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Q2 2024 QIFU TECHNOLOGY INC EARNINGS CALL

EVENT DATE/TIME: August 14, 2024 / 12:30AM UTC

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Qifu Technology's second-quarter 2024 earnings conference call. (Operator Instructions) Please also note that today's event is being recorded.

At this time, I'd like to turn the conference over to Ms. Karen Ji, Senior Director of Capital Markets. Please go ahead, Karen.

Karen Ji *Qifu Technology Inc - Senior Director of Capital Markets*

Thank you, Emberlin. Hello everyone, and welcome to Qifu Technology's second-quarter 2024 earnings conference call. Our earnings release was distributed earlier today and is available on our IR website.

Joining me today are Mr. Wu Haisheng, our CEO; Mr. Alex Xu, our CFO; and Mr. Zheng Yan, our CRO. Before we start, I would like to refer you to our Safe Harbor Statement in the earnings press release, which applies to this call, as we will make certain forward-looking statements.

Also, this call includes discussions of certain non-GAAP financial measures. Please refer to our earnings release, which contains a reconciliation of the non-GAAP financial measures to GAAP financial measures. Also, please note that unless otherwise stated, all figures mentioned in this call are in RMB terms.

Before we start, I would like you to know that today's prepared remarks from our CEO will be delivered in English using an AI-generated voice. Now, I will turn the call over to Mr. Wu Haisheng. Please go ahead.

Haisheng Wu *Qifu Technology Inc - Chief Executive Officer, Director*

(interpreted) Hello, everyone. Thank you for joining us today. Despite the ongoing macroeconomic challenges since the start of 2024, we achieved a solid performance by adhering to our prudent execution and quality development strategy. By the end of Q2, our platform empowered a total of 160 financial institutions and served more than 53 million users with approved credit lines on a cumulative basis.

During the quarter, we further solidified our business foundation, and improved asset quality and operational efficiency, with a keen focus on the quality of loans. These efforts enabled us to significantly improve our risk performance and record the highest quarterly profit over the past 11 quarters, highlighting the strong resilience of our business.

I would like to thank our entire team for their persistent drive for excellence and ongoing self-development, which has enabled us to navigate an ever-evolving market environment. At the same time, we are building a more open ecosystem and adopting a platform approach to create value for both users and financial institutions, aiming to further expand the boundary of our business.

In Q2, our revenue increased by 6.3% year over year to RMB4.16 billion. With our net take rate increasing by over 1 percentage points year-over-year to roughly 4.4%, non-GAAP net income increased by 23% year-over-year to RMB1.41 billion, while non-GAAP net income per diluted ADS increased by 32% year-over-year to RMB9.16. Thanks to our outstanding operational results and efficient capital allocation, our ROE in Q2 continued to outperform industry peers, coming in at 25.4% during the quarter.

Despite facing macroeconomic headwinds, our asset quality has steadily improved in Q2. Based on our keen insights into risk, we proactively tightened our overall credit standards over the past three quarters, iterating risk strategies across loan facilitation, credit operations, and post-credit processes to improve risk metrics. Risk indicators for new loans have started improving since November last year and stabilized in the first half of this year.

For loan collection, we further optimized collection resources to boost efficiency as line control issues have been largely resolved. Asset quality of the overall loan portfolio steadily improved in Q2 with Day 1 delinquency rate decreasing by 10 basis points, while 30-day collection rate increased by around 1.2 percentage points sequentially. This positive trend in risk performance continued into Q3. With the optimization of risk strategies already in place, we are confident in our ability to deliver on our operational and financial objectives for the second half of the year.

During Q2, liquidity in the financial system was relatively ample, and market interest rates remained in a downward trend. With robust asset quality, we maintained our negotiating leverage on the funding side to further drive down costs. We also maintained the pace of ABS issuance, with RMB4.6 billion issued in Q2. ABS issuance during the first half of the year increased 30% compared to the same period last year.

Overall funding costs in Q2 decreased by another 56 basis points sequentially, resulting in a total decrease of 132 basis points for the first half of the year. This notably improved the take rate for our capital-heavy business. For the second half of the year, we expect funding costs to maintain largely stable with potential to slightly decrease further.

In terms of user acquisition, we focused on acquiring and retaining high-value users, while further diversifying acquisition channels and boosting efficiency. In Q2, we adopted a relatively prudent customer acquisition approach with a reduction in marketing spending. Among new credit line users, unit acquisition costs remained flat sequentially, while the percentage of high-value users increased by 6.8 percentage points. Our acquisition channels further diversified, with loan volume from our embedded finance business more than doubling year over year. The percentage of new credit line users from this channel increased from 36.4% in Q1 to 37.7% in Q2.

We also partnered with a wider range of traffic platforms under the embedded finance model, including e-commerce, O2O, and short -form videos. Leveraging our strong user profiling and risk management capabilities, we have empowered these platforms to better serve a diverse user base.

Furthermore, we are proactively exploring collaborations with financial institutions under the embedded finance model. By jointly serving the existing users who are currently underserved by the financial institutions, we will create new avenues for user acquisition. So far, we have entered preliminary partnerships with a number of financial institutions. This collaborative model is expected to significantly enhance service efficiency for financial institutions, improve the user experience, and promote financial inclusion over the long term.

We are also building a comprehensive credit-tech service platform based on users' risk profiles and values. By empowering financial institutions with a diverse range of products, services and collaborative models, we aim to promote financial inclusion across the board.

For financial institutions, we have improved underwriting efficiency by providing more precise user profiling and better fund-asset matching tailored to different risk appetites and return preferences. For end users, we have expanded the breadth and depth of our services by introducing a more diverse range of financial institutions and a broader price spectrum. We have also enriched our user loyalty program with additional benefits and improved our long-term retention through differentiated user operations.

By upgrading from a “loan facilitation” model to a “platform” model, we are expanding our total addressable market and extending the user lifecycle, enabling us to boost operational efficiency and long-term profitability while balancing risks. In Q2, we further optimized the structure of our business with a higher contribution from the capital-light model. The percentage of loan volume under the ICE model increased slightly to 24.6%, with the revenue take rate as a percentage of loan volume increasing by 54 basis points from the same period last year.

Our technology solutions business continued to make steady progress. During the first half, we established partnerships with seven additional financial institutions, bringing the total number of financial partners to 12. Our “Qifu DigiTech” brand has won broad recognition across the banking industry and is now among the first-tier players in the market.

As of the end of June, our end-to-end technology solutions facilitated nearly RMB2 billion in bank loans cumulatively, with outstanding balances exceeding RMB1 billion. Loan volume compound monthly growth rate reached 14% during the first half of the year.

Of the new financial partners we onboarded this year, our solutions will be deployed and launched with five of them between August and September, driving further growth for this business. Our technology solutions have achieved an 80% standardization rate, offering financial institutions digital enhancements in operations, risk management, and products based on hybrid deployment.

We are also seeing growing synergies between our tech solutions and credit businesses. Through our integrated solutions covering technology empowerment, joint operations, loan facilitation, and user referrals, we will further deepen our support for financial institutions and expand our customer reach.

We continued to invest in cutting-edge technologies, with a strong focus on expanding the application of AI and large language models in the fintech sector to enhance user experience and improve operational efficiency. We upgraded over 10 modules in our efficiency-focused AI-copilot system, enhancing supervision, summarization, and analysis of collection teams’ work to better support supervisors in managing both collection teams and cases. Currently in the testing phase, the upgraded system processes, a 1,000-word call in just 5.3 seconds on average. Once rolled out in full scale, we expect the system to handle around 100,000 calls per day.

We're also leveraging the large language model to enhance our chatbot’s capabilities and communication efficiency, and enrich the variety of scripts, increasing the average number of exchanges per call by over 10% and boosting script iteration efficiency by 40%.

Additionally, we are also strengthening the copilot system’s fundamental capabilities through ongoing upgrades to our automatic speech recognition(“ASR”) technology. By integrating our proprietary Qifusion framework model, we have achieved a speech recognition accuracy rate of more than 93% and an intent recognition accuracy rate of more than 95% in a complex context.

Qifusion has also set a new industry benchmark for the lowest character error rate, making us one of the top performers in China. Notably, this achievement was recognized by Interspeech 2024, a leading global conference on the science and technology of spoken language processing.

Looking back at the first half of the year, we successfully navigated a challenging macro environment and made significant improvements in both asset quality and profitability. We also upgraded our business model and enhanced user engagement through differentiated strategies. Additionally, we strengthened synergies between our tech solutions and credit businesses, reinforcing our platform position.

As we look into the second half of the year, we will maintain prudent operations to effectively manage risks while continuing to iterate products and services, expand strategic partnerships, and build a sustainable growth engine. We believe many of our current initiatives will continue to generate positive results in the near future.

Supported by the steady growth of our earnings, we have proactively optimized capital allocation and maintained a fast pace of share buybacks so far this year. Our combined payout ratio leads the industry as well, as the majority of Chinese ADRs. Moving forward, we will continue to create value for shareholders through substantial buybacks and dividends.

With that, I will now turn the call over to Alex.

Alex Xu *Qifu Technology Inc - Chief Financial Officer, Director*

Okay. Thank you, Haisheng. Good morning and good evening, everyone. Welcome to our second-quarter earnings call.

While macro environment was still challenging, we continued to make good progress to optimize operations, improve efficiencies, reduce risk exposure, and deliver strong financial results in the second quarter.

Total net revenue for Q2 was RMB4.16 billion versus RMB4.15 billion in Q1 and RMB3.9 billion a year ago.

Revenue from credit-driven services (capital-heavy) was RMB2.91 billion in Q2 compared to RMB3.02 billion in Q1 and RMB2.79 billion a year ago. The year-on-year growth was mainly driven by growth in on-balance sheet loans and the contribution from other value-added services, partially offset by a decline in off-balance sheet loans. On-balance sheet loans accounted for over 28% of the total loan volume in Q2. Overall funding costs further declined over 50 bps sequentially and over 150 bps year on year, with the help of our strong relationship with financial institution partners and new ABS issuance.

Revenue from platform services (capital-light) was RMB1.25 billion in Q2 compared to RMB1.14 billion in Q1 and RMB1.13 billion a year ago. The year-on-year growth was mainly due to strong contribution from ICE and other value-added services, substantially offsetting the decline in capital-light loan facilitation. Overall, the contribution from platform services further increased as we tried to strike an optimal balance between risk-bearing and non-risk-bearing assets in an uncertain macro environment.

In Q2, we saw continued sequential improvement in revenue take rates for both capital-heavy and capital-light businesses. During the quarter, average IRR of the loans we originated and/or facilitated was 21.6% compared to 21.5% in the prior quarter. Looking forward, we expect pricing to be fluctuating around this level.

Sales and marketing expenses decreased 12% Q-on-Q and 16% year on year as we intentionally control the pace of user acquisition in an uncertain environment. We added approximately 1.3 million new credit line users in Q2 versus 1.45 million in Q1. Unit cost to acquire a new credit line user was essentially flat Q-on-Q.

We will continue to make timely adjustments to the pace of new user acquisition based on macro environment from time to time and further diversify our user acquisition channels. Meanwhile, we will also continue to focus on re-energizing existing user base as repeat borrowers historically contributed a vast majority of our business.

90-day delinquency rate was 3.4% in Q2. The ratio was calculated by dividing outstanding balance of on- and off-balance sheet loans that were three months past due with a total outstanding balance of on- and off-balance sheet loans across our platform at the end of the quarter.

As we continued to purposely cut our exposure to certain risk-bearing assets, total outstanding balance of on- and off-balance sheet loans reduced by approximately 15% sequentially in Q2. Therefore, the 90-day delinquency rate was mathematically inflated by roughly 18%, which is somewhat misleading.

Furthermore, as we discussed in previous calls, this metric is backward looking in nature and provides little value to help investors understand our asset quality trend. We strongly recommend investors focus on key leading risk indicators such as Day-1 delinquency and 30-day collection rates. Day-1 delinquency rate was 4.8% in Q2 versus 4.9% in Q1. 30-day collection rate was 86.3% in Q2 versus 85.1% in Q1. The 30-day collection rate has since recovered to the similar level of Q3 2023 in the recent month. We expect to see continued gradual improvement in these risk metrics in the coming quarters.

As macro uncertainties persist, we continued to take a prudent approach to book provisions against potential credit losses. Total net provisions for risk-bearing loans in Q2 were approximately RMB1.31 billion versus RMB1.38 billion in Q1. The modest sequential decline in new provision was mainly due to Q-on-Q decline in off-balance sheet capital-heavy loan volume, while new provision booking ratios rising sequentially. Writebacks of previous provisions were approximately RMB480 million in Q2. As overall portfolio risk metrics improved, we expect additional writebacks in the coming quarters.

Provision coverage ratio, which is defined as total outstanding provisions divided by total outstanding delinquent asset-heavy loan balance between 90 and 180 days, was 421% in Q2 compared to 414% in Q1. Non-GAAP net profit was RMB1.41 billion in Q2 compared to RMB1.2 billion in Q1. The significant improvement in profitability was mainly due to better asset quality and operational efficiency as well as favorable mix changes.

Effective tax rate for Q2 was 33.1%, compared to our typical ETR of approximately 15%. The higher-than-normal ETR was mainly due to approximately RMB380 million withholding tax provision related to the large sum of cash distribution from onshore to offshore for dividend payments and share repurchase program during the quarter.

With solid operating results and a higher contribution from capital-light models, our leverage ratio, which is defined as risk-bearing loan balance divided by shareholders' equity, was 2.4x in Q2, a historical low. We expect to see this leverage ratio fluctuate around this level in the near future.

We generated approximately RMB1.96 billion cash from operation in Q2, flat Q-on-Q. Total cash and cash equivalent was RMB8.5 billion in Q2 compared to RMB8.3 billion in Q1. Non-restricted cash was approximately RMB6.3 billion in Q2 compared to RMB5.3 billion in Q1. As we continue to generate strong cash flow from operations, we believe our current cash position is sufficient to support our business development and to return to our shareholders.

In accordance with our current dividend policy, our Board has approved a dividend of USD0.30 per Class A ordinary share, or USD0.60 per ADS for the first half of 2024 to holders of record of Class A ordinary shares and ADSs as of the close of business on September 27, 2024, Hong Kong time and New York time, respectively. This represents the second consecutive time we've raised our semi-annual dividend.

On March 12, 2024, we announced a new share repurchase plan to repurchase up to RMB350 million worth of our ADS over a 12-month period starting April 1, 2024. As of August 13, 2024, we had in aggregate purchased approximately 10.7 million ADSs in the open market for a total amount of approximately USD211 million (inclusive of commissions) at an average price of USD19.7 per ADS under the 2024 repurchase plan. The pace of the repurchase is significantly faster than time schedule.

The proactive execution of the share repurchase plan further demonstrated management’s confidence and commitment to the future of the company, and management intends to consistently use share repurchase to achieve additional EPADS accretion in the long run. With the full execution of current share repurchase program and the dividend policy, we are generating the highest combined yield on a recurring basis amongst Chinese ADRs to our shareholders.

Before we move on to discuss financial outlooks, I would like to spend a few minutes to talk about the technology solutions business. We started to offer other technology solutions in large scale in early 2022, which provide financial institutions on-site deployed risk management SaaS modules that help FI partners improve credit assessment results. In Q2, these solutions facilitated approximately RMB22.56 billion in loan volume.

However, these services only generate marginal returns even after more than two years ramping and do not meet our internal ROA targets. As a result, we have decided to gradually discontinue these services by the end of 2024. The decision will have a negligible impact on our overall financial metrics.

Meanwhile, since the mid of 2023, we have started to offer end-to-end technology solutions to financial institutions, which cover various aspects of FI partners' operations. Such offerings should generate higher returns that satisfy our internal criteria when fully scaled up. That said, the ramping of our end-to-end technology solutions is still in its early stage, and it facilitated approximately RMB685 million of loan volume in Q2.

Given the above-mentioned changes, starting in Q3 2024, we will provide pro forma information regarding loan volume and loan balance for the ongoing business and the intended discontinued business to better reflect year-on-year and sequential trend. We would strongly suggest investors and analysts make necessary adjustments to your respective financial models as well.

Finally, regarding our business outlook. While we start to see some tentative signs of marginal improvement in demand, we will continue to take a prudent approach and focus on enhancing profitability and efficiency of our operations for the second half of 2024.

Meanwhile, changes in business mix over the last few quarters will also result in changes in the pace of revenue bookings. As such, we expect to see continued improvement in overall take rates for the remainder of the year.

For the third quarter of 2024, the company expect to generate non-GAAP net income between RMB1.55 billion and RMB1.65 billion, representing a year-on-year growth between 31% and 40%. This outlook reflects the company's current and preliminary views, which is subject to material changes.

With that, I would like to conclude our prepared remarks. Operator, we can now take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Richard, Morgan Stanley.

Richard Xu *Morgan Stanley - Analyst*

(spoken in foreign language)

Two questions for me, one is loan volume for the second half of 2024 and also 2025, as well as any expected changes in take rate. Secondly is, obviously, the profit guidance for the third quarter is quite strong. Any drivers behind that? Thank you.

Haisheng Wu *Qifu Technology Inc - Chief Executive Officer, Director*

(spoken in foreign language)

Karen Ji *Qifu Technology Inc - Senior Director of Capital Markets*

Okay, I will do the translation. First, regarding the loan volume growth, we expect loan volume to grow in the second half of the year compared to the first half, mainly because of a few reasons. The first one, on demand side, we observed that credit demand is relatively stable recently, and the user activity level has slightly increased in June and July with the login initiation rate of app users rising by about 7% compared to May.

Second, on risk side, the improvement of risk metrics is on track, and the momentum continues in Q3, which gives us more comfort that we can open up a little bit our pass ratio and the credit line to enhance activity of our existing users.

Third, in terms of new customers, we have diversified our channels and improved our efficiency in customer acquisition in the first half of this year. And the quality of new customers has been significantly optimized. Thus, we may try to invest more to attract new users through diverse channels in the second half.

Fourth, our platform strategy is basically to use diverse cooperation models with more financial institutions to serve a more diversified user base, which will enhance our customer coverage and conversion rate.

So in summary, we have done a lot of work in the first half of this year, giving us more room to try and open a bit, given the improving demand and risks. So we believe that the loan volume in the second half of the year will increase to some extent. At the same time, this work is also laying a foundation for our longer-term growth.

Haisheng Wu *Qifu Technology Inc - Chief Executive Officer, Director*

(spoken in foreign language)

Karen Ji *Qifu Technology Inc - Senior Director of Capital Markets*

Regarding the take rate, I would like to address that the main drivers of our profit growth in Q3 is mainly attributed to three reasons. The first reason is the credit cost and the funding cost will continue to decline in Q3. The second reason is that through our platform strategy, we not only enhance our users' coverage, but also achieve better monetization.

And the third reason is that in Q3, the proportion of asset-light business model will be further increased, and the revenue recognition pace of asset-light model is relatively faster, which is also a reason for the rise in our take rate in Q3. So based on these reasons, we believe that the take rate in Q3 may not be at a normal level. And we won't expect our take rate to rise continuously in the future, given we have been improving the take rate in the past quarters.

So in the long run, we believe 4% to 4.5% is a relatively reasonable level for our sustainable take rate. Thank you.

Operator

Emma Xu, Bank of America.

Emma Xu *BofA Merrill Lynch - Analyst*

(spoken in foreign language) Congratulations on the very strong results on this macro challenges. And we noticed that Mr. Zhou Hongyi has resigned as the Chairman and Director of the company. So what are the main considerations behind this decision? And will it have an impact on the company's operations?

Haisheng Wu *Qifu Technology Inc - Chief Executive Officer, Director*

(spoken in foreign language)

Karen Ji *Qifu Technology Inc - Senior Director of Capital Markets*

Okay, I will do the translation. Thanks, Emma. Mr. Zhou has resigned from his position as Chairman and the Director of the Board of the company mainly due to personal reasons. He also believes that the company has become a mature enterprise in FinTech space and hopes that the company can develop more independently, maintaining its own brand and a development strategy.

As our largest shareholder, Mr. Zhou is very confident in the company's long-term development and has been increasing his holdings in the company's stocks in the secondary market over the past two years. According to our annual report, Mr. Zhou and his affiliates increased his holdings by 1.58 million ADS between February 2023 and February 2024, and he also increased his holdings during the window period this year.

Mr. Zhou has not been involved in the company's day-to-day operations in the past, so his resignation will have no impact on the company's operations. In the future, Mr. Zhou will continue to provide his valuable insight to the company, particularly in areas of strategy and AI.

So on behalf of our management team, I would like to express our heartfelt gratitude to Mr. Zhou for his contributions to the company during his tenure as Chairman. Thank you.

Operator

Alex Ye, UBS.

Alex Ye *UBS - Analyst*

(spoken in foreign language)

So we have noticed that the company has further accelerated the pace of share buybacks since the Q1 results in the mid of May, and it's also faster than the original schedule of one year for the USD350 million buyback quota. So I'm wondering what's the consideration behind this. And then should we be expecting the company will be able to maintain this pace of buybacks for the rest of the year? Thank you.

Alex Xu *Qifu Technology Inc - Chief Financial Officer, Director*

Okay, Alex. I will take this one. So, yeah, as of August 13, we have purchased USD211 million worth of stock out of the USD350 million authorization, which is about 60% into the program, much faster than the time schedule. And the reason we are accelerating our repurchase during that period is, for one, it's because the macroenvironment is still pretty challenging and the market itself is still very much undervaluing the company's stock. We want to use that opportunity to do more repurchase, and this will allow us to create additional EPS accretion and ultimately maximize the value of our existing shareholders.

Since we had already finished 60% in about one-third of the time of the plan, going forward, we will continue to execute the repurchase program based on the market conditions. And if the market consistently undervalues our equity, we will probably maintain or continue a very active pace in the market and complete the current program ahead of the time scheduled. Thank you.

Operator

Yada Li, CICC.

Yada Li *CICC - Analyst*

(spoken in foreign language)

Then I'll do the translation. Hello, management. Thank you for taking my questions. The first one is about the funding cost. What are the main reasons for the decline on the average funding cost? Is it the ABS insurance or more discounts on the required returns by the financial institutions? And if we look at these two parts separately, how much room is still there for the decrease of funding costs in the future?

Secondly, the asset quality of the company has stabilized and improved. What are the main reasons to see this trend? And from the credit cost perspective, when we see the asset quality returns to the level of normal years, how much will it be optimized? And in what pace shall we see the optimization in the future? That's all. Thank you.

Haisheng Wu *Qifu Technology Inc - Chief Executive Officer, Director*

(spoken in foreign language)

Karen Ji *Qifu Technology Inc - Senior Director of Capital Markets*

Okay. Thanks, Yada. First, in terms of the overall funding cost reduction, the significant reduction in the funding cost for our capital-heavy loan facilitation this quarter is the most important driving factor. And the cost of ABS, which was already quite low, has further decreased in this quarter.

In addition, we have seen a slight increase in the proportion of ABS from a funding structure perspective. So these three factors have collectively led to an overall decrease in the funding cost by 56 basis points sequentially in Q3.

Looking ahead, we believe that funding costs will remain largely stable with a possibility of a slight decrease. The room for further reduction is quite limited.

Yan Zheng *Qifu Technology Inc - Chief Risk Officer*

(spoken in foreign language)

Karen Ji *Qifu Technology Inc - Senior Director of Capital Markets*

Okay, let me do the translation. Our overall risk indicators, mainly the Day-1 delinquency rate and the 30-day collection rate, showed stability and improvement in Q2, mainly for three reasons. First, in light of the macro uncertainties, we took a more cautious approach in new loan origination in Q1 and Q2, significantly improving the quality of new loans through a substantial optimization of risk models and strategies compared to the Q3 and Q4 of last year.

Second, in Q2, we further optimized the structure of asset and funding matching. By selectively introducing more financial institutions that can complement our risk capabilities or risk appetite, we have formed a differentiated and complementary cooperative model with these financial institutions in risk management, making our asset quality more robust and solid.

Third, in terms of managing the risk of the existing loan balance, we continued to optimize post-loan operations in Q2. For example, by strengthening advance reminders for customer repayments, we effectively reduced our Day-1 delinquency rate. At the same time, we optimized the management and performance review of the external collection team, which also helped us to improve the collection rate.

Regarding the second half of the year, based on the current risk performance, as Haisheng just mentioned, we may moderately open up a bit in terms of our pass ratio and credit limits to enhance the engagement of our existing customers.

At the same time, we have clear management measures to further optimize the user base structure, including further optimizing credit limits and pricing combinations, comprehensively upgrading customers' rights and optimizing the customer's experience on our app product side. These will increase the proportion of high-quality users in the overall asset portfolio. Thus far, we believe the second-half overall risk performance should be better than the first half, and on a relatively stable trend. Thank you.

Operator

Cindy Wang, China Renaissance.

Cindy Wang *China Renaissance - Analyst*

(spoken in foreign language)

[The company has maintained a relatively conservative pace of customer acquisition in the first half of this year. So what is management's view of the pace of customer acquisition in the second half of this year? Will CAC be roughly the same as the first half of this year? Thank you.] (added by company after the call)

Haisheng Wu *Qifu Technology Inc - Chief Executive Officer, Director*

(spoken in foreign language)

Karen Ji *Qifu Technology Inc - Senior Director of Capital Markets*

Okay, let me do the translation. Thanks, Cindy. Regarding your question, we will say, in the second half of the year, we may accelerate a bit our customer acquisition pace compared to the first half. This is because all the efforts we have put in profitability improvements in the first half is bearing fruit, giving us more confidence to acquire new customers. Furthermore, we are continuously expanding our customer acquisition channels, making our customer acquisition approach increasingly diversified.

Our customer acquisition is not just limited to information flow advertising but quite diversified. Over the past few quarters, our embedded finance model has maintained rapid growth, with the ROA also being continuously optimized.

At the same time, we are expanding to more API channels, such as e-commerce, short video, and other scenarios. We are also exploring embedded finance model with bank apps. We are also referring some of our high-quality dormant users to the banks.

All these initiatives will help us expand our customer reach or boost our loan volume. In a word, we are not simply pursuing loan volume growth, but quality loan growth, thus achieving an overall improvement on our business health. Even at a similar scale, the quality of our business now is significantly better. Thank you.

Operator

Thank you. We have now reached the end of the question-and-answer session. Thank you very much for all your questions. I'll now turn the conference back to the management team for closing comments.

Alex Xu *Qifu Technology Inc - Chief Financial Officer, Director*

Okay. Thanks again for everyone who joined us for the call. If you have additional questions, please feel free to contact us offline. Thank you. Have a good day.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

Editor

Statements in English on this transcript were spoken by an interpreter present on the live call. The interpreter was provided by the company sponsoring this event.

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