

Yirendai Ltd.  
Form 20-F  
April 29, 2019  
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**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, 2018.**

**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

## **Yirendai 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)

**10/F, Building 9, 91 Jianguo Road**

**Chaoyang District, Beijing 100022**

**The People's Republic of China**

(Address of principal executive offices)

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**10/F, Building 9, 91 Jianguo 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:

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

\* 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)



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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.

**123,128,842 ordinary shares, par value US\$0.0001 per share, as of December 31, 2018.**

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

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

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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.

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

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

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

Yes  No

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**INTRODUCTION**

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

- **ADSs** refers to our American depositary shares, each of which represents two ordinary shares;
- **China** or the **PRC** refers to the People's Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau and Taiwan;
- **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;
- **ordinary shares** refers to our ordinary shares, par value US\$0.0001 per share;
- **payout ratio** refers to the percentage of an investor's outstanding principal and accrued interest paid out to the investor from our quality assurance program in the event of loan default. Prior to the discontinuation of our quality assurance program in May 2018, we implemented a 100% payout ratio allowing investors to fully recover their outstanding principal and accrued interest in the event of loan default;
- **Online lending information intermediary service providers** refer to marketplaces connecting borrowers and investors;
- **prime borrower** refers to credit card holders with stable credit performance and salary income. In determining whether a prospective borrower has stable credit performance and salary income, 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, as well as the borrower's salary for the last six months;

- 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; and
- Yirendai, we, us, our company and our refer to Yirendai Ltd., its subsidiaries and its consolidated variable interest entities.



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**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 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; and
- relevant government policies and regulations relating to our industry.

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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.

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 RMB6.8755 to US\$1.00, the exchange rate in effect as of the end of December 2018 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.

Table of Contents**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****A. Selected Financial Data**

The following selected consolidated statements of operations for the years ended December 31, 2016, 2017 and 2018 and selected consolidated balance sheet as of December 31, 2017 and 2018 have been derived from our audited consolidated financial statements included in this annual report beginning on page F-1. The following selected consolidated statements of operations for the years ended December 31, 2014 and 2015, and selected consolidated balance sheet as of December 31, 2014, 2015 and 2016 have been derived from our audited consolidated financial statements 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,					US\$
	2014 RMB(1)	2015 RMB(1)	2016 RMB(1)	2017 RMB(1)	2018(4) RMB(1)	
	(in thousands, except for share, per share and per ADS data, and percentages)					
<b>Selected Consolidated Statements of Operations:</b>						
Net revenues	196,525	1,313,639	3,237,991	5,543,350	5,620,728	817,501
Operating costs and expenses:						
Sales and marketing	137,746	679,771	1,571,038	2,921,236	2,525,876	367,373
Origination and servicing	21,820	86,360	180,076	417,882	644,303	93,710
General and administrative	64,637	137,114	320,848	483,796	525,094	76,372
Provision for contingent liability			81,263	43,049	419,581	61,025

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Allowance for contract assets					667,846	97,135
Total operating costs and expenses	(224,203)	(903,245)	(2,153,225)	(3,865,963)	(4,782,700)	(695,615)
Interest income, net		4,799	36,843	114,851	71,301	10,370
Fair value adjustments related to consolidated asset backed financing entities		(11,333)	(19,735)	(40,124)	246,284	35,821
Non-operating income, net			575	876	5,279	768
(Loss)/income before provision for income taxes	(27,678)	403,860	1,102,449	1,752,990	1,160,892	168,845
Income tax (expense)/benefit	(30)	(128,521)	13,949	(381,207)	(194,287)	(28,258)
Net (loss)/income	(27,708)	275,339	1,116,398	1,371,783	966,605	140,587
Weighted average number of ordinary shares outstanding(2):						
Basic	100,000,000	100,652,055	118,240,414	120,457,573	122,244,231	122,244,231
Net (loss)/income per ordinary share						
Basic	(0.2771)	2.7356	9.4418	11.3881	7.9072	1.1501
Net (loss)/income per ADS(3)						
Basic	(0.5542)	5.4712	18.8836	22.7762	15.8144	2.3002
Weighted average number of ordinary shares outstanding(2):						
Diluted	100,000,000	100,652,055	118,937,082	122,256,838	124,289,103	124,289,103
Net (loss)/income per ordinary share						
Diluted	(0.2771)	2.7356	9.3865	11.2205	7.7771	1.1311
Net (loss)/income per ADS(3)						
Diluted	(0.5542)	5.4712	18.7730	22.4410	15.5542	2.2622

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(1) Starting from the second quarter of 2016, we changed our reporting currency from the U.S. dollar to the Renminbi, to reduce the impact of increased volatility of the RMB to US\$ exchange rate on our reported operating results. The change in our reporting currency has been retroactively reflected for all periods presented herein.

(2) On January 5, 2015, we effected a 10,000-for-1 share split, such that our authorized share capital of US\$50,000 was divided into 500,000,000 ordinary shares with a par value of US\$0.0001 each, of which 10,000 ordinary shares were issued and outstanding and were owned by CreditEase. On June 25, 2015, we issued 99,990,000 ordinary shares, par value US\$0.0001 each to CreditEase for an aggregate purchase price of US\$9,999. The share split and the share issuance have been retroactively reflected for all periods presented herein.

(3) Each ADS represents two ordinary shares.

(4) Effective January 1, 2018, we adopted the new revenue recognition standard, ASU 2014-09, Revenue from contracts with Customers (Topic 606), using the modified retrospective method in accordance with U.S. GAAP. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while results for prior periods are not adjusted and continued to be reported in accordance with our historical accounting policy under Topic 605.

	For the Year Ended December 31,					
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2018 RMB	2018 US\$
	(in thousands)					
<b>Selected Consolidated Balance Sheet:</b>						
Cash and cash equivalents	1,378	846,120	968,225	1,857,175	2,028,748	295,069
Restricted cash		483,965	1,218,286	1,805,693	102,163	14,859
Contract assets, net					1,891,438	275,098
Loans at fair value		221,268	371,033	791,681	1,075,097	156,366
Held-to-maturity investments		30,000	98,917	9,944	315,641	45,908
Available-for-sale investments			1,158,000	963,253	832,465	121,077
Total assets	402,144	2,190,003	4,783,388	7,518,664	7,519,026	1,093,596
Liabilities from quality assurance program		546,332	1,471,000	2,793,948	9,950	1,447
Deferred tax liabilities				11,277	502,903	73,144
Total liabilities	178,736	1,213,061	2,643,469	4,548,611	2,398,115	348,790
Total equity	223,408	976,942	2,139,919	2,970,053	5,120,911	744,806

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

**Risks Related to Our Business**

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

The market for China's online consumer finance marketplaces is new and may not develop as expected. The regulatory framework for this market is also evolving and may remain uncertain for the foreseeable future. Potential borrowers and investors may not be familiar with this market and may have difficulty distinguishing our services from those of our competitors. Convincing potential new borrowers and investors of the value of our services is critical to increasing the volume of loan transactions facilitated through our marketplace and to the success of our business.

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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 borrower's credit profile. We have also recently established an open fintech sharing platform Yirendai Enabling Platform, or the YEP, to provide big-data-backed anti-fraud, risk management and precise customer acquisition solutions to financial institutions and industry partners. 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, such as our offering of a quality assurance program starting in January 2015, the revision to the quality assurance program funding policy in the fourth quarter of 2015 and the discontinuation of the quality assurance program in May 2018, may not achieve expected results and may have a material and adverse impact on our financial condition and results of operations. 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 have impacts on 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 marketplace;
- acquire borrowers and investors in a cost-effective manner;
- broaden our loan product offerings;
- enhance our risk management capabilities;
- attract sufficient funding from individual investors or institutions;
- 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.

If we fail to educate potential borrowers and investors about the value of our platform and services, 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 maintain or increase the volume of loan transactions 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.***

Prior to 2018, we had experienced rapid growth of our marketplace. The growth of our marketplace is dependent on the increase in the volume of loan transactions facilitated through our marketplace. The overall transaction volume may be affected by several factors, including the regulatory environment, our brand recognition and reputation, the interest rates offered to borrowers and investors relative to market rates, the effectiveness of our risk control, the repayment rate of borrowers on our marketplace, the efficiency of our platform, the macroeconomic environment and other factors.

Governmental authorities have recently tightened and limited the growth of online lending platforms, which has negatively affected and may continue to, negatively affect our business growth in terms of, among other things, our business scale, number of users, loan facilitation amount and outstanding loan balance. For example, Beijing Rectification Office issued a notice on January 24, 2019 requiring online lending information intermediaries to continue to reduce its business scale and number of borrowers and lenders during the administrative verification period. In addition, we may also impose more stringent borrower qualifications in response to general economic conditions to ensure the quality of loans on our platform, which may negatively affect the growth of loan volume.



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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. We used to rely on CreditEase's nationwide service network for offline user acquisition. In 2016, 2017 and 2018, 42.5%, 27.1% and 28.2% of our borrowers were acquired through referrals from CreditEase, respectively, contributing 62.0%, 45.6% and 41.1% of the total amount of loans facilitated through our marketplace, respectively. As part of a business realignment with CreditEase, for which we entered a set of definitive agreements with CreditEase in March 2019, we have obtained control over CreditEase Puhui Information Consultant (Beijing) Co., Ltd, or Pu Hui, an entity managing CreditEase's national service network. Still, we cannot assure you 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 attract 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 investor commitments 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.

***The laws and regulations governing the online lending information intermediary service industry in China are developing and evolving and subject to changes. If we fail to obtain and maintain requisite approvals, licenses or permits applicable to our business, our business, financial condition and results of operations would be materially and adversely affected.***

Due to the relatively short history of the online lending information intermediary service industry in China, the laws and regulations governing our industry have undergone significant changes in recent years and may continue to evolve. In July 2015, the China Banking Regulatory Commission, or the CBRC, the predecessor of China Banking and Insurance Regulatory Commission newly established in April 2018, together with nine other PRC regulatory agencies jointly issued a series of policy measures applicable to the online lending information intermediary service industry titled the Guidelines on Promoting the Healthy Development of Online Finance Industry, or the Guidelines. The Guidelines formally introduced for the first time the regulatory framework and basic principles for administering the online lending information intermediary service industry in China. Based on the core principles of the Guidelines, in August 2016, the CBRC together with three other PRC regulatory agencies jointly issued the Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries, or the Interim Measures. The Interim Measures require online lending information intermediaries and their branches that propose to carry out the online lending information intermediary services to file a record with the local financial regulatory department at the place where it is registered within ten business days after obtaining the business license. Local financial regulatory departments have the power to assess and classify the online lending information intermediaries which have submitted filings, and to publicize the filed information and the classification results on their official websites. An online lending information intermediary must apply for appropriate telecommunication license in accordance with the relevant requirements of telecommunication authorities subsequent to completion of the filing, and is required to explicitly identify itself as an online lending information intermediary in the business scope set forth in its business license.

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In accordance with the Guidelines and the Interim Measures, the CBRC, the Ministry of Industry and Information Technology, or the MIIT, and the State Administration for Industry and Commerce, the predecessor of the State Administration for Market Regulation newly established in April 2018, or SAIC, jointly issued the Guide to the Record-filing of Online Lending Information Intermediaries in November 2016, or the Record-filing Guidelines, which outlines the rules, procedures and required documents for the record-filing of online lending information intermediaries, and directs local financial regulatory departments to adopt detailed implementation rules for the record-filing by online lending information intermediaries within their jurisdictions. In December 2017, the Office of Leading Group on Special Rectification of Risks in the Online Lending, the regulator for administration and supervision on the nationwide Internet finance and online lending, or the National Rectification Office, issued the Notice on Rectification and Inspection Acceptance of Risk of Online Lending, or Circular 57, which provides further clarification on several matters in connection with the rectification and record-filing of online lending information intermediaries. Circular 57, among other things, requires certain local governmental authorities to establish an inspection team to conduct risk rectification inspections on online lending information intermediaries within their jurisdictions. If an online lending information intermediary institution passes the inspection, the local governmental authorities shall complete its record-filing. Circular 57 also requires local governmental authorities to complete record-filings of online lending information intermediaries within its jurisdiction by the end of April 2018, except that the deadline for certain complicated cases may be postponed to May 2018 or June 2018. On August 13, 2018, the National Rectification Office issued the Notice on Compliance Inspection on Online Lending Intermediaries, or the Compliance Inspection Notice, which requires each online lending intermediary to be further inspected at three levels, including self-inspection carried out by the online lending intermediary itself, internet finance association inspection led by local internet finance association and/or the National Internet Finance Association of China, and the administrative verification carried out by the provincial online lending rectification office. Pursuant to the Compliance Inspection Notice, the compliance inspection shall be completed by the end of December 2018. The online lending intermediaries that generally meet the requirement of being an intermediary and various standard will be allowed to link to the information disclosure and products registration system. After a period of operation and inspection, the online lending information intermediaries that meet relevant requirements can apply for record-filing. The standards and procedures for linking to the system and record-filing will be promulgated by the regulators separately. On August 24, 2018, the Office of Beijing Municipal Leading Group on Special Rectification of Risks in the Internet Finance, or Beijing Rectification Office, issued a Notice on Launch of Self-Inspection of P2P Online Lending Intermediaries Registered in Beijing, which requires the P2P online intermediaries registered in Beijing to commence self-inspection and to submit self-examination reports by September 30, 2018 and in any event no later than October 15, 2018. However, the record-filings of online lending information intermediaries have not yet been officially launched nationwide. As of the date of this annual report, there has been no announcement as to when the filings will be completed. We have completed self-inspection and the internet finance association inspection, and are ready for the administrative verification, but substantial uncertainties still exist as to whether we are able to meet the requirements of the Interim Measures, the Record-filing Guidelines and Circular 57 regarding record-filing with the local financial regulatory department, application for the appropriate telecommunication license and revision to our business scope. If we fail to complete the record-filing, we might be forced to terminate our online lending information intermediary business.

On December 19, 2018, the Leading Group Office of the Internet Financial Risk Rectification Campaign and the National Rectification Office jointly promulgated the Notice on the Classification and Disposal of Online Lending Institutions and Risk Prevention, or Circular 175, which provides that online lending intermediaries shall be classified into the following two categories according to their risk profiles: (i) institutions with exposed risks, and (ii) institutions without exposed risks, which are further classified as non-operating institutions, small-scale institutions, high-risk institutions and normal operating institutions. We classify our consolidated variable interest entities that operate our online consumer lending platform, Heng Cheng Technology Development (Beijing) Co., Ltd., or Heng Cheng, and CreditEase Huimin Investment Management (Beijing) Co., Ltd, or Hui Min, into normal operating institutions, but we cannot assure you that the PRC regulatory authorities would take the same view as ours. If we are classified into other types of institutions, we might be forced to terminate our online lending information intermediary business. Furthermore, with respect to the normal operating institutions, Circular 175 also provides that the relevant governmental authorities shall, among other things, require such institutions to strictly limit balance of loans and number of lenders, guide such institutions to refer clients to the licensed asset management institutions, assess the risk profiles of such institutions regularly and adjust their classifications in a timely manner if necessary. Though we have tried to reduce our business scale and number of borrowers and investors since July 2018 and

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keep frequent communications with governmental authorities to ensure the compliance of our business, we cannot assure you that our measures will be satisfactory to the relevant authorities and we may face, among other things, regulatory warning, correction order, condemnation, fines and criminal liability. If such situations occur, our business, financial condition and prospects would be materially and adversely affected.

In addition, Yi Ren Wealth Management, our consolidated variable interest entity, which operates an online wealth management platform, has not obtained a telecommunication business operating license. We cannot assure you that the PRC regulatory authorities will not view us as failing to complete the necessary filing or obtain the necessary license applicable to our business. Furthermore, Heng Cheng and Hui Min, our variable interest entities which had obtained internet information services licenses, or the ICP licenses, from the relevant local counterpart of the Ministry of Industry and Information Technology in accordance with applicable laws for operating our online consumer lending platform, are currently in the process of renewing their ICP licenses. We cannot assure you that they are able to successfully renew their ICP licenses in a timely manner or at all.

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Furthermore, we are unable to predict with certainty the impact, if any, that future legislation, judicial precedents, rules or regulations relating to the online lending information intermediary service industry will have on our business, financial condition and results of operations. Due to the uncertainty of the relevant laws, regulations and requirements, we may face remarkable increased risk of default or delinquency of borrowers, and our third-party service providers may implement new internal control and compliance procedures which prohibiting them from working with us, which could lead to significantly higher default rates and adverse impacts on our reputation, business, results of operations and financial positions. In addition, if our practice is deemed to violate any laws, rules or regulations, or if we are unable to obtain and maintain any requisite approvals, licenses or permits required for our business, we may face regulatory warning, fines, injunction or other punitive measures, and our business, financial condition and prospects may be materially and 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.***

According to the Guidelines and the Interim Measures, an online lending information intermediary must not engage in certain activities, including, among other things, (i) fund raising for the intermediary itself, (ii) holding investors' funds or setting up capital pool with investors' funds, (iii) providing security or guarantee to investors as to the principals and interest of the investments, (iv) promoting its financing products on physical premises other than through the permitted electronic channels, such as telephones, mobile phones and internet, (v) making loans, (vi) splitting the terms of projects seeking financing, (vi) issuing or selling wealth management or other financial products, or selling wealth management products, funds, insurance, trust or other financial products as an agent, (viii) conducting securitization or similar business, or conducting loan transfers through packaging, securitization, trust or fund units, (ix) engaging in any form of mixture, bundling or agency activities with other businesses such as institutional investment, commission sale or brokerage, (x) making false or misleading statement regarding projects seeking financing, (xi) providing information intermediary services for loans to be used in high-risk financing transactions such as investment in stocks, over-the-counter financing, futures contracts, structured products and other derivatives, and (xii) equity crowd-funding. The Interim Measures prohibits online lending information intermediaries from making any decision on behalf of investors without authorization. In addition, under the Interim Measures, online lending information intermediaries must adequately disclose on their websites to investors information such as basic information of borrowers and projects seeking financing, risk assessment and possible risk outcome, and use of proceeds of loans facilitated and not yet due; each online lending information intermediary must also disclose prominently on its website information concerning its business operation such as financing transactions facilitated, set up a dedicated portion on its website for information disclosure, and regularly announce to the public its annual report as well as laws, regulations and rules applicable to online lending. The Interim Measures requires online lending information intermediaries to engage accounting firms to conduct periodic audits of the status of fund custody, information disclosure, security of information technology system and operation compliance, to engage qualified institutions to perform regular evaluation concerning information security, and to disclose to investors and borrowers of the results of such audit and evaluation. Under the Interim Measures, online lending information intermediaries must also strengthen their risk management, enhance screening and verification of borrowers and investors' information, and set up custody accounts with qualified banks to hold customer funds, among other things.

In accordance with the Guidelines and the Interim Measures, the CBRC also issued two other implementation rules and regulations in addition to the Record-Filing Guidelines, namely, (i) the Guidelines for the Depository Business of Online Lending Funds in February 2017, or the Custodian Guidelines; and (ii) the Guidelines for the Disclosure of Information on Business Activities of Online Lending Information Intermediaries in August 2017, or the Disclosure Guidelines. The Custodian Guidelines require each online lending information intermediary to set up a custody account with a single commercial bank for the funds of investors on its platform, take responsibility for the continued development and secure operation of its technical system, make appropriate information disclosure to the custody bank, perform daily account reconciliation with the custody bank, safely maintain its accounts and records, arrange for the independent audits of the custody account and publicly disclose the audit results, and cooperate with the custody bank in meeting anti-money laundering obligations. The Disclosure Guidelines sets forth the information disclosure requirement for online lending information intermediaries, including with respect to their filings and licenses, fund custody, organization, operation, risk management, data regarding loans facilitated, financial audit and compliance review, and channels for customer complaints. In addition, the Disclosure Guidelines require online lending information intermediaries to disclose to investors information concerning borrowers, projects, project risk assessment and possible risk outcome. Under the Disclosure Guidelines, an online lending information intermediary must provide consistent information disclosure across all online channels such as its website, mobile phone application, WeChat public accounts and Weibo accounts,

and set up on its website and other online channels a conspicuous section for information disclosure. Furthermore, in May 2017, the CBRC, the Ministry of Education and the Ministry of Human Resources and Social Security jointly released the Notice to Further Enhance the Management of Campus Loans, which prohibits online lending information intermediaries from facilitating loans to college students.

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In December 2017, the Leading Group Office of the Internet Financial Risk Rectification Campaign and the National Rectification Office jointly issued the Notice on Rectification of Cash Loan Businesses, or Circular 141, which sets out certain principles in connection with cash loan businesses and online lending information intermediaries. According to Circular 141, online lending information intermediaries are prohibited from: (i) deducting interests, commissions, management fees and deposits from the loans before they are released to the borrowers; (ii) outsourcing core functions such as data collection, customer identification, credit assessment or account openings; (iii) enabling banking financial institutions to engage in P2P online lending; (iv) providing loan facilitation services to individuals who do not possess sufficient debt repayment capabilities or to students; (v) conducting real-estate financing such as down payment loans for real estate purchasing. See Item 4. Information on the Company B. Business Overview Regulation Regulations Relating to Online Lending Information Intermediary.

To comply with the laws, rules and regulations relating to the online lending information intermediary service industry, we have implemented various policies and procedures, which we believe set the best practice in the industry, including, without limitation, the following: (i) we do not use our own capital to invest in loans facilitated through our online marketplace; (ii) we do not commit to provide guarantees to investors under any agreement for the full return of loan principal and interest; (iii) we do not hold investors' funds and funds loaned through our platform are deposited into and settled by a third-party custody account managed by a qualified bank, China Guangfa Bank; (iv) Heng Cheng and Hui Min, our variable interest entities operating our online consumer lending platform obtained ICP licenses as internet information providers, from the relevant local counterpart of the Ministry of Industry and Information Technology in accordance with applicable laws. As of the date of this annual report, Heng Cheng and Hui Min are in the process of renewing their ICP Licenses; (v) we disclose on our website relevant information to investors and borrowers, such as disclosure to borrowers regarding interest rates, payment schedule, transaction fees, and other charges and penalties; (vi) we have been making strong effort to maintain the security of our platform and the confidentiality of the information provided and utilized across our platform; (vii) we do not facilitate any loans to college students; and (viii) we do not have loans on our platform that have outstanding balance over RMB200,000 (US\$29,089) limit as of this annual report.

However, 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,

- our automated investing tool automatically allocates committed funds from multiple investors among multiple approved borrowers, which goes beyond the simple one-to-one matching between investors and borrowers and could be viewed as making decision on behalf of investors without authorization. While investors using our automated investing tools give us prior authorization to allocate their funds among borrowers on their behalf, and we believe such prior authorization is sufficient to meet the requirement of the Interim Measures, we cannot assure you that the PRC regulatory authorities would take the same view as ours;
- our automated investing tool may also be viewed as splitting the terms of projects seeking financing and /or offering wealth management products;
- if our automated investing tool fails to match committed investors with approved borrowers in a timely manner, we might be deemed to hold investors' funds and form a capital pool incidentally;



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- for investor protection purpose, we set up a quality assurance program with the purposes of limiting investors potential losses due to borrower defaults historically. See Item 4. Information on the Company B. Business Overview Risk Management Investor Protection. The Interim Measures prohibit online lending information intermediaries from providing security or guarantee to investors as to the principals and interest of the investments. Circular 57 further prohibits online lending information intermediaries from setting up new risk reserve funds or increasing existing risk reserve funds, and requires them to gradually reduce the existing risk reserve funds. To comply with regulatory requirements, we discontinued the operation of the quality assurance program by transferring all liabilities associated with the quality assurance program to a third-party guarantee company at fair value in May 2018 and switched to cooperation with insurance and guarantee companies, under which model insurance premium and guarantee fees are paid by borrowers to the insurance and guarantee companies, respectively. However, it is uncertain how the Interim Measures or Circular 57 will be interpreted due to the lack of detailed implementation rules. As a result, we cannot assure you that our existing practice might not be viewed by the PRC regulatory authorities as that we are providing securities or risk reserve fund to the investors or otherwise violating the Interim Measures or Circular 57. In addition, under our cooperation with guarantee companies, the guarantee companies can either provide guarantee for loans facilitated through our online marketplace for the assurance that investors principal and interest would be repaid in the event that their loans default, or set up and managed a reserve fund, using payments collected from borrowers, to compensate investors for their potential loss due to loan defaults up to the cash available in the fund. One of the guarantee companies that currently provides guarantee for loans facilitated through our online marketplaces is a non-financing guarantee company, which may be deemed to provide guarantee services without proper qualification in accordance with the Regulations on the Administration of Financing Guarantee Companies, or the Financing Guarantee Rules, which was promulgated by State Council on August 2, 2017 and became effective on October 1, 2017. The Financing Guarantee Rules require that without the approval by the competent government department, no entity may operate 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 the guarantee company is deemed as violating relevant laws and regulations by providing guarantee services to investors, we will have to terminate our cooperation with it, and we cannot assure you that we will be able to find any alternative solutions in a timely and cost-efficiently manner. If we cannot provide effective means to protect investors from potential default risks, our reputation and business would be materially and adversely affected;
- the Interim Measures require that the balance of money borrowed by any individual must not exceed RMB200,000 (US\$29,089) on an online lending information intermediary platform and not exceed RMB1 million (US\$145,444) on all online lending information intermediary platforms in the PRC. We already adjusted our relevant policy and completely terminated facilitating loans with principal over RMB200,000 (US\$29,089) starting from May 1, 2017 and we began to spin off the loans we facilitated in the past having outstanding balance over such limit since the beginning of 2018. By now, we do not have loans on our platform that have outstanding balance over RMB200,000 (US\$29,089) limit, but we cannot assure you that the forgoing loan spin-off program would be recognized by the PRC regulatory authorities. In addition, due to lack of industry-wide information sharing arrangement, we cannot assure you that the aggregate amount of loans taken out by a borrower on our platform and other online lending information intermediary platforms at any point in time does not exceed the limit set in the Interim Measures;
- as we are transitioning into a comprehensive online financial services platform, certain independent third parties start to promote and sell wealth management products on our wealth management platform operated by Yi Ren



Wealth Management. Selling wealth management products online may be subject to a variety of PRC laws and regulations governing financial services, such as the Internet Insurance Measures, as well as the relevant requirements of telecommunication authorities, pursuant to which Yi Ren Wealth Management may need to obtain an ICP license. On March 28, 2018, the Leading Group Office of the Internet Financial Risk Rectification Campaign issued the Notice on Expanding the Vigour of the Rectification of Asset Management Operations Conducted via the Internet and Inspection and Acceptance Work, or Circular 29, which provided that without the approval of the PRC financial regulatory authorities, no entity may issue or sell asset management products through the internet. The application and interpretation of these laws and regulations are ambiguous and may be interpreted and applied inconsistently between different government authorities. Although we believe our role is only that of an intermediary between the sellers and the purchasers of the wealth management products, which is not forbidden by Circular 29, the PRC regulatory authorities may nevertheless view our activities as the sale by us or on an agency basis of wealth management products without complying with the Interim Measures, Circular 29 and relevant PRC laws and regulations regarding online sale of funds and insurance products;

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- we have not yet disclose on our website (i) risk assessment and possible risk outcome of the projects listed on our platform as seeking financing, or (ii) periodic audit result by an accounting firm of our status in fund custody, information disclosure, security of information technology system and operation compliance. In addition, as the Disclosure Guidelines is relatively new. Substantial uncertainties exist with respect to its interpretation and implementation. We cannot assure you that our current information disclosure practices would be deemed to comply with the regulation;
- we do not yet arrange for the independent audit of the custody account for investor funds and publicly disclose the result of such audit, as required by the Custodian Guidelines;
- Circular 141 prohibits online lending information intermediaries from facilitating loans without specified purposes. Although we require borrowers to specify and undertake the usage of the loans when they apply for the loans, we cannot ensure that all those borrowers will comply with their undertaking, nor can we ensure that such requirement is sufficient for those loans to be deemed by the governmental authorities as not falling within the aforementioned prohibited business;
- Total fees paid by borrowers comprise fixed interest that are paid to investors, transaction fees we charge borrowers for our services, and insurance premium and guarantee fees paid by borrowers to insurance and guarantee companies. The transaction fees, insurance premium and guarantee fees are paid by the borrowers from the loans after the loans are released to the borrowers sub-account under the master custody accounts. Although our transaction fees are different from interests, commissions, management fees or deposits, our current fee collection methods might be deemed by the PRC regulatory authorities as up-front deductions from the principal of loans released to the borrowers prohibited by Circular 141 and other regulatory documents promulgated by the National Internet Finance Association of China, and we may be required to modify our current fee collection methods or may be subject to other penalties;
- Circular 57 permits low frequencies transfers of lenders rights to loans between lenders for liquidity purpose, but expressly prohibits certain transfers, including transfers of lenders rights in form of assets-backed securities, trust assets, fund properties and certain other form of securities, and transfers as a result of online lending information intermediaries providing current or fixed-term financial products to lenders, the terms of which are not consistent with the terms that the corresponding borrowers intend to borrow the loans for. We allow and facilitate lenders to transfer their rights to loans on our platform. Our automated investing tool also allows an investor to invest a specified amount of money to borrowers through our marketplace for a specified period of time, which might be viewed by the PRC regulatory authorities as fixed-term financial products. Due to lack of detailed implementation rules to Circular 57, we cannot assure you that all our practices would be deemed to comply with Circular 57; and
- We have a nationwide service network across China which may be subject to inspections by relevant local governmental authorities from time to time. The periodical inspections from local governmental authorities may distract our officers attention to business operations, and as a result, our business, financial condition may be

materially and adversely affected. In addition, laws, rules or regulations may be different or interpreted differently from one place to another. We cannot assure you that our practices would be deemed to comply with all the laws, rules or regulations at all the places where we have an operation.

We have been in frequent communications with governmental authorities to clarify these and other regulatory requirements and ensure the compliance of our business. As of the date of this annual report, we have not been subject to any material fines or other penalties under any PRC laws, rules or regulations including those governing the online lending information intermediary service industry in China.

Due to the continuing development and evolution in the online lending information intermediary service industry as well as the broader internet finance industry, the PRC regulatory authorities are constantly of evaluating the practices of market participants and requesting rectification of those that have been identified as not in compliance with applicable laws, rules and regulations. We cannot assure you that our practices will not be required to be rectified or our rectification measures and results will be satisfactory to the relevant authorities. If our practice is deemed to violate any laws, rules or regulations, we may face, among others, regulatory warning, correction order, condemnation, fines and criminal liability. If such situations occur, our business, financial condition and prospects would be materially and adversely affected.

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The PRC government has adopted several regulations governing personal credit reporting businesses. According to these regulations and measures, no entity may engage in personal credit reporting business without approval by the credit reporting industry regulatory department under the State Council. If any entity directly engages in personal credit reporting business without such approval, the entity is subject to penalties including suspension of business, confiscation of revenues related to personal credit reporting business, fines and criminal liabilities. We organize, store and analyze information provided by users and third parties. This information and data contains certain personal information of users, a portion of which, upon their consent, we may provide to our marketplace investors and/or make available on the YEP as part of the big data backed risk management, anti-fraud and precise customer acquisition solutions provided to financial institutions and industry partners. Due to the lack of further interpretations of the current regulations governing personal credit reporting businesses, it is uncertain whether we would be deemed to engage in personal credit reporting business. We cannot assure you that we will not be required in the future to obtain approval or license for personal credit reporting business and comply with the relevant regulations, which may be costly, or become subject to penalties associated with regulations governing personal credit reporting business.

According to the Financing Guarantee Rules, without the approval by the competent government department, no entity may operate 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 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 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 the 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.

***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 investor base from individual investors to institutional investors, we may from time to time explore alternative funding initiatives, including through standardized capital instruments such as the issuance of asset-backed securities. In October 2015 we established a business relationship with a trust, Huijin No. 28 Single Capital Trust E1, or Trust No. 1, in a pilot program, under which Trust No. 1 invested in loans through our platform using funds received from its investor, which is also its sole beneficiary. Trust No. 1 is administered by an independent third-party state-owned trust company, which acts as the trustee, for the purposes of providing returns to its sole beneficiary through extending loans up to an aggregate principal amount of RMB250.0 million to borrowers recommended by our platform. Trust No. 1's settlor and sole beneficiary is Fengsheng Private Investment Fund No. 1, or Fund No. 1, a fund managed by Zhe Hao Shanghai Asset Management Company, or Zhe Hao, an affiliate of CreditEase. Fund No. 1's investors are PRC individuals who are not affiliated with our company. In April 2016, Zhe Hao, on behalf of Fund No. 1, transferred Fund No. 1's entire beneficiary rights in Trust No. 1 to China International Capital Corporation Limited, a special purpose vehicle, which subsequently issued and listed RMB250.0 million asset-backed securities on the Shenzhen Stock Exchange in China, with the loans invested by Trust No. 1 through our platform as the underlying assets. Heng Ye, one of our PRC subsidiaries, purchased RMB47.5 million asset-backed securities through the Shenzhen Stock Exchange.

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In July 2016, we established a business relationship with another trust, Huijin No. 28 Single Capital Trust E2, or Trust No. 2, which is of the similar structure to Trust No. 1 described above. Trust No. 2 is administered by an independent third-party state-owned trust company and has a fund, CreditEase Wealth Consumer Credit Investment Fund managed by Zhe Hao, or Fund No. 2, as its settlor and sole beneficiary. Trust No. 2 invested an aggregate of RMB300.0 million in loans to borrowers recommended by our platform using the funds raised by its sole beneficiary from ultimate investors, including RMB30.0 million invested by Heng Cheng, one of our variable interest entities in the PRC. In April 2017, Zhe Hao, on behalf of Fund No. 2, transferred Fund No. 2's beneficiary rights in Trust No. 2 to Bohai International Trust Co., Ltd., an independent third party, which created Bohai Trust Zhong Yi Property Trust No. 1, or Zhong Yi Trust, to host the beneficial rights. Zhong Yi Trust has subsequently completed an issuance of RMB300.0 million asset-backed securities through private placements. On the date of transfer, Heng Ye purchased all subordinated beneficiary rights amounted to RMB102.3 million representing 34% of the asset-backed securities upon their issuance.

In June 2017 and October 2017, we established similar business relationship with other trusts, Huijin No. 28 Single Capital Trust E3, or Trust No. 3 and Bohai Trust Yirendai Personal Loan Single Capital Trust, or Bohai Trust No. 1, respectively. Trust No. 3 and Bohai Trust No. 1 are administered by independent third-party trust companies to invest in loans to borrowers recommended by our platform, with Heng Ye as their sole settlor and sole beneficiary. Heng Ye invested in an aggregate of RMB500.0 million and RMB200.0 million in the Trust No.3 and Bohai Trust No. 1, respectively.

In January 2018, we, together with Beijing Baifubao Technology Co., Ltd., or Baifubao, an independent third party, established a business relationship with another trust, or Trust No. 4, a trust administered by an independent third-party state-owned trust company. Heng Ye is the sole settlor and beneficiary of Trust No. 4 and has invested in an aggregate of RMB350.0 million (US\$50.9 million) in the Trust No. 4. We team up with Baifubao to conduct two-layer risk assessment and recommend borrowers to Trust No. 4. As of December 31, 2018, Trust No. 4 invested an aggregate of RMB361.4 million (US\$52.6 million) in loans recommended by us.

In April 2018, we, together with Baifubao, established a business relationship with Huijin No. 56 Collective Capital Trust E1, or Trust No. 5, a trust administered by an independent third-party state-owned trust company. Heng Ye and Heng Yu Da, being the settlors and beneficiaries of Trust No. 5, have invested in RMB865.0 million (US\$125.8 million) and RMB15.0 million (US\$2.2 million), respectively in Trust No. 5. We team up with Baifubao to conduct two-layer risk assessment and recommend borrowers to Trust No. 5. As of December 31, 2018, Trust No. 5 invested an aggregate of RMB771.0 million (US\$112.1 million) in loans recommended by us.

In May 2018, Heng Ye set up Yi Heng No. 1 Property Right Trust, or Yi Heng No. 1 Trust, as the sole settlor, using the beneficial rights of Trust No. 3 as the underlying asset. Yi Heng No. 1 Trust is administered by an independent third-party state-owned trust company. In June 2018, Heng Ye transferred 10%, 45%, and 45% of the beneficial rights of Yi Heng No. 1 Trust to Heng Yu Da, Heng Lang Sheng and Heng Xin Xin, respectively, which amounts to 36.0 million (US\$5.2 million), 162.0 million (US\$23.6 million) and 162.0 million (US\$23.6 million), respectively.

Although Heng Cheng, our consolidated variable interest entity operating our online marketplace, are not part of the fund-raising process by the trusts or the funds, we cannot assure you that our provision of services to the trusts and investments through the trusts by Heng Ye will not be viewed by PRC regulators as violating any laws or regulations regarding capital pools. Also, we transferred cash to Trust No.1 in an amount equal to certain percentage of the entire assets put into the trust, as a security fund to protect the trust from potential losses from defaults of loans in which the trust has invested. Under limited circumstances, the remainder of such fund 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 (a) Heng Ye's purchase of the asset-backed securities regarding Trust No. 1 through the Shenzhen Stock Exchange, (b) Heng Ye's purchase of the asset-backed securities regarding Trust No. 2 in private placement, (c) Heng Ye's subscription to Trust No. 3, Bohai Trust No. 1, Trust No. 4 and Trust No. 5, and (d) Heng Yu Da's, Heng Lang Sheng's and Heng Xin Xin's purchases of the asset-backed securities regarding Trust No. 3 in private placement would not be deemed as investment in loans facilitated through the online

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marketplace we operate by using our own capital. Furthermore, the PRC regulatory authorities may regard these arrangements relating to the trusts mentioned above as constituting selling trust products or conducting loan transfers through packaging, securitization, trust or fund units prohibited by the Interim Measures. 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 industry.

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***If the combination of the interest and transaction fees charged to the borrower on a loan is deemed to exceed the cap on judicially-protected interest rate, such excess interest or transaction fee may be ruled as unenforceable or even invalidated by the courts.***

Pursuant to the Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases issued by the Supreme People's Court on September 1, 2015, or the Private Lending Judicial Interpretation, in relation to lending activities between individuals, entities or other organizations that are not licensed financial institutions, if the interest rate of a loan exceeds 36% per annum, the portion in excess of 36% is invalid and void. If the interest rate of a loan exceeds 24% per annum, the portion between 24% and 36% per annum is valid but not enforceable under the PRC judicial system. In addition, on August 4, 2017, the Supreme People's Court promulgated Certain Opinions Concerning Further Strengthening Finance Judgment Work, or the Opinions on Finance Judgment, which provides, among other things, that (i) the claim of a borrower under a financial loan agreement to adjust or cut down the portion of interest in excess of 24% per annum on the basis that the aggregate amount of interest, compound interest, default interest, liquidated damages and other fees collectively charged to the borrower is overly high shall be upheld by PRC courts; and (ii) in case of disputes regarding online finance transactions, if peer-to-peer lending platforms circumvent the upper limit of the judicially protected interest rate by charging service fees, such fees will be held invalid. Furthermore, Circular 141, which took effect on December 1, 2017, requires that the interests and all the comprehensive capital costs charged and collected from a borrower should be uniformly converted into an annualized capital cost which shall not exceed the ceiling amount provided by the Private Lending Judicial Interpretations. To date, it is still unclear as to how the relevant local financial regulatory authorities will interpret Circular 141, and what calculation mechanism of a borrower's annualized capital cost will be.

Total fees paid by borrowers on our platform comprise fixed interest that are paid to investors, transaction fees we charge borrowers for our services and insurance premium and guarantee fees paid by borrowers to insurance and guarantee companies. See Item 4. Information on the Company Business Overview Our Products and Services Loan Pricing Mechanism. In determining the transaction fee rate we charge, we take into account, among others, the creditworthiness of borrowers, costs incurred by us in providing loan origination services and our reasonably estimated profits. The transaction fees we charge are recognized as our revenue and investors will not receive any part of the transaction fees we charge borrowers. In an effort to comply with Circular 141 and applicable regulations, we have adjusted the pricing of all our products with the aim to ensure that the annualized capital cost rates charged on all our loan products do not exceed the cap on judicially-protected interest rate. However, if the method of calculating the annualized borrowing costs used by the PRC governmental authorities or the PRC courts is different from ours, we cannot assure you that the annualized capital costs charged to borrowers on our platform are always within the cap on judicially-protected interest rate. If the aggregated borrowing costs of some of the loan products we facilitate are deemed to exceed the judicially-protected interest rate, parts or all of the transaction fees we collected may be ruled as unenforceable or even invalid by the PRC courts, which would materially and adversely affect our results of operations and financial condition. In addition, we may face, among other things, regulatory warning, correction order, condemnation, and fines, and we may be required to reduce transaction fees and lower the annual interest rate charged to borrowers. If such situations were to occur, our business, financial condition, results of operations and prospects would be materially and adversely affected.

***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.***

Investments in loans on our marketplace involve inherent risks as the return of the principal on a loan investment made through our platform is not guaranteed by us, although we aim to limit investor losses due to borrower defaults to within an industry acceptable range through various preventive measures we have taken or will take. Our ability to attract borrowers and investors 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 model aggregates and analyzes 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 Yiren score for the prospective borrower. The score will be further used to approve and classify the borrower into one of the five 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 is 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 appropriate grade in the risk grid, or price loans on our platform appropriately, we may either be unable to offer attractive fee rates to borrowers and returns to investors, or unable to maintain low default rates of loans facilitated by our platform. In addition, it will also have impact on collectability of service fees, resulting higher allowance for contract assets.



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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 contemplated business realignment with CreditEase, the borrowers that we serve, including those falling under Grade I, II, III, IV and V of our current risk grid, are primarily prime borrowers. After the completion of the contemplated business realignment with CreditEase, we will expand to serve new borrower groups beyond prime borrowers, and we may find it difficult or unable to maintain low default rates of loans facilitated through our marketplace. Although we offer investor protection services in collaboration with insurance and guarantee companies, if widespread defaults were to occur, investors may still incur losses and lose confidence in our marketplace, 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 rate 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 will be harmed.*

We incur expenses and consume resources upfront to develop, acquire and market new loan products. For example, in the second quarter of 2017, we launched our new credit scoring system, the Yiren score, which can be used to more accurately characterize borrower's credit profile. Under this new credit scoring system, we have an upgraded risk grid with five segments, which we refer to as Grade I, Grade II, Grade III, Grade IV and Grade V. 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 investors 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

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- the introduction or anticipated introduction of competing products by our competitors.

Another example is the automated investing tool that we offer to investors. With our automated investing tool, an investor may lend to borrowers on our marketplace for a specified period of time, and the investor's funds are automatically allocated among approved borrowers. However, we cannot rule out the possibility that there may be a mismatch between the investor's expected timing of exit and the maturity date of the loans to which the automated investing tool allocates the investor's funds. Investors using our automated investing tool typically invest for a shorter period than the terms of the underlying loans. If we are unable to find another investor to take over the remainder of the loans from the original investor that uses our automated investing tool at the time of his expected exit, then the original investor will have to remain invested in the loans and his expectation of liquidity would not be satisfied. If such mismatches occur in a widespread manner, investor acceptance of or satisfaction with our automatic investing tool would be adversely impacted.

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 and service the transactions we facilitate.***

We 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 to a custody account, and authorize us to debit the custody account for the transfer of scheduled loan repayments to the lending investors. As a day-to-day service to borrowers, we provide payment reminder services such as sending reminder text messages on the day a repayment is due. Once a repayment is past due, we also send additional reminder text messages. We outsource all stages of the collections process to CreditEase. To facilitate repayment and as a service to investors, the collections process is divided into distinct stages based on the severity of delinquency, which dictates the level of collection steps taken. 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 a material adverse effect on our business operations, financial positions and results of operations. As the amount of loans facilitated on our platform continues to increase, additional resources as to collection may be required, including additional resources from CreditEase or other third-party service providers. Costs associated with these additional efforts may similarly increase which may also have a material adverse effect on our results of operations. Furthermore, any misconduct in our collection practice (including that of CreditEase carried out on our behalf) 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.

***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 investor protection services. All outstanding loans facilitated through our marketplace are currently covered either by a credit assurance program operated by third-party guarantee companies or PICC's surety insurance program. See Item 4. Information on the Company B. Business Overview Risk Management Investor Protection. If these insurance and guarantee companies fail to perform any of their contractual obligations,

investors on our platform may lose confidence in our marketplace, which could materially harm our reputation. 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.

*If we do not compete effectively, our results of operations could be harmed.*

The online consumer finance marketplace industry in China is intensely competitive and evolving. We compete with a large number consumer finance marketplaces. We also compete with financial products and companies that attract borrowers, investors or both. With respect to borrowers, we primarily compete with traditional financial institutions, such as consumer finance business units in commercial banks, credit card issuers and other consumer finance companies. With respect to investors, we primarily compete with other investment products and asset classes, such as equities, bonds, investment trust products, bank savings accounts, real estate and alternative asset classes.

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. In response to competition and in order to grow or maintain the volume of loan transactions facilitated through our marketplace, we may have to offer higher investment return to investors or charge lower transaction fees, which could materially and adversely affect our business and results of operations. If we are unable to compete with such companies and meet the need for innovation in our industry, the demand for our 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.

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***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 and retaining existing borrowers and investors to 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, we obtain borrower 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. Although we do not permit borrowers to hold more than one loan that has been facilitated through our platform at a time, 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 platform in order to pay off loans to investors on other platforms. 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.



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In addition, our business of connecting investors and individual borrowers may constitute an intermediary service, and our contracts with these investors and borrowers may be deemed as intermediation contracts, under the PRC Contract Law. Under the PRC Contract Law, an intermediary may not claim for service fee and is liable for damages if it conceals any material fact intentionally or provides false information in connection with the conclusion of an intermediation contract, which results in harm to the client's interests. See Item 4. Information on the Company B. Business Overview Regulation Regulations Relating to Online Lending Information Intermediary Regulations on Loans between Individuals. Therefore, if we fail to provide material information to investors, or if we fail to identify false information received from borrowers or others and in turn provide such information to investors, and in either case if we are also found to be at fault, due to failure or deemed failure to exercise proper care, such as to conduct adequate information verification or employee supervision, we could be held liable for damages caused to investors as an intermediary pursuant to the PRC Contract Law. In addition, if we fail to complete our obligations under the agreements entered into with investors and borrowers, we could also be held liable for damages caused to borrowers or investors pursuant to the PRC Contract Law. On the other hand, we do not assume any liability solely on the basis of failure to correctly assign a loan grade to a particular borrower in the process of facilitating a loan transaction, as long as we do not conceal any material fact intentionally or provide false information, and are not found to be at fault otherwise. However, due to the lack of detailed regulations and guidance in the area of online lending information intermediary services and the possibility that the PRC government authority may promulgate new laws and regulations regulating online lending information intermediary services in the future, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations for the online lending information intermediary service industry, and there can be no assurance that the PRC government authority will ultimately take a view that is consistent with us.

*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 decision-making models;
- effectively manage and resolve borrower and investor complaints; and
- effectively protect personal information and privacy of borrowers and investors.

Our brand and reputation may also be negatively affected if the guarantee company providing guarantees, or the insurance company providing surety insurances, to the loans we facilitated fails to repay, or reimburse the investors, the principal and accrued interest on defaulted loans pursuant to the terms of the guarantee arrangement and business agreement. Any malicious or innocent negative allegation made by the media or other parties about the foregoing or other aspects of our company, including but not limited to our management, business, compliance with law, financial condition or prospects, whether with merit or not, could severely hurt our reputation and harm our business and operating results. As the market for China's online consumer finance marketplaces is new and the regulatory framework for this market is also evolving, negative publicity about this industry may arise from time to time. Negative publicity about China's online consumer finance marketplace industry in general may also have a negative impact on our reputation, regardless of whether we have engaged in any inappropriate activities.

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 other consumer finance marketplaces, 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. For example, incidents of inappropriate conduct by a number of online lending information intermediaries in connection with loans made to college students led to the outright regulatory prohibition in May 2017 of all new loans to college students made through platforms operated by online lending information intermediaries. If any of the foregoing takes place, our business and results of operations could be materially and adversely affected.



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***We may not be able to maintain profitability in the future.***

Although we had net income of RMB1,116.4 million, RMB1,371.8 million and RMB966.6 million (US\$140.6 million) in 2016, 2017 and 2018, respectively, and retained earnings of RMB1,177.1 million, RMB1,835.1 million and RMB3,810.7 million (US\$554.2 million) as of December 31, 2016, 2017 and 2018, respectively, we cannot assure you that we will be able to continue to generate net income or will have retained earnings in the future. We anticipate that our operating expenses will 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 revenues. Furthermore, we have adopted share incentive plans in September 2015 and July 2017, 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. In addition, our net revenue growth rate will likely decline as our net revenue grows to higher levels.

***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 revenues, expenses, net (loss)/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 such as the amount of referral fee CreditEase charges us for borrower acquisition, 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 lending information intermediary 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.

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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 lower transaction value 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.***

In 2018, we had a negative cash flow of RMB820.2 million (US\$119.3 million) from operating activities, primarily due to a decrease in liabilities from quality assurance program and guarantee of RMB2,784.0 million (US\$404.9 million), partially offset by a few cash in-flow items. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Operating Activities. Going forward, our ability to collect fees from customers, in particular transaction fees from borrowers, 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. In addition, given the evolving regulatory environment, regulatory authorities may in the future require us to make a risk reserve deposit in a restricted bank account, similar to the requirement currently applicable to traditional financial institutions. If such requirement were to be imposed on us, our liquidity, financial condition and results of operations may be materially and adversely affected.

***Our reputation may be harmed if information supplied by borrowers is inaccurate, misleading or incomplete, including if the borrowers use the loan proceeds for purposes other than as originally provided.***

Borrowers supply a variety of information that is included in the loan listings on our marketplace. We do not verify all the information we receive from borrowers, and such information may be inaccurate or incomplete. For example, we often do not verify a borrower's home ownership status or intended use of loan proceeds, and the borrower may use loan proceeds for other purposes with increased risk than as originally provided. In addition, as online lending information intermediaries are prohibited from facilitating loans to be used for high-risk activities such as investment in stocks, over-the-counter financing, future contracts, structured products and other derivative products or as the down payment for the purchase of residential real estate, we could be found to have violated applicable laws, rules or regulations if any of the borrowers use the loan proceeds for any such prohibited purpose, albeit inconsistent to what such borrower has previously disclosed to us. Moreover, investors do not, and will not, have access to detailed financial information about borrowers. If investors invest in loans through our platform based on information supplied by borrowers that is inaccurate, misleading or incomplete, those investors may not receive their expected returns and our reputation may be harmed. Moreover, inaccurate, misleading or incomplete borrower information could also potentially subject us to liability as an intermediary under the PRC Contract Law. See Item 4. Information on the Company B. Business Overview Regulation Regulations Relating to Online Lending Information Intermediary Regulations on Loans between Individuals below.

***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 type 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 borrower 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.

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***Failure to maintain successful strategic relationships with partners may have 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 requires significant time and resources as does 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 borrowers and investors, 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 adversely affected if transactions were redirected, misappropriated or otherwise improperly executed, if personal information was disclosed to unintended recipients or if an operational breakdown or failure in the processing of transactions occurred, whether as a result of human error, purposeful sabotage or fraudulent manipulation of our operations or systems. In addition, the manner in which we store and use certain personal information and interact with borrowers and investors 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 funds, documents or data or fail to follow protocol when interacting with borrowers and investors, we could be liable for damages and subject to regulatory actions and penalties. We could also be perceived to have facilitated or participated in the illegal misappropriation of funds, documents or data, 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.***

All loans facilitated through our marketplace are issued with fixed interest rates. If interest rates rise, investors who have already committed capital may lose the opportunity to take advantage of the higher rates. If interest rates decrease after a loan is made, borrowers through our platform may prepay their loans to take advantage of the lower rates. Investors through our platform would lose the opportunity to collect the

above-market interest rates payable on the prepaid loans and might delay or reduce future loan investments. As a result, fluctuations in the interest rate environment may discourage investors and borrowers from participating in our marketplace, which may adversely affect our business.

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

Any prolonged slowdown in the Chinese or global economy may have a negative impact on our business, results of operations and financial condition. 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 in loans. Economic conditions in China are sensitive to global economic conditions. The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The recovery from the lows of 2008 and 2009 has been uneven and there are new challenges, including the escalation of the European sovereign debt crisis from 2011, the end of quantitative easing by the U.S. Federal Reserve, the economic slowdown in the Eurozone in 2014 and the expected exit of the United Kingdom from the European Union. The Chinese economy has slowed down since 2012 and such slowdown may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. There have also been concerns over events in North Korea, the Middle East and Africa, which have resulted in volatility in financial and other markets. There have also been concerns about the economic effect of the tensions in the relationship between China and other countries, including the surrounding Asian countries. If the Chinese and global economic uncertainties persist, many of our investors may delay or reduce their investment in the loans facilitated through our platform. Adverse economic conditions could also reduce the number of qualified borrowers seeking loans on our platform, as well as their ability to make payments. Should any of these situations occur, the amount of loans facilitated through our platform and our net revenues 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, 2016, 2017 and 2018, we had cash and cash equivalents of RMB968.2 million, RMB1,857.2 million and RMB2,028.7 million (US\$295.1 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 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 operations could be adversely affected.



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***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 Sarbanes-Oxley Act of 2002 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 beginning with our annual report for the fiscal year ending December 31, 2018. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2018. See Item 15. Controls and Procedures.

In addition, once we cease to be an emerging growth company as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. 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, we may identify weaknesses and deficiencies in our internal control over financial reporting. 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 Ministry of Industry and Information Technology, or 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.

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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-compete agreements with our employees and others to protect our proprietary rights. As of the date of this annual report, we have obtained 240 registered trademarks and have made applications for 133 trademarks, all of which are pending with the Trademark Office of the National Intellectual Property Administration. As of the date of this annual report, a total of 44 trademarks have been transferred to us by CreditEase. 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.

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

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

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, 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 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.

***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 able to identify an appropriate business opportunity, we may not be able to successfully consummate the transaction and, even if we do consummate such a transaction, we may be unable to obtain the benefits or avoid the difficulties and risks of such transaction.

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;

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- 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 loan products and services or that any new or enhanced loan 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, on March 25, 2019, we entered into a set of definitive agreements with CreditEase regarding a business realignment between CreditEase and us. Pursuant to the definitive agreements, we will assume 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, as well as receive business consulting and other supports from CreditEase, for a total consideration of 106,917,947 newly issued ordinary shares of our company and RMB889 million cash, as may be adjusted in accordance with the pre-agreed mechanism, at the transaction closing. See Item 4. Information on the Company A. History and Development of the Company. The transactions contemplated under the definitive agreements are subject to certain closing conditions. We cannot assure you that we will be able to successfully complete these transactions as there remain uncertainties with respect to the fulfillment of such closing conditions.

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While we believe the contemplated business realignment will enhance our market position as a leading comprehensive fintech platform, enable us to better leverage synergies between our existing businesses and the businesses we will assume 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 contemplated business realignment and other acquisitions include, among other things, (a) the use of our cash resources; (b) paying a price that exceeds the future value realized from the acquisition; (c) potential known and unknown liabilities of the acquired businesses; (d) the incurrence of additional debt; (e) the dilutive effect of the issuance of any additional equity securities by our company as consideration for, or to finance, the acquisition; (f) the financial impact of incorrectly valuing goodwill and other intangible assets involved in any acquisitions; (g) potential future impairment write-downs of goodwill and indefinite-life intangibles and the amortization of other intangible assets; and (h) 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; 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 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 other reasons.

***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.

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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 to 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 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 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.

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*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 also be adversely affected by the effects of Zika virus, Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics. Our business operations could be disrupted if any of our employees is suspected of having Zika virus, Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, SARS or other epidemic, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that any of these epidemics harms the Chinese economy in general.

**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 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. Although we have become a stand-alone company, we expect CreditEase to continue to provide us with certain support services during a transitional period. We have also relied on CreditEase for the successful operation of our online consumer finance marketplace. In the future, we expect to continue to rely on CreditEase for various aspects of our operations, such as risk management, offline acquisition of new borrowers and investors and outstanding loan collection services. 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. For example, pursuant to our contractual agreement with CreditEase, the fee rate for the offline borrower acquisition services which CreditEase provides to us has recently increased from 5% to 6% of the loans facilitated to borrowers referred by CreditEase for the three years starting 2016. After that, 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. Furthermore, borrowers, investors and business partners may react negatively to our carve-out from CreditEase. As such, our carve-out from CreditEase may materially and adversely affect our business. In addition, as a result of our carve-out from CreditEase, our historical financial performance may not be indicative of our future performances as a stand-alone public company.

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***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 the establishment of Yirendai Ltd., our online consumer finance marketplace business was carried out by various subsidiaries and 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 consolidated variable interest entities. Since we and the subsidiaries and 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 and servicing expenses, 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 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 as 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. Referrals from CreditEase's nationwide service network currently accounts for a majority of our borrowers and loan volume. In 2016, 2017 and 2018, 42.5%, 27.1% and 28.2% of our borrowers were acquired through referrals from CreditEase, respectively, contributing 62.0%, 45.6% and 41.1% of the total amount of loans facilitated through our marketplace, respectively. If user referrals through CreditEase decrease or become less effective, the quality of the borrowers referred by CreditEase does not meet our borrower qualification standards, or if we are unable to continue to use CreditEase as a user acquisition channel for any reason, our business and results of operations may be adversely and materially affected. There can be no assurance that we would be able to find other user acquisition channels to replace referrals from CreditEase on commercially reasonable terms, or at all. We also benefit from CreditEase's strong brand recognition in China, which provides us 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 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 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 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 Yirendai cease to be listed on Nasdaq or the New York Stock Exchange (except for temporary suspension of trading of the ADSs), and (iii) March 25, 2034, the fifteenth anniversary of March 25, 2019, the date of the 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. 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 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 assumed 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.

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

As of March 31, 2019, CreditEase held 81.3% of our outstanding ordinary shares and total voting power. We are currently doing a business realignment with CreditEase. See Item 4. Information on the Company A. History and Development of the Company for more details. Upon the completion of the business realignment between CreditEase and us, CreditEase's shareholding in our company will further increase to 90.0%, assuming no adjustment of the consideration to be made by our company for acquiring target businesses from CreditEase. 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.

***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 an amended and restated non-competition agreement in March 2019, 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 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, Ning Tang, and two directors, Quan Zhou and Tina Ju, are members of the board of directors of CreditEase. Ning Tang will also become our chief executive officer upon the closing of the business realignment contemplated by the series of agreements entered into by us and CreditEase in March 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.



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- *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 amended and restated non-compete 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 as 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 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, Mr. Ning Tang, has considerable influence over us and our corporate matters.***

Our executive chairman, 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 March 31, 2019. Moreover, as Mr. Tang, as a director of CreditEase, currently holds three out of the five 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.

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**Risks Related to Our Corporate Structure**

*If the PRC government deems that the contractual arrangements in relation to our 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 e-commerce) 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 Guidance Catalog of Industries for Foreign Investment promulgated in 2007, 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 a series of contractual arrangements entered into among Yi Ren Heng Ye Technology Development (Beijing) Co., Ltd., or Heng Ye, Heng Cheng Technology Development (Beijing) Co., Ltd., or Heng Cheng, and the shareholders of Heng Cheng, a series of contractual arrangements entered into among Chongqing Heng Yu Da Technology Co., Ltd., or Heng Yu Da, Yiren Financial Information Service (Beijing) Co., Ltd., or Yi Ren Wealth Management, and the shareholders of Yi Ren Wealth Management, a series of contractual arrangements entered into among Heng Ye, Pu Hui and the shareholders of Pu Hui, and a series of contractual arrangements entered into among Heng Ye, CreditEase Huimin Investment Management (Beijing) Co., Ltd, or Hui Min, and the shareholders of Hui Min. As a result of these contractual arrangements, we exert control over Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min 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, our current ownership structure, the ownership structure of Heng Ye and Heng Yu Da, our PRC subsidiaries, and Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min, our consolidated variable interest entities, the contractual arrangements among Heng Ye, Heng Cheng and the shareholders of Heng Cheng, the contractual arrangements among Heng Yu Da, Yi Ren Wealth Management and the shareholders of Yi Ren Wealth Management, the contractual arrangements among Heng Ye, Pu Hui and the shareholders of Pu Hui, and the contractual arrangements among Heng Ye, Hui Min and the shareholders of Hui Min are not in violation of existing PRC laws, rules and regulations; and these contractual arrangements are valid, binding and enforceable in accordance with their terms and applicable PRC laws and regulations currently in effect. However, 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.

It is uncertain whether any new PRC laws, rules or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. See 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 below. If the ownership structure, contractual arrangements and business of our company, Heng Ye, Heng Yu Da, Heng Cheng, Yi Ren Wealth Management, Pu Hui or Hui Min are found to be in violation of any existing or future PRC laws or regulations, or we fail to obtain or maintain any of the required permits or approvals, the relevant governmental authorities would have broad discretion in dealing with such violation, including levying fines, confiscating our income or the income of Heng Ye, Heng Yu Da, Heng Cheng, Yi Ren Wealth Management, Pu Hui or Hui Min, revoking the business licenses or operating licenses of Heng Ye, Heng Yu Da, Heng Cheng, Yi Ren Wealth Management, Pu Hui or Hui Min, shutting down our servers or blocking our online platform, discontinuing or placing restrictions or onerous conditions on our operations, requiring us to undergo a costly and disruptive restructuring, restricting or prohibiting our use of proceeds from our initial public offering to finance our business and operations in China, and taking other regulatory or enforcement actions that could be harmful to our business. Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn

materially and adversely affect our business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of our consolidated variable interest entities, and/or our failure to receive economic benefits from our consolidated variable interest entities, we may not be able to consolidate their results into our consolidated financial statements in accordance with U.S. GAAP.

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

We have relied and expect to continue to rely on contractual arrangements with our consolidated variable interest entities and their respective shareholders to operate our www.yirendai.com website operated by Heng Cheng, our wealth management website and mobile application operated by Yi Ren Wealth Management, which serve as an online portal for investment products, including the loan products offered on our platform as well as other investment products offered by third parties, our website www.yxpuhui.com operated by Pu Hui, and our www.creditease.cn website operated by Hui Min. 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 in providing us with control over our consolidated variable interest entities. For example, Heng Cheng, Yi Ren Wealth Management, Pu Hui, Hui Min 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 Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min, our 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 to exercise control over such consolidated variable interest entities. 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 our 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 our consolidated variable interest entities, may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

***Any failure by our 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 Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min, our 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.

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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 consolidated 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 exert effective control over our consolidated variable interest entities, and our ability to conduct our business may be negatively affected. See **Risks Related to Doing Business in China** Uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protections available to you and us.

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

The equity interests of Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min, our consolidated variable interest entities, are held by Mr. Ning Tang, our founder and executive chairman, and three other individuals, Ms. Mei Zhao, Mr. Fanshun Kong and Ms. Yan Tian. 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 effectively control 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 conflict 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.

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***Contractual arrangements in relation to our 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 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 Heng Ye, our wholly-owned subsidiary in China, Heng Cheng, our consolidated variable interest entity in China, and the shareholders of Heng Cheng, (ii) the contractual arrangements between Heng Yu Da, our wholly-owned subsidiary in China, Yi Ren Wealth Management, our consolidated variable interest entity in China, and the shareholders of Yi Ren Wealth Management, (iii) the contractual arrangements between Heng Ye, our wholly-owned subsidiary in China, Pu Hui, our consolidated variable interest entity in China, and the shareholders of Pu Hui, and (iv) the contractual arrangements between Heng Ye, our wholly-owned subsidiary in China, Hui Min, our consolidated variable interest entity in China, and the shareholders of Hui Min 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 Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min, our 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 its tax liabilities without reducing the tax expenses of such consolidated variable interest entities. In addition, if Heng Ye or Heng Yu Da requests the shareholders of such consolidated variable interest entities, as the case may be, to transfer their equity interests in the 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 Heng Ye or Heng Yu Da 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 our 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 our 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.***

Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min, our consolidated variable interest entities, hold certain assets that are material to the operation of our business. Under the contractual arrangements, our consolidated variable interest entities may not and their respective shareholders may not cause them to, in any manner, sell, transfer, mortgage or 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 our consolidated variable interest entities undergoes 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 Heng Ye and Heng Yu Da, our PRC subsidiaries, and our 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 towards 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 which can be used for specific purposes. The chops of Heng Ye and Heng Yu Da, our PRC subsidiaries, and Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min, our 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 disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations.



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**Risks Related to Doing Business in China**

*Changes in China's 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, prospects, financial condition and results of operations 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. 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, in the past the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, and since 2012, China's economic growth has slowed down. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

*Uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protections available to us.*

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.

In particular, PRC laws and regulations concerning the online lending information intermediary service industry are developing and evolving. Although we have taken measures to comply with the laws and regulations that are applicable to our business operations, including the Guidelines, the Interim Measures, the Custodian Guidelines, Circular 141 and Circular 57, and avoid conducting any activities that may be deemed illegal under the current applicable laws and regulations, the PRC government authority may promulgate new laws and regulations regulating the online lending information intermediary service industry and amend the existing laws and regulations in the future. See **Risks Related to Our Business**. The laws and regulations governing the online lending information intermediary service industry in China are developing and evolving and subject to changes. If we fail to obtain and maintain requisite approvals, licenses or permits applicable to our business, our business, financial condition and results of operations would be materially and adversely affected and **Risks Related to Our**

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**Business** If our practice is deemed to violate any PRC laws or regulations, our business, financial condition and results of operations would be materially and adversely affected. We cannot assure you that our practices would not be deemed to violate any PRC laws or regulations. Moreover, developments in the online lending information intermediary service industry may lead to changes in PRC laws, regulations and policies or in the interpretation and application of existing laws, regulations and policies that may limit or restrict online consumer finance marketplaces like us, which could materially and adversely affect our business and operations.

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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.

***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 will come into effect on January 1, 2020 and replace 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 activities 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. 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.

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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 MITT, 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.

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Heng Cheng and Hui Min, our consolidated variable interest entities operating our online marketplace, and Yi Ren Wealth Management, our consolidated 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 Heng Cheng, Hui Min and Yi Ren Wealth Management 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, Heng Cheng and Hui Min are in the process of renewing their ICP licenses, and Yi Ren Wealth Management 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 Heng Cheng, Hui Min and Yi Ren Wealth Management 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. The Interim Measures jointly issued by four PRC regulatory agencies in August 2016 requires online lending information intermediaries, among other things, to apply for appropriate telecommunication business license in accordance with the relevant requirements of telecommunication authorities subsequent to completion of the record-filing with the local financial regulatory department. In accordance with the Guidelines and the Interim Measures, the relevant authorities are in the process of making detailed implementation rules regarding the application procedures for appropriate telecommunication business license by online lending information intermediaries. 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 MITT 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 their 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. Heng Cheng 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 MITT 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.



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***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 fail 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, including online lending information intermediaries, 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. The Interim Measures jointly issued by four PRC regulatory agencies in August 2016 require the online lending information intermediaries, among other things, to comply with certain anti-money laundering obligations, including verifying customer identification, reporting suspicious transactions and preserving customer information and transaction records. The Custodian Guidelines issued by PBOC in February 2017 require the online lending platforms to set up custody accounts with commercial banks and comply with the anti-money laundry requirements of the relevant commercial banks. 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.

***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 incurs 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 Heng Ye and Heng Yu Da to adjust their taxable income under the contractual arrangements they currently have in place with our 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 our 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.

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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.



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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.

***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 the MOC or its local counterpart and the amount of registered capital of such foreign-invested company or two times of 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, the maximum amounts 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 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 Renminbi 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 our consolidated variable interest entities must comply with Circular 9. Moreover, according to 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 our 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 approved by the MOC 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 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 principal-secured products issued by banks; (iii) granting 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). In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without SAFE's approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of these circulars could result in severe monetary or other penalties. These circulars may significantly limit our ability to use Renminbi converted from the cash provided by our offshore financing activities to fund the establishment of new entities in China by our PRC subsidiaries, to invest in or acquire any other PRC companies through our PRC subsidiaries, or to establish new variable interest entities in the PRC.

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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.*

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. However, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals. During the period between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow range. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. Since October 1, 2016, Renminbi has joined the International Monetary Fund (IMF)'s basket of currencies that make up the Special Drawing Right (SDR), along with the U.S. dollar, the Euro, the Japanese yen and the British pound. Since the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China until August 2017 where the Renminbi started to appreciate against the U.S. dollar. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and we cannot assure you that the Renminbi 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 the Renminbi and the U.S. dollar in the future. There remains significant international pressure on the PRC government to adopt a flexible currency policy.

Our operations are conducted through subsidiaries and VIEs located in China where Renminbi is the functional currency. Our reporting currency is also Renminbi. Any significant appreciation or depreciation of the Renminbi may materially and adversely affect our liquidity and cash flows. For example, to the extent that we need to convert U.S. dollars we receive from our initial public offering into Renminbi to pay our operating expenses, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount we would receive.

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 Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on the price of our ADSs.

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

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our net revenues in Renminbi. 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. But approval from or registration with appropriate government authorities is required where Renminbi 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 Renminbi, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and 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.

***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 had not made adequate employee benefits payments until July 2018. 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.

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***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 the MOC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the MOC shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the MOC 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 the MOC, 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 the MOC 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. If the MOC or any of its local counterparts challenges 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 Residents' 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.



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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 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 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.





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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 Yirendai Ltd. or any of our subsidiaries outside of China is a PRC resident enterprise for PRC enterprise income tax purposes, then Yirendai 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. Heng Ye, one of our PRC subsidiaries, was qualified as a software enterprise in July 2016, and accordingly is eligible for an exemption of enterprise income tax for 2015 and 2016 and a reduced enterprise income tax at the rate of 12.5% from 2017 through 2019. However, Heng Ye's qualification as a software enterprise is subject to annual evaluation by the relevant authorities in China. If Heng Ye 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, Heng Yu Da, one of our PRC subsidiaries, is eligible for a reduced enterprise income tax rate of 15% for the year 2017 pursuant to the Catalogue of Encouraged Industries in Western Regions, the Catalogue of Industries for Guiding Foreign Investment, 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, Heng Yu Da'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. Therefore there is uncertainty as to whether and for how long Heng Yu Da can continue to enjoy such favorable tax treatment after 2017. If such favorable tax treatment becomes unavailable to Heng Yu Da in the future, its applicable corporate income tax rate would increase to 25%, which may affect our financial condition and results of operations.

The current PRC income tax laws and regulations are not clear as to whether the provision for quality assurance program and the actual net payouts from quality assurance program are tax deductible relating to online lending platform intermediaries. We treat this as a temporary difference which means the provision for quality assurance program is non-deductible while the actual quality assurance program net payouts would be deductible for tax purposes when payments occur. However, due to the unclear PRC income tax laws and regulations as well as uncertainty in practice, there exist risks that the actual net payouts from quality assurance program may not be deductible from taxable income.

***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.***

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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 Enterprises to Enjoy Treatments under Tax Treaties, which became effective in August 2015, require non-resident enterprises to determine whether they are qualified to enjoy the preferential tax treatment under the tax treaties and file relevant report and materials 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. As of December 31, 2018, we accrued nil of withholding tax liabilities, as our board of directors decided in August 2018 to temporarily suspend the previously adopted semi-annual dividend policy. We intend to indefinitely reinvest all remaining undistributed earnings as of December 31, 2018 in our PRC subsidiaries. Should our tax policy change to allow for offshore distribution 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 Yirendai Hong Kong Limited, our Hong Kong subsidiary.

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***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 taking 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.



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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. Although we currently have no plans to pursue any acquisitions in China or elsewhere in the world, we may pursue acquisitions in the future 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 audit report included in this annual report has been prepared by our independent registered public accounting firm whose work may not be inspected fully by the Public Company Accounting Oversight Board and, as such, you may be deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards.

Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our independent registered public accounting firm as it relates to those operations without the approval of the Chinese authorities, our independent registered public accounting firm is not currently inspected fully by the PCAOB. This lack of PCAOB inspections in the PRC prevents the PCAOB from regularly evaluating our independent registered public accounting firm's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

On May 24, 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission, or the CSRC, and the Ministry of Finance which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. On inspection, it appears that the PCAOB continues to be in discussions with the Mainland China regulators to permit inspections of audit firms that are registered with the PCAOB in relation to the audit of Chinese companies that trade on U.S. exchanges. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in this issue. However, it remains unclear what further actions the SEC and PCAOB will take and its impact on Chinese companies listed in the U.S.

Inspections of other firms that the PCAOB has conducted outside the PRC have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct full inspections of auditors in the PRC makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside the PRC that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

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*If the settlement reached between the SEC and the Big Four PRC-based accounting firms (including the Chinese affiliate of our independent registered public accounting firm), concerning the manner in which the SEC may seek access to audit working papers from audits in China of US-listed companies, is not or cannot be performed in a manner acceptable to authorities in China and the U.S., we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.*

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the mainland Chinese affiliates of the Big Four accounting firms (including the mainland Chinese affiliate of our independent registered public accounting firm). A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the Chinese accounting firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the Chinese accounting firms reached a settlement with the SEC whereby the proceedings were stayed. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents would normally be made to the CSRC. The Chinese accounting firms would receive requests matching those under Section 106 of the Sarbanes-Oxley Act of 2002, and would be required to abide by a detailed set of procedures with respect to such requests, which in substance would require them to facilitate production via the CSRC. The CSRC for its part initiated a procedure whereby, under its supervision and subject to its approval, requested classes of documents held by the accounting firms could be sanitized of problematic and sensitive content so as to render them capable of being made available by the CSRC to US regulators.

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

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

If the Chinese affiliate of our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our ordinary shares from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

**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\$9.61 to US\$47.93 per ADS in 2018. 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, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009, the second half of 2011, the third quarter of 2015 and the first quarter of 2016, which may have a material adverse effect on the market price of our ADSs.

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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 million of our ADSs or ordinary shares. As of December 31, 2018, we had repurchased 2,000 ADSs at an average price of US\$18.4647 per ADS under this program. 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.

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***We cannot assure you that our existing dividend policy will not change in the future or the amount the dividends that you may receive, and as such, 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 will be 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. As such, the amount of dividends that you will receive are subject to change. In addition, there can be no assurance that we will not adjust our dividend policy in the future. 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 March 31, 2019, we had 123,062,918 ordinary shares outstanding. Among these shares, 22,328,094 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 and July 2017, 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 Plan. 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 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.

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***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;
- a 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 depositary 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 depositary, 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 depositary 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 depositary 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.

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***You may not receive cash dividends if the depositary decides it is impractical to make them available to you.***

The depositary 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 depositary 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 depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary 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 depositary 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 depositary. However, the depositary 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 depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary 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. See details on the putative shareholder class action lawsuits in Item 8. Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings. 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 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

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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.

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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 (a) is given by a foreign court of competent jurisdiction, (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (c) is final, (d) is not in respect of taxes, a fine or a penalty, and (e) 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 director 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 Law (2018 Revision) 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. 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.





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***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 an emerging growth company within the meaning of the Securities Act and may take advantage of certain reduced reporting requirements.***

We are an emerging growth company, as defined in the JOBS Act, and we may take advantage of certain exemptions from various requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of Sarbanes-Oxley Act of 2002 for so long as we are an emerging growth company. As a result, if we elect not to comply with such auditor attestation requirements, our investors may not have access to certain information they may deem important.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. However, we have elected to opt out of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

***We 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;

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- 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.

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***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 and (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. 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.

***There can be no assurance that we will not be passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year, which could subject United States investors in our ADSs or ordinary shares to significant adverse United States 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 average quarterly value of our assets (as determined on the basis of fair market value) 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 Heng Cheng and Yi Ren Wealth Management as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation 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. Assuming that we are the owner of Heng Cheng and Yi Ren Wealth Management for United States federal income tax purposes, and based upon our income and assets, including goodwill, and the value of our ADSs and ordinary shares, we do not believe that we were be a PFIC for the taxable year ended December 31, 2018 and do not anticipate becoming a PFIC in the foreseeable future.

While we do not expect to become a PFIC, because the value of our assets for purposes of the asset test may be determined by reference to the market price of our ADSs or ordinary shares, fluctuations in the market price of our ADSs or ordinary shares may cause us to become a PFIC for the current or subsequent taxable years. The determination of whether we will be or become a PFIC will also depend, in part, on the composition of our income and assets, which may be affected by how, and how quickly, we use our liquid assets. If we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of Heng Cheng and Yi Ren Wealth Management for United States federal income tax purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

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 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 Considerations.



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*We will incur increased costs as a result of being a public company, particularly after we cease 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. As a company with less than US\$1.07 billion in net revenues for our last fiscal year, we qualify as an emerging growth company pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company's internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have elected to opt out of the provision that allow us to delay adopting new or revised accounting standards and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. After we are no longer an emerging growth company, we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. 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 as our parent company and controlling shareholder after our initial public offering in December 2015. CreditEase incorporated Yirendai Ltd. in the Cayman Islands to be our holding company in September 2014. Yirendai Ltd. then established a wholly owned subsidiary in Hong Kong, Yirendai Hong Kong Limited, or Yirendai HK, in October 2014, and Yirendai HK further established Yi Ren Heng Ye Technology Development (Beijing) Co., Ltd., or Heng Ye, our wholly owned subsidiary in China, in January 2015. Yirendai HK further established Chongqing Heng Yu Da Technology Co., Ltd., or Heng Yu Da, our wholly owned subsidiary in China, in March 2016. Heng Ye further established Yi Ren Information Consulting (Beijing) Co., Ltd. or Yi Ren Information, our wholly owned subsidiary in China, in August 2017.

Heng Cheng Technology Development (Beijing) Co., Ltd., or Heng Cheng, was established in China in September 2014. Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian are the shareholders of Heng Cheng, owning 40%, 30% and 30% of the equity interest in Heng Cheng, respectively, as of the date of this annual report. We obtained control and became the primary beneficiary of Heng Cheng in February 2015 by entering into a series of contractual arrangements with Heng Cheng and its shareholders.

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To execute our strategy of offering more value-added services to investors, we established Yiren Financial Information Service (Beijing) Co., Ltd., or Yi Ren Wealth Management, 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. Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian are the shareholders of Yi Ren Wealth Management, owning 40%, 30% and 30% of the equity interest in Yi Ren Wealth Management, respectively, as of the date of this annual report. We obtained control and became the primary beneficiary of Yi Ren Wealth Management by entering into a series of contractual arrangements with Yi Ren Wealth Management and its shareholders in October 2016.

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.

On March 25, 2019, we entered into a set of definitive agreements with CreditEase regarding a business realignment between CreditEase and us. Pursuant to the definitive agreements, we will assume 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, as well as receive business consulting and other supports from CreditEase, for a total consideration of 106,917,947 newly issued ordinary shares of our company and RMB889 million cash, as may be adjusted in accordance with the pre-agreed mechanism, at the transaction closing. The contemplated transactions are subject to certain closing conditions. It is expected that the target businesses will be consolidated into our consolidated financial statements prior to the closing of the transactions once controls are transferred to us. Concurrently with the execution of foregoing definitive agreements and as a part of the contemplated transactions, we obtained control over CreditEase Puhui Information Consultant (Beijing) Co., Ltd, or Pu Hui, and CreditEase Huimin Investment Management (Beijing) Co., Ltd, or Hui Min, through a series of contractual arrangements and started to consolidate their financial results. See Item 4. Information on the Company C. Organizational Structure for more details of our contractual arrangements with each of Pu Hui and Hui Min.

We currently conduct our online consumer finance marketplace business in China through Heng Ye and Heng Yu Da, and our consolidated variable interest entities, Heng Cheng, Hui Min, Pu Hui and Yi Ren Wealth Management. Heng Cheng operates our website [www.yirendai.com](http://www.yirendai.com), an online consumer finance platform that facilitates unsecured consumer loans. Hui Min operates [www.creditease.cn](http://www.creditease.cn), an online consumer finance platform that facilitates unsecured consumer loans, secured consumer loans (such as loans secured by vehicles or real estate properties), financial leasing transactions and loans to SMEs. Both Heng Cheng and Hui Min are in the process of renewing their ICP licenses. Pu Hui operates [www.yxpuhui.com](http://www.yxpuhui.com) and provides referral and other services through its nationwide service network. Yi Ren Wealth Management operates our wealth management website and mobile application, which serves as an online portal for investment products, including the loan products offered by us as well as other investment products offered by third parties. Yi Ren Wealth Management is in the process of applying for an ICP license. In addition, Yi Ren Information provides assistance to borrowers on our platform in seeking loans from banks and other institutional fund providers.

Our principal executive offices are located at 10/F, Building 9, 91 Jianguo Road, Chaoyang District, Beijing, People's Republic of China. Our telephone number at this address is +86 10 5395-3680.

**B. Business Overview**



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We are a leading fintech company in China connecting investors and individual borrowers. We facilitated loans in an aggregate principal amount of approximately RMB112.5 billion (US\$16.4 billion) and served 1,529,840 borrowers and 1,602,530 investors from our inception in March 2012 through December 31, 2018.

Our online platform automates key aspects of our operations and enables us to efficiently match borrowers with investors and execute loan transactions. Leveraging the extensive experience of our parent company CreditEase, we provide an effective solution to address largely underserved investor and individual borrower demand in China. CreditEase is a large financial services company focusing on providing inclusive finance and wealth management products and services in China. Our borrowers come from a variety of channels, including online sources, such as the internet and our mobile applications, as well as offline sources, such as referrals from CreditEase's nationwide service network. In 2016, 2017 and 2018, we facilitated over RMB7,612.7 million, RMB22,537.4 million and RMB22,722.4 million (US\$3,304.8 million) in loans through our mobile applications, respectively, representing 37.2%, 54.4% and 58.9% of the total amount of loans facilitated through our marketplace in the respective periods.

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Our technology-driven platform provides a flexible, cost-efficient and time-saving solution to address borrowers' financial needs. Our online marketplace offers qualified borrowers who successfully complete our online application and meet our borrower requirements quick and convenient access to affordable credit at competitive prices. All of the loans facilitated through our marketplace feature fixed interest rates. To provide a transparent marketplace, the interest rates, transaction fees and other charges are all clearly disclosed to borrowers upfront.

We believe we have developed an industry leading risk management system using our proprietary credit decisioning and fraud detection modules. We accumulate data from our expanding borrower base and CreditEase's extensive database 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 investors.

Our online marketplace provides investors with attractive returns with investment thresholds as low as RMB100 (US\$14.5). Investors have the option to individually select specific loans to invest in or to use our automated investing tool that identifies and selects loans on the basis of a targeted return. We provide investors with access to a liquid secondary market, giving them an opportunity to exit their investments before the underlying loans become due. We currently conduct our business operations exclusively in China, and our online consumer finance marketplace does not facilitate investments by investors located in the United States. Currently, all of the investors come from online channels.

We are transitioning into a comprehensive online financial services platform that enables independent third parties to promote and sell a diversified portfolio of services to cater to various needs of the investors on the platform, including the growing needs of online wealth management services. With the personalized online wealth management services available on our platform, our online wealth management platform is well-positioned to tap into China's individual wealth management market.

We launched an open technology platform named Yirendai Enabling Platform ( YEP ) in March 2017, which enables partner companies to utilize Yirendai's data acquisition, anti-fraud technology, as well as customer acquisition capabilities, to help optimize industry's efficiency and enhance customer experience. In the past year, we established strategic partnership with various financial institutions, including joint-stock banks, city banks, internet banks, insurance companies and trust companies, to provide customer acquisition, preliminary risk assessment, anti-fraud, system building and implementing services.

Through a business realignment with CreditEase, we will further expand our business to cover unsecured and secured consumer lending, financial leasing, SME lending and other related services and businesses, and further expand our online wealth management services to serve a larger group of mass affluent clients.

We generate revenues primarily from fees charged for our services in matching investors with individual borrowers and for other services we provide over the life of a loan. We charge borrowers transaction fees for services provided through our platform in facilitating loan transactions, and charge investors service fees for using our automated investing tool or self-directed investing tool. As an information intermediary, we do not use our own capital to invest in loans facilitated through our marketplace.

Our total net revenues increased from RMB3,238.0 million in 2016 to RMB5,543.4 million in 2017, and further increased to RMB5,620.7 million (US\$817.5 million) in 2018. Our net income increased from RMB1,116.4 million in 2016 to RMB1,371.8 million in 2017, and decreased to RMB966.6 million (US\$140.6 million) in 2018.



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**Our Solution**

Our marketplace embraces the significant opportunities presented by a financial system that leaves many creditworthy individuals underserved or even unserved. Our online business model, empowered by a technology-driven and user-centric platform, allows us to efficiently match borrowers with investors. We provide borrowers with fast and convenient access to consumer credit at competitive rates, while we offer investors easy and quick access to an alternative asset class with attractive returns.

**Our Borrowers**

*Target Borrower Group*

Prior to the completion of our contemplated business realignment with CreditEase, we target prime borrowers, comprising credit card holders with stable credit performance and salary income.

*Borrower Profile and Base*

Based on the information disclosed to us, as of December 31, 2018, our historical borrower profile was 74.7% male and 25.3% female, while 64.5% were 35 years of age or less.

In 2016, 2017 and 2018, we facilitated loans to 321,019, 649,154 and 553,726 borrowers through our platform, respectively. We do not permit borrowers to hold more than one loan that has been facilitated through our platform at a time. The total amount of funds loaned to borrowers through our platform was RMB20,486.1 million, RMB41,406.1 million and RMB38,606.3 million (US\$5,615.1 million) in 2016, 2017 and 2018, respectively.

***Borrower Acquisition***

We attract a fast growing number of borrowers through various online 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, partnering with online channels through application programming interfaces, as well as various marketing campaigns.

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We also acquire borrowers through referrals from CreditEase's nationwide service network across over 267 locations in China as part of our contractual arrangement with CreditEase. Under this arrangement, CreditEase is obligated to refer borrowers who fall within our target borrower group to our online marketplace, in exchange for which we pay CreditEase a referral fee. The cost of services which CreditEase provides to us may from time to time increase, based on commercial negotiations between CreditEase and us. In 2016, pursuant to our contractual agreement with CreditEase, the fee rate for the offline borrower acquisition services which CreditEase provides to us increased from 5% to 6% of the loans facilitated to borrowers referred by CreditEase for the three years starting 2016. After that, 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. Once a potential borrower is referred to us, all the remaining aspects of the transaction life cycle are handled by us, with our online marketplace facilitating the loan transaction, from application to credit decisioning to matching and servicing. Our referral arrangement with CreditEase is designed so that CreditEase does not compete with our online consumer finance marketplace business. In 2016, 2017 and 2018, 42.5%, 27.1% and 28.2% of our borrowers were acquired through referrals from CreditEase, respectively. The average size of loans sourced through offline channels tends to be larger than that of loans sourced through online channels.

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

	For the Year Ended December 31,		
	2016	2017	2018
Number of borrowers(1):			
Borrowers from online channels	184,430	472,960	397,824
Borrowers from offline channels	136,589	176,194	155,902
Total number of borrowers	321,019	649,154	553,726

(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.

	2016		For the Year Ended December 31, 2017		2018		
	RMB	%	RMB	%	RMB	US\$	
Amount of loans facilitated	20,486,128	100.0	41,406,058	100.0	38,606,273	5,615,050	100.0
Loans generated from online channels(1)	7,780,555	38.0	22,543,298	54.4	22,722,351	3,304,829	58.9
Loans generated from offline channels(1)	12,705,573	62.0	18,862,760	45.6	15,883,922	2,310,221	41.1

(1) RMB300.0 million of loans generated from offline channels for 2016 were funded through Trust No. 2. RMB556.8 million of loans generated from offline channels for 2017 were funded through Trust No. 3. RMB196.0 million of loans generated from offline channels for 2017 were funded through Bohai Trust No. 1. RMB17.3 million (US\$2.5 million) of loans generated from offline channels for 2018 were funded through Bohai Trust No. 1. RMB361.4 million (US\$52.6 million) of loans generated from online channels for 2018 were funded through Trust No. 4. RMB771.0 million (US\$112.1 million) of loans generated from online channels for 2018 were funded through Trust No. 5. For more information about the trusts, please see Item 5. Operating and Financial Review and Prospectus A. Operating Results Critical Accounting Policies, Judgments and Estimates Basis of Presentation, Combination and Consolidation.

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

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	For the Three Months Ended											
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Number of new borrowers	49,772	67,756	90,772	104,160	115,221	126,901	172,169	175,221	140,048	144,086	70,622	82,146
Total number of borrowers	50,542	68,882	92,479	110,785	124,953	138,529	192,725	202,370	174,128	177,754	96,402	111,274

We acquire borrowers through various online channels as well as referrals from CreditEase's nationwide service network. As of December 31, 2018, 12.1% of our cumulative borrowers have borrowed more than one loan on our platform.

Table of Contents**Our Investors*****Target Investor Group***

We accept investments from investors of all income levels. However, we focus our efforts on attracting mass affluent investors. This large and rapidly growing sector of the Chinese population is currently underserved by traditional investment products in China. We seek to attract mass affluent investors because members of this demographic group are a significant untapped source of capital. In the future, we plan to expand our investor base from our current focus on individual investors to also include institutional investors.

***Investor Profile and Base***

Based on the information disclosed to us, as of December 31, 2018, our historical investor profile was 55.1% male and 44.9% female, while 71.6% were 40 years of age or less.

In 2016, 2017 and 2018, 597,765, 592,642 and 485,519 investors invested through our platform, respectively. The total amount of funds invested by investors through our marketplace was RMB25.0 billion, RMB48.1 billion and RMB46.9 billion (US\$6.8 billion) in 2016, 2017 and 2018, respectively.

***Investor Acquisition***

We attract a fast growing majority of our investors through online channels and currently attract almost all of our investors from such channels. Our investor acquisition efforts are primarily directed towards enhancing our brand name, building investor trust, and word-of-mouth marketing. We also attract investors through CreditEase's nationwide service network, which refers potential investors to our marketplace who have expressed interest in the types of loan products offered on our online marketplace.

The following table provides a breakdown of the number of investors using our platform by channel:

	<b>For the Year Ended December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Number of investors(1):			
Investors from online channels	597,765	592,642	485,519
Investors from offline channels			
Total number of investors	597,765	592,642	485,519



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(1) The number of investors for a specified period represents the number of investors who have made at least one investment in loans during such period. An investor who makes investments through our platform through both online and offline channels during a period is counted as an investor acquired from online channels for the purpose of the table above.

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

					For the Three Months Ended							
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Number of new investors	163,682	136,120	101,236	111,031	99,016	98,012	114,629	127,558	113,079	93,553	55,480	40,020
Total number of investors	212,318	206,706	177,499	194,505	192,505	199,591	214,967	233,374	214,231	202,380	164,218	144,965

We attract a fast growing majority of our investors through online channels and currently attract almost all of our investors from such channels. Our investor acquisition efforts are primarily directed towards enhancing our brand name, building investor trust, and word-of-mouth marketing. We also attract investors through CreditEase's nationwide service network, which refers potential investors to our marketplace who have expressed interest in the types of loan products offered on our online marketplace.

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. As of December 31, 2018, 42.1% of our cumulative investors have made more than one investment on our platform.

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**Our Products and Services**

*Products Offered to Borrowers*

Our online marketplace primarily facilitates standard loan products and FastTrack loan products to borrowers. 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 are unsecured, feature fixed monthly payments and offer terms of 12, 18, 24, 36 or 48 months. In October 2016, we launched a new program named Top-up Program whereby we facilitate a new loan for a qualified borrower to payback his or her existing loan on our platform. Top-up Program is a service provided to qualified borrowers to enhance customer experience and serve their lifetime credit needs. The fee structure of loans facilitated under the Top-up Program is the same as other loan products except that we offer a credit of upfront fee of the existing loan to encourage the acceptance of the new loan, which is considered as a cash incentive provided to the borrower and recorded as a reduction to revenue.

*Standard Loan Products*

In 2016, 2017 and 2018, the average loan amounts for our standard loan products were approximately RMB90,143, RMB102,265 and RMB97,476 (US\$14,177), respectively. To apply for a standard loan, a borrower needs to complete an online application providing information such as their PRC identity card information, a bank statement with proof of monthly income and credit report from the PBOC, as well as the desired loan amount and term. In 2016, 2017 and 2018, our standard loan products represented the majority of the loans that were made through our marketplace.

*FastTrack Loan Products*

FastTrack loans are a product that is currently only available through our mobile applications. These loans can be as large as RMB100,000 (US\$14,544). In 2016, 2017 and 2018, the average FastTrack loan amounts were RMB39,272, RMB45,618 and RMB63,276 (US\$9,203), respectively. To apply for a FastTrack loan, a borrower completes an online application providing their PRC identity card information, e-commerce account information, mobile phone number, credit card statement and if applicable, PBOC credit report, housing fund information and life insurance policy information, as well as the desired loan amount and duration. This product offers near instantaneous credit approval, allowing qualified borrowers to receive an initial decision in as fast as ten minutes.

*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, and then generates a score for the prospective borrower. In the second quarter of 2017, we launched our new credit scoring system, the Yiren score, which can be used to more accurately characterize a borrower's credit profile. Under this new credit scoring system, we have an upgraded risk grid with five segments, which we refer to as Grade I, Grade II, Grade III, Grade IV and Grade V. 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. See Item 4. Information on the

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Company B. Business Overview Risk Management Proprietary Credit Scoring Model and Loan Qualification System.

All of the loans offered through our marketplace feature fixed interest rates, which are paid to investors less any defaults over the term of the applicable loan and fees charged to investors. In addition, we charge borrowers transaction fees for matching them with investors. Starting January 2018, insurance and guarantee companies charge borrowers insurance premium and guarantee fees for the insurance and/or 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.

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*Services Offered to Investors*

Through our marketplace investors have the opportunity to invest in a wide range of loan products with attractive returns. We believe our proprietary credit scoring and fraud detection systems will increase investor confidence in the quality of loans that they are investing in.

*Investing Tools*

Our online marketplace provides investors with several investing tools.

*Automated investing tool.* Our automated investing tool represents the most popular way for investors to invest in loans through our marketplace. With our automated investing tool, an investor agrees to invest a specified amount of money to borrowers through our marketplace for a specified period of time. Once an investor commits funds using the tool, his funds are automatically allocated among approved borrowers. Our automated investing tool automatically reinvests investors' funds as soon as a loan is repaid, enabling investors to speed the reinvestment of cash flows without having to continually revisit our website or mobile application. Unless an emergency withdrawal fee is paid, investors using our automated investing tool are not allowed to withdraw their funds prior to the expiration of the specified investment period, which does not necessarily match the term of the loans to which the automated investing tool allocates the investor's funds. In 2016, 2017 and 2018, the vast majority of funds invested by investors through our marketplace were invested utilizing this automated investing tool.

The minimum threshold for a lending commitment made through our automated investing tool is RMB100 (US\$14.5). In 2016, 2017 and 2018, the average amounts invested through our automated investing tool by each investor were RMB41,530, RMB80,446 and RMB94,203 (US\$13,701), respectively, and the current average annual rates of return to investors after deducting the management fee were up to 10.3%. The specific rate of return offered to an investor using our automated investing tool varies with the duration of the committed investment term, which can be as short as three months, and the average interest returns of the loans to which the automated investing tool allocates the investor's funds, which are also dependent on loan term.

*Self-directed investing tool.* Our self-directed investing tool enables investors to personally select among the hundreds of new lending opportunities to approved borrowers that are posted on our marketplace every day. After selecting a desired loan, the investor then agrees to lend a specified amount of money to a specific borrower through our marketplace for a specified duration which must match the tenure of the borrower's loan. In order to encourage investors to diversify their risks, we have a policy capping each investor's investment in a given loan at 20% of the loan amount. Our platform provides investors using our self-directed investing tool with the ability to use filters based on credit and application data, such as term, amount and interest rate, to screen loans on our platform for review.

The minimum threshold for a lending commitment made through our self-directed investing tool is RMB100 (US\$14.5). In 2016, 2017 and 2018, the average amounts invested through our self-directed investing tool by each investor were RMB58,419, RMB139,136 and RMB183,601

(US\$26,704), respectively. The rate of return offered to an investor after deducting the management fee varies with the duration of the investment term, with 9.0% corresponding to a 12-month loan and 10.8% corresponding to a 36-month loan.

*Secondary Loan Market*

We maintain a secondary loan market on our marketplace where investors can transfer the loans they hold prior to maturity at the fair value of the remaining loans. This secondary loan market is liquid, with loans typically exchanging hands within the same day it is posted. This liquidity offers investors the opportunity to enter and exit their investments without waiting until maturity, increasing their frequency and willingness to lend and, as a result, the amount of funds ultimately available to borrowers.

*Wealth Management*

We are transitioning into a comprehensive online financial services platform that enables independent third parties to promote and sell a diversified portfolio of services to cater to various needs of the investors on the platform, including the growing needs of online wealth management services. We expand our products and services offering by providing well-selected products of different asset class that are suitable to our mass affluent clients, launching multimedia investor education lessons and building out investment tools, such as online financial advisory tool and pension planning tools.

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*Fees Charged to Investors*

We charge investors various on-going as well as one-time fees, depending on their specific investment activity on our marketplace. We charge investors a monthly management fee for using our automated investing tool and self-directed investing tool. The monthly management fee for using the automated investing tool is the difference between the interest rates on the underlying loans which range from 10.0% and 12.0%, and the targeted returns offered to investors which up to 10.3%. The monthly management fee for using the self-directed investing tool is equal to 10% of the interest that investors receive, which ranges from 10.0% to 12.0%. A one-time fee is charged to all investors for each loan transferred over our secondary loan market.

**Our Platform and the Transaction Process**

We believe that our platform 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 touches each point of our relationship with our borrowers and investors, from the application process through the funding and servicing of loans.

We provide an automated, streamlined application process. To borrowers and investors alike, the process is designed to appear simple, seamless and efficient but our platform leverages sophisticated, proprietary technology to make it possible. The entire process from initial application to disbursement of funds typically takes 30 minutes to 24 hours.

***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 or mobile applications. For borrowers acquired through CreditEase's nationwide service network, a CreditEase salesperson will guide the prospective borrower in completing the application process and input the application and required information into our system. As part of both the online and offline application process, the prospective borrower is asked to provide various 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, credit card information and a credit report from the PBOC. For our FastTrack product, applicants may complete an application on our platform in three steps taking as little as ten minutes, significantly reducing the time normally spent applying for a loan.

New investors sign up to our marketplace using a simple online portal in which they input their PRC identity card information and bank account information. Prior to June 2015, the funds they invested over our marketplace were deposited into a custody account run by any one of a number of established third-party online payment platforms. In August 2015, we fully migrated to a new system whereby China Guangfa Bank took over the investor custody accounts previously managed by the various third party payment platforms.

***Stage 2: Verification***

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Upon submission of a completed application by borrowers from both online and offline channels, 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 matched with the application, including the following:

- Internal
  - historical credit data accumulated through our online platform; and
  - 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
  - credit database maintained by CreditEase;

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- 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 data from internet or wireless service providers, including social network information;
- online shopping and payment information for their accounts with certain popular Chinese e-commerce websites;
- credit card statement data authorized by applicants; and
- fraud list and database.

This data is then aggregated and used to verify an applicant's identity, for possible fraud detection and for assessment and determination of creditworthiness.

***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. As a matter of policy, we do not permit borrowers to hold more than one loan that has been facilitated through our platform at a time, although we currently do not have a comprehensive way to determine whether borrowers have obtained loans through other consumer finance marketplaces. 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 Yirendai score for the prospective borrower that drives the decision whether to extend credit. Our current proprietary credit-scoring model originates from a credit scoring system that was developed by CreditEase in conjunction with Fair Issac Corporation, or FICO, a leading U.S. provider of analytics software and tools used to manage risk and fight fraud. 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 the second quarter of 2017, we launched our new credit scoring system, the Yiren score, which can be used to more accurately characterize borrower's credit profile. Under this new credit scoring system, we have an upgraded risk grid with five segments, which we refer to as Grade I, Grade II, Grade III, Grade IV and Grade V. 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 the Yirendai score and Yiren score, 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 our credit assessment team for review. A member of our credit assessment team will first conduct a telephone verification interview with the applicant. After the initial telephone verification interview, at least one member of credit assessment team will analyze the application and Yirendai score or Yiren score. 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, such as additional phone calls to the borrower applicant and the applicant's employer that is identified in the application. 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. In 2016, 2017 and 2018, 39.7%, 72.0% and 83.1% of all loan applications that passed the initial qualification phase were approved by our credit assessment team, respectively. The approval rate by our credit assessment team improved as we enhanced our initial qualification process by rejecting non-qualified borrowers at an early stage. In 2016, 2017



and 2018, 14.5%, 16.9% and 16.1% of all loan applications were approved.

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***Stage 4: Approval, Listing and Funding***

Once the loan application is approved, we make a loan agreement available online for the prospective borrower's review and approval. This loan agreement is between the borrower, the investors who fund the borrower's loan and our platform. Upon acceptance of the loan agreement, if the loan has not been matched automatically through automated investing tool, the loan is then listed on our marketplace for investors to view. Once a loan is listed on our marketplace, investors may then subscribe to the loan using either our automated or self-directed investing tools. Before a loan is disbursed to the borrower, it must be fully subscribed to by investors. Our liquidity management system is designed to ensure the fast and effective matching of borrowers' loan applications and investors' investment demand through the use of a detailed demand forecasting model and real time monitoring. Once a loan is fully subscribed, funds are then drawn from a custody account and disbursed to the borrower.

***Stage 5: Servicing and Collections***

We 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 to a custody account, and authorize us to debit the custody account for the transfer of scheduled loan repayments to the lending investors. We check the balances in the custody account and reconcile the transactions against our records on a daily basis.

As a day-to-day service to borrowers, we provide payment reminder services such as sending reminder text messages 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.

We outsource all stages of the collections process to CreditEase, which commences once a loan is fifteen days delinquent. To facilitate repayment and as a service to investors, 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, then followed by visits to the delinquent borrower's home. Although all 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.

**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 providing investors with comfort that they are investing in high quality loans through a sustainable marketplace.

***Proprietary Fraud Detection System***

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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, internet technology, 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. Our offline verification activities involve members of our credit assessment team speaking with potential borrowers to inquire after any inconsistencies in a loan application. Our big data platform is also used to enhance our offline verification processes. 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. Currently, our risk management system utilizes over 250 decisioning rules and contains a blacklist with over 1,000,000 fraud detection data points.

Table of Contents***Proprietary Credit Scoring Model and Loan Qualification System***

We use a proprietary credit scoring model to assess the creditworthiness of potential borrowers. This credit scoring model originates from a credit scoring system that was developed by CreditEase in conjunction with FICO. We have further modified our credit scoring model to adapt it to the realities of the Chinese market, which has historically had no source of widely available consumer credit information. 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, and then generates a score for the prospective borrower. In the second quarter of 2017, we launched our new credit scoring system, the Yiren score, which can be used to more accurately characterize borrower's credit profile. Our relationship with CreditEase allows us to further enhance the depth of our credit scoring model through our ability to rely on its over ten years of loan data. In addition to its strong analytical foundation, our credit scoring model is routinely monitored, tested, updated and validated by our risk management team.

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

<b>Criteria</b>	<b>Examples</b>	<b>Effect on Credit Score</b>
Purpose of the loan	Personal consumption	• No monotonic correlation
Customer attributes	Education background	• 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	• Positive correlation • The larger the amount of bank loans, the higher the score
Credit card usage and payment pattern	Frequency of credit card usage	• Negative correlation • Above a certain threshold, the higher the frequency of credit card usage, the lower the score
Public record	Court enforcement record	• 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

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Income and debt condition	Salaries	<ul style="list-style-type: none"> <li>• Positive correlation</li> <li>• Below a certain threshold, the higher the salary, the higher the score</li> </ul>
Geographic location	Province or city where the borrower is located	<ul style="list-style-type: none"> <li>• No monotonic correlation</li> <li>• A borrower's score is lower if he/she is located in a province or city where we face intense market competition</li> </ul>
Job stability	Length of employment	<ul style="list-style-type: none"> <li>• Positive correlation</li> <li>• The longer the employment, the higher the score</li> </ul>
Online merchant purchasing pattern	Recent average consumption level	<ul style="list-style-type: none"> <li>• Positive correlation</li> <li>• The higher the recent average consumption level, the higher the score</li> </ul>

The credit scores derived from our proprietary credit scoring model containing the criteria mentioned above are used to determine which of the segments in our risk grid a particular borrower falls into.

Under our new credit scoring system, we have an upgraded risk grid with five segments, which we refer to as Grade I, Grade II, Grade III, Grade IV and Grade V. 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. The following table presents the risk grades with the corresponding Yiren scores, the expected M3+ Net Charge-off Rate, the current annualized interest rate and the average transaction fee rate:

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<b>Risk Grade</b>	<b>Yiren Scores</b>	<b>Expected M3+ Net Charge-off Rate</b>	<b>Annualized Interest Rate (1)</b>	<b>Average Transaction Fee Rate Covered by QAP (2)</b>	<b>Average Transaction Fee Rate Covered by CAP and Surety Insurance (2)</b>
I	790+	<3.0%	10.0-12.0%	23.0%	13.3%
II	750-<790	3.0% - 5.0%	10.0-12.0%	29.5%	18.4%
III	720-<750	5.0% - 7.0%	10.0-12.0%	33.8%	18.9%
IV	690-<720	7.0% - 9.0%	10.0-12.0%	34.2%	18.0%
V	640-<690	9.0% - 13.0%	10.0-12.0%	35.4%	13.1%

(1) The annualized interest rate that borrowers pay to investors varies from 10.0% to 12.0%, depending on the term of the loan.

(2) Under our previous quality assurance program, the transaction fee rate is calculated as the total transaction fee (excluding interests but including the fee we charge for our services associated with the quality assurance program) that borrowers should pay for the entire life of the loan, divided by the total amount of principal. In January 2018, we began to cooperate with insurance and guarantee companies while discontinuing the operation of the quality assurance program in May 2018, insurance premium and guarantee fees charged by insurance and guarantee companies are excluded in the calculation of transaction fee rate. The average transaction fee rate presented in the table above is the weighted average of the transaction fee rates for loans falling under the same risk grade, but with different tenures and repayment schedules.

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 Yiren score. For prospective borrowers that we determine present a fraud risk, reapplications are never permitted.

***Our Risk Management Committee, Risk Management Division and Credit Assessment Team***

Organizationally, we have a risk management committee, comprised of our executive chairman, chief executive officer, co-chief financial officers and chief risk officer, that meets monthly to examine the credit, liquidity and operational risks on our platform.

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.

Our credit assessment team consisted of 34 members as of December 31, 2018. Each application for loan products received through our platform is reviewed by at least one member of our credit assessment team. 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. For each loan application, at least one member of credit assessment team will analyze the application and Yirendai score or Yiren score.

*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.

*Investor Protection*

Our investor protection mechanisms have evolved over the years, in response to the changing regulatory requirements.

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*Quality Assurance Program and Alternative Investor Protections Provided by Third Parties*

Prior to August 2013, we offered investors an investor protection service in the form of a quality assurance program, whereby we set aside a portion of the service fees we received in the quality assurance program. In the event that a loan defaults for more than fifteen days, we will use cash from the quality assurance program to pay the loan principal and accrued interest to the investor. According to our agreements with investors, our contractual obligation for repayment of defaulted loans is limited to the amount of cash we set aside in the quality assurance program. We charged investors a quality assurance program management fee at a rate of 10% of the loan interest for this service.

In August 2013, we replaced the previous quality assurance program with a guarantee system. Under this system, we worked with Tian Da Xin An (Beijing) Guarantee Co., Ltd., or Tian Da Xin An, a guarantee company then affiliated with CreditEase, to provide investors with the option of purchasing the assurance that their principal and interest would be repaid in the event that their loans defaulted, and the guarantee company charged investors 10% of the loan interest for the guarantee service. Historically, more than 99% of investors opted into the guarantee system. When we switched to the guarantee model in August 2013, we paid Tian Da Xin An a one-time fee of US\$0.3 million for its assumption of the outstanding loan balances covered under our previous quality assurance program.

Starting on January 1, 2015, we ended our relationship with Tian Da Xin An and launched our renewed quality assurance program while Tian Da Xin An continued to guarantee all previously guaranteed loans. The renewed quality assurance program covered loans originated on or after January 1, 2015 until May 2018 when we discontinued the operation of the quality assurance program. Under this arrangement, at the inception of each loan we set aside cash in an amount equal to a certain percentage of the loan amount facilitated on our platform in an interest-bearing custody account managed by China Guangfa Bank. We reserve the right to revise this percentage upwards or downwards from time to time. The factors that we consider in determining such percentage include market dynamics, our product lines, profitability, cash position and our actual and expected quality assurance net payouts.

Under the quality assurance arrangement, if a borrower is 15 days delinquent in repaying an installment of principal and interest of a loan, we will withdraw an amount from the custody account to repay the delinquent installment of principal and interest to the corresponding investor. If a borrower is 90 days delinquent in repaying an installment of principal and interest on a loan, we will withdraw an amount from the custody account to repay the delinquent installment principal and interest, plus the entire outstanding balance of the loan principal, to the corresponding investor. If the quality assurance program becomes insufficient to pay back all the investors with delinquent loans, these investors will be repaid on a pro rata basis. Prior to July 2017, their outstanding unpaid balances would be deferred to the next time the quality assurance program was replenished, at which time a distribution would again be made to all investors with delinquent loans. Following replenishment of the quality assurance program, in the event that the amount of funds was again insufficient to pay back all investors with delinquent loans, the investors would again be repaid on a pro rata basis, although in this case the number of investors sharing pro rata in the quality assurance program would increase to include the unpaid investors from prior periods as well as the unpaid investors from the current period. If the quality assurance program was continually underfunded, investors may need to wait for extended periods to receive a full distribution from the quality assurance program, or incur a loss on their investment if the quality assurance program was not sufficient. In addition, from November 2015 to July 2017, we placed a two-year limit on the period during which an investor had the right to receive distribution from the quality assurance program, which meant if an investor had not recovered the full default amount by the time that was two years and 90 days from the original due date, then the investor would no longer have the right to receive pro rata repayment from our quality assurance program. After July 2017, after being repaid on a pro rata basis in the event the quality assurance program becomes insufficient to pay back all the investors with delinquent loans, the investors' outstanding unpaid balances would not be deferred to the next time the quality assurance program was replenished. As a result, investors will bear the risk that they will not be able to fully recover their investment principal and unpaid interest.

Once we make a payment to an investor, we seek to collect the amounts from the borrower through the collection process. The amount collected from the borrower, if any, is remitted to first replenish the portion of the quality assurance program used to repay the investor, and if there is any additional amount remaining, then to reimburse our collection expenses. If we are not successful in collecting a sufficient amount from the



default borrower to cover our collection expenses, our quality assurance service agreement with investors calls for investors to reimburse us for any litigation or arbitration expenses we may have advanced on their behalf during the collection process, although in practice we will bear the unrecovered portion of these and all other collection expenses.

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In the first three quarters of 2015, the amount of cash we set aside for the quality assurance program is equivalent to 6% of the loans facilitated through our marketplace during the period. This amount was not sufficient to cover all expected net payouts for loans facilitated during this period.

In the fourth quarter of 2015, in order to continue to attract new and retain existing investors and to remain consistent with the current industry practice in China, we revised our quality assurance program funding policy to ensure that we set aside sufficient cash in the quality assurance program to cover the expected net payouts, based on our business intention but not legal obligation. In addition to setting aside a certain percentage of the loan amount at the inception of each loan, we monitor the balance of the quality assurance program on a monthly basis, and adjust on a quarterly basis by putting an appropriate additional amount of cash from other sources into the quality assurance program as needed to ensure we can sufficiently cover the expected net payouts. Moreover, in July 2017, we changed our funding policy for our quality assurance program. Instead of setting aside the full amount to be contributed to the program in a lump sum, we contribute to the program in installments with each instalment equal to 30% of transaction fee we receive from the borrower each time until the full amount is contributed.

To ensure compliance with regulatory requirements, starting from January 2018, we entered into a three-year business agreement with PICC Property and Casualty Company Limited. Pursuant to the business agreement, PICC Property and Casualty Company Limited provides surety insurance for loans facilitated through our online marketplace with 12-month term and with an amount not exceeding RMB200,000 (approximately US\$29,089), and will reimburse investors their principal and expected interest in the event of loan default within the agreed scope of the agreement. In March 2018, we began to cooperate with guarantee companies to establish the credit assurance program. Under the credit assurance program, the guarantee companies either provide guarantee for loans facilitated through our online marketplace for the assurance that investors' principal and interest would be repaid in case of loan default, or set up and managed a reserve fund, using payments collected from borrowers, to compensate investors for their potential loss due to loan default up to the cash available in the fund. Subsequently in May 2018, we discontinued the operation of our quality assurance program by transferring our liabilities associated with the quality assurance program to a third-party guarantee company at an estimated fair value. Since then, loans facilitated on our platform are either covered by the credit assurance program operated by the guarantee companies or PICC's surety insurance program.

*Risk Prevention Services to an Institutional Investor*

From August 2017 to December 2017, we cooperated with Zhejiang Chouzhou Commercial Bank, which made its own lending decisions in certain loans facilitated on our platform. Pursuant to the cooperation agreement, we, together with CreditEase, furnished borrower referral and facilitation services to the bank with a maximum loan amount of RMB3 billion by assessing and providing a preliminary assessment of borrowers' credit risks to the bank to facilitate its own lending decision, which was subject to its own assessments of borrowers' credit risks and own loan approvals. We provided guarantee deposits to the bank to protect it from potential losses due to loan delinquency and undertook to 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.

For our liabilities associated with the quality assurance program and guarantee, see Item 5. Operating and Financial Review and Prospects A. Operating Results Selected Statements of Operations Items Quality Assurance Program and Guarantee.

*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:

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- *Highly automated process.* Our platform covers all five stages of the customer life cycle: application; verification; credit assessment and decisioning; listing and funding; and servicing and collections. Our web and mobile based platform also provides 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. Our liquidity management system is designed to ensure the fast and effective matching of borrowers' loan applications and investors' investment demand by forecasting the borrowing demand on a weekly and monthly basis and monitoring the fund flow on a real time basis.
- *Mobile applications.* We have developed different user-friendly mobile applications for borrowers and investors, which enable borrowers and investors alike to access our platform at any time or location that is convenient. We launched our first mobile application during the fourth quarter of 2013, and approximately 37.2%, 54.4% and 58.9% of loans in terms of amount were facilitated through our mobile applications in 2016, 2017 and 2018, respectively.
- *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.* Our systems infrastructure is hosted in co-located redundant data centers in two separate districts in Beijing. 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.

**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 borrower and investor bases. In this respect, our association with CreditEase is a valuable marketing and promotion asset.

### **Competition**

The online consumer finance marketplace industry in China is intensely competitive and we compete with other consumer finance marketplaces. Our key competitor is Lufax ( ). 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.

We also compete with other financial products and companies that attract borrowers, investors or both. With respect to borrowers, we compete with other consumer finance marketplaces and traditional financial institutions, such as consumer finance business units in commercial banks, credit card issuers and other consumer finance companies. With respect to investors, we primarily compete with other investment products and asset classes, such as equities, bonds, investment trust products, bank savings accounts and real estate.

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**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-compete agreements with our employees and others to protect our proprietary rights. As of the date of this annual report, we have obtained 240 registered trademarks and have made applications for 133 trademarks, all of which are pending with the Trademark Office of the National Intellectual Property Administration. As of the date of this annual report, a total of 44 trademarks have been transferred to us by CreditEase. We have also obtained a worldwide and royalty-free license from CreditEase to use certain of its trademarks, including (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 online consumer finance marketplace 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.

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As an online consumer finance marketplace connecting investors with individual borrowers, 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;
- 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 and the duties of the former China Insurance Regulatory Commission, 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 will come into effect on January 1, 2020 and, together with their implementation rules and ancillary regulations, will replace 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. 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 the Guidance Catalog of Industries for Foreign Investment, or the Catalog, which was promulgated and is amended from time to time by the MOC and the National Development and Reform Commission. The most updated version of the Catalogue, which was promulgated in March 2017 and became effective in July 2017, divides the industries into three categories: encouraged, restricted and prohibited. On June 28, 2018, the NDRC and the MOC jointly issued the List of Special Management Measures for the Market Entry of Foreign Investment, or the Foreign Investment Negative List, which became effective on July 28, 2018 and sets forth management measures for the market entry of foreign investors, such as equity requirements and senior manager requirements. According to the Negative List, foreign investors shall comply with such restrictive requirements when engaging in the restricted activities listed in the Negative List and shall not engage in the prohibited activities listed in the Negative List. Industries not listed in the Catalog or the 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.

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Our PRC subsidiaries are mainly engaged in providing investment and financing consultations and technical services, which fall into the encouraged or permitted category under the Catalog. Our PRC subsidiaries have obtained all material approvals required for its business operations. However, industries such as value-added telecommunication services (except e-commerce), including internet information services, are restricted from foreign investment. We provide the value-added telecommunication services that are in the restricted category through our consolidated variable interest entities, Heng Cheng, Yi Ren Wealth Management and Hui Min.

*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 and February 2016 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 Guidance Catalog of Industries for Foreign Investment amended in 2017 and 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, we operate our online marketplaces through Heng Cheng, Hui Min and Yi Ren Wealth Management, our consolidated variable interest entities. Heng Cheng and Hui Min are in the process of renewing their ICP Licenses, the VATS Licenses for internet information services, and Yi Ren Wealth Management is in the process of applying for an ICP License. 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 Relating to Online Lending Information Intermediary*

Due to the relatively brief history of the online lending information intermediary service industry in China, the regulatory framework governing our industry have undergone significant changes in recent years and may continue to evolve. In addition, there are certain other general rules, laws and regulations that may be relevant or applicable to the online lending information intermediary service industry, including the PRC Contract Law, the General Principles of the Civil Law of the PRC, and related judicial interpretations promulgated by the Supreme People's Court.



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*Regulations on Loans between Individuals*

The PRC Contract Law governs the formation, validity, performance, enforcement and assignment of contracts. The PRC Contract Law confirms the validity of loan agreement between individuals and provides that the loan agreement becomes effective when the individual lender provides the loan to the individual borrower. The PRC Contract Law requires that the interest rates charged under the loan agreement must not violate the applicable provisions of the PRC laws and regulations. In accordance with the Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases issued by the Supreme People's Court on August 6, 2015, or the Private Lending Judicial Interpretations, which came into effect on September 1, 2015, private lending is defined as financing between individuals, legal entities and other organizations. When private loans between individuals are paid by wire transfer, through online lending information intermediaries or by other similar means, the loan contracts between individuals are deemed to be validated upon the deposit of funds to the borrower's account. In the event that the loans are made through an online lending information intermediary, which only provides intermediary services, the courts will dismiss the claims of the parties concerned against the platform demanding the repayment of loans by the platform as guarantors. However, if the online lending information intermediary guarantees repayment of the loans as evidenced by its web page, advertisements or other media, or the court is provided with other proof, the lender's claim alleging that the online lending information intermediary assumes the obligations of a guarantor will be upheld by the courts. The Private Lending Judicial Interpretations also provide that agreements between the lender and borrower on loans with interest rates below 24% per annum are valid and enforceable. As to loans with interest rates per annum between 24% and 36%, if the interest on the loans has already been paid to the lender, and so long as such payment has not damaged the interest of the state, the community and any third parties, the courts will turn down the borrower's request to demand the return of the interest payment. If the annual interest rate of a private loan is higher than 36%, the excess will not be enforced by the courts. The Supreme People's Court issued Certain Opinions Concerning Further Strengthening Finance Judgment Work on August 4, 2017, or the Opinions on Finance Judgment, which provides that the courts in adjudication of private loan disputes should invalidate contractual provisions attempting to circumvent the cap on judicially-protected interest rate, such as pre-deduction of principal or interest, or disguised high interest rate, and if online lending information intermediaries and lenders seek to use the form of intermediary charges to circumvent the cap on judicially-protected interest rate, it should be invalidated.

In December 2017, the Leading Group Office of the Internet Financial Risk Rectification Campaign and the National Rectification Office jointly issued the Notice on Rectification of Cash Loan Businesses, or Circular 141, which requires that the interests and all the comprehensive capital costs charged and collected from a borrower should be uniformly converted into an annualized capital cost which shall not exceed the ceiling amount provided by the Private Lending Judicial Interpretations. See [Our Products and Services](#) [Loan Pricing Mechanism](#).

Pursuant to the PRC Contract Law, a creditor may assign its rights under an agreement to a third party, provided that the debtor is notified. Upon due assignment of the creditor's rights, the assignee is entitled to the creditor's rights and the debtor must perform the relevant obligations under the agreement for the benefit of the assignee. We operate a secondary loan market on our platform where investors can transfer the loans they hold to other investors before the loan reaches maturity. To facilitate the assignment of the loans, the template loan agreement applicable to the lenders and borrowers on our platform specifically provides that a lender has the right to assign his/her rights under the loan agreement to any third parties and the borrower agrees to such assignment.

In addition, according to the PRC Contract Law, an intermediation contract is a contract whereby an intermediary presents to its client an opportunity for entering into a contract or provides the client with other intermediary services in connection with the conclusion of a contract, and the client pays the intermediary service fees. Our business of connecting investors with individual borrowers may constitute intermediary service, and our service agreements with borrowers and investors may be deemed as intermediation contracts under the PRC Contract Law. Pursuant to the PRC Contract Law, an intermediary must provide true information relating to the proposed contract. If an intermediary conceals any material fact intentionally or provides false information in connection with the conclusion of the proposed contract, which results in harm to the client's interests, the intermediary may not claim for service fees and is liable for the damages caused.



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*Regulations on Illegal Fund-Raising*

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

To further clarify the criminal charges and punishments relating to illegal public fund-raising, the Supreme People's Court promulgated the Judicial Interpretations to Issues Concerning Applications of Laws for Trial of Criminal Cases on Illegal Fund-Raising, or the Illegal Fund-Raising Judicial Interpretations, which came into force in January 2011. The Illegal Fund-Raising Judicial Interpretations provide that a public fund-raising will constitute a criminal offense related to illegally soliciting deposits from the public under the PRC Criminal Law, if it meets all the following four criteria: (i) the fund-raising has not been approved by the relevant authorities or is concealed under the guise of legitimate acts; (ii) the fund-raising employs general solicitation or advertising such as social media, promotion meetings, leafletting and SMS advertising; (iii) the fundraiser promises to repay, after a specified period of time, the capital and interests, or investment returns in cash, properties in kind and other forms; and (iv) the fund-raising targets at the general public as opposed to specific individuals. An illegal fund-raising activity will be fined or prosecuted in the event that it constitutes a criminal offense. Pursuant to the Illegal Fund-Raising Judicial Interpretations, an offender that is an entity will be subject to criminal liabilities, if it illegally solicits deposits from the general public or illegally solicits deposits in disguised form (i) with the amount of deposits involved exceeding RMB1,000,000 (US\$145,444), (ii) with over 150 fund-raising targets involved, or (iii) with the direct economic loss caused to fund-raising targets exceeding RMB500,000 (US\$72,722), or (iv) the illegal fund-raising activities have caused baneful influences to the public or have led to other severe consequences. An individual offender is also subject to criminal liabilities but with lower thresholds. In addition, an individual or an entity who has aided in illegal fund-raising from the general public and charges fees including but not limited to agent fees, rewards, rebates and commission, constitute an accomplice of the crime of illegal fund-raising. In accordance with the Opinions of the Supreme People's Court, the Supreme People's Procurator and the Ministry of Public Security on Several Issues concerning the Application of Law in the Illegal Fund-Raising Criminal Cases, the administrative proceeding for determining the nature of illegal fund-raising activities is not a prerequisite procedure for the initiation of criminal proceeding concerning the crime of illegal fund-raising, and the administrative departments' failure in determining the nature of illegal fund-raising activities does not affect the investigation, prosecution and trial of cases concerning the crime of illegal fund-raising.

We have taken measures to avoid conducting any activities that are prohibited under the illegal-funding related laws and regulations. We act as a platform for borrowers and investors and are not a party to the loans facilitated through our platform. In addition, we do not directly receive any funds from investors in our own accounts as funds loaned through our platform are deposited into and settled by a third-party custody account managed by China Guangfa Bank.

*Regulations on Online Lending Information Intermediary Service Provider*

In July 2015, ten PRC regulatory agencies, including the PBOC, the MIIT and the CBRC, jointly issued the Guidelines on Promoting the Healthy Development of Online Finance Industry, or the Guidelines. The Guidelines sets forth certain core principles for the online lending information intermediary service industry. Based on the core principles under the Guidelines, in August 2016, the CBRC, the MIIT, the PRC Ministry of Public Security and the PRC State Internet Information Office issued the Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries, or the Interim Measures. The Interim Measures defines online lending as the direct lending among individuals (including natural persons, legal persons and other organizations) through Internet platforms, and the online lending

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information intermediaries as the legally established financial information intermediaries specialized in the online lending information intermediary business, which provide, mainly through Internet, such services as information collection, information release, credit assessment, information exchange, and lending matchmaking to facilitate the direct lending between borrowers and lenders.

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The Interim Measures require the online lending information intermediaries and their branches that propose to carry out the online lending information intermediary services to file a record with the local financial regulatory department at the place where it is registered with the local administration for industry and commerce within 10 business days upon obtaining the business license. Local financial regulatory departments have the power to assess and classify the online lending information intermediaries which have filed a record, and to publicize the record-filing information and the classification results on their respective official websites in a timely manner. Institutions engaged in the online lending information intermediary business must explicitly identify the online lending information intermediaries in their business scope.

The online lending information intermediaries are prohibited from engaging in any of the following activities, among other things: (i) financing for themselves directly or in a disguised form; (ii) accepting, collecting or gathering funds of lenders directly or indirectly; (iii) providing security to lenders or promising break-even principals and interests directly or in a disguised form; (iv) advertising or promoting financing projects on other physical premises other than such digital channels as the Internet, fixed-line telephone or mobile phone by themselves or upon entrustment or authorization of any third party; (v) providing loans, unless otherwise stipulated by laws and regulations; (vi) splitting the term of any financing project; (vii) raising funds by issuing such financial products as wealth management products by themselves, or selling wealth management products of banks, assets management products of securities traders, funds, insurance, trust products or other financial products on a commission basis; (viii) carrying out any business analogous to asset securitization or conducting transfer of creditor's rights in the form of packaged assets, asset-backed securities, trust assets or fund units, among others; (ix) engaging in any form of mixture, bundling or agency with other businesses such as institutional investment, sale on a commission basis and brokerage, unless otherwise permitted by laws, regulations and relevant regulatory provisions on online lending information intermediaries; (x) false statement, misrepresenting or failure to disclose important information regarding the financial projects; (xi) providing information intermediary services for those highly risky financing projects whose purpose is investing in stock market, over-the-counter financing, futures contracts, structured products and other derivatives; and (xii) engaging in equity-based crowd funding.

The Interim Measures do not allow (i) the balance of money borrowed by the same natural person and the same legal person or other organization on the same online lending information intermediary platform to exceed RMB200,000 (US\$29,089) and RMB1,000,000 (US\$145,444), respectively; or (ii) the total balance of money borrowed by the same natural person and the same legal person or other organization on different online lending information intermediary platforms to exceed RMB1,000,000 (US\$145,444) and RMB5,000,000 (US\$727,220), respectively. The fund raising period set by an online lending information intermediary for each single financing project must not exceed 20 business days.

Further, the Interim Measures set forth certain information disclosure requirements for the online lending information intermediaries, including (i) fully disclosure on their respective official websites of the basic information of borrowers, basic information of financing projects, risk assessment, possible risk results, use of funds by the matched lending projects and other related information; (ii) publishing on their respective official websites matched lending projects and other information on their operation and management; (iii) maintaining certain column on their official websites for information on their business operation and management and regularly disclosing their annual reports, laws and regulations, and relevant regulatory provisions on the online lending information intermediary service industry to the public; (iv) retaining accounting firms to regularly audit the deposit and management of the lenders' and borrowers' funds, information disclosure, security of information technology infrastructure, compliance of operation and other key processes, and also retaining qualified information security assessment and certification institutions to regularly assess and certify their information security, and disclose to lenders, borrowers and others such auditing, assessment and certification results.

In November 2016, the CBRC, the Ministry of Industry and Information Technology, or the MIIT, and the SAIC jointly issued the Guide to the Record-filing of Online Lending Information Intermediaries, or the Record-filing Guidelines, which outlines the rules, procedures and required documents for the record-filing of online lending information intermediaries, and directs local financial regulatory departments to adopt detailed implementation rules for the record-filing by online lending information intermediaries within their jurisdictions. In December 2017, the National Rectification Office, issued the Notice on Rectification and Inspection Acceptance of Risk of Online Lending, or Circular 57, which provides further clarification on several matters in connection with the rectification and record-filing of online lending information intermediaries. Circular 57, among other things, requires certain local governmental authorities to establish an inspection team to conduct risk rectification inspections on online lending information intermediaries within their jurisdictions. If an online lending information intermediary



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institution passes the inspection, the local governmental authorities shall complete its record-filing. Circular 57 also requires local authorities to complete record-filings of online lending information intermediaries within its jurisdiction by the end of April 2018, except that the deadline for certain complicated cases may be postponed to May 2018 or June 2018.

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On August 13, 2018, the National Rectification Office issued the Compliance Inspection Notice, which requires the online lending intermediaries to be inspected in accordance with the requirements provided in the Interim Measures, the Custodian Guidelines and the Disclosure Guidelines, and in combination the Compliance Inspection Checklist. The Compliance Inspection Notice emphasizes that the compliance inspection will focus on the following issues: (i) whether the intermediary conducts business only as an information intermediary and whether it is engaged in any credit intermediary business; (ii) whether the intermediary maintains any capital pool and has advanced funds for the clients; (iii) whether the intermediary finances itself directly or in a disguised form; (iv) whether the intermediary provides the lenders with guarantees or promises to repay principals and interests thereon directly or in a disguised form; (v) whether the intermediary provides rigid payment for the lenders; (vi) whether the intermediary conducts risk assessments for the lenders and provide hierarchical management of lenders; (vii) whether the intermediary fully discloses risk related information of the borrowers to the lenders; (viii) whether the intermediary adheres to the online lending principle of small amount and dispersion; (ix) whether the intermediary raises funds by sale of wealth management products through itself or its affiliates; (x) whether the intermediary solicits lenders by high interests and other manners. According to the Compliance Inspection Notice, the compliance inspection shall be carried at three levels as follows: (i) the self-inspection carried out by the online lending intermediary itself, which is required to submit to the provincial online lending rectification office a self-examination report and an authenticity commitment letter signed by its senior management and major shareholders; (ii) internet finance association inspection led by local internet finance association and/or the National Internet Finance Association of China, which are required to submit to the provincial online lending rectification office a self-discipline inspection report and an authenticity commitment letter signed by the inspectors and the principal of such association; and (iii) the administrative verification carried out by the provincial online lending rectification office on the basis of the self-inspection and self-discipline inspection abovementioned. The provincial online lending rectification offices are required to verify the authenticity of the content and data of the self-examination reports and the self-discipline inspection reports and submit a conclusion report to the National Rectification Office. If a self-examination report or self-discipline inspection report is found to contain false information, the online lending intermediary involved will be vetoed. The compliance inspection shall be completed by the end of December 2018. The online lending intermediaries that generally meet the requirement of being an intermediary and various standard will be allowed to link to the information disclosure and products registration system. After a period of operation and inspection, the online lending information intermediaries that meet relevant requirements can apply for record-filing.

In addition, on August 24, 2018, the Beijing Rectification Office, issued a Notice on Launch of Self-Inspection of P2P Online Lending Intermediaries Registered in Beijing, which requires that an online lending intermediary registered in Beijing shall submit a self-inspection report by September 30, 2018 and in any event no later than October 15, 2018.

In accordance with the Guidelines and the Interim Measures, the CBRC also issued two other implementation rules and regulations in addition to the Record-Filing Guidelines, namely, (i) the Guidelines for the Depository Business of Online Lending Funds in February 2017, or the Custodian Guidelines; and (ii) the Guidelines for the Disclosure of Information on Business Activities of Online Lending Information Intermediaries in August 2017, or the Disclosure Guidelines. The Custodian Guidelines require each online lending information intermediary to set up a custody account with a single commercial bank for the funds of investors on its platform, take responsibility for the continued development and secure operation of its technical system, make appropriate information disclosure to the custody bank, perform daily account reconciliation with the custody bank, safely maintain its accounts and records, arrange for the independent audits of the custody account and publicly disclose the audit results, and cooperate with the custody bank in meeting anti-money laundering obligations. The Disclosure Guidelines sets forth the information disclosure requirement for online lending information intermediaries, including with respect to their filings and licenses, fund custody, organization, operation, risk management, data regarding loans facilitated, financial audit and compliance review, and channels for customer complaints. In addition, the Disclosure Guidelines require online lending information intermediaries to disclose to investors information concerning borrowers, projects, project risk assessment and possible risk outcome. Under the Disclosure Guidelines, an online lending information intermediary must provide consistent information disclosure across all online channels such as its website, mobile phone application, WeChat public accounts and Weibo accounts, and set up on its website and other online channels a conspicuous section for information disclosure. Furthermore, in May 2017, the CBRC, the Ministry of Education and the Ministry of Human Resources and Social Security jointly released the Notice to Further Enhance the Management of Campus Loans, which prohibits online lending information intermediaries from facilitating loans to college students.

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In December 2017, the Leading Group Office of the Internet Financial Risk Rectification Campaign and the National Rectification Office jointly issued the Notice on Rectification of Cash Loan Businesses, or Circular 141, which sets out certain principles in connection with cash loan businesses and online lending information intermediaries. According to Circular 141, online lending information intermediaries are prohibited from: (i) deducting interests, commissions, management fees and deposits from the loans before they are released to the borrowers; (ii) outsourcing core functions such as data collection, customer identification, credit assessment or account openings; (iii) enabling banking financial institutions to engage in P2P online lending; (iv) providing loan facilitation services to individuals who do not possess sufficient debt repayment capabilities or to students; (v) conducting real-estate financing such as down payment loans for real estate purchasing.

On December 19, 2018, the Leading Group Office of the Internet Financial Risk Rectification Campaign and the National Rectification Office jointly promulgated the Notice on the Classification and Disposal of Online Lending Institutions and Risk Prevention, which provides that online lending intermediaries shall be classified into the following two categories according to their risk profiles: (i) institutions with exposed risks, and (ii) institutions without exposed risks, which are further classified as non-operating institutions, small-scale institutions, high-risk institutions and normal operating institutions. With respect to the normal operating institutions, the relevant governmental authorities shall require the institutions to strictly limit balance of loans and number of lenders and shall assess the risk profiles of such institutions regularly and adjust their classifications in a timely manner if necessary. Furthermore, Beijing Rectification Office issued a Notice on January 24, 2019 requiring online lending intermediaries to continue to reduce its business scale and number of borrowers and lenders during the administrative verification period.

To comply with the laws, rules and regulations relating to the online lending information intermediary service industry, we have implemented various policies and procedures, which we believe set the best practice in the industry.

*Anti-money Laundering Regulations*

The PRC Anti-money Laundering Law, which became effective in January 2007, sets forth the principal anti-money laundering requirements applicable to financial institutions as well as non-financial institutions with anti-money laundering obligations, including the adoption of precautionary and supervisory measures, establishment of various systems for client identification, retention of clients' identification information and transactions records, and reports on large transactions and suspicious transactions. According to the PRC Anti-money Laundering Law, financial institutions subject to the PRC Anti-money Laundering Law include banks, credit unions, trust investment companies, stock brokerage companies, futures brokerage companies, insurance companies and other financial institutions as listed and published by the State Council, while the list of the non-financial institutions with anti-money laundering obligations will be published by the State Council. The PBOC and other governmental authorities issued a series of administrative rules and regulations to specify the anti-money laundering obligations of financial institutions and certain non-financial institutions, such as payment institutions. In July 2018, the PBOC issued the Notice on Strengthening Supervision on Anti-money Laundering by Certain Non-financial Institutions, stipulating that the following non-financial institutions shall undertake the responsibilities of anti-money laundering and anti-terrorist financing during their respective certain business operations: (i) real estate development enterprises and real estate agencies while selling real estates and providing service for real estate transactions; (ii) precious metal traders and precious metals trading platforms while conducting or providing service for precious metal spot trading; (iii) accounting firms, law firms and notary offices while conducting real estate transactions, asset management, bank account and securities account management, fund-raising for establishment or operation of enterprises and business entities transactions on behalf of their clients; (iv) company service providers providing service for establishment, operation and management of companies.

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The Guidelines jointly released by ten PRC regulatory agencies in July 2015, purport, among other things, to require internet finance service providers, including online lending information intermediaries, 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. The Interim Measures jointly issued by four PRC regulatory agencies in August 2016 require the online lending information intermediaries, among other things, to comply with certain anti-money laundering obligations, including verifying customer identification, reporting suspicious transactions and preserving customer information and transaction records. The Custodian Guidelines issued by PBOC in February 2017 require the online lending platforms to set up custody accounts with commercial banks and comply with the anti-money laundry requirements of the relevant commercial banks.

On October 11, 2018, the PBOC, the CBIRC, and 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.

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.

*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, or ICP License, 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.



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Heng Cheng and Hui Min, our consolidated variable interest entities operating our online marketplace and Yi Ren Wealth Management, our consolidated 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 Heng Cheng, Hui Min and Yi Ren Wealth Management to obtain an ICP License and an EDI License. Heng Cheng and Hui Min are in the process of renewing their ICP License for provision of commercial internet information services, and Yi Ren Wealth Management 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, including online lending information

intermediaries, 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. The Interim Measures jointly issued by four PRC regulatory agencies in August 2016 require the online lending information intermediaries, among other things, to apply for appropriate telecommunication business license in accordance with the relevant requirements of telecommunication authorities subsequent to completion of the record-filing with the local financial regulatory department. In accordance with the Guidelines and the Interim Measures, 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 online lending information intermediaries. We plan to apply for any requisite telecommunication services license once the detailed implementation rules become available.

***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 taking 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, including online lending information intermediaries, to improve technology security standards, and safeguard customer and transaction information. The Interim Measures jointly issued by four PRC regulatory agencies in August 2016 requires the online lending information intermediaries, among other things, to (i) carry out grading filing and testing for their information systems, (ii) implement thorough cyberspace security facilities and management measures, including firewall, intrusion detect, data encryption, and disaster recovery, etc., (iii) establish information technology management, technology risk management, technology auditing and related systems, (iv) allocate sufficient resources and implement thorough management and control measures and technological means to ensure safe and steady operation of their information systems, (v) protect the security of the information of lenders and borrowers, (vi) carry out a comprehensive security evaluation at least once every two years, (vii) accept the information security inspection and auditing by competent authorities, and (viii) establish or adopt application-level disaster recovery systems and facilities compatible with their business scales within two years after their establishment.

Table of Contents***Regulations on Privacy Protection***

In recent years, PRC government authorities have enacted laws and regulations on internet use to protect personal information from any unauthorized disclosure. Under the Several Provisions on Regulating the Market Order of Internet Information Services, issued by the MIIT in December 2011, an ICP service operator may not collect any user personal information or provide any such information to third parties without the consent of a user. An ICP service operator must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An ICP service operator is also required to properly maintain the user personal information, and in case of any leak or likely leak of the user personal information, the ICP service operator must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority. In addition, pursuant to the Decision on Strengthening the Protection of Online Information issued by the Standing Committee of the National People's Congress in December 2012 and the Order for the Protection of Telecommunication and Internet User Personal Information issued by the MIIT in July 2013, any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An ICP service operator must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying of any such information, or selling or providing such information to other parties. An ICP service operator is required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. According to the PRC Cyber Security Law, an ICP service operator is 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. Any violation of these laws and regulations may subject the ICP service operator to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities. The Guidelines jointly released by ten PRC regulatory agencies in July 2015 also prohibit internet finance service providers, including online lending information intermediaries, from illegally selling or disclosing customers' personal information. The PBOC and other relevant regulatory authorities will jointly adopt the implementing rules. The Interim Measures jointly issued by four PRC regulatory agencies in August 2016 requires the online lending information intermediaries, among other things, to strengthen the management of lenders' and borrowers' information to ensure the legitimacy and security regarding the collection, processing and use of lenders' and borrowers' information, to keep confidential the lenders' and borrowers' information collected in the course of their business, and not to use such information for any other purpose except for services they provide without approval of lenders or borrowers. The lenders' and borrowers' information collected within the territory of China shall be stored, processed and analyzed within the territory of China. The online lending information intermediaries shall not provide the lenders and borrowers' information to any party located outside the territory of China, unless otherwise required by laws and regulations. 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, any internet service provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, shall be subject to criminal penalty for the result of (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client's information; (iii) any serious loss of criminal evidence; or (iv) other severe situation, and any individual or entity that (i) sells or provides personal information to others in a way violating the applicable law, or (ii) steals or illegally obtain any personal information, shall be subject to criminal penalty in severe situation.

***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 have made applications for 133 trademarks, 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 (Chinese equivalent for CreditEase).





Table of Contents***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. Accordingly, Yirendai HK, our Hong Kong subsidiary, may be able to enjoy the 5% withholding tax rate for the dividends they receive from Heng Ye and Heng Yu Da, 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 60, 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 60. Based on Circular 60, 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. 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 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 May 2015, 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.

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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 Residents' 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.

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*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 two 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 Plan. 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 Heng Ye, 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 Foreign-Invested Enterprise Law, as amended in September 2016, and its implementation rules, which will be replaced by the *Foreign Investment Law* on January 1, 2020. 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. These reserves are not distributable as cash dividends.

*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.



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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 have not made adequate contributions to employee benefit plans, as required by applicable PRC laws and regulations. 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.

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C. **Organizational Structure**

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

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(1) The shareholders of Heng Cheng are Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian, owning 40%, 30% and 30% of Heng Cheng's 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.

(2) The shareholders of Yi Ren Wealth Management are Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian, owning 40%, 30% and 30% of Yi Ren Wealth Management's equity interest, respectively.

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(3) As part of our business realignment with CreditEase, we entered into a series of contractual arrangements with Pu Hui and its shareholders. The shareholders of Pu Hui are Mr. Ning Tang and Ms. Yan Tian, owning 95% and 5% of Pu Hui's equity interest, respectively.

(4) As part of our business realignment with CreditEase, we entered into a series of contractual arrangements with Hui Min and its shareholders. The shareholders of Hui Min are Mr. Ning Tang, Ms. Yan Tian and Ms. Mei Zhao, owning 93.1%, 3.05% and 3.85% of Hui Min's equity interest, respectively. Ms. Mei Zhao is an executive officer of CreditEase.

**Contractual Arrangements with Our 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 Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min, which we effectively control through a series of contractual arrangements. These contractual arrangements allow us to:

- exercise effective control over Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min;
- receive substantially all of the economic benefits of Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min; and
- have an exclusive option to purchase all or part of the equity interests in Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we have become the primary beneficiary of Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min and we treat Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min as our variable interest entities under U.S. GAAP. We have consolidated the financial results of Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min in our consolidated financial statements in accordance with U.S. GAAP.

***Contractual Arrangements with Heng Cheng***

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Heng Ye, our consolidated variable interest entity, Heng Cheng, and the shareholders of Heng Cheng.

*Agreements that Provide Us with Effective Control over Heng Cheng*

**Equity Interest Pledge Agreements.** Pursuant to the equity interest pledge agreements, each shareholder of Heng Cheng has pledged all of his or her equity interest in Heng Cheng to guarantee the shareholder's and Heng Cheng's performance of their obligations under the exclusive business cooperation agreement, loan agreement, exclusive option agreement and power of attorney. If Heng Cheng or any of its shareholders breaches their contractual obligations under these agreements, Heng Ye, 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 Heng Cheng in accordance with the law. Each of the shareholders of Heng Cheng 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 Heng Ye. The equity interest pledge agreements remain effective until Heng Cheng 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 Heng Cheng has irrevocably appointed Heng Ye 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 Heng Cheng requiring shareholder approval, disposing of all or part of the shareholder's equity interest in Heng Cheng, and appointing directors and executive officers. Heng Ye 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, Heng Ye 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 Heng Cheng. Each shareholder has waived all the rights which have been authorized to Heng Ye and will not exercise such rights.

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*Agreement that Allows us to Receive Economic Benefits from Heng Cheng*

**Exclusive Business Cooperation Agreement.** Under the exclusive business cooperation agreement between Heng Ye and Heng Cheng, Heng Ye has the exclusive right to provide Heng Cheng with technical support, consulting services and other services. Without Heng Ye's prior written consent, Heng Cheng agrees not to accept the same or any similar services provided by any third party. Heng Ye may designate other parties to provide services to Heng Cheng. Heng Cheng agrees to pay service fees on a monthly basis and at an amount determined by Heng Ye 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. Heng Ye owns the intellectual property rights arising out of the performance of this agreement. In addition, Heng Cheng has granted Heng Ye an irrevocable and exclusive option to purchase any or all of the assets and businesses of Heng Cheng at the lowest price permitted under PRC law. Unless otherwise agreed by the parties or terminated by Heng Ye unilaterally, this agreement will remain effective permanently.

*Agreements that Provide Us with the Option to Purchase the Equity Interest in Heng Cheng*

**Exclusive Option Agreement.** Pursuant to the exclusive option agreements, each shareholder of Heng Cheng has irrevocably granted Heng Ye 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 Heng Cheng. The purchase price is equal to the higher of the amount of loan extended by Heng Ye to each shareholder of Heng Cheng under the respective loan agreement or the minimum price required by PRC law. If Heng Ye exercises the option to purchase part of the equity interest held by a shareholder, the purchase price shall be calculated proportionally. Heng Cheng and each of its shareholders have agreed to appoint any persons designated by Heng Ye to act as Heng Cheng's directors. Without Heng Ye's prior written consent, Heng Cheng 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 (US\$14,544) (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 Heng Cheng have agreed that, without Heng Ye's prior written consent, they will not dispose of their equity interests in Heng Cheng or create or allow any encumbrance on their equity interests. Moreover, without Heng Ye's prior written consent, no dividend will be distributed to Heng Cheng'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 Heng Ye. These agreements will remain effective until all equity interests of Heng Cheng held by its shareholders have been transferred or assigned to Heng Ye or its designated person(s).

**Loan Agreements.** Pursuant to the loan agreements between Heng Ye and the shareholders of Heng Cheng, Heng Ye made loans in an aggregate amount of RMB30.0 million (US\$4.4 million) to the shareholders of Heng Cheng solely for the capitalization of Heng Cheng. Pursuant to the loan agreement, the shareholders can only repay the loans by the sale of all their equity interest in Heng Cheng to Heng Ye 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 Heng Ye. In the event that shareholders sell their equity interests to Heng Ye 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 Heng Ye 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 Heng Cheng and Heng Ye 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 Yi Ren Wealth Management*

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Heng Yu Da, our consolidated variable interest entity, Yi Ren Wealth Management, and the shareholders of Yi Ren Wealth Management.

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*Agreements that Provide Us with Effective Control over Yi Ren Wealth Management*

**Amended and Restated Equity Interest Pledge Agreements.** Pursuant to the equity interest pledge agreements, each shareholder of Yi Ren Wealth Management has pledged all of his or her equity interest in Yi Ren Wealth Management to guarantee the shareholder's and Yi Ren Wealth Management's performance of their obligations under the exclusive business cooperation agreement, exclusive option agreement, loan agreement and power of attorney. If Yi Ren Wealth Management or any of its shareholders breaches their contractual obligations under these agreements, Heng Yu Da, 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 Yi Ren Wealth Management in accordance with the law. Each of the shareholders of Yi Ren Wealth Management 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 Heng Yu Da. The equity interest pledge agreements remain effective until Yi Ren Wealth Management 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 Yi Ren Wealth Management has irrevocably appointed Heng Yu Da 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 Yi Ren Wealth Management requiring shareholder approval, disposing of all or part of the shareholder's equity interest in Yi Ren Wealth Management, and appointing directors and executive officers. Heng Yu Da 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, Heng Yu Da 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 Yi Ren Wealth Management. Each shareholder has waived all the rights which have been authorized to Heng Yu Da and will not exercise such rights.

*Agreement that Allows us to Receive Economic Benefits from Yi Ren Wealth Management*

**Exclusive Business Cooperation Agreement.** Under the exclusive business cooperation agreement between Heng Yu Da and Yi Ren Wealth Management, Heng Yu Da has the exclusive right to provide Yi Ren Wealth Management with technical support, consulting services and other services. Without Heng Yu Da's prior written consent, Yi Ren Wealth Management agrees not to accept the same or any similar services provided by any third party. Heng Yu Da may designate other parties to provide services to Yi Ren Wealth Management. Yi Ren Wealth Management agrees to pay service fees on a monthly basis and at an amount determined by Heng Yu Da and Yi Ren Wealth Management 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. Heng Yu Da owns the intellectual property rights arising out of the performance of this agreement. In addition, Yi Ren Wealth Management has granted Heng Yu Da an irrevocable and exclusive option to purchase any or all of the assets and businesses of Yi Ren Wealth Management at the lowest price permitted under PRC law. Unless otherwise agreed by the parties or terminated by Heng Yu Da unilaterally, this agreement will remain effective permanently.

*Agreements that Provide Us with the Option to Purchase the Equity Interest in Yi Ren Wealth Management*

***Amended and Restated Exclusive Option Agreement.*** Pursuant to the exclusive option agreements, each shareholder of Yi Ren Wealth Management has irrevocably granted Heng Yu Da 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 Yi Ren Wealth Management. The purchase price shall be the higher of the amount equal to the registered capital contributed by the respective shareholders of Yi Ren Wealth Management (or such other price then accepted by Heng Yu Da) 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 Yi Ren Wealth Management to Heng Yu Da (including without limitation the outstanding amount of the loan owed by the shareholders of Yi Ren Wealth Management to Heng Yu Da and any interest thereon under the respective loan agreement). If Heng Yu Da exercises the option to purchase part of the equity interest held by a shareholder of Yi Ren Wealth Management, the purchase price shall be calculated proportionally. Yi Ren Wealth Management and each of its shareholders have agreed to appoint any persons designated by Heng Yu Da to act as Yi Ren Wealth Management's directors. Without Heng Yu Da's prior written consent, Yi Ren Wealth Management 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 (US\$72,722), provide any loans to any third parties, enter into any material contract with a value of more than RMB500,000 (US\$72,722) (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 Yi Ren Wealth Management have agreed that, without Heng Yu Da's prior written consent, they will not dispose of their equity interests in Yi Ren Wealth Management or create or allow any encumbrance on their equity interests. Moreover, without Heng Yu Da's prior written consent, no dividend will be distributed to Yi Ren Wealth Management'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 Heng Yu Da. These agreements will remain effective until all equity interests of Yi Ren Wealth Management held by its shareholders have been transferred or assigned to Heng Yu Da or its designated person(s).

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***Amended and Restated Loan Agreements.*** Pursuant to the loan agreements between Heng Yu Da and the shareholders of Yi Ren Wealth Management, Heng Yu Da made loans of RMB104.0 million (US\$15.1 million), RMB78.0 million (US\$11.3 million) and RMB78.0 million (US\$11.3 million) to Ning Tang, Fanshun Kong and Yan Tian, respectively, who are the shareholders of Yi Ren Wealth Management, solely for the capitalization of Yi Ren Wealth Management. Pursuant to the loan agreement, the shareholders can only repay the loans by the sale of all their equity interest in Yi Ren Wealth Management to Heng Yu Da 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 Heng Yu Da. In the event that shareholders sell their equity interests to Heng Yu Da 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 Heng Yu Da 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 Yi Ren Wealth Management and Heng Yu Da 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 Pu Hui***

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Heng Ye, our consolidated variable interest entity, Pu Hui, and the shareholders of Pu Hui.

***Agreements that Provide Us with Effective Control over Pu Hui***

***Equity Interest Pledge Agreements.*** Pursuant to the equity interest pledge agreements, each shareholder of Pu Hui has pledged all of his or her equity interest in Pu Hui to guarantee the shareholder's and Pu Hui's performance of their obligations under the exclusive business cooperation agreement, loan agreement, exclusive option agreement and power of attorney. If Pu Hui or any of its shareholders breaches their contractual obligations under these agreements, Heng Ye, 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 Pu Hui in accordance with the law. Each of the shareholders of Pu Hui 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 Heng Ye. The equity interest pledge agreements remain effective until Pu Hui 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 Pu Hui has irrevocably appointed Heng Ye 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 Pu Hui requiring shareholder approval, disposing of all or part of the shareholder's equity interest in Pu Hui, and appointing directors and executive officers. Heng Ye 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, Heng Ye 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 Pu Hui. Each shareholder has waived all the rights which have been authorized to Heng Ye and will not exercise such rights.

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*Agreement that Allows us to Receive Economic Benefits from Pu Hui*

**Exclusive Business Cooperation Agreement.** Under the exclusive business cooperation agreement between Heng Ye and Pu Hui, Heng Ye has the exclusive right to provide Pu Hui with technical support, consulting services and other services. Without Heng Ye's prior written consent, Pu Hui agrees not to accept the same or any similar services provided by any third party. Heng Ye may designate other parties to provide services to Pu Hui. Pu Hui agrees to pay service fees on a monthly basis and at an amount determined by Heng Ye 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. Heng Ye owns the intellectual property rights arising out of the performance of this agreement. In addition, Pu Hui has granted Heng Ye an irrevocable and exclusive option to purchase any or all of the assets and businesses of Pu Hui at the lowest price permitted under PRC law. Unless otherwise agreed by the parties or terminated by Heng Ye unilaterally, this agreement will remain effective permanently.

*Agreements that Provide Us with the Option to Purchase the Equity Interest in Pu Hui*

**Exclusive Option Agreement.** Pursuant to the exclusive option agreements, each shareholder of Pu Hui has irrevocably granted Heng Ye 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 Pu Hui. The purchase price is equal to the higher of the amount of loan extended by Heng Ye to each shareholder of Pu Hui under the respective loan agreement or the minimum price required by PRC law. If Heng Ye exercises the option to purchase part of the equity interest held by a shareholder, the purchase price shall be calculated proportionally. Pu Hui and each of its shareholders have agreed to appoint any persons designated by Heng Ye to act as Pu Hui's directors. Without Heng Ye's prior written consent, Pu Hui 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 (US\$14,544) (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 Pu Hui have agreed that, without Heng Ye's prior written consent, they will not dispose of their equity interests in Pu Hui or create or allow any encumbrance on their equity interests. Moreover, without Heng Ye's prior written consent, no dividend will be distributed to Pu Hui'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 Heng Ye. These agreements will remain effective until all equity interests of Pu Hui held by its shareholders have been transferred or assigned to Heng Ye or its designated person(s).

**Loan Agreements.** Pursuant to the loan agreements between Heng Ye and the shareholders of Pu Hui, Heng Ye made loans in an aggregate amount of RMB30.0 million (US\$4.4 million) to the shareholders of Pu Hui for the capitalization of Pu Hui. Pursuant to the loan agreement, the shareholders can only repay the loans by the sale of all their equity interest in Pu Hui to Heng Ye 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 Heng Ye. In the event

that shareholders sell their equity interests to Heng Ye 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 Heng Ye 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 Pu Hui and Heng Ye 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.

*Spousal Consent Letter.* Pursuant to spousal consent letter, the spouse of each shareholder of Pu Hui, if applicable, acknowledges that the equity interests in Pu Hui held by and registered in the name of her spouse will be disposed of pursuant to the equity interest pledge agreement, the exclusive option agreement, the powers of attorney, and the loan agreement by and among Heng Ye, Pu Hui and the shareholder. The spouse of the shareholder undertakes not to make any assertions in connection with the equity interests in Pu Hui, and agrees to be bound by the afore-mentioned agreements if she receives any equity interests in Pu Hui.

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***Contractual Arrangements with Hui Min***

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Heng Ye, our consolidated variable interest entity, Hui Min, and the shareholders of Hui Min.

*Agreements that Provide Us with Effective Control over Hui Min*

***Equity Interest Pledge Agreements.*** Pursuant to the equity interest pledge agreements, each shareholder of Hui Min has pledged all of his or her equity interest in Hui Min to guarantee the shareholder's and Hui Min's performance of their obligations under the exclusive business cooperation agreement, loan agreement, exclusive option agreement and power of attorney. If Hui Min or any of its shareholders breaches their contractual obligations under these agreements, Heng Ye, 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 Hui Min in accordance with the law. Each of the shareholders of Hui Min 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 Heng Ye. The equity interest pledge agreements remain effective until Hui Min 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 Hui Min has irrevocably appointed Heng Ye 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 Hui Min requiring shareholder approval, disposing of all or part of the shareholder's equity interest in Hui Min, and appointing directors and executive officers. Heng Ye 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, Heng Ye 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 Hui Min. Each shareholder has waived all the rights which have been authorized to Heng Ye and will not exercise such rights.

*Agreement that Allows us to Receive Economic Benefits from Hui Min*

***Exclusive Business Cooperation Agreement.*** Under the exclusive business cooperation agreement between Heng Ye and Hui Min, Heng Ye has the exclusive right to provide Hui Min with technical support, consulting services and other services. Without Heng Ye's prior written consent, Hui Min agrees not to accept the same or any similar services provided by any third party. Heng Ye may designate other parties to provide services to Hui Min. Hui Min agrees to pay service fees on a monthly basis and at an amount determined by Heng Ye 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. Heng Ye owns the intellectual property rights arising out of the performance of this agreement. In addition, Hui Min has granted Heng Ye an irrevocable and exclusive option to purchase any or all of the assets and businesses of Hui Min at the lowest price permitted under PRC law. Unless otherwise agreed by the parties or terminated by Heng Ye unilaterally, this agreement will remain effective permanently.

*Agreements that Provide Us with the Option to Purchase the Equity Interest in Hui Min*

**Exclusive Option Agreement.** Pursuant to the exclusive option agreements, each shareholder of Hui Min has irrevocably granted Heng Ye 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 Hui Min. The purchase price is equal to the higher of the amount of loan extended by Heng Ye to each shareholder of Hui Min under the respective loan agreement or the minimum price required by PRC law. If Heng Ye exercises the option to purchase part of the equity interest held by a shareholder, the purchase price shall be calculated proportionally. Hui Min and each of its shareholders have agreed to appoint any persons designated by Heng Ye to act as Hui Min's directors. Without Heng Ye's prior written consent, Hui Min 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 (US\$14,544) (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 Hui Min have agreed that, without Heng Ye's prior written consent, they will not dispose of their equity interests in Hui Min or create or allow any encumbrance on their equity interests. Moreover, without Heng Ye's prior written consent, no dividend will be distributed to Hui Min'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 Heng Ye. These agreements will remain effective until all equity interests of Hui Min held by its shareholders have been transferred or assigned to Heng Ye or its designated person(s).

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**Loan Agreements.** Pursuant to the loan agreements between Heng Ye and the shareholders of Hui Min, Heng Ye made loans in an aggregate amount of RMB200.0 million (US\$29.1 million) to the shareholders of Hui Min for the capitalization of Hui Min. Pursuant to the loan agreement, the shareholders can only repay the loans by the sale of all their equity interest in Hui Min to Heng Ye 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 Heng Ye. In the event that shareholders sell their equity interests to Heng Ye 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 Heng Ye 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 Hui Min and Heng Ye 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.

**Spousal Consent Letters.** Pursuant to the spousal consent letters, the spouse of each of the shareholders, if applicable, of Hui Min acknowledges that the equity interests in Hui Min held by and registered in the name of his or her spouse will be disposed of pursuant to the equity interest pledge agreement, the exclusive option agreement, the powers of attorney, and the loan agreement by and among Heng Ye, Hui Min and his or her spouse. The spouses undertake not to make any assertions in connection with the equity interests in Hui Min, and agree to be bound by the afore-mentioned agreements if they receive any equity interests in Pu Hui.

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

- the ownership structures of our subsidiaries, Heng Ye and Heng Yu Da, and our variable interest entities, Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min, will not result in any violation of PRC laws or regulations currently in effect; and
- the contractual arrangements relating to Heng Cheng, Yi Ren Wealth Management, Pu Hui and Hui Min, our 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.

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 will come into effect 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 activities 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 our 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 in the interpretation and enforcement of Chinese laws and regulations could limit the legal protections available to us, 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.

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**D. Property, Plant and Equipment**

Our principal executive offices are located on leased premises comprising 3,485.2 square meters in Beijing, China. We have leased additional office spaces of 1,839.0 square meters in Chongqing, China. We lease our premises from unrelated third parties under operating lease agreements. The lease for our principal executive offices will expire in January 2022. Our servers are primarily hosted at internet data centers owned by major domestic internet data center providers. The hosting services agreements typically have three year terms. 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 fintech company in China connecting investors and individual borrowers. We facilitated loans in an aggregate principal amount of approximately RMB112.5 billion (US\$16.4 billion) and served 1,529,840 borrowers and 1,602,530 investors from our inception in March 2012 through December 31, 2018. Our online platform automates key aspects of our operations and enables us to efficiently match borrowers with investors and facilitate and execute loan transactions. Our borrowers come from a variety of channels, including online sources, such as the internet and our mobile applications, as well as offline sources, such as referrals from CreditEase's nationwide service network. Our technology-driven platform provides a flexible, cost-efficient and time-saving solution to address their consumption needs.

Currently, all of our investors come from online channels. Our online marketplace provides investors with attractive returns with investment thresholds as low as RMB100 (US\$14.5). Investors have the option to individually select specific loans to invest in or to use our automated investing tool that identifies and selects loans on the basis of a targeted return. With the aim of limiting losses to investors from borrower defaults, we also cooperate with insurance and guarantee companies to offer investors protection mechanisms. In addition, we provide investors



with access to a liquid secondary market, giving them an opportunity to exit their investments before the underlying loans become due. We have started to enable independent third parties to promote and sell insurance products and mutual fund investment products to our investors on our platform so as to cater to various needs of our investors, including the growing needs of online wealth management services.

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We generate revenues primarily from fees charged for our services in matching individual borrowers with investors and for other services we provide over the life of a loan. We charge borrowers transaction fees for services provided through our platform in facilitating loan transactions, and charge investors service fees for using our automated investing tool or self-directed investing tool.

**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 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 in loans. 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. If actual or expected default rates increase generally in China or the consumer finance market, investors may delay or reduce their investments in loan products in general, including on our marketplace.

*Ability to Acquire Borrowers and Investors Effectively*

Our ability to increase the loan volume facilitated through our marketplace largely depends on our ability to attract potential borrowers and investors through sales and marketing efforts. Our sales and marketing efforts include those related to borrower and investor 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 and investor acquisition.

We utilize online channels and offline channels, such as CreditEase's nationwide service network, for borrower acquisition. We attract a fast growing number of our borrowers through various online channels. In addition, CreditEase's nationwide service network refers borrowers who fall within our target borrower group to our online marketplace. CreditEase charges us a fee for offline borrower acquisition services. For the three years starting 2016, the fee rate will be 6% of the loans facilitated to borrowers referred by CreditEase. After that, 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. Currently, referrals from CreditEase's nationwide service network account for a majority of our borrowers and loan volume. In 2016, 2017 and 2018, 42.5%, 27.1% and 28.2% of our borrowers were acquired through referrals from CreditEase, respectively, contributing 62.0%, 45.6% and 41.1% of the total amount of loans facilitated through our marketplace, respectively. As we acquire more borrowers, the volume of loans facilitated over our marketplace is expected to continue to increase.

Furthermore, our fee collection schedules from borrowers differ depending on the channels in which the borrowers are acquired. Borrowers acquired from online channels typically only pay a portion of the transaction fee upfront, with the remainder on a monthly basis over the term of

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the loan while transaction fees are collected upfront from borrowers acquired through offline channels. As a result, for each risk grade, the overall fee for the lifetime of a loan charged to a borrower acquired from online channels is generally higher than that charged to a borrower acquired from offline channels. Given revenues are currently recognized at the time when the transaction fees are collected, the combination of loans facilitated by channel during a specific period may have an impact on our revenues and results of operations.

Currently, all of our investors come from online channels. Our investor acquisition efforts are primarily directed towards enhancing our brand name, building investor trust, and word-of-mouth marketing.

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***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 offer investors attractive returns, 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 nine 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. For some of the loans facilitated through our marketplace, borrowers pay us a certain portion of the transaction fees upfront upon the completion of our loan facilitation services and the rest on a monthly basis over the term of the applicable loan. If a borrower defaults, we may not be able to collect the outstanding transaction fees from the borrower.

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 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 revenues 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.

In addition, 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 replenish such deposit from time to time so that the amount of guarantee deposits met a certain percentage of the related outstanding loan. 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. At the inception of each loan, we recognize a liability from guarantee and a deduction of net revenue at the fair value of the quality assurance program, which is the present value of the expected guarantee net payouts incorporating a service markup margin. When we make actual net payouts from the guarantee in the event of default of loans, such net payouts are recorded as a reduction of the liability from guarantee. When our contingent liability exceeds our stand-ready liability, the difference is recorded as additional liability from guarantee and expensed in our financial statements. As a result, a significant increase in our expected guarantee net payouts may have a negative impact on our net income.

***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. As part of our efforts to introduce risk-based pricing, we have developed four different segments in our previous pricing grid, and starting May 1, 2017, we have adopted, an upgraded risk grid with five segments, which we refer to as Grade I, Grade II, Grade III, Grade IV and Grade V. 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, manage the growth in volume of other loan products, introduce new products with new risk grades or adjust the pricing of our existing products. In addition, we used to offer investor protection service in the form of a quality assurance program to cover potential defaults, and the product mix also had a significant impact on our liabilities from quality assurance program, given the different levels of default risk associated with the different risk grades. Any material change in the product mix could have a significant impact on our profitability and net income margin.



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***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 investment products. We have made and intend to continue to make efforts to develop loan and investment products 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. 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. Research and 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. The online consumer finance marketplace industry in China is intensely competitive, and we expect that competition to persist and intensify in the future. In addition to competing with other consumer finance marketplaces, we also compete with other types of financial products and companies that attract borrowers, investors or both. With respect to borrowers, we primarily compete with traditional financial institutions, such as consumer finance business units in commercial banks, credit card issuers and other consumer finance companies. With respect to investors, we primarily compete with other investment products and asset classes, such as equities, bonds, investment trust products, bank savings accounts, real estate and alternative asset classes. 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 lending information intermediary service industry in China is developing and evolving, creating both challenges and opportunities that could affect our financial performance. Due to the relatively short history of the online lending information intermediary service industry in China, although PRC government has issued certain guidelines, regulations and rules to regulate and support the development of the online lending information intermediary service industry in China, the PRC government has yet to establish a comprehensive regulatory framework governing our industry. Recently, PRC government has issued several rules and regulations, aiming to enhance the regulation of online lending information intermediary service industry in China. These rules and regulations has limited and adversely affected our business growth in terms of, among other things, our business scale, number of users, loan facilitation amount and outstanding loan balance while causing us to incur additional compliance costs. Both number of borrowers and loan volume facilitated through our marketplace decreased in 2018. 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 laws and regulations that may arise in the future. While new laws and regulations or changes to existing laws and regulations could make loans 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.

Table of Contents**Loan Performance Data*****Delinquency Rates***

We define the delinquency rates as the balance of principal and interest for loans unpaid by borrowers that were 15 to 29, 30 to 59, 60 to 89, 90 to 179, 180 to 359, and 360 and over 360 calendar days past due as of the end of the period as a percentage of the total unpaid balance of principal and interest for the relevant group of loans. The following tables provide our delinquency rates for all loans and by channel as of December 31, 2016, 2017 and 2018:

	Delinquent for					
	15-29 days	30-59 days	60-89 days	90-179 days(1)	180-359 days(1)	360 days and above(1)
<b>All Loans</b>						
December 31, 2016	0.4%	0.7%	0.6%	1.3%	1.7%	1.5%
December 31, 2017	0.8%	0.9%	0.7%	1.5%	1.9%	2.9%
December 31, 2018	1.0%	1.9%	1.8%	4.0%	6.5%	7.7%
<b>Online Channels</b>						
December 31, 2016	0.6%	1.0%	0.8%	1.6%	2.1%	2.1%
December 31, 2017	1.2%	1.2%	0.9%	1.8%	2.0%	2.7%
December 31, 2018	1.2%	2.4%	2.2%	5.1%	8.3%	8.1%
<b>Offline Channels</b>						
December 31, 2016	0.4%	0.6%	0.4%	1.1%	1.4%	1.2%
December 31, 2017	0.5%	0.7%	0.5%	1.2%	1.8%	3.0%
December 31, 2018	0.8%	1.4%	1.3%	2.9%	4.7%	7.4%

(1) Loans that are delinquent for more than 89 days are counted towards the M3+ Net Charge-off Rates. See M3+ Net Charge-off Rates.

***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. As this definition is different from the one used in the past, we have applied the change retroactively to all the historical periods. The following chart and table display the historical lifetime cumulative M3+ Net Charge-off Rates through December 31, 2018, by vintage, for loan products facilitated through our online marketplace for each of the months shown for all loans:





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Vintage	Month on Book										
	4th	7th	10th	13th	16th	19th (%)	22nd	25th	28th	31st	34th
2013Q1	1.9	3.2	3.1	2.3	2.0	0.9	0.5	0.5	0.4	0.4	0.4
2013Q2	1.8	3.6	4.5	5.9	6.4	7.4	6.1	7.0	7.5	7.5	7.8
2013Q3	0.5	2.8	4.2	5.5	6.1	6.5	7.1	7.1	7.0	6.9	6.9
2013Q4	0.7	3.4	4.8	6.2	6.8	7.5	8.3	8.3	8.2	8.5	8.3
2014Q1	1.0	4.2	6.1	7.0	8.4	9.3	9.8	9.7	9.9	9.8	9.5
2014Q2	0.5	1.8	2.6	3.8	4.3	4.6	4.6	4.7	4.7	4.7	4.8
2014Q3	0.2	0.8	2.0	2.8	3.3	3.7	4.0	4.2	4.2	4.1	4.1
2014Q4	0.3	1.5	2.7	3.5	4.1	4.6	5.1	5.2	5.2	5.3	5.3
2015Q1	0.6	2.7	4.4	5.8	7.1	8.2	9.1	9.6	9.9	10.2	10.3
2015Q2	0.5	2.1	3.7	5.3	6.6	7.7	8.6	9.2	9.6	9.8	10.1
2015Q3	0.2	1.6	3.4	4.9	6.4	7.4	8.1	8.6	9.1	9.5	9.8
2015Q4	0.2	1.6	3.2	4.9	6.2	7.2	8.0	8.7	9.4	10.0	10.4
2016Q1	0.2	1.3	2.9	4.3	5.4	6.4	7.2	8.1	8.9	9.5	
2016Q2	0.2	1.7	3.4	4.9	6.1	7.1	8.3	9.4	10.1		
2016Q3	0.1	1.5	3.2	4.6	6.0	7.5	9.0	9.9			
2016Q4	0.2	1.5	3.0	4.6	6.4	8.2	9.3				
2017Q1	0.2	1.4	3.2	5.4	7.6	9.1					
2017Q2	0.3	2.0	4.7	7.5	9.4						
2017Q3	0.4	3.0	6.5	9.2							
2017Q4	0.6	4.2	7.4								
2018Q1	0.5	3.1									
2018Q2	0.6										

The following charts display the historical lifetime cumulative M3+ Net Charge-off Rates through December 31, 2018, by vintage, for loan products facilitated through our online marketplace for each of the months shown for loans generated from our online and offline channels, respectively:



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Prior to the second quarter of 2017, we had four segments of loans in our then in-effect pricing grid, which we refer to as Grade A, Grade B, Grade C and Grade D loans. In the second quarter of 2017, we launched our current credit scoring system, the Yiren score, which can be used to more accurately characterize borrower's credit profile. We have also decided to adopt, starting May 1, 2017, an upgraded risk grid with five segments, which we refer to as Grade I, Grade II, Grade III, Grade IV and Grade V. 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 generated through our platform 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, 2018 for the loans facilitated during each of the periods presented by risk grade.

Period	Risk grade	Amount of loans facilitated during the period		Accumulated M3+ Net Charge-off as of December 31, 2018	Net Charge-off Rate as of December 31, 2018
		(in RMB thousands)	%	(in RMB thousands)	%
2016	I	497,220	2.4	20,336	4.1
	II	3,137,889	15.4	170,796	5.4
	III	3,763,081	18.5	266,983	7.1
	IV	5,183,233	25.4	468,372	9.0

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	V	7,799,180	38.3	1,171,998	15.0
	Total	20,380,603	100.0	2,098,485	10.3
2017	I	2,701,162	6.5	111,688	4.1
	II	9,079,647	21.9	749,174	8.3
	III	10,611,451	25.6	1,211,262	11.4
	IV	10,263,135	24.8	1,285,630	12.5
	V	8,750,663	21.2	1,166,265	13.3
	Total	41,406,058	100.0	4,524,019	10.9
2018	I	4,004,135	10.4	45,778	1.1
	II	11,390,441	29.5	260,898	2.3
	III	11,230,283	29.1	340,428	3.0
	IV	8,174,933	21.2	385,731	4.7
	V	3,806,481	9.8	273,467	7.2
	Total	38,606,273	100.0	1,306,302	3.4

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(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 positions. See Item 4. Information on the Company B. Business Overview Risk Management.

**Selected Statements of Operations Items*****Net Revenues***

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

	2016		For the Year Ended December 31,				
	RMB	%	2017		2018		
			RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
<b>Net revenues:</b>							
Loan facilitation services	3,133,423	96.8	5,226,691	94.3	3,413,052	496,408	60.7
Post-origination services	84,154	2.6	187,216	3.4	290,728	42,285	5.2
Account management services					1,625,461	236,413	28.9
Others	20,414	0.6	129,443	2.3	291,487	42,395	5.2
Total net revenues	3,237,991	100.0	5,543,350	100.0	5,620,728	817,501	100.0

Before our adoption of ASU 2014-09, Revenue from contracts with Customers (Topic 606) on January 1, 2018, we considered the loan facilitation services, the quality assurance program and post-origination services as a multiple deliverable revenue arrangement. All non-contingent fees, including mainly the transaction fees charged to borrowers and the service fees charged to investors, are allocated among

these three elements. To the extent applicable, the total non-contingent fees are allocated first the amount equal to the fair value of the stand-ready liability from the quality assurance program as discussed under Critical Accounting Policies, Judgments and Estimates Liabilities from Quality Assurance Program, and then allocated between loan facilitation services and post-origination services based on their relative estimated selling prices. See Critical Accounting Policies, Judgments and Estimates Revenue Recognition.

We adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified Topic 606 on January 1, 2018 using the modified retrospective method. We recognized the cumulative effect of applying the new revenue standard as an adjustment to the beginning balance of retained earnings. The comparative information is not restated and continues to be reported under the accounting standards in effect for the period presented. Under Topic 606, both investors and borrowers are regarded as our customers. The ability and intention of both borrowers and investors to pay the service fees is assessed to be probable, based on historical experiences as well as the credit due diligence performed on each borrower prior to loan origination. We consider the loan facilitation services, quality assurance program for periods prior to May 2018, and post-origination services as three separate services of which the quality assurance program is accounted for in accordance with ASC Topic 460, Guarantees. While the post-origination service is within the scope of ASC Topic 860, the Topic 606 revenue recognition model is applied due to the lack of definitive guidance in ASC Topic 860. The loan facilitation service and post-origination service are two separate performance obligations under Topic 606, as these two deliverables are distinct in that customers can benefit from each service on its own and our promises to deliver the services are separately identifiable from each other in the contract. The transaction price of loan facilitation service and post-origination service 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. We first allocates the transaction price to the guarantee liabilities, if any, in accordance with ASC Topic 460, and the remaining considerations are allocated to the loan facilitation services and post origination services using their relative standalone selling prices, which is estimated using expected cost plus margin approach.

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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 through performance of the guarantees (by making payments for defaults) or at the expiry of the guarantee term.

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.

*Transaction fees.* We charge 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.

Yiren scores, our current credit scoring system that was adopted on May 1, 2017, have five segments, which we refer to as Grade I, Grade II, Grade III, Grade IV and Grade V. 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 fee rate that we charge borrowers varies depending on the risk grade of the loan facilitated. For loans within the same risk grade, the transaction fee rate also varies depending on the term of the loan and repayment schedule. The rate for transaction fees we charge borrowers is a component of the total cost of borrowing for borrowers, with the other component being the fixed interest rate to investors and fees related to the credit assurance program or insurance charges from PICC after May 2018 for each risk grade. See Item 4. Information on the Company B. Business Overview Risk Management Proprietary Credit Scoring Model and Loan Qualification System.

The following table presents the risk grades with the corresponding Yiren scores, the expected M3+ Net Charge-off Rate, the current annualized interest rate and the average transaction fee rate:

<b>Risk Grade</b>	<b>Yiren Scores</b>	<b>Expected M3+ Net Charge-off Rate</b>	<b>Annualized Interest Rate (1)</b>	<b>Average Transaction Fee Rate Covered by QAP (2)</b>	<b>Average Transaction Fee Rate Covered by CAP and Surety Insurance (2)</b>
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