jurisdictions	14,518	13,641	28,072
Effect of reversal of withholding income tax	—	(20,000)	—
Debt relief income (i)	1,286,791	—	—
Utilization of tax losses from the prior period (i)	(1,452,828)	—	—
Change in valuation allowance	169,982	294,354	(128)
Income tax expenses/ (benefits)	<u>239,228</u>	<u>(80,611)</u>	<u>170,189</u>

The aggregate amount and per share effect of the tax holiday and preferential tax rate are as follows:

	Years ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
The aggregate amount of tax holiday and preferential tax rate	(126,577)	(178,938)	(132,485)
The aggregate effect on basic and diluted net income per share:			
- Basic	(0.6834)	(0.9924)	(0.7838)
- Diluted	(0.6786)	(0.9924)	(0.7766)

- (i) As discussed in Note 1, Zhuoyue unconditionally waived a net receivables amounting to RMB5,147 million from the Acquired Businesses, which resulted in an increase of income tax expenses amounting to RMB1,287 million. The carried over accumulated loss from prior periods were utilized during the year and resulted in a decrease of income tax expenses amounting to RMB1,453 million.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

10. INCOME TAXES — continued

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the deferred tax assets are as follows:

	December 31, 2020 RMB	December 31, 2021 RMB
Deferred tax assets:		
Deferred revenue	12,725	3,095
Refund liabilities	1,627	860
Accrued expenses and other liabilities	22,557	18,068
Fair value changes	18,114	17,794
Allowance for uncollectible receivables	107,994	113,638
Amortization difference of long-term assets	19,841	13,601
Accumulated losses carry over	32,683	—
Valuation allowance (i)	(39,516)	(38,050)
Total	<u>176,025</u>	<u>129,006</u>
Deferred tax liabilities:		
Contract assets, net	167,949	224,086
Contract cost	21,110	2,944
Intangible assets	8,962	7,123
Total	<u>198,021</u>	<u>234,153</u>
Net deferred tax liabilities	<u>(21,996)</u>	<u>(105,147)</u>

- (i) A valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group evaluates a variety of factors including the Group's entities' operating history, accumulated deficit, forecasts of future profitability, existence of taxable temporary differences and reversal periods. The valuation allowance is considered on an individual entity basis. The Group has recognized a valuation allowance against deferred tax assets of RMB39,516 and RMB38,050 for the years ended December 31, 2020 and 2021, respectively.

The authoritative guidance requires that the Group recognizes the impact of a tax position in the financial statements if that position is more likely than not of being sustained upon audit by the tax authority, based on the technical merits of the position. Under the PRC laws and regulations, arrangements and transactions among related parties may be subject to examination by the PRC tax authorities. If the PRC tax authorities determine that the contractual arrangements among related companies do not represent a price under normal commercial terms, they may make adjustments to the companies' income and expenses. A transfer pricing adjustment could result in additional tax liabilities.

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, properties, etc., 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 the 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 the PRC income taxes, at a rate of 25%.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

10. INCOME TAXES — continued

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2019, 2020 and 2021. The Group did not incur any interest related to unrecognized tax benefits, did not recognize any penalties as income tax expenses and also does not anticipate any significant change in unrecognized tax benefits within 12 months from December 31, 2021.

Under the EIT Law and its implementation rules, a withholding tax at 10%, unless reduced by a tax treaty or arrangement, is applied on dividends received by non-PRC-resident corporate investors from the PRC-resident enterprises, such as the Company's PRC subsidiaries. Under the China-HK Tax Arrangement and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% equity interests or more of a PRC enterprise is entitled to a reduced withholding rate of 5%. The Company believes that YouRace HK will apply the 10% withholding tax rate. On July 29, 2017, the Board also approved a semi-annual dividend policy. Under this policy, semi-annual dividends are set at an amount equivalent to approximately 15% of the Company's anticipated net income after tax in each half year commencing from the second half of 2017, which are derived from the earnings of the Group's PRC companies. On August 14, 2018, the Board decided to terminate the semi-annual dividend policy going forward.

Aggregate undistributed earnings of the Company's PRC subsidiaries and the consolidated VIEs that are available for distribution were approximately RMB3,300 million and RMB4,152 million as of December 31, 2020 and 2021, respectively. A deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting amounts over tax basis amount in the PRC subsidiaries and the consolidated VIEs. However, the aggregate undistributed earnings of the Company's subsidiaries and the consolidated VIEs and its subsidiaries located in the PRC that are available for distribution as of December 31, 2021 are considered to be indefinitely reinvested and accordingly, no provision has been made for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to any entity within the Group that is outside the PRC.

11. SHARE-BASED COMPENSATION

Share incentive plan

In September 2015, the Company adopted the 2015 Share Incentive Plan (the "2015 Plan"), In July 2017, the Company adopted the 2017 Share Incentive Plan (the "2017 Plan"), In June 2020, the Company adopted the 2020 Share Incentive Plan (the "2020 Plan") which permits the grant of three types of awards: options, restricted shares and restricted share units ("RSUs"). Persons eligible to participate in the 2015 Plan, the 2017 Plan and the 2020 Plan include employees (including part-time employees) and the directors of the Company or any of affiliates, which include CreditEase, its subsidiaries and any entities in which CreditEase or a subsidiary of the Company holds a substantial ownership interest. According to the resolutions of the Board and the shareholders of the Company in July 2017, the 2015 Plan was amended. Under the amended 2015 plan, the maximum ordinary shares available for issuance were decreased to 3,939,100. Under the 2017 Plan, the maximum of 6,060,900 ordinary shares were reserved for issuance. Under the 2020 Plan, the maximum of 18,560,000 ordinary shares were reserved for issuance.

Over the life of the Plan 2017, 43,386 RSUs were granted on July 1, 2019, at the fair value of US\$6.92 per ordinary share, which was determined based on the closing price of the Company's ADSs on The New York Stock Exchange on the grant date. Approximately 20.0% of the share awards were immediately vested and the rest is expected to be vested in various days up to four years. Over the life of the Plan 2020, 2,592,140 RSUs were granted on June 30, 2020, at fair value of US \$2.07 per ordinary share. Approximately 15.4% of the share awards were immediately vested and the rest is expected to be vested in various days up to three years. 143,560 RSUs were granted on December 31, 2020, at fair value of US \$1.67 per ordinary share, which were expected to be vested in various days up to three years. 1,830,024 RSUs were granted on June 30, 2021, at fair value of US\$3.01 per ordinary share, which were expected to be vested in various days up to three years. 1,381,350 RSUs were granted on July 1, 2021, at fair value of US \$2.79 per ordinary share, and all share awards were immediately vested.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

11. SHARE-BASED COMPENSATION — continued*Share incentive plan — continued*

Out of all the RSUs granted, 43,386 RSUs were granted to directors and employees of the Group under the 2017 Plan on July 1, 2019. 2,089,724 RSUs were granted under the 2020 Plan on June 30, 2020. 139,912 RSUs were granted on December 31, 2020. 1,060,464 RSUs were granted under the 2020 Plan on June 30, 2021. 447,698 RSUs were granted under the 2020 Plan on July 1, 2021. The awards granted to the employees of the Group are recognized as share-based compensation expenses, and measured based on the fair value as of the grant date. The Company recognized compensation expenses in general and administrative expense of RMB43,941, RMB14,173 and RMB19,089 for the years ended December 31, 2019, 2020 and 2021, respectively.

The remaining 502,416 RSUs were granted to employees of CreditEase and its consolidated subsidiaries and VIEs under the 2020 Plan on June 30, 2020. 3,648 RSUs were granted under the 2020 Plan on December 31, 2020. 769,560 RSUs were granted under the 2020 Plan on June 30, 2021. 933,652 RSUs were granted under the 2020 Plan on July 1, 2021. The awards granted to employees of CreditEase and its consolidated subsidiaries and VIEs were recognized as deemed dividend from the Company to CreditEase as the employees of CreditEase do not provide services directly related to the Company. The awards are measured based on the fair value as of the grant date. The amount recognized as deemed dividend were RMB15,497, RMB5,312 and RMB23,223 for the years ended December 31, 2019, 2020 and 2021 respectively.

The total fair value of RSUs vested for the years ended on December 31, 2019, 2020 and 2021 were RMB88,446, RMB66,797 and RMB59,611 respectively.

RSUs

A summary of RSUs activities is as follows:

	Number of RSUs	Weighted-Average Grant-Date Fair Value US\$
Outstanding as of December 31, 2019	1,918,446	10.96
Granted	2,735,700	2.04
Vested	(1,237,196)	7.82
Forfeited	(807,006)	7.07
Outstanding as of December 31, 2020	2,609,944	4.31
Granted	3,211,374	2.91
Vested	(2,287,340)	4.04
Forfeited	(894,782)	3.32
Outstanding as of December 31, 2021	<u>2,639,196</u>	<u>3.18</u>

As of December 31, 2021, unrecognized compensation cost related to unvested awards granted to employees of the Group, adjusted for estimated forfeitures, was RMB13,393. This cost is expected to be recognized over a weighted average period of 1.2 years on an accelerated basis.

As of December 31, 2021, unrecognized deemed dividend related to unvested awards granted to employees of CreditEase and its consolidated subsidiaries and VIEs, adjusted for estimated forfeitures, was RMB7,489. Such deemed dividend will be recorded over a weighted average period of 1.2 years on an accelerated basis.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

12. SHARE REPURCHASE PROGRAM

In June 2018, the Board authorized a share repurchase program under which the Company may repurchase up to US\$20 million worth of its ADSs. The share repurchases may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by the management.

During the years ended December 31, 2020 and 2021, the Company had repurchased 153,279 ADSs for RMB3,050 (US\$467) and 128,562 ADSs for RMB2,750 (US\$432) on the open market, at a weighted average price of US\$2.92 per ADS and US\$3.31 per ADS, respectively. The Company accounts for the repurchased ordinary shares under the cost method and includes such treasury stock as a component of the shareholders' equity.

13. NET INCOME/(LOSS) PER SHARE AND NET (LOSS)/INCOME ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The basic and diluted net income/(loss) per share for each of the years presented are calculated as follows:

	Years ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Numerator:			
Net income/(loss)	1,155,611	(692,748)	1,032,984
Denominator:			
Weighted average number of ordinary shares outstanding, basic	185,219,586	180,301,898	169,029,826
Plus incremental weighted average ordinary shares from assumed vesting of RSUs using the treasury stock method(i)	1,315,878	—	1,560,377
Weighted average number of ordinary shares outstanding, diluted	<u>186,535,464</u>	<u>180,301,898</u>	<u>170,590,203</u>
Basic net income/(loss) per share	6.2391	(3.8422)	6.1113
Diluted net income/(loss) per share	6.1951	(3.8422)	6.0554

- (i) There were nil, 592,249 RSUs and nil, which were excluded from the computation of diluted net income/(loss) per share for 2019, 2020 and 2021 because their effect was anti-dilutive.

14. LEASES

The Group leases certain office premises to support its core business under non-cancelable leases. The Group determines if an arrangement is a lease at inception. Some lease agreements contain lease and non-lease components, which the Group chooses not to account for as separate components as the Group has elected the practical expedient. As of December 31, 2021, the Group had no long-term leases that were classified as a financing lease. As of December 31, 2021, the Group had no significant lease contract that has been entered into but not yet commenced.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

14. LEASES — continued

A summary of supplemental information related to operating leases as of December 31, 2021 is as follows:

	Year ended December 31, 2020	Year ended December 31, 2021
Operating lease ROU assets	105,674	80,752
Operating lease liabilities	81,854	72,101
Operating leases - Weighted average remaining lease term	1.47 years	2.47 years
Operating leases - Weighted average discount rate	3.3 %	3.4 %

A summary of lease cost recognized and recorded in sales and marketing and general and administrative expenses in the consolidated statements of operations and supplemental cash information related to operating leases is as follows:

	Year ended December 31, 2020	Year ended December 31, 2021
Operating lease cost	244,855	99,036
Short-term lease cost	808	4,220
Total	245,663	103,256
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	218,878	81,695
Non-cash ROU assets in exchange for new lease liabilities:		
Operating leases	63,749	103,217

As of December 31, 2021, the maturity of operating lease liabilities under the Group's non-cancelable operating leases is as follows:

	As of December 31, 2020 RMB	As of December 31, 2021 RMB
2021	62,414	—
2022	20,947	31,854
2023	872	21,800
2024	—	18,718
2025	—	2,776
2026 and thereafter	—	—
Subtotal	84,233	75,148
Less: imputed interest	2,379	3,047
Present value of operating lease liabilities	81,854	72,101

15. SEGMENT INFORMATION

The Group's chief operating decision maker ("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. As a result of the acquisition under common control during 2019, the Group changed its internal organization structure and changed its reportable segments from one to two: Yiren Wealth and Yiren Credit. Yiren Wealth conducts wealth management business and Yiren Credit focuses on consumer credit business. Other segment primarily includes electronic commerce business launched in 2021.

YIREN DIGITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)

15. SEGMENT INFORMATION — continued

The summary of each segment's operating results for the years ended December 31, 2019, 2020 and 2021 is as follows:

	Years ended December 31,		
	2019 RMB	2020 RMB	2021 RMB
Net revenue:			
Wealth management	2,176,215	1,432,364	1,260,513
Consumer credit	6,440,569	2,529,598	3,184,302
Others	—	—	33,114
Total net revenue	8,616,784	3,961,962	4,477,929
Operating costs and expenses:			
Wealth management	(915,202)	(760,180)	(952,224)
Consumer credit	(6,194,071)	(3,703,031)	(2,130,221)
Others	—	—	(10,340)
Income/(loss) from operations:			
Wealth management	1,261,013	672,184	308,289
Consumer credit	246,498	(1,173,433)	1,054,081
Others	—	—	22,774
Total segment income/(loss) from operations	1,507,511	(501,249)	1,385,144
Unallocated expenses	(379,482)	(204,589)	(97,811)
Other income/(expenses)	268,990	(67,521)	(84,160)
Income/(loss) before provision for income taxes	1,397,019	(773,359)	1,203,173

All of the Group's revenue were generated from the PRC and all of long-lived assets of the Group were located in the PRC. Depreciation and amortization expenses of Wealth management for the years ended December 31, 2019, 2020 and 2021 were RMB2,690, RMB1,888 and RMB1,403, respectively, while such expenses of Consumer credit for the years ended December 31, 2019, 2020 and 2021 were RMB89,912, RMB78,751 and RMB29,225, respectively.

16. EMPLOYEE BENEFIT PLAN

Full time employees of the Group in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The Group accrues for these benefits based on certain percentages of the employees' salaries. The total contribution for such employee benefits were RMB682,006, RMB233,917 and RMB182,154 for the years ended December 31, 2019, 2020 and 2021, respectively.

17. STATUTORY RESERVES AND RESTRICTED NET ASSETS

In accordance with the PRC laws and regulations, the Company's PRC subsidiaries, the consolidated VIEs and the consolidated VIEs' subsidiaries are required to make appropriation to certain statutory reserves, namely general reserve, enterprise expansion reserve, and staff welfare and bonus reserve, all of which are appropriated from net profit as reported in their PRC statutory accounts. The Group's PRC entities are required to appropriate at least 10% of their after-tax profits to the general reserve until such reserve has reached 50% of their respective registered capital.

Appropriations to the enterprise expansion reserve and the staff welfare and bonus reserve are to be made at the discretion of the board of directors of each of the Group's PRC entities. There were no appropriations to these reserves by the Group's PRC entities for the years ended December 31, 2019, 2020 and 2021.

YIREN DIGITAL LTD.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except for share and per share data, or otherwise noted)**

17. STATUTORY RESERVES AND RESTRICTED NET ASSETS — continued

As a result of the PRC laws and regulations and the requirement that distributions by the PRC entity can only be paid out of distributable profits computed in accordance with the PRC GAAP, the PRC entity is restricted from transferring a portion of its net assets to the Company. Amounts restricted include paid-in capital, capital reserve and statutory reserves of the Company's PRC entities. As of December 31, 2020 and 2021, the aggregated amounts of paid-in capital, capital reserve and statutory reserves represented the amount of net assets of the relevant entities of the Group not available for distribution amounted to RMB7,840,922 and RMB8,205,004 respectively (including the statutory reserve fund of RMB600,100 and RMB510,857 as of December 31, 2020 and 2021, respectively).

18. COMMITMENTS AND CONTINGENCIES

Contingencies

The Group is subject to periodic legal or administrative proceedings in the ordinary course of business. The Group does not believe that any legal or administrative proceeding to which the Group is a party will have a material effect on its business or financial condition.

19. SUBSEQUENT EVENTS

The Group has reviewed its subsequent events through date issued, the date these consolidated financial statements were issued and has determined no material subsequent events have occurred that require recognition in or disclosure to the consolidated financial statements.

YIREN DIGITAL LTD.

SCHEDULE I-CONDENSED BALANCE SHEETS

(Amounts in thousands, except for share and per share data, or otherwise noted)

	December 31, 2020	December 31, 2021	December 31, 2021
	RMB	RMB	US\$
Assets:			
Cash and cash equivalents	51,013	6,464	1,014
Prepaid expenses and other assets	2,319	172	27
Amounts due from its subsidiaries and the consolidated VIEs	820,329	1,407,745	220,906
Amounts due from related parties	575,537	—	—
Available-for-sale investments	73,990	88,987	13,964
Investments in its subsidiaries and the consolidated VIEs	2,263,159	3,332,221	522,899
Total assets	3,786,347	4,835,589	758,810
Liabilities:			
Accrued expenses and other liabilities	8,683	14,157	2,222
Total liabilities	8,683	14,157	2,222
Equity:			
Ordinary shares (US\$0.0001 par value; 500,000,000 shares authorized; 187,569,640 and 189,856,980 shares issued as of December 31, 2020 and 2021, respectively; 167,965,710 and 169,995,926 shares outstanding as of December 31, 2020 and 2021, respectively)	121	123	19
Treasury stock (1,043,930 and 1,301,054 shares as of December 31, 2020 and 2021, respectively)	(40,147)	(42,897)	(6,731)
Additional paid-in capital	5,058,176	5,100,486	800,378
Accumulated other comprehensive income	17,108	11,553	1,812
Accumulated deficit	(1,257,594)	(247,833)	(38,890)
Total equity	3,777,664	4,821,432	756,588
Total liabilities and equity	3,786,347	4,835,589	758,810

YIREN DIGITAL LTD.

SCHEDULE I-CONDENSED STATEMENTS OF OPERATIONS
(Amounts in thousands, except for share and per share data, or otherwise noted)

	Years ended December 31,			
	2019	2020	2021	2021
	RMB	RMB	RMB	US\$
Operating expenses	(62,789)	(31,359)	(39,311)	(6,169)
Interest income	5,280	665	2,399	377
Non-operating income, net	795	1,041	(1)	—
Share of income/(loss) of its subsidiaries and the consolidated VIEs	<u>1,212,325</u>	<u>(663,095)</u>	<u>1,069,897</u>	<u>167,890</u>
Net income/(loss)	<u>1,155,611</u>	<u>(692,748)</u>	<u>1,032,984</u>	<u>162,098</u>

YIREN DIGITAL LTD.

SCHEDULE I-CONDENSED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(Amounts in thousands, except for share and per share data, or otherwise noted)

	Years ended December 31,			
	2019	2020	2021	2021
	RMB	RMB	RMB	US\$
Net income/(loss)	1,155,611	(692,748)	1,032,984	162,098
Other comprehensive income/(loss), net of tax of nil:				
Foreign currency translation adjustment	1,626	(8,293)	(3,193)	(501)
Unrealized gain/ (loss) on available-for-sale investments	3,839	3,546	(2,362)	(371)
Comprehensive income/(loss)	<u>1,161,076</u>	<u>(697,495)</u>	<u>1,027,429</u>	<u>161,226</u>

YIREN DIGITAL LTD.

SCHEDULE I-CONDENSED STATEMENTS OF CASH FLOWS
(Amounts in thousands, except for share and per share data, or otherwise noted)

	Years ended December 31,			
	2019	2020	2021	2021
	RMB	RMB	RMB	US\$
Cash Flows from Operating Activities:				
Net cash used in operating activities	(15,001)	(13,393)	(10,040)	(1,575)
Cash Flows from Investing Activities:				
Amounts due from/to its subsidiaries, the consolidated VIEs and related parties	(13,867)	(9,561)	(11,879)	(1,864)
Purchase of available-for-sale investments	(91,050)	—	(34,234)	(5,372)
Proceeds on disposal of available-for-sale investments	93,343	9,755	14,942	2,345
Net cash (used in)/provided by investing activities	(11,574)	194	(31,171)	(4,891)
Cash Flows from Financing Activities:				
Repurchase of ordinary shares	(36,843)	(3,050)	(2,750)	(432)
Net cash used in financing activities	(36,843)	(3,050)	(2,750)	(432)
Effect of foreign exchange rate changes	322	(1,176)	(588)	(92)
Net decrease in cash and cash equivalents	(63,096)	(17,425)	(44,549)	(6,990)
Cash and cash equivalents, beginning of year	131,534	68,438	51,013	8,004
Cash and cash equivalents, end of year	<u>68,438</u>	<u>51,013</u>	<u>6,464</u>	<u>1,014</u>

YIREN DIGITAL LTD.

SCHEDULE I-NOTES TO THE CONDENSED FINANCIAL INFORMATION

1. BASIS FOR PREPARATION

The condensed financial information of the Parent Company has been prepared using the same accounting policies as set out in the Group's consolidated financial statements, except that the Parent Company used the equity method to account for investments in its subsidiaries and the consolidated VIEs and the consolidated VIEs' subsidiaries.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote disclosures contain supplemental information relating to the operations of the Group and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements.

2. INVESTMENTS IN SUBSIDIARIES AND VIES

The Company, its subsidiaries, the consolidated VIEs and the consolidated VIEs' subsidiaries are included in the consolidated financial statements where the inter-company balances and transactions are eliminated upon consolidation. For the purpose of the Parent Company's stand-alone financial statements, its investments in its subsidiaries and the consolidated VIEs and the consolidated VIEs' subsidiaries are reported using the equity method of accounting. The Parent Company's share of income and losses of its subsidiaries and the consolidated VIEs and the consolidated VIEs' subsidiaries are reported as shares of income/(loss) of its subsidiaries and the consolidated VIEs and the consolidated VIEs' subsidiaries in the condensed financial information to the Parent Company.

3. AMOUNTS DUE FROM/TO ITS SUBSIDIARIES AND THE CONSOLIDATED VIES

As of December 31, 2020 and 2021, the amounts mainly represent an interest-free, unsecured and repayable on demand loan provided to YouRace Hengchuang and Creditease Puhui, respectively.

4. AMOUNTS DUE FROM RELATED PARTIES

As of December 31, 2020, the amount due from related parties mainly represent the amounts receivable from HengCheng. As of December 31, 2021, no amount due from related parties is recorded.

List of Subsidiaries and Consolidated Variable Interest Entities

Subsidiaries:	Place of Incorporation
Yiren Blue Boyage Limited	Cayman Islands
China Glory Securities Company Limited (formerly known as Varengold Capital Securities Limited)	Hong Kong
Yiren Green Management Limited	Hong Kong
YouRace Digital Holdings HK Limited (formerly known as Yiren Digital Hong Kong Limited)	Hong Kong
YouRace Hengchuang Technology Development (Beijing) Co., Ltd. (formerly known as Yiren Hengye Technology Development (Beijing) Co., Ltd.)	PRC
Chongqing Hengyuda Technology Co., Ltd.	PRC
Yiren Information Consulting (Beijing) Co., Ltd.	PRC
Yiren Hengsheng Technology Development (Beijing) Co., Ltd.	PRC
Shenzhen Zhongbang Information Consulting Service Co., Ltd.	PRC
Chongqing Henglangsheng Technology Co., Ltd.	PRC
Chongqing Hengxin Technology Co., Ltd.	PRC
Fujian Jiaying Financing Guarantee Co. Ltd.	PRC
Zhenzhi Youpin (Hainan) Technology Trade Co., Ltd.	PRC
Consolidated variable interest entities:	
Beijing Yiyouxuan Technology Information Service Co., Ltd.	PRC
CreditEase Puhui Information Consultant (Beijing) Co., Ltd.	PRC
Dekai Yichuang Asset Management (Shenzhen) Co., Ltd.	PRC
Hainan Haijin Yichuang Data Information Service Co., Ltd.	PRC
Haijin Yichuang Commercial Factoring (Shenzhen) Co., Ltd.*	PRC
Haijin Yichuang Financial Leasing Co., Ltd.	PRC
Hainan Haijin Yichuang Micro-lending Co., Ltd.	PRC
Yiren Financial Information Service (Beijing) Co., Ltd.	PRC
Heilongjiang Changtuo Technology Development Co., Ltd. (formerly known as Harbin Wanbang Funong Agricultural Machinery Service Co., Ltd.)	PRC
Tianjin Linyang Information and Technology Co., Ltd.	PRC
Beijing Yiding Technology Co., Ltd.	PRC
Beijing Kechuang Xinlian Technology Co., Ltd.	PRC
Baijunda Logistics (Wuhan) Co., Ltd.	PRC
Wuhan Linyi Business Consulting Co., Ltd.	PRC
Hexiang Insurance Broker Co., Ltd.	PRC
Hejun Auto Rescue (Wuhan) Co., Ltd. (formerly known as Hejun Auto Rescue (Wuhan) Co., Ltd.)	PRC
Bohai Trust Yirendai Personal Loan Single Capital Trust*	PRC
Huijin No. 28 Single Capital Trust E4*	PRC
Huijin No. 56 Collective Capital Trust E1*	PRC
Guomin Trust Nordson No.23-1**	PRC
Xizang Trust Xingyuan No.16**	PRC
Xizang Trust - Vittas 27 Phase 1 Pooled Fund Trust Plan*	PRC
Xizang Trust - Vittas 27 Phase 2 Pooled Fund Trust Plan**	PRC
Shan Guotou Jinke No. 02**	PRC
Shan Guotou Jinke No. 03**	PRC

* We has deconsolidated Haijin Yichuang Commercial Factoring (Shenzhen) Co., Ltd., Bohai Trust Yirendai Personal Loan Single Capital Trust, Huijin No. 28 Single Capital Trust E4, Huijin No. 56 Collective Capital Trust E1 and Xizang Trust - Vittas 27 Phase 1 Pooled Fund Trust Plan as of the date of this annual report.

** Please see note 2 to our audited consolidated financial statements included in this annual report for the details of the basis of consolidation.

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ning Tang, certify that:

1. I have reviewed this annual report on Form 20-F of Yiren Digital Ltd.;

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(s) 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: September 21, 2022

By: /s/ Ning Tang

Name: Ning Tang

Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Na Mei, certify that:

1. I have reviewed this annual report on Form 20-F of Yiren Digital Ltd.;

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(s) 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: September 21, 2022

By: /s/ Na Mei

Name: Na Mei

Title: Chief Financial Officer

Certification by the Principal Executive Officer**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Yiren Digital Ltd. (the "Company") on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ning Tang, Chief Executive 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: September 21, 2022

By: /s/ Ning Tang

Name: Ning Tang

Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Yiren Digital Ltd. (the "Company") on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Na Mei, 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: September 21, 2022

By: /s/ Na Mei

Name: Na Mei

Title: Chief Financial Officer

9/F, Office Tower C1, Oriental Plaza, 1 East Chang An Ave., Dongcheng District
Beijing 100738, P.R.C
Tel: +86 10 8525 5500 Fax: +86 10 8525 5511/ 8525 5522
Beijing · Shanghai · Shenzhen · Haikou · Wuhan · Hong Kong
www.hankunlaw.com

HANKUN
汉坤律师事务所
Han Kun Law Offices

September 21, 2022
Yiren Digital Ltd.
10/F, Building 9, 91 Jianguo Road
Chaoyang District, Beijing 100022
The People's Republic of China

Dear Sir/Madam:

We hereby consent to the reference of our name under the headings “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” and “Item 4. Information on the Company—C. Organizational Structure” in Yiren Digital Ltd.’s annual report on Form 20-F for the year ended December 31, 2021 (the “Annual Report”), which will be filed with the Securities and Exchange Commission (the “SEC”) in the month of September 2022, and further consent to the incorporation by reference into the Registration Statements on Form S-8 (No. 333-212056, No. 333-219404 and No. 333-248640). We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/ Han Kun Law Offices

Han Kun Law Offices

CONFIDENTIALITY. This document contains confidential information which may be protected by privilege from disclosure. Unless you are the intended or authorised recipient, you shall not copy, print, use or distribute it or any part thereof or carry out any act pursuant thereto and shall advise Han Kun Law Offices immediately by telephone, e-mail or facsimile and return it promptly by mail. Thank you.



• **MAIN OFFICE**

133-10 39TH AVENUE
FLUSHING, NY 11354
TEL. (718) 445-6308
FAX. (718) 445-6760

• **CALIFORNIA OFFICE**

36 W BAY STATE STREET
ALHAMBRA, CA 91801
TEL. (626) 282-1630
FAX. (626) 282-9726

• **BEIJING OFFICE**

11/F NORTH TOWER
BEIJING KERRY CENTRE
1 GUANGHUA ROAD
CHAORYANG DISTRICT
BEIJING 100020, PRC
TEL. (86 10) 65997923
FAX. (86 10) 65999100

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-212056, No. 333-219404 and No. 333-248640) of our report dated September 21, 2022 relating to the financial statements of Yiren Digital Ltd. appearing in this Annual Report on Form 20-F for the year ended December 31, 2021.

We also consent to the reference to us under the heading “Experts” in such Registration Statement.

/s/ Wei, Wei & Co., LLP

Flushing, New York
September 21, 2022

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement on Form S-8 (No. 333-212056, No. 333-219404 and No. 333-248640) of our report dated April 29, 2021, relating to the financial statements of Yiren Digital Ltd. appearing in this Annual Report on Form 20-F for the year ended December 31, 2021.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People's Republic of China

September 21, 2022

September 21, 2022

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-7561

Dear Sirs/Madams:

We have read Item 16F of Yiren Digital Ltd.'s Form 20-F dated September 21, 2022, and have the following comments:

1. We agree with the statements made in the first and fourth sentences of paragraph 1 and in paragraphs 2, 3 and 4 of Item 16F, for which we have a basis on which to comment on, and we agree with, the disclosures.
2. We have no basis on which to agree or disagree with the statements made in the second and third sentences of paragraph 1 and in paragraph 5, 6, 7, 8 and 9 of Item 16F.

Yours truly,

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People's Republic of China
