[FINV] - FinVolution Group
Q1 2020 Earnings Conference Call
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Officers
Jimmy Tan, Head, IR
Feng Zhang, CEO
Simon Ho, CFO

Analysts
Alex Ye, UBS
John Cai, Morgan Stanley
Daphne Poon, Citi
Steven Chan, Haitong International
Yiran Zhong, Credit Suisse
Claire Yang, Seahawk Capital

Presentation

Operator: Hello, ladies and gentlemen. Thank you for participating in the First Quarter 2020 Earnings Conference Call for FinVolution Group. At this time, all participants are in listen-only mode. After management's prepared remarks, there will be a question-and-answer session. Today's conference call is being recorded.

I will now turn the call over to your host, Jimmy Tan, Head of Investor Relations for the Company. Jimmy, please go ahead.

Jimmy Tan: Hello, everyone, and welcome to our first quarter 2020 earnings conference call. The Company's results were issued via newswire services earlier today and are posted online. You can download the earnings release and sign up for the Company's email alerts by visiting the IR section of our website at ir.finvgroup.com.

Mr. Feng Zhang, our Chief Executive Officer, and Mr. Simon Ho, our Chief Financial Officer, will start the call with their prepared remarks and conclude with a Q&A session.

During this call, we will be referring to several non-GAAP financial measures to review and assess our operating performance. These non-GAAP financial measures are not intended to be considered in isolation, or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. For information about these non-GAAP measures and reconciliation to GAAP measures, please refer to our earnings press release.

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation

Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the Company's results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties are included in the Company's filings with the U.S. Securities and Exchange Commission. The Company does not assume any obligation to update any forward-looking statements except as required under applicable law.

Finally, we posted a slide presentation on our IR website providing details of the results for the quarter.

I will now turn the call over to our CEO, Mr. Feng Zhang. Please go ahead, sir.

Feng Zhang: Thank you, Jimmy. Hello, everyone, and thank you for joining our first quarter 2020 earnings conference call today.

Faced with a challenging start to the beginning of 2020, we adopted effective measures to ensure the continuity of our business, the safety of our employees, and to provide continual service and support for all our users, all while doing our part to contribute to the broader fight against COVID-19.

During these unprecedented market conditions, we took action early to control credit risks, and proactively reduced loans originated on our platform, which resulted in a sequential decline of 23% in our loan origination volume in the first quarter compared to the fourth quarter of 2019. These timely and proactive measures we took ensured that our business operations remained resilient and allowed us to deliver solid performance and positive profitability in the first quarter, in spite of the challenging environment.

Throughout this period, funding on our platform remained stable and ample. Our institutional funding partners continue to show keen interest in lending on our platform. As mentioned on our previous earnings call, lowering the funding cost is a high priority for us this year. We are therefore pleased to report that our current cost of funds has fallen to just a little above 9%, representing a roughly 50 basis points decline over the past 3 months. We expect further declines in funding cost throughout the remainder of the year.

Thanks to our continued efforts to improve credit quality of our borrower base, our prudent approach to risk management and our timely response to the shifts in the external credit environment, and also China's successful containment and recovery from the virus's impact, delinquencies are under control and are improving.

As mentioned on our previous earnings call, following a period of deterioration due to the virus outbreak in China, we began seeing signs of improvement in delinquency trends in early March. This improvement trend has continued in April and May, as China gradually contains the virus's spread and recovers from societal suspension.

Our day-1 delinquency rate is now about 20% lower than pre-pandemic levels, thanks to our continuous efforts to shift towards better-quality borrowers and a prudent risk management approach.

As a result of our strengthened efforts in loan collections, our 30-day loan collection recovery rate has now returned to pre-pandemic levels. We therefore expect vintage delinquency rates for loans originated in the past 2 months to be about 6%, which is at the lower end of our vintage delinquency rates over the past 2-3 years. We will continue to strengthen our risk management, and expect vintage delinquency rates to fall below 6% in the second half of the year.

You may wonder why this improving trend is different from the total vertical delinquency rates disclosed in the earnings release, which instead shows an increase quarter-over-quarter. The reason is because the reported figures are firstly, lagging, and secondly, overstated, because this metric is measured as a percentage of the outstanding loan balance. And due to further slowdown in loan origination volume in the first quarter, our outstanding loan balance declined by 18% quarter-over-quarter to RMB24 billion at the end of March.

We have a long and proven track record in managing risk prudently and responsively through various credit and economic cycles. Our strong culture, coupled with proprietary technologies such as Magic Mirror credit risk assessment and access to credit bureaus such as Baihang Credit and in future the PBOC credit bureau, enhances our abilities to manage risk effectively.

As China gradually recovers from the aftermath of the coronavirus, we believe our delinquency rates will continue to show structural improvement, as the borrowers we engage with today have stronger credit risk profiles than those we engaged during the P2P era.

If we take a step back and look at where we stand today, many of the challenges and uncertainties we faced over the past 12 months are largely behind us. Firstly, the uncertainties with the P2P business are now behind us. We are very close to fully winding down our back book of P2P loans. As at the end of April, the outstanding balance of P2P funded loans was only RMB1.3 billion, representing a contraction of 94% compared to a year ago.

Since the fourth quarter of last year, 100% of our loan originations have been funded by institutions. We have been completely relying on this new loan facilitation model based on partnerships with financial institutions for over 6 months now. Funding on our platform has been stable, and we have brought on board more and more financial institutions. Our financial results show that this business model is stable and profitable.

Secondly, we believe the regulatory environment for our business is becoming clearer. The CBIRC's recently released consultation on commercial banks' online lending rules provides much greater clarity on the types of partnerships and loan facilitation services that banks and online lending platforms can engage in. We believe the regulator's stance towards the loan facilitation model is supportive, and recognize the value that online lending platforms bring to financial institutions, in terms of enhancing innovation, efficiency, and access to credit. We believe much of the regulatory uncertainty over the past year is now behind us.

Finally, the worst of the pandemic and its impact is also behind us. As described earlier, delinquency trends have peaked and are improving as China's economy is re-opening. There are still lingering uncertainties due to virus, especially with regards to the shape of economic recovery overseas, and we will continue to remain vigilant and agile during this period. But we are cautiously optimistic on the outlook for the rest of the year, and we plan to resume growth in loan originations in the third quarter and expect a steady growth in the second half of the year.

All-in-all, we see ourself as being in a better position, with better visibility and greater certainty than 6 to 12 months ago.

Throughout this very challenging period, our employees, partners and other stakeholders have provided us with tremendous support, and I would like to express my gratitude for all they have given us.

As China slowly lifts the restrictions, Beijing and other cities have been lowering their coronavirus emergency response measures in the recent weeks with hope that they can now help the economy recover and return to normalcy. All the while, we are maintaining our focus on the vast consumer finance market in China by sharpening our technological capabilities and providing higher-quality service to both customers and partners.

Before I move the call over to Simon, I'd like to take this opportunity to thank Mr. Hu Honghui for his contribution in shaping the Company's direction and strategy for over nearly a decade. We look forward to his continued support in his new role as our advisor.

We are confident that our core strengths position us well to continue to capture the enormous potential in the consumer finance market.

With that, I will now turn the call over to our CFO, Simon Ho, who will discuss our financial results for the quarter.

Simon Ho: Thank you, Feng, and hello, everyone. In the first quarter, we delivered non-GAAP operating income of RMB 464 million, a solid result given the unprecedented market conditions.

Our balance sheet and liquidity remain strong with RMB 2.4 billion of cash and short-term liquidity.

Leveraging our strong technology, we look to capture new opportunities presented in the post-pandemic environment and expand our relationships with business partners.

Before I go over the financial results for the first quarter, I would like to make a few comments on the new accounting standard ASC 326, commonly known as CECL, which we adopted from January the 1st, 2020. As a result of CECL, we recognized a decrease in the opening balance of retained earnings of RMB 883 million. There were essentially 2 adjustments made as a result of CECL, and this is laid out in a table in the earnings release.

Firstly, we adopted a uniform credit loss model for all on-and-off-balance sheet credit exposures, that reflects lifetime expected credit losses. The adjustments you see on the asset side of our balance sheet -- mainly in loan receivables and accounts receivables -- reflect this change in credit model from an incurred loss method to an expected loss method.

Secondly, for guarantee accounting, CECL has meant that both a guarantee liability and CECL liability has to be set up upfront on day one for each loan. The guarantee liability reflects the value of us providing quality assurance services to our institutional funding partners, which is then released over the term of each loan as income; while the CECL liability is consistent with the overall requirements of the CECL standard to recognize credit risk upfront.

The increase in the opening balance of our quality assurance payable of RMB 690 million primarily reflects this change in accounting treatment.

The adoption of CECL also means we now present our results from quality assurance in our income statement differently. Before CECL, gains or losses related to quality assurance were recorded in one single line item within other income. Under CECL, the income and credit losses related to quality assurance are recorded separately within operating revenues and operating expenses.

Now, turning to the financial results for the first quarter. In the interest of time, I will not walk through each item line-by-line on this call. Please refer to our earnings release for more details.

Net revenue for the first quarter of 2020 increased by 40.8% to approximately RMB 2.11 billion from RMB 1.5 billion in the same period of 2019, primarily due to the adoption of ASC 326.

Loan facilitation service fees decreased by 60% to RMB 375 million for the first quarter of 2020 from RMB 939 million in the same period of 2019, primarily due to the decline in loan origination volume and a decrease in the average rate of transaction fees.

Post-facilitation service fees decreased by 41% to RMB 183 million for the first quarter of 2020 from RMB 308 million in the same period of 2019, primarily due to the rolling impact of deferred transaction fees.

Net interest income was RMB 315 million, compared to RMB 171 million in the same period of 2019, mainly due to the increased interest income from the expansion in the outstanding loan balances of consolidated trusts.

Guarantee income was RMB 1.15 billion for the first quarter of 2020 due to the adoption of ASC 326.

Non-GAAP adjusted operating income, which excludes share-based compensation expenses before tax, was RMB 464 million for the first quarter of 2020, representing a decrease of 43% from RMB 807 million in the same period of 2019.

Other income increased by 105% to RMB 54 million for the first quarter of 2020, compared with RMB 26 million in the same period of 2019, primarily due to government subsidies.

Net profit was RMB 420 million for the first quarter of 2020 compared to RMB 703 million in the same period of 2019.

Next, let me give a few further updates. COVID-19 has brought unprecedented levels of macro-economic disruption and uncertainty across the globe. At present, many aspects of daily life in China are starting to return to more normal routines.

Since late March, we have also seen signs of improvement in our loan collection rates and delinquency trends. As a result, we expect loan origination volume in the second quarter of 2020 to be at a similar level compared to the first quarter of 2020. Although the first quarter has not been easy, we are well positioned for the resumption of growth in the second half of the year.

Turning to share buybacks, we repurchased approximately 5.5 million ADS between January 2020 and May 22nd of 2020. As of May 22, we have cumulatively deployed approximately US$84.6 million to repurchase the Company's ADS under our share repurchase program with a total authorized amount of US$120 million.

We are very comfortable with our balance sheet and liquidity position. In particular, our cash position remains strong with approximately RMB 2.4 billion of cash and short-term investments as at the end of March 2020.

During these times of uncertainty, our strong capital and liquidity position is an important source of confidence for all our stakeholders, including our employees and institutional partners. We are confident that our core strengths position us well to continue to capture the enormous potential in the consumer finance market.

With that, I will conclude my prepared remarks. And we will now open the call to questions. Operator, please continue.

Questions and Answers

Operator: Yes, thank you. We will now begin the question-and-answer session. (Operator Instructions). For the benefit of all participants on today's call, we ask that if you ask your question to management in Chinese, we also ask that you kindly repeat your question in English. Alex Ye, UBS.

Alex Ye: Hi, thanks for taking my questions. I have a couple of questions. First, on your transaction fee rate, your announcement shows that your average transaction fee rate has declined. So could you give us an update of what your average APR in Q1? So was the decline mainly due to moving forward to a higher credit profile customer? And would you expect that to continue in the coming quarters?

Secondly, about your guarantee income booked in the revenue line, so for RMB 1.2 billion of guarantee income, could you give us a breakdown of how much of that is related to a release back from previous loan? And how much was due to the new loan from Q1?

And my third question is on your asset quality trend you have mentioned, your day-one delinquency have fallen to about 20% below the pre-pandemic level, right? So my understanding is that your asset quality is now running even better than the pre-COVID-19 levels. So was that also due to shifting to the higher credit profile customers? And would you expect that kind of customer profile mix to continue for the rest of this year? Thanks.

Simon Ho: Alex, thank you for your questions. One by one, with regards to the transaction fee rates, notice that the commentary we made was on a year-on-year basis. Our transaction fee rates currently in the first quarter is averaging about 4%, probably just slightly a little above 4%. In fact, it is roughly stable versus the fourth quarter of 2019. The first quarter of 2019, it is lower. And if you recall, during the course of 2019, what we did was we shifted a lot of the funding from peer-to-peer individual sources to institutional sources. And also we also upgraded, continuously upgraded, our borrower customer segment throughout the year.

So at this current moment, the lending rates that our lenders in the platform charged is capped at IRR of 36%. It has been 100% that way, even in the fourth quarter, as we're 100% funded by institutions. So I hope that gives you a bit of color. That comment was on a year-on-year basis, and as you recall, 6 to 9 months ago, I think people were debating whether institutionally-funded loans would be a lower take rate versus P2P funded. And that's what you're seeing on a year-on-year basis. So that's the first one.

For your second question on guarantee income, I don't have a precise breakdown in front of me. But you could see from the table in the earnings release where we broke down the impact of CECL on the January the 1st opening balances. You'll see that 690 million increase in our quality assurance payables was primarily because of the booking of that additional guarantee liability, which needs to be then released over time in 2020.

And so I'd say you could probably have a sense of what that number could be. We can follow-up with you in more detail going forward. If this doesn't answer your questions, then we can try and dig out some numbers.

For the day one delinquency rate decline, yes, it is roughly 20% below pre-pandemic level. So it's actually at a historically low point in the Company's history. In part, it's because of our proactive continuous efforts to shift to a better credit profile of borrowers. It's, of course, all the efforts we put in especially during this period in managing credit risk, right?

And if I give you another number, you know that of all the approved borrowers on our platform, we have 7 credit levels; level one being the lowest credit risk; level 7 being the highest credit risk. And if you look back in our 20-F annual report, we actually disclosed the distribution of loan originations by the 7 credit rating levels.

And for the full year 2019, you'll see that 50% of the loans we originated last year fell within credit levels 1 to 3, so the top 3, the best 3 categories. In the first quarter of 2020, roughly 80% were originated in credit levels 1 to 3. So you can see the significant shift that we've been making in sort of the borrower mix.

And yes, I think one of the ways as Feng alluded to his comments, we are expecting to further improve our credit risk in the second half of the year. And I think this pattern will continue, yes, in the second half of the year. Does that answer your question, Alex?

Alex Ye: Yes, sure. Just a bit of follow-up, so on your comment about your credit profile mix in Q1, 80% for level 1 to 3, so obviously, in Q1, you have taken a very tight credit approval policy. But going to ARPU when you are more comfortable to resume growth, would you expect this kind of mix to relax somewhat in order to better balance your risk and growth?

Feng Zhang: Yes, Alex, potentially, yes, there will be some variations, but our target is to further improve credit risk at the same time.

Alex Ye: Okay. Thank you. Thanks.

Operator: John Cai, Morgan Stanley.

John Cai: Hi, thank you management for taking my questions. So I have a few. Firstly is probably housekeeping about some numbers. I guess can management provide the breakdown by on-balance sheet and off-balance sheet in terms of the first quarter loan facilitation and the outstanding balance? And what is the total outstanding balances end of first quarter?

And secondly, also a number of questions is about the day one delinquency. Can we get an actual number or the trend in particular to how much it's rise during the COVID-19 period? Thank you.

Simon Ho: Sure. John, I think total loan outstanding balance, as you mentioned at the end of March was RMB 23.9 billion. And the proportion, you'll see -- the on-balance sheet proportion, you'll see on our own balance sheet as loan receivables. So I think you can have a sense of that.

In terms of the loan originations. I'll come back to you on that. I have the numbers, but I just don't have the percentage in front of me. I might have to come back to you on that.

The day-one delinquency rates, let me give you the numbers. Our latest figure, it's running at about 9.7%, okay? Pre-COVID, which is the fourth quarter, let's call it the fourth quarter average, was running at around 12.4%. So you'll see the gap. And in February, which is the peak obviously of all the credit issues, we were running at about 12.8%.

John Cai: Thank you, Simon. So I guess I'll follow-up on that regarding the loss assumption or the provision. So obviously, we make a profit this quarter, which is great. Just wonder is all the provision we needed for COVID-19 has already been provided for?

And relative to that is the loss assumption or the vintage assumptions for the loans originating in the first quarter. Can we provide the assumptions we use in making these CECL impairment costs? And I think on day one, we need to provide for a standby liability and a CECL liability. Just wondered if the day-one recognition comes from with a ratio between these 2 components? Are they the same or different? Thank you very much.

Simon Ho: Right. Okay. First of all, John, the numbers I have is your prior question of loan origination volume, involving how much was on-balance sheet versus off-balance sheet. The number I have here is 76% off-balance sheet, 24% on-balance sheet in the first quarter of this year.

In terms of the loss assumption and I think generally, the assumptions that you can see -- so yes, you're right, we do, from day one, have to set aside provisions for the expected credit loss over the lifetime of each loan, right?

So I think let me add a few comments I think everybody is concerned about the new accounting standard. First, I want to make a few broad comments. I think there are two pieces of CECL that I think everybody on the call should be aware of. Firstly, CECL does make earnings more sensitive to the credit cycle because it requires you to make all the provisions upfront for the expected credit losses. So when the credit cycle is deteriorating, earnings will be hit more severely; and when credit is improving, you could actually have releases.

Secondly, because the guarantee income released from the quality assurance is gradual over the term of a loan. When you have fast volume growth, there could be a negative temporary drag on earnings because you're recognizing the credit losses upfront, but the guarantee income is only gradually being recognized. But at the end of the day, this is an accounting standard. CECL does introduce changes to revenue, timing, credit loss measurement. But it doesn't change the eventual outcome and cash flows of the business. Okay.

Now, in terms of our CECL assumptions and estimates, as you know, we have always had a prudent risk management culture. We have continued this approach under the new accounting standards. The CECL framework requires our estimate to reflect expected credit losses over the full expected life, and also considers expected future changes in macroeconomic conditions. Given that there's still some degree of uncertainty in the outlook, we have built in a moderate upward adjustment into our CECL estimate for prudent. So the numbers we see today reflect also -- includes also this moderate upward adjustment because of prudence.

And as we've said, we have seen improving delinquency trends recently. And so if such trends continue, we could end up being overly conservative in our credit loss estimates, and result in provision releases sometime in the future. So I think what I'm trying to say is we are, again, being relatively prudent in our risk management assumptions here. Okay.

Now, your final question is about the CECL liability versus the guarantee liability. They reflect two different things, and you'll see on our balance sheet, the CECL liability is actually called expected credit losses for quality assurance commitments. Okay. This is basically the expected loss component.

The guarantee liability, which is what you referred to as the stand-ready I think obligation is reflecting the fair value of the quality assurance services that we have provided to our institutional partners. Okay. So it's like an income; it's the income component of this. And this is then released through the P&L as revenues over the life of each loan.

Does this help clarify your questions, John?

John Cai: Yes, sure. So I think we mentioned earlier that for the loans in March and April, we should expect the vintage loss to be at around 6%. So just wonder if that's the assumption we use for the first quarter origination, or would it be higher due to the COVID-19 impact?

And finally, I think we have a number you quoted previously that is the QAF assets as a percentage of the QAF-protected loan. I understand that as we go down the risk curve, this number should decline. Just wonder if we have a similar metric on that as well. Thank you very much.

Simon Ho: Yes, on your second question, the quality assurance fund protected loan, essentially, all our loans at the moment is all under quality assurance. So I think there's no real need to obviously continue disclosing that type of number because essentially, at the moment, all our loans are pretty much have quality assurance.

In March-April, our expectation for vintage delinquency rates of 6, look, I think if I said we do take a somewhat more conservative view of the future, and we built in a certain amount of prudence in these uncertain times. And so if we end up being overly conservative, these delinquency trends don't pan out as we have baked in, then there we could see credit provision releases in the future.

John Cai: Thank you very much, Simon.

Operator: Daphne Poon, Citi.

Daphne Poon: Hi, thanks for taking my questions. I have a couple of questions regarding the CECL and basically, the provisioning. So first is that from the table that you disclosed in your earnings release, it seems that the CECL impact on your on-balance sheet items like the loan receivables and account receivable is much bigger than the off-balance sheet component, the quality assurance payable, so can you explain that? Because if we see, for example, for the loan receivable allowance, that it almost doubled in balance after the CECL adoption versus for the quality assurance payable is only like a few percentage point increase. Yes, so that is first.

And second is regarding the guarantee income, the 1.1 billion in the first quarter. Also it seems it is a much bigger number than the additional QAF payable that you have, that's 690 million that you set aside to the beginning balance. So can you explain why is that?

And also in terms of the, I'm just wondering, would you have a number that is -- under the new accounting policy, what would be your net income for the first quarter? Because I think my sense said there is some positive, net positive, impact from the CECL adoption to the Q1 earnings.

Simon Ho: Okay. Daphne, thanks for these questions. I think this is becoming the CECL call at the moment, but I'll try my best to explain and answer all the questions.

You're right, your first question as to why the adjustment for loan receivable, account receivable, seems larger than quality assurance. I think first of all, looking at percentages may not be the best way to look at it. But second of all, the type of adjustments -- the corresponding adjustments are different in nature. For loan receivable and account receivable, it's because we, in the past, used the incurred loss method. So we had to move from incurred loss to CECL to expected loss. Okay.

For the quality assurance payable, we've always for the credit loss component, we've always used expected loss basis. So this is basically the vintage delinquency rates we talked about. So the credit risk component has always been on CECL, okay, or similar to CECL. But what we need to just add on top is this guarantee liability, reflecting the sort of, as I said, the value of the services we provide. It's not quite the credit risk component. So it's a different nature. You're trying to compare apples to oranges at the moment.

The second question is 1.1 billion guarantee income, why is this so much larger than the 690 million payable adjustment we made for CECL. Again, the 1.1 billion guarantee income also reflects the new bookings we did in the first quarter, right? So there will be releases of guarantee income from loans originated in January, in February, right? So and then there's the loans we originated the second half of last year as well, right? So there's the two components. I hope that clarifies.

And your final question, what would our earnings look like basically under the old accounting standard. I'm afraid it's very difficult to answer this question because the way we account for QA payables and liabilities now is now different. And the way this flows through the income statement is now very different. So the income release from quality assurance did have a positive effect on our Q1 revenues, right?

And some of this relates to the release of the additional guarantee liabilities we set up on January 1st when we first implemented CECL. And as our loan originations declined in the first quarter, this release of guarantee income obviously had some positive effect on our Q1 revenues. But even if you stripped out this factor, and also the higher provisions for the credit exposures that used to be on the incurred method, and now needs to be on CECL, our underlying business would still have been very clearly profitable.

But overall, I think it's very hard to quantify because of the different accounting standards. And we can obviously walk through with you in detail offline some of the mechanics if you're interested. But at the end of the day, I just want to highlight, this is an accounting change; it doesn't change the eventual outcome and cash flows of the business.

Daphne Poon: Right, understood. And also want to clarify is that the way we should look at your provisioning or credit cost, is it just basically now we can add together your provision charge and then plus the credit cost for guarantee assurance commitment? So that is your total, all your provision product for that quarterly like, right? There is no other items for the revenue line that we have previously?

Simon Ho: Correct.

Daphne Poon: Is that right?

Simon Ho: Yes, if I understand your question correctly, all the provisions for credit exposures would be in those 3 items: the credit loss on probably quality assurance commitments, the provisions for loan receivables, provisions for account receivables, that's it, right? Loan receivables are on-balance sheet loans; account receivables are basically our transaction fees, our service fees that obviously, would be affected by credit risk; and then quality assurance, credit losses, would be for the off-balance sheet component, correct.

Daphne Poon: Right, understood. And lastly, just wondering if you have any update regarding your micro credit license, on the progress?

Simon Ho: Right. The timetable has flipped obviously because of COVID, and we will update you when there is progress. But I still want to reiterate that we are in a good position to apply for this license. We are one of the largest platforms in Shanghai. We have a good relationship with our local regulators. And of course, the wind-down transition of our P2P business has been obviously one of the most successful in the industry. And beyond that, at the moment, there is nothing concrete to report back, but we will update you when there is.

Daphne Poon: Okay. Got it. Thanks, Simon.

Operator: Steven Chan, Haitong International.

Steven Chan: Hi, good evening. Simon, it’s Steven here. I think 3 quick questions. One is again a follow-up on this guarantee income and credit loss for the quality assurance commitment. If you try to compare with 1Q19, the next figure for this part, now excluding the provision for loan reserve because it's on-balance sheet, but for the guarantee income and the credit loss for quality assurance, actually, it reflects net release in first quarter. Even compared with 1Q19, you have a net charge, rather than a net release.

So it's very interesting, what has caused the net release under such a difficult environment? Is it because you have made a lot of excess provision in Q4, or because of the accounting adjustment in January, you're trying to boost your opening balance at a very high level, so I'd describe it as a net release of guarantee liabilities. So if that's the case, if Q1 has been the most difficult environment, and you did such a good job on that time, so does that imply that in the coming quarter, we're likely to continue to see further net release? That means that the guarantee income will continue to be higher than the credit loss of the quality assurance?

And a related question again relating to what Alex has been mentioning about the take rate of the off-balance sheet business, of the loan facilitation business. You mentioned that you have switched from P2P to institutional choice of good customer. Did you see any rise in guarantee costs? I suppose it's quite unlikely because when we take a look at the take rate, we'll have to minus the guarantee cost. So the effective guarantee cost, when you look at it, in Q1 compared to Q4, did you see it increase or decrease, because you assume that a net release in guarantee liability. So this is something I just want to clarify. So this are the first one question.

Second question is very simple. Are you going to move into non-guarantee sometime, I don't know, maybe later this year? And the reason for moving or not moving, and why is it so? So that's the second one.

And final question, I think CEO mentioned, the new rules on the online lending for the commercial bank consultation should be positive, likely positive, to you. But at the same time, the CBIRC also issue new guidance relating to the liability insurance of the insurance company. And this liability insurance should be on a gradual down trend. So I just wonder where do some of your off-balance sheet guarantee business, guaranteed by the insurance company, and will that rules negatively affecting your guarantee business in the future? So these are the 3 questions.

Simon Ho: Hi Steven, yes, I think let's for the accounting question, I think based on what I'm hearing from you, it's not quite I think what you think it is. I don't think it's quite apples-to-apples, comparing 2020 and 2019. Yes, so I think what you're doing is you have taken out guarantee income in the first quarter and then minus the credit loss in quality assurance. So you've got a net quality number, right?

Steven Chan: Except it's a positive but -- yes.

Simon Ho: And then you're saying, well, first quarter 2019 is a net charge, and I don't know what that number is, but let me just explain this. Under -- in simplistic terms, the reason why you see there's this gap is because of the timing, obviously, timing difference as well, right? When our loan origination volumes are declining and slowing, under the new accounting standard, the revenues are accrued on a -- it's released on a monthly basis.

But whereas the provisions only reflect the current quarter's origination. And if your origination is coming down, the current quarter origination could be small, right? So therefore, you have a case where the income becomes larger than the bottom, and the period when you are growing fast, the reverse could happen, right? You have a lot more volume suddenly that needs to be making a provision, etc. And the new accounting standard, you're splitting out these 2 items explicitly. The old accounting standard, you can't; it's not comparable because you see a similar item in our income statement for the QAF gain or losses in the past, right, quality assurance gains or losses. That's not just a net figure of income minus credit losses.

Actually, the way we come up with a QAF gain or loss in the past is the methodology is different, the process is different. It's a bit too complex to go through on the call with obviously with so many people, but we can go through with you, in a bit more detail, privately. So what I'm trying to explain is, it's not apples-to-apples when you compare it like that.

But your critical question, I think what you're trying to think of is, is there going to be a net release, right, going forward? I don't think it's fair to say there should be net releases into perpetuity; that is not fair, because if you have assessed the credit risk correctly, and the growth is very stable, then actually, it should pan out, right? It should pan out to be fairly -- fairly -- neutral in a way. But temporarily, you could have differences in gaps.

And what we've been trying to tell you, I mean, the comment that I made earlier is that we have been quite conservative in obviously looking at credit risk in this current quarter, because of obviously, all the macroeconomic uncertainties. And we built in some upward adjustments and of course, we've seen improving trends, and if such trends, improvement trends, continue, we could be looking at a situation where we have been a bit too conservative, overly conservative, in these credit loss estimates, and therefore, result in some provision release. I can only say this much. Technically, if your estimates are accurate, then you shouldn't see much deviations, right?

And you're right, the take rate in the past is net of credit risk, net of a lot of things. And you could have a situation where the take rate you see, because of credit risk, comes down a lot. But in this, under the new accounting standards, actually, it's all separated components, right? I don't know if this helps to think about it. So you can't extrapolate what you've been seeing in the past, in the past year in 2019, and say, look, this should be going this way in 2020. There's a few differences because of CECL.

Your question on non-guarantee models, I think we have continue to explore new economic models with our institutional funding partners, such as profit sharing riskless models. The recent progress has been slowed down by the pandemic and I think we will provide you with more updates when there's obviously more concrete -- further concrete progress on this front, yes.

Feng Zhang: Yes, hi, this is Feng. Let me add a little bit on the last question. I think you're asking about the new consultation of the online commercial bank online lending, as well as some recent news on the governance guidance on insurance. So I think the short answer is out of our institutional partnerships, there's a very, very small percentage that involves insurance company. So the impact of that is negligible to us, no impact, pretty much no impact to our partnership with our institutions.

And I think I want to -- back on your point that you're right that we believe the recent consultation, the commercial banking online lending rule is a very positive policy of news for the industry because it really established the fundamental framework for how banks can engage in online lending, together with partnership, with technological, with fintech company, fintech platforms, like us. The importance of that cannot be overstated in the industry to a company like us. So we are very, very encouraged.

Operator: Yiran Zhong, Credit Suisse.

Yiran Zhong: Hi management, thanks for taking my questions. Just following up on the funding side to the last question, can you please provide some more color on the funding costs? You mentioned it's on the decreasing trend. What's the average level in 1Q versus 4Q last year? And how does it compare with what we're observing so far this quarter?

And also do you see any impacts from the new rules on the trust industry? And would that impact your funding structure going forward?

Simon Ho: Right. Yiran, thank you very much for your question. I think on the call, Feng mentioned funding cost of about just above 9%. This is a current recent month level. I think first quarter would be a little bit higher than that. It's obviously somewhere between 9% and 9.5%. For 2019, I think on our previous calls, we've been describing the funding costs of between 10% to 11%.

And the trend really has been falling throughout the year and we started the year probably closer towards 11%, ended the year closer to 10%. And then now, it's heading towards -- it's down to 9.5% and down towards 9%. So I think for the time being, we have confidence that it looks like we can still continue to improve on this funding cost. And I think there's going to be more declines that we'll see going forward.

In terms of the trusts, I don't think we have seen much impact. Trusts are about a quarter of our loan volume, so no, we haven't seen much impact at all.

Operator: Claire Yang, Seahawk Capital.

Claire Yang: Hi management! Congratulations for the results. I have 3 questions. First, can you please talk about how you translate P2P model to institutional funding last year? And what's your outlook for funding costs for first half this year?

And the second question, if as you guided on this result, if a loan origination in the same quarter is at the same level with first quarter? And with the NPL getting better, do you see on the quarterly on profit to increase quarter-to-quarter?

And the third question, can you talk about how is the regulation on loan -- on NPL collection? And how would you leverage the individual investors in your P2P model, as we see the new business Ling Yang Cai Fu.

Simon Ho: Right. Thank you, Claire. I didn't hear the very early part to your first question, but it's about sort of the outlook for our funding cost. I think there was something about our business transition, but it's primarily about outlook for the funding cost, correct?

Claire Yang: Yes, right.

Simon Ho: Yes, so as Feng and I have been saying, our funding cost has come down to low 9% or close to 9% at the moment. And it used to be 10%, 11% last year, so it's been on a consistent declining trend every month. And we expect further declines in the second half of the year from the 9%. Now, I think we could get it below 9%.

Your second question, unfortunately, we haven't given out any quarterly net profit guidance. It will be a profitable quarter, no doubt, but the quarter is not closed. So I'm afraid we can't give very specific guidance on quarterly net profits. It's not something we've done in the past either.

On regulations on NPL collections, if you go back in time last year, for the fourth quarter results, we did allude to, of course, we've tightened certain standards in loan collections, etc., but I'm very happy. And then, of course, COVID-19 hit in February, so there's a big disruption.

But as we said in our actually earnings release, our loan recovery rates have actually returned back to pre-COVID fourth quarter levels. And this was what we call the 30-day collection recovery rates. So I think the effectiveness, the measures we've taken to improve loan collections have clearly been working. And we're actually back to fourth quarter levels.

And finally, your question about wealth management, yes, we do have a fairly significant base of individual P2P investors that have been loyal, and obviously, had a good experience with us, made good returns in the past, in the years that we've had the P2P product. And we are in the early stages of developing a wealth management offering centered around -- in the beginning, outreaching to these P2P investors.

The offering at the moment is mainly focused on bank time deposits but it's really in the very early stages. And I think what we'll do is we'll update you later when we have more information to share on this topic.

Claire Yang: Thank you.

Operator: Thank you. And as there are no further questions now, I'd like to turn the call back over to the Company for closing remarks.

Jimmy Tan: Thank you once again for joining us today. If you have further questions, please feel free to contact FinVolution's Group Investor Relations Teams.

Operator: Thank you. This concludes the conference call. You may now disconnect your lines. Thank you.