OVERVIEW

As a consumer finance service provider in China, we are subject to a variety of risks in our business operations, including credit risk, liquidity risk, legal and compliance risk, market risk, and operational risk. Among these risks, credit risk is our primary exposure. The overall objective of our risk management system is to maintain and optimize robust and efficient risk management and internal control to ensure the security of our operations and assets, to achieve a balance between business growth and risk control, and to protect the long-term interests of our shareholders.

We have established a prudent risk management system to identify, manage and mitigate our risk exposure, primarily through technology-enhanced comprehensive borrower due diligence, independent information review, and multi-tiered authority-based approval processes.

We have implemented the following measures to achieve our risk management objectives:

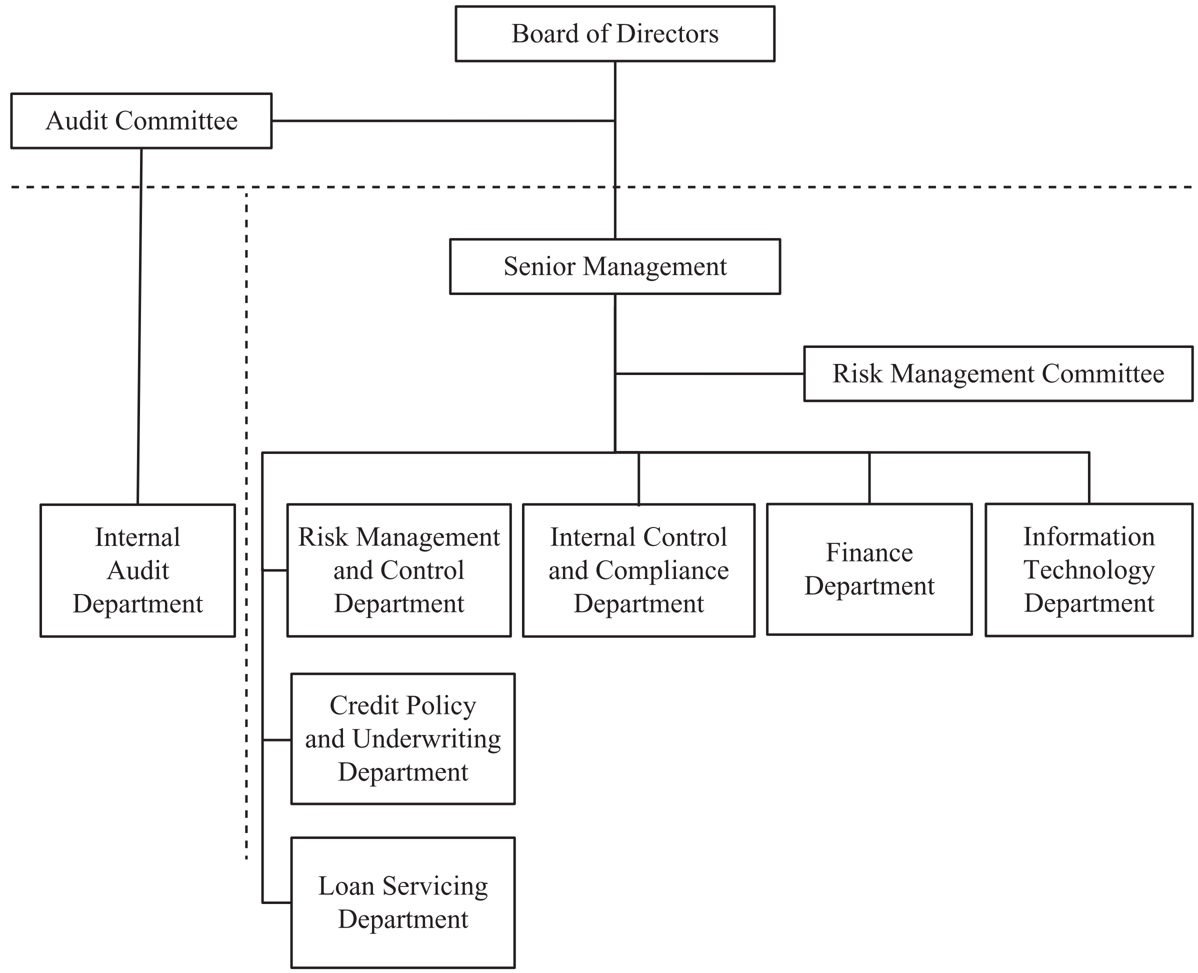
- continue optimizing our credit-plus-alternative data approach to allocate sufficient resources and priority to risk management;
- continue maintaining selectivity in screening and assessing borrowers, focusing on under-served prime and near-prime borrowers;
- continue enhancing *Hummingbird*'s capabilities and developing multi-dimensional scorecards to support risk management;
- continue refining our sophisticated risk-based pricing capabilities; and
- continue cultivating a cohesive culture and credit-risk-centric mindset.

We believe that our long-term business success in China's dynamic economic and regulatory environment depends on our ability to effectively manage our overall risk exposure at a competitive level relative to the scale of our operations. Leveraging our industry experience and proprietary technology, we continue working towards an optimal balance between manageable risk levels and efficient fund flows to expand our business.

RISK MANAGEMENT FRAMEWORK

We have established a comprehensive risk management framework in response to various risks that we have faced during more than a decade of business development. At the top of our risk management hierarchy is the Board of Directors, which oversees the execution of our risk management functions by our senior management and the Risk Management Committee. All of our internal departments assume risk management responsibilities corresponding to their respective functions. The following diagram sets forth our risk management structure.

RISK MANAGEMENT FRAMEWORK



Board of Directors

Our Board of Directors is ultimately responsible for our overall risk management. It approves fundamental risk management strategies and policies, assesses the effectiveness of our risk management system, and balances our business growth with our risk exposure. It performs its risk management functions by giving guidance and authorization to our Audit Committee and our senior management. For further details, see the section headed "Directors and Senior Management."

Audit Committee

The Audit Committee of our Board of Directors is primarily responsible for (i) overseeing our internal control, financial reporting, and internal audit, (ii) reviewing and assessing the implementation of our internal control rules and our internal audit procedures, and (iii) engaging independent external auditors. The Audit Committee reports to and makes recommendations to the Board of Directors. The Audit Committee comprises three independent non-executive Directors. For further details, see the section headed "Directors and Senior Management—Corporate Governance—Audit Committee."

Senior Management

The core of our senior management that executes the various risk management functions comprises our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and Chief

Risk Officer. Our Chief Executive Officer chairs the Risk Management Committee and is in charge of management of all major risks. Our Chief Operating Officer is in charge of operational risk management; our Chief Financial Officer is in charge of liquidity risk, interest rate risk and exchange rate risk management; and our Chief Risk Officer is in charge of credit risk management. Our Chief Operating Officer, Chief Financial Officer, and Chief Risk Officer report to our Chief Executive Officer, and our Chief Executive Officer reports and makes recommendations on overall risk management operations to the Board of Directors. Our senior management is also responsible for the formulation and implementation of risk management strategies, policies and procedures as authorized by our Board of Directors. For further details, see the section headed "Directors and Senior Management—Senior Management."

Risk Management Committee

Our Risk Management Committee is led by our senior management to coordinate and execute the risk management process within our Group. It comprises our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Director of Risk Management and Control, Director of Credit Policy and Underwriting, and Director of Internal Control and Compliance. Our Risk Management Committee is responsible for reviewing and analyzing work status and other reports of the various risk management departments, facilitating coordination and cooperation among the various risk management departments, and improving our ongoing risk management methodology and practices. Our Risk Management Committee formally meets on a monthly basis to discuss risk management matters and decide on required actions. It also regularly holds meetings to synchronize the various risk management departments with respect to the day-to-day operations of risk management. For further details, see the section headed "Directors and Senior Management—Senior Management."

Risk Management and Control Department

Our Risk Management and Control Department is critical to the functioning of our risk management system. It reports to our Chief Risk Officer and carries out day-to-day risk management operations through eight teams. The data analytics team analyzes credit data and user-case-based alternative data that has been aggregated and processed through *Hummingbird* and conducts research of proprietary analytics technologies. The fraud detection and prevention team deploys anti-fraud measures by defining fraud indicators, establishing fraud detection and prevention rules, and importing external data for fraud detection and prevention. The Internet finance analysis team conducts research and analysis of the risk management trends of Internet finance to support ongoing improvement of our risk management measures. The modeling team works closely with our Information Technology Department to develop and improve our proprietary credit models and also participates in joint-modeling efforts with our business partners. The monitoring and testing team verifies, tests, monitors, and analyzes the performance of models. The management information system analysis team performs automated multi-dimensional analysis of data to support credit decisioning. The rules and strategies team formulates and develops decisioning rules and strategies for credit decisions. The post-loan analysis team analyzes repayment performance and risk indicia to support servicing and collection. Through its multi-dimensional involvement in risk management practices, the Risk Management and Control Department generates valuable feedback to further improve our risk management system.

Credit Policy and Underwriting Department

Our Credit Policy and Underwriting Department (i) formulates, refines, and updates credit policies with respect to all of our credit products, and (ii) supervises the execution of risk management policies by our credit product teams. It reports to the Chief Risk Officer and oversees credit policy execution. Following our "credit-plus-alternative" data approach, the Credit Policy and Underwriting Department performs a foundational function in our risk management system.

Loan Servicing Department

Our Loan Servicing Department plays an important role in our asset quality control. It is responsible for loan servicing and collection during all phases following loan delinquencies. It operates through four teams: collection call team, asset protection team, third-party collection team, and legal action team. Our Loan Servicing Department also have additional support teams to conduct quality checks of our daily operations, coordinate efforts with various other departments, and formulates loan servicing strategies.

Internal Control and Compliance Department

Our Internal Control and Compliance Department operates through three functional team: the internal control team, the legal team, and the compliance team. The internal control team is primarily responsible for formulating and implementing internal control rules and procedures to standardize our business processes and to promote best corporate practices. It assesses our management policies and internal control procedures and provides appropriate recommendations to our senior management for ongoing improvement of our corporate governance. The legal team is responsible for our overall management of legal risk. Its core functions include conducting legal research and legal documentation review, providing relevant legal advice to our senior management, and managing legal risk by drafting, reviewing, approving and executing transaction documents. The compliance team is primarily responsible for ensuring the regulatory compliance of our business operations. It cooperates with regulatory authorities in their supervision and inspection, coordinates with the relevant internal departments to rectify any problems identified, and monitors any updates on external regulatory requirements.

Internal Audit Department

Our Internal Audit Department is supervised by the Audit Committee and operates independently from other internal departments. It regularly reports directly to the Audit Committee and conducts independent internal audit of the effectiveness of our risk management and internal control. The Internal Audit Department is authorized to perform comprehensive inspection, review, and assessment of all of our business process and corporate governance to identify deficiencies and other material issues including risk-related issues, and to provide recommendations for improvement and rectification. The Internal Audit Department also conducts follow-up of audits to ensure previously identified issues have been duly addressed and corrected.

Finance Department

Our Finance Department is also responsible for certain risk management functions, primarily addressing liquidity risk, interest rate risk, and operational risk. It formulates budgets and other financial planning, manages accounting policies and procedures, and reconcile accounts and the use of funds by other internal departments. In this role, the Finance Department works to maintain an appropriate level of cash flow, monitors our asset and liability structure, liquidity condition, solvency, and changes in our funding costs, and evaluates the impact of interest rate changes on our financial positions.

Information Technology Department

Our Information Technology Department is in charge of deployment, inspection, maintenance and upgrading of our IT infrastructure and information technology systems. It provides technical support for our risk management through *Hummingbird*. For a discussion of *Hummingbird's* capabilities and its core engines, see the section headed "Business—Proprietary Technology—Hummingbird."

CREDIT RISK MANAGEMENT

Credit risk is one of the major risk exposures in our business operations. It arises from a borrower's inability or unwillingness to meet its financial obligations to make timely payments under the loans granted or facilitated by us. Leveraging our proprietary *Hummingbird* system and our extensive experience in China's online consumer finance market, we have developed a comprehensive credit assessment system that is tailored to our business.

We currently follow the strategies and principles described below to achieve our credit risk management objectives.

- *Underserved prime and near-prime borrowers*. We focus on prime and near-prime borrowers underserved by traditional financial institutions as our target borrowers. *KK Credit*, which is a credit card balance transfer product, demonstrates our focus on such borrowers, as we believe credit card holders generally have better ability and willingness to make timely repayment than borrowers without credit cards.
- *Repayment by installments*. All of our credit products require repayment by installments. We believe installments help ease pressure on borrowers' repayment as compared to revolving credit facilities, and thus help control the risk of borrower default.
- *Short terms*. We typically set short terms for our credit products to preserve flexibility to deal with any sudden change in the economic or regulatory environment. During the Track Record Period, the weighted average term of our loans was approximately 10 months, and approximately 93.1% of the loan transactions we originated had terms below 12 months.
- *Manageable amounts*. We focus on granting or facilitating loans in manageable amounts. During the Track Record Period, the average size of our loans was approximately RMB8,000, and approximately 87.3% of the loan transactions we originated were below RMB15,000.
- *Employee risk awareness*. We have cultivated a cohesive culture with each employee having strong risk awareness and taking ownership in the applicable risk management function.

Selection of Target Borrower Groups

We keep credit risk management in mind in selecting target borrower groups and designing our credit products. Our credit products are designed based on multi-dimensional scorecards, and each of our scorecards is developed in consideration of a number of factors including the specific target borrower group that the scorecard was developed for. We have developed versatile borrower group selection criteria based on the specific user cases that our products are designed to serve. These criteria typically involve an assessment of prospective borrowers' official credit records, source of income, stability of cash flow, and additional alternative data depending on the specific user cases, which typically constitute some of the effective variables that were factored in the relevant modeling and scorecard development.

Our credit-plus-alternative data approach focuses on underserved prime and near-prime borrowers. We make appropriate adjustments to optimize our borrower selection criteria to help achieve this objective.

Credit Assessment and Approval

We conduct credit assessment of loan applicants and make credit decisions based on our established criteria using our "smart lending" technology with the assistance of *Hummingbird*. Our credit assessment and approval procedures are largely processed through *Hummingbird* and are therefore highly automated. For a discussion of our *Hummingbird* and our "smart lending" technology, see the section headed "Business—Proprietary Technology." With respect to each loan application submitted, we would go through a comprehensive process that largely consists of four steps: (i) preliminary screening of loan applicants to verify their identities, (ii) due diligence of loan applicants for fraud detection and prevention, (iii) review of due diligence findings and other information about the borrowers and quantification of credit risk exposure through the applicable scorecards, and (iv) reaching credit decisions primarily based on the scorecard output. We implement this process using a holistic approach and there are no artificial boundaries between the steps. For example, in addition to fraud detection and prevention measures implemented during the second step, we also conduct preliminary anti-fraud screening as part of the preliminary screening during the first step, and our anti-fraud measures continue working throughout the process after a loan applicant passes the second step.

Preliminary Screening

Our credit assessment process begins with the preliminary screening upon the intake of loan applicants. The objectives of the preliminary screening are to verify loan applicants' identities and to perform preliminary anti-fraud screening. The preliminary screening is generally conducted online via *Hummingbird*, except that onsite preliminary screening for identity verification is required for our online-to-offline credit products.

Identity verification is the primary objective of our preliminary screening because it extracts the fundamental information required for further credit assessment. Each loan applicant is required to provide a scanned copy of his or her PRC national identification card, a mobile phone number, at least one bank card, and a live facial scan. *Hummingbird* reads and records the PRC national identification card information through its OCR technology and checks against the PRC national identification database maintained by the PRC Ministry of Public Security. The loan applicant's mobile phone number is recorded and verified by checking the mobile phone number database maintained by the applicable mobile telecommunications operator and is also matched against the PRC national identification information. The loan applicant's bank card information provides an extra layer of cross-check for identity verification. The live facial scan is processed by *Hummingbird* using facial recognition technology to generate additional identification elements for further cross-checks. Each loan applicant must successfully complete these measures, at a minimum, to be considered identity-verified online and to proceed to further steps. With the use of our *Hummingbird* system, these measures can often be completed almost simultaneously within a few minutes.

In addition to the foregoing minimum measures, our preliminary screening also involves the following measures for additional identity verification and preliminary anti-fraud purposes.

- *Interception*. *Hummingbird* intercepts loan applications that fail to meet minimum requirements based on predetermined rules and policies. A loan application that misses any required item cannot proceed further to next steps. A loan application may be terminated if certain attributes of the applicant do not meet our mandatory requirements for target borrowers and the specific credit product being applied for. A loan application that includes unrecognized or suspicious content will be suspended pending supplemental information and cannot proceed further to next steps unless supplemental information is provided to us within two business days.
- *Existing borrower check*. Each loan applicant's identity is run against *Hummingbird*'s internal records to check whether the loan applicant is an existing borrower that has a current or past transaction with us and will be marked accordingly. If a loan applicant appears to be an existing borrower, the consistency of all fields of the cross-check is analyzed for identity verification and anti-fraud purposes.
- *External verification*. Based on the applicant's identity information, *Hummingbird* aggregates the relevant data from external sources, such as databases maintained by the PRC Supreme People's Court, the PRC State Administration for Industry and Commerce, the PRC Social Security Fund, and the PRC Ministry of Housing and Urban-Rural Development. *Hummingbird* then conducts an initial review of the relevant records.
- *Telephone-based verification*. We verify the mobile phone number and any additional telephone numbers of the loan applicant provided and attempt to make verification calls to confirm the loan applicant's identity.
- *CCRC consumer credit database access*. If a loan applicant passes most of the other measures of the preliminary screening and appears to be a promising prospective borrower, we will attempt to request the applicant's official credit records. If a loan applicant does not have any official credit records or the analysis results of the official credit records do not appear to satisfy the minimum threshold required for the relevant credit product, the application likely will be terminated.
- *Offline identity verification*. We take additional identity verification measures with respect to our online-to-offline credit products. A loan applicant for our online-to-offline credit products is required to visit one of our offline branches to have a face-to-face interview. During the interview, one of our experienced loan officers talks to the loan applicant, examines the hardcopies of his or her identification documents, and records a video clip of the interview.

Due Diligence

We conduct due diligence on loan applicants online through *Hummingbird* to obtain detailed information for thorough analysis of fraud detection and prevention and prepare for credit risk quantification. The various data aggregated during the preliminary screening is reviewed and analyzed more thoroughly. Additional data, including user-case-based alternative data, is obtained depending on the relevant credit product being applied for.

Fraud detection and prevention is the primary objective of our due diligence, because performing credit risk quantification on fraudulent applicants, even with verifiable identities, is a waste of our resources and may result in significant losses. Our due diligence process primarily includes the following measures.

- *Second-tier review*. We perform a second-tier review of all data and records resulting from the preliminary screening of a loan applicant. This second-tier review follows a higher standard compared to the preliminary screening and therefore may capture additional suspicious issues in connection with a loan applicant. For example, we check whether a temporary PRC national identification card has been provided and may implement additional measures; we check the contribution status of social security fund and housing fund against the loan applicant's employer information; we verify whether any bank statements provided actually reflect salary payment; and we verify all information on any property title certificates provided to ascertain whether the title is good. In general, we perform a clean-slate second-tier review from the fraud detection and prevention perspective to ensure the data and record previously gathered is thoroughly inspected.
- *Additional information gathering*. We gather additional information around the loan applicant primarily from external sources, such as search service providers, social network providers, and e-commerce operators. We may also adjust the scope of external sources for additional information gathering depending on the need of the review.
- *Multi-level risk lists*. We maintain our own multi-level risk lists and have access to third-party high risk lists for direct interception and further anti-fraud cross-analysis. We have been working to expand our multi-level risk lists covering proven and suspicious fraudulent identities and other indicators. As of the Latest Practicable Date, our own multi-level risk lists covered more than 9 million combined natural person and enterprise identities, phone numbers, and International Mobile Equipment Identification (IMEI) numbers. We also access external high risk lists from five suppliers.
- *Interception and anti-fraud engines*. We process the information gathered on a loan applicant through *Hummingbird*'s interception engine and anti-fraud engine. For a discussion of *Hummingbird*'s core engines, see the section headed "Business—Proprietary Technology—Hummingbird—Core Models and Engines." *Hummingbird*'s interception engine works uninterruptedly to block applicants that have passed our preliminary screening but are otherwise considered undesirable based on additional information gathered. *Hummingbird*'s anti-fraud engine performs complicated cross-analysis and calculation based on such information, which is filtered by extensive rules and composite rules managed by *Hummingbird*'s policies and rules engine, produces an anti-fraud report and, where applicable, rejects the relevant applicants.

Preparation for credit risk quantification and debt-to-income ratio assessment is the secondary objective of our due diligence. The information gathered during due diligence that is relevant to either credit risk quantification or debt-to-income ratio assessment is processed to determine or calculate interim effective variables to prepare for further processing. An application that is not blocked during the due diligence will proceed subject to our credit risk quantification and credit decisioning.

Credit Risk Quantification

Credit risk quantification is critical to our credit assessment and approval process. We use a set of proprietary, specifically designed scorecards to quantify the credit risk of each loan applicant and to provide a basis for pricing the relevant credit products. We introduced our first credit scorecard after years of data accumulation and effective variable testing in September 2012. Since January 2015, our credit risk quantification has been based exclusively on scorecards. As of the Latest Practicable Date, *Hummingbird* was equipped with over 50 unique scorecards, covering dimensions such as official credit records, mobile phones, bank cards, e-commerce, and other perspectives. For a discussion of our scorecards, see the section headed "Business—Proprietary Technology—Data Analytics—Scorecards."

Our scorecards form part of our "smart lending" technology. Leveraging *Hummingbird*'s big data engine and user portrait engine, each scorecard transforms a loan applicant's identity information, official credit records, and alternative data depending on the relevant scorecard's dimension, into quantifiable information to be processed using statistical analysis systems (SAS). We have developed proprietary credit models largely following the logic of FICO, and refined these proprietary credit models after rounds of testing of effective variables. A finalized scorecard is able to quantify a loan applicant's future performance of loan obligations and to predict the level of credit risk by generating a credit score.

We typically use multiple scorecards to perform comprehensive credit risk quantification. As we generally obtain official credit records and detailed mobile phone statements for almost all loan applicants, we primarily use the credit record scorecard and mobile phone scorecard to quantify whether a loan applicant is positioned within the high-risk range, low-risk range, or the indeterminate range. To further enhance the accuracy of our scoring, particularly when a loan applicant is positioned within the indeterminate range after the application of the credit record scorecard and the mobile phone scorecard, we apply a third scorecard from a different dimension that is relevant to the user case of the credit product as well as the loan applicant. The application of additional dimensions of scorecards will further quantify, within the indeterminate range, additional layers of high-risk, low-risk and indeterminate ranges, so that the coverage of the indeterminate range is reduced, increasing the chance of positioning the loan applicant in either a high-risk range or a low-risk range. We may apply additional dimensions of scorecards to further reduce the coverage of the indeterminate range until we are able to quantify the loan applicant's credit risk.

We have been developing our multi-dimensional scorecard system to increase our credit approval rate and reduce delinquency ratios. As our business growth continues, we have more loan applicants generating more credit information and user-case-based alternative information for effective variable analysis and modeling adjustment using *Hummingbird*'s machine learning engine.

Credit Decisioning

We make credit decisions based on the output of the application of multiple dimensions of scorecards. This application of scorecards refines our credit decision trees and enhances our ability to provide advanced risk-based pricing. Our credit decisioning is also highly automated and realized through *Hummingbird*'s decisioning engine in conjunction with its policies and rules engine. As of the Latest Practicable Date, *Hummingbird* had approximately 8,000 combined credit decisioning rules.

Hummingbird deploys automated decisioning rules based on the credit policies corresponding to various credit products. Credit policies primarily include our admission policy, credit rating policy, debt-to-income ratio assessment policy, credit limit policy, and pricing policy.

- *Admission policy*. Our admission policy determines scoring thresholds primarily based on analysis of a loan applicant's basic attributes (such as age, education background, and PRC household registrations), official credit records, specifics about mobile phone use, and any applicable historical delinquencies.
- *Credit rating policy*. Our credit rating policy categories a loan applicant based on the results of the application of multi-dimensional scorecards plus analysis of any applicable historical delinquency to reach a conclusion on a credit rating.
- *Debt-to-income ratio assessment policy*. Our debt-to-income ratio assessment policy functions through debt assessment and income prediction. This policy has been integrated in *Hummingbird*'s debt-to-income ratio assessment module. After debt assessment and income prediction is completed, a debt-to-income ratio is calculated, which enables us to look into excessive simultaneous loan applications and hidden liabilities, and compare the results to our loan tolerance limits. For a discussion of *Hummingbird*'s debt-to-income ratio assessment module, see the section headed "Business—Proprietary Technology—Hummingbird—Major Tasks—Debt-to-income ratio assessment."
- *Credit limits and pricing policies*. Our credit limit policy imposes additional limits or other restrictions on the amount of credit granted to a successful loan applicant based on the credit rating. We achieve risk-based pricing depending on the varying risk levels of borrowers and calculation through our profit forecast model.

As part of regular loan performance review, we track the Cohort-Based M3+ Delinquency Ratio of loan cohorts originated by us over time. We applied our cohort-based categorization analysis on an increasing volume of our loan origination during the Track Record Period. For the years ended December 31, 2015, 2016, and 2017, approximately 99.0%, 95.4%, and 96.0% of our respective loan origination volumes were subject to this cohort-based categorization analysis. For further details, see the section headed "Business—Proprietary Technology—Hummingbird—Major Tasks."

For each successful loan applicant we generate a credit decision that includes (i) a credit score and its corresponding credit rating category, (ii) a credit limit, and (iii) a credit term.

Settlement

After a loan applicant receives a credit approval, he or she is prompted to read a set of loan contracts and other related legal documents that have been reviewed and confirmed by our legal team. Then the loan applicant is then required to provide a signature to execute all these loan contracts and other related legal documents. Only after execution of these legal documents will we begin the settlement process.

Loan Servicing Management

We apply comprehensive loan servicing management measures to review the integrity and efficiency of our credit assessment and approval process, monitor the quality of our loan assets, and pursue loan servicing according to the loss recovery protocol. We integrate these measures into our continuing asset management efforts to maintain a low level of credit risk exposure.

Regular monitoring of loan portfolio

We regularly monitor the performance of our loan portfolio using the following procedures.

- *Backtracking review mechanism (回溯機制)*. We have implemented a multi-tiered backtracking review mechanism to go back to our outstanding loans and review their performance status on a monthly basis. First, we compile a list of loans that require our attention and conduct internal credit risk interviews of the relevant employees to examine the integrity of the previous credit assessment and approval process. Moreover, with respect to loans that are delinquent for at least three installments, we conduct a backtracking review and internally report the conclusions in the next month. Furthermore, we also review loans that are delinquent for at least two installments after four installment periods and loans that are delinquent for at least three installments after six installment periods, recognizing them as high-risk loans. Finally, we share the latest fraudulent practices discovered during loan servicing to train our post-loan management team.
- *Risk warning mechanism*. Our risk warning mechanism covers all loans that are not classified as non-performing. We routinely monitor our operations to identify credit risk signals, propose contingent plans, and continuously monitor any further development. We also promptly report any relevant events to the CCRC.

Regular assessment of asset quality

We assess the quality of our loan assets by monitoring asset quality indicators including the delinquency ratios. For further details, see the section headed "Business—Asset Quality and Provisioning Policy—Asset Quality." In determining impairment allowances, for a loan that is individually significant, we assess it individually for impairment. For a loan that is not individually significant, we assess it individually for impairment or include it in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. If we determine that no objective evidence of impairment exists for an individually assessed loan (whether significant or not), we include the loan in a group of loans with similar credit risk characteristics and collectively reassesses them for impairment. Loans for which an impairment loss is individually recognized are not included in a collective assessment of impairment. For a discussion of our provisioning policy, see the section headed "Business—Asset Quality and Provisioning Policy—Provisions for Loans to Customers."

Loss recovery

Depending on the length of delinquency of each particular loan, we take various loss recovery measures, including in-house loan servicing, third-party collection, and legal enforcement through litigation to recover, minimize or mitigate our losses.

- *In-house loan servicing*. Our in-house loan servicing team proactively takes appropriate measures to clearly communicate with delinquent borrowers on a timely and regular basis, particularly during the first month after a repayment delinquency. We have a set of loan servicing protocols pursuant to which our in-house loan servicing team elevates the communication methods from telephone calls and text messages to collection notices, attorney letters and more serious forms as the delinquency period prolongs. According to our loan servicing protocols, measures that may constitute fraud, threats, harassment or discrimination are strictly prohibited, and all of our in-house loan servicing team members undertake that they will always perform their work within the scope allowed by the applicable laws and regulations. After the delinquency reaches 3 months or more, our in-house loan servicing team attempts to reach the relevant borrowers through onsite visits. We typically transfer loan servicing to third-party collection agencies or pursue legal proceedings after the delinquency reaches 5 months or more.

- *Third-party collection*. We contract third-party collection agencies to follow up on certain loans that are delinquent for 5 months or more and for which we do not intend to pursue legal proceedings. We screen third-party collection agencies with strict standards, assess their reputation and compliance records, and under our service agreements with them we require them to comply with laws and regulations, preserve confidentiality, refrain from using excessive or otherwise inappropriate measures. In addition, we monitor and assess the compliance status and reputation of our third-party collection agencies regularly, and are entitled to unilaterally terminate their service agreements if their conduct deviates from the permitted scope. Our third-party collection agencies receive performance-based commissions, which can be reduced if we receive and verify serious complaints from borrowers.

- *Legal proceedings*. We pursue legal proceedings in our collection effects as a last resort. We typically pursue legal proceedings against borrowers with loans of at least RMB50,000 that have been delinquent for 6 months or more. We may also pursue legal proceedings against borrowers with loans of more than RMB50,000 on a case-by-case basis, but in any event no later than 18 months after delinquency. During the Track Record Period, we initiated approximately 6,700 collection legal proceedings, and obtained favorable judgments or settlements in approximately 6,300 cases, with approximately 400 cases still pending.

If loans are delinquent for 12 months or more, we may consider writing off the relevant transactions according to our provisioning policy.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that cash and cash equivalents are insufficient to meet liabilities as they fall due. It may arise from mismatches in balance or maturity with respect to financial assets and liabilities. We have prudently managed our balance sheet to prevent balance or maturity mismatches of financial assets and liabilities so as to minimize our exposure to liquidity risk. We manage our liquidity risk primarily through the matched funding approach. We aim to early identify the possible structural liquidity risk arising from maturity mismatches of our financial assets and liabilities and assess feasible countermeasures to ensure our net liquidity.

LEGAL AND COMPLIANCE RISK MANAGEMENT

Legal and compliance risk is the risk of being subject to legal and regulatory sanctions or other penalties for failure to comply with relevant laws, regulations and government policies. Our business operations are subject to complex PRC laws and regulations and practices and requirements by local government authorities. These PRC laws, regulations, practices and requirements may change from time to time. If we fail to operate our business within the legal parameters or otherwise fail to promptly and appropriately respond to regulatory changes, our business development may be significantly impeded. For a discussion of the relevant PRC laws and regulations under which we operate, see the section headed "Regulations."

Under our comprehensive Internal Control and Compliance Department, our legal team and compliance team work together to conduct compliance reviews of our operations, examine our lending procedures for integrity, provide legal and compliance guidance on other business departments, and provide regulatory updates and legal training to our employees.

We may be subject to additional legal risks, including the risk of incurring legal liability arising from breaches of contracts, infringements of the legal rights of other persons or otherwise in connection with our business activities. We have established procedures relating to legal document reviewing and drafting, external counsel engagement and management, and other legal perspectives. In our business operations, we routinely provide internal legal advice to our senior management to facilitate their decision-making process. Our Loan Servicing Department also plays a role in our legal proceedings for collection purposes to reinforce our loss recovery plan.

MARKET RISK MANAGEMENT

Market risk refers to the risk resulting from an adverse movement of market prices. Our market risk primarily includes interest rate risk and foreign exchange rate risk. Our Finance Department is responsible for identifying, measuring, monitoring and reporting market risk and taking corresponding measures to minimize its impact on us.

Interest Rate Risk

The interest rate risk that we face is the risk of changes in market interest rates. The financing interest expenses we pay are benchmarked against the official lending rates promulgated by the PBOC during the comparable period. The key determinants of our exposure to the risk of changes in market interest rates arises primarily mismatch between the maturity periods of our assets and liabilities and inconsistent pricing basis.

We primarily manage interest rate risk by monitoring the sensitivity of projected net interest income under varying interest rate scenarios. We endeavor to mitigate any impact of prospective interest rate movements that could reduce future net interest income, while balancing the cost of such risk mitigation measures.

Foreign Exchange Rate Risk

The foreign exchange rate risk that we face is the risk that we may suffer due to a currency mismatch between our assets and liabilities. We have a monitoring mechanism for foreign exchange rate comparison of different foreign currencies and foreign exchange rate comparison of the same foreign currencies so as to provide our management with effective analysis.

A significant majority of our assets and liabilities are denominated in Renminbi, and the majority of our business transactions are denominated in Renminbi. The main foreign exchange rate risk we face is from a limited number of U.S. dollar and Hong Kong dollar denominated loans and Preferred Shares. We closely monitor the fluctuation of Renminbi against U.S. dollars and Hong Kong dollars and may also repay foreign currency borrowings in advance.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk resulting from inadequate internal control, human errors, IT infrastructure failure, or external events. Our senior management, including our Chief Operating

Officer, oversees our overall management of operational risk. The primary objective of our operational risk management is to effectively identify, assess, monitor, control and mitigate the operational risk.

We have implemented various measures to prevent losses from operational errors and maintain our reputation. We identify various operation-specific risks, formulate and implement internal control policies, and continuously improve our risk control measures. We periodically check the integrity of our business processes and operational procedures through regular and *ad hoc* internal audits. We constantly develop and upgrade our IT infrastructure and *Hummingbird* to further enhance the automation of our risk management. We have maintained and updated our standard form business contracts for loans, data access authorization, and other operations to standardize our business processes. And we constantly work with various internal departments to improve our operational risk management.

INTERNAL CONTROL

We have established a set of comprehensive internal control policies and rules. The goal of our internal control is to effectively identify, prevent, and reduce our internal and external risks while ensuring that we continue to operate our business efficiently and that our internal control measures are consistent with our business development. Our internal control standardizes and streamlines the management and supervision of our business activities, and formulates a dynamic prevention, control, and supervision system.

Internal Control Principles

Our internal control follows three fundamental principles.

- *Full coverage and active participation*. Our internal control should cover all departments and positions, and penetrate throughout all of our business and management activities. Any of our corporate decisions and acts should be properly recorded on file. Each employee should have risk mindset and be responsible for his or her share of compliance efforts.
- *Prudence and independence*. Our internal control team should be independent from our business and other functional teams, and should monitor, inspect, and review relevant internal control matters and provide recommendations in accordance with laws and regulations, industry guidelines, and corporate policies.
- *Consistency and development*. Internal control measures should be (i) consistent with our business in both form and content as well as the internal and external environment, (ii) timely adjusted to adapt to business development and external environment changes, and (iii) appropriate to balance implementing costs and expected benefits.

Internal Control Mechanism

Our internal control measures primarily include the following mechanisms: compliance assessment, Internet information management, credit quality backtracking, senior management self-review, risk warning, internal control inspection, data reporting management, communication, and compliance accountability.

- Under our compliance assessment mechanism, our internal control team works with our business and project teams to assess new systems, procedures, products, business, suppliers, and other vendors.

- Under our Internet information management mechanism, all of our employees must follow our internal rules governing information dissemination via Internet and react to emergency.
- Under our credit quality backtracking mechanism, we have multi-layered backtracking procedures to address monthly risky issues and various specific categories of incidents.
- Under our senior management self-review mechanism, our senior management members perform self-review on their own business process to ensure proper self-awareness from the internal control perspective.
- Under our risk warning mechanism, all employees are encouraged to report potential risk exposure to the senior management.
- Under our internal control inspection mechanism, our internal control team conducts regular and special inspections with respect to our business operations.
- Under our data reporting mechanism, all of our departments or teams are required to make timely, accurate, and full reporting with respect to their businesses.
- Under our communication mechanism, any information to be communicated internally should be true, accurate and promptly.
- Under our compliance accountability mechanism, we formulate a comprehensive set of compliance rules to hold responsible individuals responsible.

In 2018, we further adopted the following enhanced internal control measures.

- We have established an anti-bribery and anti-corruption office led by our executive Directors and supported by a supervisory department and a secretariat established in our head office. Members of our Internal Control and Compliance Department and our Finance Department are members of the supervisory department. The supervisory department and secretariat will closely monitor and report to our executive Directors or Chief Executive Officer any on-going or potential corruption or other misconduct.
- We have adopted a set of internal policies and guidelines, including an anti-bribery management policy, internal control policy, employee handbook and guidelines on public relations and hospitality and cost management and controls on cash payments, which have been disseminated to all our employees through our email and office information distribution system. The conduct prohibited by our internal anti-bribery and anti-corruption policies, includes, among others, (i) accepting or paying bribes or kick-backs, (ii) illegally using, embezzling or misappropriating our assets, and (iii) forging or altering our accounting records.
- We have conducted a series of, and will continue to organize regular, mandatory training seminars for our directors, senior management and employees. Our Company has scheduled an implementation program designed to ensure that all employees receive training on our Company's anti-corruption policies no later than March 2018. The objective of the training is to enhance directors', senior managers' and employees' knowledge and awareness of the relevant rules and regulations, as well as their own personal and professional conduct. Moreover, our policies provide for (i) remedial measures for corruption or bribery incidents and (ii) relevant financial and administrative penalties for those employees who engage in corruption or bribery.

- We have established an anti-corruption e-mail and a hotline for employees to anonymously report misconduct for our further investigation.
- The Board will carry out periodical reviews of the implementation of these enhanced internal control measures. Our management is responsible for conducting a fraud and bribery risk assessment on an annual basis and our Audit Committee reviews and approves our annual risk assessment results and policies.
- Since 2013, we have been monitoring and reviewing any payment or invoice exceeding RMB1,000 on a regular basis in accordance with guidelines on public relations and hospitality and cost management and controls on cash payments. We have confirmed to the Joint Sponsors that no payment was made to any current or retired government officials or their respective affiliates during the Track Record Period. During the Track Record Period, we were not aware of any corruption allegations involving, or any other material misconduct committed by our employees.