



Qfin Holdings 2Q2026 Earnings Call August 26, 2026

Corporate Speakers

- Haisheng Wu; Qfin Holdings; Chief Executive Officer, Director
- Alex Xu; Qfin Holdings; Chief Financial Officer, Director
- Yan Zheng; Qfin Holdings; Chief Risk Officer
- Karen Ji; Qfin Holdings; Senior Director of Capital Markets

Participants

- Richard Xu; Morgan Stanley; Analyst
- Alex Ye; UBS; Analyst
- Emma Xu; BofA Securities; Analyst
- Cindy Wang; China Renaissance; Analyst
- Yoyo Fan; CICC; Analyst

PRESENTATION

Operator^ Ladies and gentlemen, thank you for standing by. And welcome to the Qfin Holdings Second Quarter 2026 Earnings Conference Call. (Operator Instructions) Please also note today's event is being recorded. At this time I'd like to turn the conference call over to Ms. Karen Ji, Senior Director of Capital Markets. Please go ahead, Karen.

Karen Ji^ Thank you, Ashiya. Hello everyone. And welcome to Qfin Holdings second quarter 2026 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.

Now I will quickly cover the safe harbor statement. Today's discussions may contain forward-looking statements, particularly statements about our business and financial results that are subject to risks and uncertainties which could cause actual results to differ materially from those contained in the forward-looking statements.

Please refer to the safe harbor statement in our earnings release which also contains a reconciliation of the non-GAAP financial measures to GAAP financial measures. Now I will turn the call over to Mr. Wu Haisheng. Please go ahead.

Haisheng Wu^ Hello, everyone. Thank you for joining us today. Since the start of 2026, China's consumer finance industry has remained under pressure. According to the People's Bank of China, the outstanding balance of short-term household consumer loans fell by more than RMB660 billion from the beginning of the year through the end of Q2, reflecting continued voluntary and involuntary deleveraging among households.

Meanwhile, regulatory oversight continued to tighten. A series of measures were introduced to close regulatory gaps and promote a healthier, more compliant industry environment. These measures bring the entire credit industry under a stricter framework, covering pricing, marketing, funding, collections and payments.



In late June, an unexpected industry event then triggered a crisis of confidence in the loan facilitation sector. This caused liquidity to tighten sharply across the market. Against this backdrop of profound industry adjustment and structural shakeout, we remained committed to prudent operations, prioritizing compliance, risk management and efficiency over scale. By continuously optimizing our user mix and business structure, we further enhanced operational efficiency and strengthened the resilience of our business model.

As of the end of Q2, our AI-powered credit decision engine and asset distribution platform served 168 financial institutions delivered intelligent digital credit services to over 65 million credit line users on a cumulative basis. We maintained rigorous risk management standards while driving cost and efficiency improvements.

In Q2, total loan facilitation and origination volume on our platform reached approximately RMB63.4 billion, down 2.5% sequentially. Risk metrics continued to improve, accompanied by lower funding costs and greater operating efficiency.

Amid a rapidly evolving industry landscape and broad-based contraction in consumer credit supply, we maintained a prudent balance across risk, scale and profitability, demonstrating strong operational resilience. Risk management underpins every business decision we make and is critical to our ability to navigate industry cycles and achieve sustainable growth. Since the second half of 2025, risk optimization has remained our top priority. By expanding our base of high-quality users and optimizing our business mix, we have kept the risk level of new loans at historical lows.

In Q2, our risk indicators continued to improve. The C-M2 ratio declined by 17% sequentially to 0.66%, approaching the level in Q2 last year. This improvement reflected the benefits of our earlier asset mix adjustments and risk strategy optimization as well as enhanced post-loan management capabilities. During the quarter, we further refined our pre-loan and in-loan risk strategies with closer monitoring of multiple borrowing and changes in customer liquidity.

By analyzing multiple signals including recent customer behavior, external borrowing exposure and changes in debt levels, we can quickly identify users with high debt burdens or declining income stability. This allows us to tighten risk strategies promptly and reduce our exposure to high-risk segments.

For post-loan management, we continued to refine our collection scorecard or C scorecard, improving our ability to segment users by risk level, willingness to repay and repayment capacity. We then tailored our outreach strategies and offer targeted relief or repayment plans based on each customer's risk profile and actual ability to repay. These measures have improved the customer experience and made our collection efforts more efficient.

As a result, our 30-day collection rate improved each month throughout Q2 and averaged 88.1%, up 2.3 percentage points sequentially. We also embedded risk discipline earlier in the customer acquisition process. Given the uncertain regulatory environment, we moderated the pace of acquisition spending and continued to optimize our customer and loan mix.

In Q2, customer acquisition expenses decreased by approximately 13% sequentially, while high-quality users accounted for a larger share of loans issued to new users. We also



maintained strict discipline on payback periods. By improving the user experience, we increased retention and repeat borrowing which in turn raised user lifetime value.

In addition, we continued to scale back long-tail API channels with weaker customer quality and less stable returns. As a result, API channels share of new credit line users declined by 11 percentage points sequentially, while the API contribution to new loan originations fell by 3 percentage points. Following these adjustments, ROA for API channels improved by around 1.87 percentage points.

As our user and channel mix improved, the average pricing of new loans decreased further to 18.2% in Q2. A higher-quality user mix allows us to align our assets more effectively with funding demand while further strengthening our asset quality.

On the funding front, we further optimized our funding mix by increasing the contribution of ABS to external funding and proactively scaling back marginal assets with higher funding costs. As a result, our overall funding costs declined by approximately 10 basis points sequentially in Q2. Supported by our long track record of stable asset performance, our ABS issuance increased 90% sequentially to RMB5.5 billion in the quarter, while issuance costs decreased by around 20 basis points.

Following an unexpected industry event in late June, financial institutions have become increasingly risk-averse. Funding supply has fallen sharply, placing the industry under significant liquidity pressure. As a leading platform, we benefit from more diversified funding sources, stronger risk performance and asset pricing that aligns well with regulatory guidance. As a result, our funding supply has held up better than most of our peers. We expect funding conditions to remain tight in the second half of the year with funding costs to potentially increase. We will continue to build on our asset strengths and work to maintain stable funding supply. At the same time, we will better match funding with assets to improve capital efficiency and overall portfolio yields. Tighter funding conditions will also materially affect industry risk levels.

To prepare for potential volatility ahead, we will continue refining our risk management and asset distribution strategies while proactively optimizing the allocation of our collection resources. These steps will help us maintain an adequate margin of safety in a volatile market environment.

On the regulatory front, new requirements covering comprehensive financing cost of personal loans disclosures and the online marketing of financial products are taking effect in Q3. Together, these measures establish higher standards for transparency and consumer protection across the industry. They also raise the bar for our operational execution.

Meanwhile, an ongoing nationwide regulatory campaign targeting the collection industry has led to a severe shortage of collection capacity across the board and put significant near-term pressure on collection costs and efficiency. Over the longer term, however, these measures will help foster a healthier and more sustainable industry ecosystem. We expect industry resources to increasingly concentrate among leading players with reasonable pricing, strong risk management and disciplined operations.



As we strengthened the foundation of our credit business and refined our unit economics, we continued to advance our “One Core, Two Wings” strategy, extending our proven technology and credit capabilities to tech solutions for financial institutions and our overseas business.

In Q2, loan volume enabled by our tech solutions business reached RMB10.5 billion, up approximately 515% year-over-year, while outstanding loan balance reached around RMB16.1 billion at quarter end, up 313%.

Through *FocusPro* and other solutions, we embed our capabilities spanning customer acquisition, product, risk management, operations and post-loan management into the workflows of financial institutions, enabling banks to serve customer segments typically priced between 3% and 12%.

Our “AI plus Credit” strategy also made meaningful progress. Recently, we secured two AI agent development projects with banks covering marketing growth and credit risk management. Our AI Loan Officer will be deployed across the banks’ retail, SME and corporate banking businesses, supporting relationship managers from lead identification and customer engagement to conversion.

Our AI Credit Officer will support SME lending in areas such as transaction analysis, audio and video due diligence, and credit review and approval, which will help banks improve credit assessment and approval efficiency. These wins demonstrate growing recognition of our AI agent capabilities in real-world environments at financial institutions. With both projects entering implementation, we are now positioned to provide deeper support for the digital and intelligent transformation of financial institutions.

This progress comes as the regulatory framework for AI in financial services enters a new phase. Since July, regulators have issued a series of major policy documents, including guidance on the secure development and use of AI in banking and insurance sectors. These policies mark that “AI plus Finance” is shifting from encouraging innovation to prioritizing security and compliance. We believe this shift will create greater market opportunities for our AI solutions which are secure, compliant and deeply integrated into real-world financial workflows.

Overseas markets represent a long-term growth opportunity for us. By combining the technology and know-how we have developed in China's credit market with strong local operations, we are trying to build an efficient and replicable model for overseas expansion.

During the quarter, we continued to refine our risk models and deepen our understanding of the European and Latin American markets. Based on small-scale sample data, our models have already shown competitive performance in select markets. With continued iteration and refinement, we believe our strengths in risk management and technology will set us apart in overseas markets.

In Southeast Asia, we are steadily advancing licensing efforts, exploring partnership opportunities and building local teams. We expect more progress in the second half of the year. At this stage, we are taking a disciplined approach to overseas expansion, carefully balancing risk and capital deployment to ensure efficient capital allocation.



At the organizational level, we continued our transformation into an AI native company. We are gradually turning the knowledge and capabilities accumulated across our teams, documents and systems into organizational assets that AI can understand and use. We have also begun building our proprietary agent platform. The value of AI native transformation extends beyond efficiency gains. It is about turning individual and team experience into shared reusable organizational capabilities and creating a new form of organizational leverage. Over time this will accelerate learning and iteration across the organization while steadily raising both execution efficiency and the ceiling of what we can achieve.

Looking to the second half, industry adjustments are still underway, and market volatility is accelerating the exit of weaker platforms. In the process, we have already seen many competitors leaving the market. As a result, customer acquisition costs have fallen sharply and non-compliant practices are decreasing. Once the dust settles, we expect a more stable and predictable regulatory environment. We will remain disciplined and vigilant in our approach to both regulation and risk.

Under the new regulatory framework, we will continue to strengthen our capabilities, refine our business model and improve operating efficiency. Precedents from overseas markets suggest that as market transitions from disorder to order, even industry leaders often experience short-term pain. This is an inevitable part of the process. However, those that successfully navigate the transition will emerge better positioned for sustainable growth and long-term success.

Going forward, we will remain firmly committed to our “One Core, Two Wings” strategy, anchored by our domestic credit business and supported by tech solutions commercialization and overseas expansion. As we advance this strategy, we will continue to pursue sustainable, high-quality growth. We are confident that we will thrive over the long term. Thank you. With that, I will now turn the call over to Alex.

Alex Xu^ Thank you, Haisheng. Good morning and good evening, everyone. Welcome to our second quarter earnings call. It was a very eventful quarter where unexpected crisis at some peers in late June triggered an industry-wide liquidity squeeze, compounded by increasingly stringent regulatory scrutiny, which caused significant changes in industry behavior and reshaped the landscape. For the time being, our managerial priority is to maintain financial discipline and focus on cost reduction and risk mitigation.

Total net revenue for Q2 was RMB3.57 billion versus RMB3.91 billion in Q1 and RMB 5.22 billion a year ago. Revenue from credit-driven services, capital-heavy, was RMB2.6 billion in Q2 compared to RMB2.96 billion in Q1 and RMB3.57 billion a year ago. The year-on-year and sequential decline was mainly due to decrease in risk-bearing loans as well as a decline in average pricing of loans.

Overall funding cost declined roughly 10 basis points Q-on-Q as contribution from ABS increased in funding mix and off-balance sheet loans further declined in Q2. Revenue from platform service, capital-light, was RMB969.8 million in Q2 compared to RMB951.9 million in Q1 and RMB1.65 billion a year ago. The year-on-year decline was mainly due to significantly lower ICE contribution due to drastic changes in market conditions.



During the quarter, average IRR of the loans we originated and/or facilitated was 18.2% compared to 18.7% in the prior quarter. As we continued to focus on attracting and retaining high-quality users, looking forward, we may see modest fluctuation in average pricing under current regulatory framework.

Sales and marketing expenses declined 13% Q-on-Q and 40% year-on-year. We added approximately 830,000 new credit line users in Q2 versus 1.19 million in Q1. We took a more cautious view in customer acquisition and we will continue to maintain controlled pace to acquire new users in the near term in response to the volatile market environment and restrictive regulatory changes.

90-day delinquency rate was 2.83% in Q2 compared to 3.5% in Q1, which reflects improved risk performance early in 2026. As a reminder, 90-day delinquency rate is a lagging indicator and has little predicted power of future risk metrics. Day one delinquency rate was 5.6% in Q2 versus 5.7% in Q1. 30-day collection rate was 88.1% in Q2 versus 85.8% in Q1.

C-M2, which represents the outstanding delinquency rate after 30-day collection, was 0.66% in Q2 versus 0.8% in Q1. The noticeable risk improvement in Q2 was mainly related to our risk tightening measures and loan mix shift toward new loans.

While overall risk performance in July remained largely unchanged from June, the positive trend took a sudden reversal in August. The aftermath of the liquidity crisis at some peers and the nationwide regulatory action against the credit collection operations recently caused significant headwinds in the risk management across the entire financial service industry.

In response to the drastically changing industry dynamic, most participants started to lift their risk bar in August, which in turn caused a further tightening of liquidity supply in the market. We observed sharp upward swing of C-M2 in recent weeks, which may significantly impact our operations for the rest of the year.

While we already took proactive measures since late June and even more decisive actions in August, it will probably still take at least two to three quarters to bring the C-M2 ratio back to a reasonable level. Given current macro environment and regulatory changes, we continued to take a prudent approach to book provisions against potential credit losses.

Total new provisions for risk-bearing loans in Q2 were approximately RMB1.72 billion versus RMB1.68 billion in Q1. New provision booking ratio, which is defined as total new provision divided by total quarterly risk-bearing loan volume, reached a historical high at 5.36% in Q2. Write-backs of previous provisions were approximately RMB649 million in Q2 versus RMB308 million in Q1.

Provision coverage ratio, which is defined as total outstanding provisions divided by total outstanding delinquent risk-bearing loan balance between 90 and 180 days, were 472% in Q2 compared to 391% in Q1. Non-GAAP net profit was RMB455 million in Q2 compared to RMB946 million in Q1 and RMB1.85 billion a year ago. The significant year-on-year decline in profitability was mainly due to lower loan volume and pricing, and the deleveraging in operation.



In Q2, we incurred a one-off tax-related expense of approximately RMB500 million, which was caused by a change in tax treatment of certain entity based on the updated interpretation of related tax regulation by the tax authorities.

As a result, the effective tax rate for Q2 was 60.3%, significantly higher than normal. Based on the tax authorities' guidance, we now expect the effective tax rate for the operations to be around 20% going forward. Leverage ratio, which is defined as risk-bearing loan balance divided by shareholders' equity, was 2.1x in Q2 versus 2.4x in Q1 due to the lower risk-bearing loan balance. We expect to see leverage ratio fluctuated around this level in the near future.

We generated approximately RMB1.09 billion cash from operations in Q2 compared to RMB2.1 billion in Q1. Total cash and cash equivalents and short-term investments were RMB10.63 billion in Q2 compared to RMB10.79 billion in Q1. In Q2, we in aggregate repurchased approximately 463,000 of our ADSs in the open market for a total amount of approximately USD7 million, inclusive of commissions at the average price of RMB15.19 per ADS. We suspended the repurchase in late June due to the sudden outbreak of the liquidity crisis at some peers that triggered industry-wide liquidity squeeze and the panic.

In accordance with our current dividend policy, our Board has approved a dividend of USD0.23 per Class A ordinary share or USD0.46 per ADS for the first half of 2026 to holder of record of Class A ordinary share and ADS as of the close of the business day on September 9, 2026, Hong Kong time and New York Time, respectively. The dividend payout ratio is approximately 30%.

As we have discussed, given the volatile market environment and serious mishaps among some peers and intensifying regulatory scrutiny, we continue to face heavy headwinds in the coming quarters.

We believe the top priorities for the company and the management at this point in time are to mitigate risks, streamline operations, cut costs, and support strategic initiatives. Meanwhile, we may need to build additional financial buffer in the intermediate term to counter any unexpected industry volatility. In the long run, though, we still believe that optimizing capital allocation is key to drive long-term value for the company and stakeholders.

Finally, regarding our business outlook, given the macro and the regulatory headwinds, we will take an extra cautious approach in business planning for the rest of 2026. For the third quarter of 2026, the company expects to generate non-GAAP net income between RMB400 million and RMB500 million, representing a year-on-year decline between 67% and 73%. 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) The first question comes from Richard Xu with Morgan Stanley. Please go ahead.



Richard Xu^ Essentially, I have two questions. One is on the liquidity tightening in third quarter. Essentially, the company has taken what measures to control the credit quality and what is the expected vintage loss increases? And also, are there room in the provisions to cushion the impact? Second is, given the tightening of the collection policies, what's the expectation of the recovery ratio? And what are the measures the company has taken to mitigate the problems? Thank you.

Haisheng Wu^ Okay. Thank you, Richard. I think both of the questions are regarding risk management and collection issue. So I'll pass it over to Mr. Zheng Yan, our CRO.

Yan Zheng^ I will briefly translate for Mr. Zheng. The current uptick in risk was indeed triggered by a chain reaction set off by a well-known industry incident, compounded by the nationwide crackdown on the collection industry that began in late July. Since early July, financial institutions have visibly tightened their risk appetite, leading to a widespread funding shortage across the industry.

Smaller platforms with weaker qualifications have faced even more severe funding constraints. Funding conditions tightened further in August and have shown no sign of improvement to date. At the same time, the ongoing nationwide regulatory campaign targeting the collection industry has created severe shortages in collection capacity with a notable impact on recovery efficiency. This is a challenge faced universally across the industry.

On the risk front, overall performance remained relatively stable in July with C-M2 remaining largely flat compared to June. However, risk levels began to rise in August. Based on early-stage risk indicators of FPD3 and FPD7 for August, we have seen an increase of approximately 20% month-over-month. We expect C-M2 for August to increase by roughly 25% sequentially.

Based on our discussions with peers, most platforms experienced a sharp spike in risk in August and have been actively adjusting their risk strategies. That said, the observed risk trends are still relatively short-term in nature, and we will need more time to assess the ultimate risk level, taking into account evolving market conditions and actual collection performance.

As such, risk management has become our top priority in recent months. Based on our ongoing monitoring of evolving market conditions, we have progressively escalated our response from a precautionary tightening stance in late June to early July to an accelerated tightening approach in August. We moved swiftly to deploy measures across two key areas: risk strategy and post-loan management.

In terms of risk strategies, we will further strengthen the identification of high-risk customer segments with a particular focus on those exhibiting multi-platform borrowing, exposure to mid- and lower-tier platform distress, liquidity strain, frequent short-term delinquencies and unstable income profiles.



We will accelerate the iteration of our short-term risk models, increasing the update frequency of key models from monthly to weekly to enhance our ability of identifying inflection points in customer risk behavior.

At the same time, we are tightening underwriting standards across new originations and optimizing our customer mix. We are reducing risk exposure across three dimensions – customer engagement, transaction approval and asset distribution – by lowering credit limits, tightening approval rates, and raising the bar for both on-balance sheet and capital-heavy loan facilitation assets.

Going forward, we will continue to monitor early-stage risk metrics such as FPD3 and FPD7 for new loans as well as DPD7 for existing portfolios, while tracking risk divergence across different customer segments and channels.

Should these indicators do not stabilize, we plan to further tighten segment-specific screening criteria and asset distribution controls by late August to early September.

On the post-loan management front, our near-term priority is to stabilize staffing and collection capacity, optimize case allocation, and prevent further deterioration in both delinquency inflow and collection rates.

For high-risk segments, such as those with significant multi-platform borrowing, repeat delinquencies or high-risk scores from our collection scorecard, we are intervening early with dedicated personnel and offering relief plans.

Over the medium term, we aim to build a sustainable post-loan management capability that balances recovery performance with regulatory compliance through intelligent negotiation tools, differentiated relief solutions and closer integration between pre-loan and post-loan processes. And now I will pass over to CFO for the questions regarding provision.

Alex Xu^ Okay. On provision, given the current market condition, the volatility and the significant challenge to asset quality, we have maintained a very prudent provision approach, right? In Q2, as I mentioned, new provision as a percentage of risk-bearing loan reached a historical high at approximately 5.4%.

As you may know, our normalized risk control target is to keep a vintage loss largely within the range of 3% to 3.5%. And historically, we only have two quarters to reach that level to be around 4%. So basically, even under the most extreme assumptions, we believe our current provision level are more than sufficient to cover potential losses in any dramatic industry or market events. Operator, next one.

Operator^ The next question comes from Alex Ye with UBS.

Alex Ye^ So I'll translate for my question. So what's the current loan volume run rate for your July and August? So how much does it decline from the Q2 level? And was this decline largely due to the shortage of funding supply or is it more due to your proactive risk appetite control? And so should we take this as a temporary shock given the ongoing industry difficulties? And let's say, if we do see the funding supply getting normalized afterwards, should we expect this loan volume to somehow recover to your Q2 level?



Haisheng Wu^ Okay. Alex, let me take this one. In terms of loan volume, starting in July, we saw a significant tightening of industry-wide funding supply. Our ICE business was the most affected segment. The capital-light model experienced a minor impact, while funding for on-balance sheet and capital-heavy loans remained relatively unaffected.

The liquidity issue caused about 10% direct impact on our loan volume in July. At the same time, given early signs of customer co-borrowing and liquidity stress, we also proactively tightened some risk exposure. Combined, these factors led to a 15% decline in July loan volume. In August, ICE funding tightened further, while funding for on-balance sheet loans and capital-heavy and capital-light loan remained sufficient.

However, given our own risk performance and our assessment of current market environment, including liquidity pressures and constraints to collection resources, we decided to adopt a more conservative risk strategy and tightened further from July. As risk optimization takes time, we expect to remain cautious on origination throughout Q3.

So the volume decline in July was partly due to funding availability, while the pullback in August and September is more about our own risk appetite tightening. As a leading platform, we have more diversified funding, stronger risk performance and regulatory aligned pricing, giving us far greater funding resilience than most peers.

Based on past experience, risk optimization typically takes two to three quarters. So we don't expect the loan volume to return to Q2 levels anytime soon. On the funding side, with regulatory uncertainty still there and the shakeout of smaller players still ongoing, we will stay cautious and prioritize the asset quality in the near term. We will revisit growth after the industry environment stabilizes.

Operator^ The next question comes from Emma Xu with BofA Securities.

Emma Xu^ So given the deteriorating industry environment, coupled with tightening regulatory trends, will the company adjust the shareholder return policy?

Alex Xu^ Okay. Emma, I will take on this one. While we are still generating decent earnings and solid operating cash flow, the ongoing industry adjustment has clearly put pressure on our profitability and cash flow for the next few quarters.

In the near term, as regulatory uncertainty lingers and market volatility intensifies, we have established a clear set of priorities in terms of capital allocation. Our first and foremost priority is to weather the storm and safeguard the safety of the company as well as the company's long-term operational stability.

In addition, we will continue to put resources to our long-term strategic initiatives. And of course, in the long run, we still intend to maintain a reasonable shareholder return policy. And going forward, as the industry and the regulatory environment evolves, we will continuously assess and optimize our capital allocation strategy based on our sustainable normalized earnings and cash flows. Thank you.

Operator^ The next question comes from Cindy Wang with China Renaissance.



Cindy Wang^ So I have one question. Could management tell us the main assumptions behind the Q3 guidance? And what are the key factors behind the changes? And how does management view the long-term trend of these metrics?

Alex Xu^ Okay. Cindy, I will take this one as well. In Q3, we are obviously operating in a very highly volatile market environment. Funding supply across the industry has become extremely tight with the severe liquidity pressure on market players. The implementation of the multiple new regulatory policies also adds operational uncertainty. At the same time, a wave of small platforms is facing accelerated exiting due to the funding depletion and deteriorating asset quality, further amplifying the market volatility.

In such an environment, I think we must remain highly disciplined. Risk control and efficiency comes first and growth takes a back seat. okay? For Q3, in terms of loan volume, we are assuming a meaningful decline from Q2 as we have tightened our risk control measures significantly in this challenging market condition.

However, given the liquidity pressure and the impact on ongoing regulatory campaign on collections and the fact that the major platforms are all pulling back at the same time, we still expect the C-M2 for Q3 to rise noticeably from Q2 level.

On provision, as I mentioned earlier, we will continue to take a prudent approach to reflect actual risk performance and the changes in the market dynamic. And in terms of funding cost, we've already seen external funding costs increased by around 25 basis points in July and August.

We expect the recent risk volatility to heighten the funding partners' concern and further tighten the funding supply. At the same time, some institutional investors have become more risk-averse in their ABS subscription. As a result, we anticipate overall funding costs will trend up in the second half of the year.

And we take a more conservative approach to customer acquisition, as Haisheng mentioned earlier. Rather than pursuing volume, we will focus on sharpening the acquisition efficiency, improving customer quality and enhancing user life cycle value.

Over the past two months, nearly every key element of our business has changed dramatically and all in the ways that interconnect to each other and hard to entangle. This is not a company-specific issue. It's an industry-wide phenomenon, making our operational environment far more complex. That said, as industry consolidation plays out, we expect consolidation condition to normalize and most of these factors to come back to their normal trajectory over the course of the next few quarters. Thank you.

Operator^ The next question comes from Yoyo Fan with CICC.

Yoyo Fan^ This is Yoyo Fan from CICC. Two questions here. Firstly, lots of small to medium platforms are now facing liquidity pressure. So how do you view the current market environment and the competitive landscape? And what's your customer acquisition and growth strategy for the second half of the year?



Secondly, we have seen quite a big shift in the domestic operating environment over the past six months. How do you consider about building up the overseas strategy? Could you walk us through the latest update on the overseas market? These two questions.

Haisheng Wu^ Okay. Thank you, Yoyo. Let me take both as well. In terms of competition, the well-known incident has tightened industry funding and driven acquisition spending down across the board. Industry-wide spending fell nearly 50% month-over-month in July with another 20% in August.

Today, only a handful of platforms including us are still spending meaningfully. Most peers have pulled back sharply and long-tail players are even leaving market. So purely on acquisition cost and spending intensity, market competition has clearly moderated compared to the past.

From our perspective, however, liquidity remains tight, regulations are still evolving and the quality of new customers also require ongoing monitoring. We are, therefore, focusing on the actual return from acquisition spending.

At this stage, we place greater emphasis on the returns from our acquisition spending. Rather than simply pursuing new customer volume, we aim to enhance the long-term value generated by each dollar spent on acquisition while maintaining a disciplined approach to risk.

On execution, we are bidding differently by user risk and value, prioritizing higher-LTV users while keeping acquisition costs in check. We are also improving user experience and engagement to lift retention and repeat rates. On API channel, we are reallocating resources dynamically based on profitability, cutting back on long-tail channels with weaker quality and stability to build a safety margin.

Following our adjustment in the first half of the year, ROE for API channel improved by more than 1 percentage point, further strengthening the resilience of our overall business against the market volatility.

Looking into the second half, we expect industry adjustment and the exit of weaker platforms to continue for some time. Our near-term focus is, therefore, to strengthen the fundamentals of our business, improve our customer and channel mix as well as enhancing the efficiency of funding matching. Over the longer term, we believe the industry will become healthier after this round of adjustment. And market share is likely to become increasingly concentrated among leading platforms.

For us, this is not only a process of refining our business structure, but also an opportunity to further strengthen our competitive position. Once the market becomes more sensible and competition returns to a normal level, we will be well positioned to adjust our market spending timely and capture new growth opportunities.

And for your second question, in terms of overseas expansion, we have made steady progress in Europe and Latin America, deepening market knowledge, localizing risk models and balancing growth and risk through diversified business models.



In Latin America, our self-built models are already showing encouraging early results, and we are iterating on models and user selection strategies. In Europe, we have deployed our own models and are leveraging local credit bureau and open banking data to sharpen risk detection. In Southeast Asia and other high-potential markets, we are advancing licensing, building teams and exploring partnerships.

In every overseas market, we treat regulation and risk with deep respect. We also know that risk model validation and unit economics refinement take time. We are still early in all these markets with small teams, small capital, modest test and learning on business model, customer acquisition and risk control, watching risk reward closely.

As we prove our capabilities, we will bring in external funding to reduce the burden on our own balance sheet. For us, overseas expansion is a long game, and I think we have enough patience. That's all. Thank you.

Operator^ There are no further phone questions at this time. I'll now hand it back to management for closing remarks. Please go ahead.

Alex Xu ^ Okay. Thank you again for joining us. If you have additional questions, please reach us offline. Thank you.

Karen Ji^ Thank you.

Operator^ That does conclude our conference call for today. Thank you for participating. And you may now disconnect.