The following is the text of a report set out on pages IA-1 to IA-72, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF 360 DIGITECH, INC. AND CITIGROUP GLOBAL MARKETS ASIA LIMITED AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of 360 DigiTech, Inc. (formerly known as 360 Finance, Inc.) (the "Company") and its subsidiaries (together, the "Group") set out on pages IA-4 to IA-72, which comprises the consolidated balance sheets of the Group as at December 31, 2019, 2020, 2021 and June 30, 2022, the consolidated statements of operations, the consolidated statements of comprehensive income or loss, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended December 31, 2021 and the six months ended June 30, 2022 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IA-4 to IA-72 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated November 18, 2022 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at December 31, 2019, 2020, 2021 and June 30, 2022 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of operations, the consolidated statement of comprehensive income or loss, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2021 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IA-4 have been made.

Dividends

We refer to Note 15 to the Historical Financial Information which contains information about the dividends declared and paid by the Company in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
November 18, 2022

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on previously issued consolidated financial statements of the Group for each of the three years ended December 31, 2021 and the consolidated financial statements of the Group for the six months ended June 30, 2022 (collectively referred as the "Underlying Financial Statements"). The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The previously issued consolidated financial statements of the Group for each of the three years ended December 31, 2021 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") relating to the consolidated financial statements and the effectiveness of internal control over financial reporting. The consolidated financial statements of the Group for the six months ended June 30, 2022 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of the PCAOB relating to the consolidated financial statements only.

The Historical Financial Information is presented in Renminbi ("RMB") and United States Dollars ("US$" or "USD") and all values are rounded to the nearest thousand except when otherwise indicated.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

	Notes	As of December 31, 2019 RMB	As of December 31, 2020 RMB	As of December 31, 2021 RMB	As of June 30, 2022 RMB	As of June 30, 2022 USD (Note 2)
ASSETS						
Current assets:						
Cash and cash equivalents		2,108,123	4,418,416	6,116,360	6,965,238	1,039,883
Restricted cash (including RMB354,104, RMB348,976, RMB657,075 and RMB1,420,864 from the consolidated trusts as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)		1,727,727	2,355,850	2,643,587	3,764,988	562,098
Security deposit prepaid to third-party guarantee companies		932,983	915,144	874,886	698,478	104,280
Funds receivable from third party payment service providers		118,860	131,464	153,151	312,447	46,647
Accounts receivable and contract assets, net (net of allowance of RMB189,829, RMB217,306, RMB287,538 and RMB295,934 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	*3*	2,332,364	2,394,528	3,097,254	3,499,385	522,444
Financial assets receivable, net (net of allowance of RMB164,563, RMB322,094, RMB432,658 and RMB455,181 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	*4*	1,912,554	3,565,482	3,806,243	3,618,560	540,237
Amounts due from related parties (net of allowance of RMB68,567, RMB10,333, RMB99,962 and RMB117,339 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	*10*	478,767	193,305	837,324	733,386	109,492
Loans receivable, net (including RMB9,099,099, RMB6,447,233, RMB8,646,950 and RMB9,545,367 from the consolidated trusts as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	*5*	9,239,565	7,500,629	9,844,481	10,850,458	1,619,931
Prepaid expenses and other assets (including RMB95,840, RMB101,729, RMB104,515 and RMB104,515 from the consolidated trusts as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)		652,545	401,224	383,937	364,908	54,479
Total current assets		**19,503,488**	**21,876,042**	**27,757,223**	**30,807,848**	**4,599,491**

	Notes	As of December 31, 2019	2020	2021	As of June 30, 2022	2022
		RMB	*RMB*	*RMB*	*RMB*	*USD* *(Note 2)*
Non-current assets:						
Accounts receivable and contract assets, net-noncurrent (net of allowance of RMB1,763, RMB38,521, RMB28,374 and RMB28,779 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	*3*	19,508	307,937	223,474	291,908	43,581
Financial assets receivable, net-noncurrent (net of allowance of RMB6,240, RMB68,740, RMB60,988 and RMB64,382 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	*4*	59,270	645,326	597,965	683,078	101,981
Amounts due from related parties (net of allowance of RMB nil, RMB nil, RMB22,055 and RMB7,837 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	*10*	–	–	140,851	55,136	8,231
Loans receivable, net-noncurrent (including RMB nil, RMB37,157, RMB1,829,804 and RMB1,023,231 from the consolidated trusts as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	*5*	–	87,685	2,859,349	3,657,879	546,107
Property and equipment, net		17,113	19,360	24,941	20,487	3,059
Land use rights, net	*6*	–	–	1,018,908	1,008,548	150,572
Intangible assets		3,512	3,403	4,961	5,231	781
Deferred tax assets	*11*	697,348	1,398,562	834,717	1,059,963	158,248
Other non-current assets		55,362	48,990	42,606	76,030	11,351
Total non-current assets		**852,113**	**2,511,263**	**5,747,772**	**6,858,260**	**1,023,911**
TOTAL ASSETS		**20,355,601**	**24,387,305**	**33,504,995**	**37,666,108**	**5,623,402**

	Notes	As of December 31, 2019	As of December 31, 2020	As of December 31, 2021	As of June 30, 2022	As of June 30, 2022
		RMB	*RMB*	*RMB*	*RMB*	*USD* *(Note 2)*
LIABILITIES AND EQUITY						
LIABILITIES						
Liabilities including amounts of the consolidated VIEs and trusts without recourse to the Company (Note 2):						
Current liabilities:						
Payable to investors of the consolidated trusts-current		4,423,717	3,117,634	2,304,518	5,224,973	780,068
Accrued expenses and other current liabilities	*8*	720,918	809,761	2,258,329	2,117,357	316,113
Amounts due to related parties	*10*	55,622	71,562	214,057	178,687	26,677
Short-term loans	*7*	200,000	186,800	397,576	611,164	91,244
Guarantee liabilities-stand ready	*9*	2,212,125	4,173,497	4,818,144	4,538,963	677,649
Guarantee liabilities-contingent	*9*	734,730	3,543,454	3,285,081	3,320,414	495,725
Income tax payable	*11*	1,056,219	1,227,314	624,112	654,347	97,691
Other tax payable		263,856	254,486	241,369	177,611	26,517
Total current liabilities		**9,667,187**	**13,384,508**	**14,143,186**	**16,823,516**	**2,511,684**
Non-current liabilities:						
Deferred tax liabilities	*11*	–	37,843	121,426	173,777	25,944
Payable to investors of the consolidated trusts-noncurrent		3,442,500	1,468,890	4,010,597	3,613,690	539,510
Other long-term liabilities		31,184	14,974	13,177	34,147	5,099
Total non-current liabilities		**3,473,684**	**1,521,707**	**4,145,200**	**3,821,614**	**570,553**
TOTAL LIABILITIES		**13,140,871**	**14,906,215**	**18,288,386**	**20,645,130**	**3,082,237**

	As of December 31,			As of June 30,	
	2019	**2020**	**2021**	**2022**	**2022**
	RMB	*RMB*	*RMB*	*RMB*	*USD*
					(Note 2)
Commitments and Contingencies (Note 17)					
SHAREHOLDERS' EQUITY					
Ordinary shares ($0.00001 par value per share 5,000,000,000 shares authorized, 302,707,339 shares issued and 293,420,800 shares outstanding as of December 31, 2019, 309,833,035 shares issued and 304,453,780 shares outstanding as of December 31, 2020, 315,433,018 shares issued and 310,486,975 shares outstanding as of December 31, 2021, 315,433,018 shares issued and 312,459,711 shares outstanding as of June 30, 2022, respectively)	20	21	22	22	3
Additional paid-in capital	5,117,184	5,417,406	5,672,267	5,771,100	861,603
Retained earnings	2,071,332	4,137,542	9,642,506	11,314,746	1,689,247
Other comprehensive income (loss)	24,906	(74,391)	(110,932)	(67,612)	(10,094)
TOTAL 360 DIGITECH, INC. EQUITY	**7,213,442**	**9,480,578**	**15,203,863**	**17,018,256**	**2,540,759**
Non-controlling interests	1,288	512	12,746	2,722	406
TOTAL EQUITY	**7,214,730**	**9,481,090**	**15,216,609**	**17,020,978**	**2,541,165**
TOTAL LIABILITIES AND EQUITY	**20,355,601**	**24,387,305**	**33,504,995**	**37,666,108**	**5,623,402**

The accompanying notes are an integral part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

	Notes	Year ended December 31, 2019 RMB	2020 RMB	2021 RMB	Six months ended June 30, 2021 RMB (unaudited)	2022 RMB	2022 USD (Note 2)
Revenue, net of value-added tax and related surcharges:							
Credit driven services		**8,013,391**	**11,403,675**	**10,189,167**	**4,856,038**	**5,868,397**	**876,129**
Loan facilitation and servicing fees-capital heavy (including revenue from related parties of RMB791,482, RMB121,933, RMB93, RMB93 (unaudited) and RMB1,515 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		6,273,131	4,596,555	2,326,027	1,265,047	1,141,771	170,462
Financing income		1,309,616	2,184,180	2,184,128	897,528	1,608,820	240,191
Revenue from releasing of guarantee liabilities		285,407	4,506,935	5,583,135	2,647,734	3,074,515	459,013
Other services fees		145,237	116,005	95,877	45,729	43,291	6,463
Platform services		**1,206,456**	**2,160,279**	**6,446,478**	**2,744,729**	**2,634,849**	**393,373**
Loan facilitation and servicing fees-capital light (including revenue from related parties of RMB48,747, RMB214,296, RMB2,160,856, RMB1,036,893 (unaudited) and RMB656,203 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		814,581	1,826,654	5,677,941	2,392,602	2,128,955	317,845
Referral services fees (including revenue from related parties of RMB197,018, RMB10,149, RMB7,670, RMB nil (unaudited) and RMB108,757, for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		375,551	265,300	620,317	286,594	382,650	57,128
Other services fees (including revenue from related parties of RMB nil, RMB nil, RMB8,571, RMB13,050 (unaudited) and RMB20,526 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		16,324	68,325	148,220	65,533	123,244	18,400
Total net revenue		**9,219,847**	**13,563,954**	**16,635,645**	**7,600,767**	**8,503,246**	**1,269,502**

	Notes	Year ended December 31, 2019 RMB	2020 RMB	2021 RMB	Six months ended June 30, 2021 RMB (unaudited)	2022 RMB	2022 USD (Note 2)
Operating costs and expenses:							
Facilitation, origination and servicing (including costs charged by related parties of RMB47,203, RMB93,178, RMB142,325, RMB57,639 (unaudited) and RMB63,448 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		1,083,372	1,600,564	2,252,157	1,035,735	1,170,561	174,760
Funding costs		344,999	595,623	337,426	162,242	227,630	33,984
Sales and marketing (including expenses charged by related parties of RMB57,319, RMB40,030, RMB367,320, RMB113,988 (unaudited) and RMB246,546 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		2,851,519	1,079,494	2,090,374	884,946	1,167,657	174,327
General and administrative (including expenses charged by related parties of RMB24,540, RMB10,673, RMB13,409, RMB6,451 (unaudited) and RMB8,252 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		428,189	455,952	557,295	243,774	216,148	32,270
Provision for loans receivable		486,991	698,701	965,419	381,887	907,317	135,459
Provision for financial assets receivable (including provision generated from related parties of RMB15,236, RMB26,337, RMB807, RMB807 (unaudited) and RMB342 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		166,176	312,058	243,946	103,576	164,217	24,517
Provision for accounts receivable and contract assets (including provision generated from related parties of RMB35,276, RMB75,070, RMB124,095, RMB78,542 (unaudited) and RMB13,400 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		230,280	237,277	324,605	157,116	117,025	17,471
Provision for contingent liabilities		–	4,794,127	3,078,224	1,220,586	2,162,638	322,873

	Notes	Year ended December 31, 2019 RMB	2020 RMB	2021 RMB	Six months ended June 30, 2021 RMB (unaudited)	2022 RMB	2022 USD (Note 2)
Expense on guarantee liabilities (including provision generated from related parties of RMB67,587, RMB nil, RMB nil, RMB nil (unaudited) and RMB nil for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		734,730	–	–	–	–	–
Total operating costs and expenses		**6,326,256**	**9,773,796**	**9,849,446**	**4,189,862**	**6,133,193**	**915,661**
Income from operations		**2,893,591**	**3,790,158**	**6,786,199**	**3,410,905**	**2,370,053**	**353,841**
(Expense) interest income, net		(41,707)	77,169	126,256	82,875	68,188	10,180
Foreign exchange (loss) gain		(24,875)	101,534	35,549	13,895	(86,658)	(12,938)
Investment income (loss)		–	–	10,115	–	(8,996)	(1,343)
Other income, net		140,278	112,884	64,590	50,811	203,458	30,375
Income before income tax expense		**2,967,287**	**4,081,745**	**7,022,709**	**3,558,486**	**2,546,045**	**380,115**
Income tax expense	*11*	(465,983)	(586,036)	(1,258,196)	(663,357)	(396,732)	(59,231)
Net income		**2,501,304**	**3,495,709**	**5,764,513**	**2,895,129**	**2,149,313**	**320,884**
Net loss (income) attributable to non-controlling interests		291	897	17,212	(42)	10,024	1,497
Net income attributable to ordinary shareholders of the Company		**2,501,595**	**3,496,606**	**5,781,725**	**2,895,087**	**2,159,337**	**322,381**
Net income per ordinary share attributable to ordinary shareholders of 360 DigiTech, Inc.							
Basic	*18*	8.66	11.72	18.82	9.46	6.94	1.04
Diluted	*18*	8.31	11.40	17.99	9.02	6.74	1.01
Net income per ADS attributable to ordinary shareholders of 360 DigiTech, Inc. *(1)*							
Basic		17.32	23.44	37.64	18.92	13.88	2.08
Diluted		16.62	22.80	35.98	18.04	13.48	2.02
Weighted average shares used in calculating net income per ordinary share							
Basic		288,827,604	298,222,207	307,265,600	305,886,883	311,109,257	311,109,257
Diluted		300,938,470	306,665,099	321,397,753	320,958,192	320,251,194	320,251,194

(1) Based on ADS ratio of 1 ADS to 2 ordinary shares.

The accompanying notes are an integral part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS
(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

	Year ended December 31,			Six months ended June 30,		
	2019	**2020**	**2021**	**2021**	**2022**	**2022**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*USD*
				(unaudited)		*(Note 2)*
Net income	2,501,304	3,495,709	5,764,513	2,895,129	2,149,313	320,884
Other comprehensive income (loss), net of tax of nil:						
Foreign currency translation adjustment	21,223	(99,297)	(36,541)	(15,792)	43,320	6,468
Other comprehensive income (loss)	21,223	(99,297)	(36,541)	(15,792)	43,320	6,468
Total comprehensive income	2,522,527	3,396,412	5,727,972	2,879,337	2,192,633	327,352
Comprehensive loss (income) attributable to non-controlling interests	291	897	17,212	(42)	10,024	1,497
Comprehensive income attributable to ordinary shareholders	2,522,818	3,397,309	5,745,184	2,879,295	2,202,657	328,849

The accompanying notes are an integral part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

	Notes	Number of ordinary shares	Ordinary shares	Additional Paid-in capital	Accumulated (deficit)/ Retained earnings	Other Comprehensive Income (loss)	Non-controlling interests	Total equity
			RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2018		**287,652,707**	**20**	**4,866,756**	**(430,263)**	**3,683**	**–**	**4,440,196**
Issuance of ordinary shares	13	5,768,093	–	–	–	–	–	–
Share-based compensation	12	–	–	250,428	–	–	–	250,428
Other comprehensive income		–	–	–	–	21,223	–	21,223
Net income (loss)		–	–	–	2,501,595	–	(291)	2,501,304
Contribution by non-controlling interests		–	–	–	–	–	1,579	1,579
Balance as of December 31, 2019		**293,420,800**	**20**	**5,117,184**	**2,071,332**	**24,906**	**1,288**	**7,214,730**
Adoption of ASC 326		–	–	–	(1,430,396)	–	–	(1,430,396)
Issuance of ordinary shares	13	11,032,980	1	–	–	–	–	1
Share-based compensation	12	–	–	301,161	–	–	–	301,161
Other comprehensive loss		–	–	–	–	(99,297)	–	(99,297)
Net income (loss)		–	–	–	3,496,606	–	(897)	3,495,709
Contribution by non-controlling interests		–	–	–	–	–	129	129
Acquisition of non-controlling interests		–	–	(939)	–	–	(8)	(947)
Balance as of December 31, 2020		**304,453,780**	**21**	**5,417,406**	**4,137,542**	**(74,391)**	**512**	**9,481,090**
Issuance of ordinary shares	13	6,033,212	1	–	–	–	–	1
Cancellation of ordinary shares		(17)	–	–	–	–	–	–
Share-based compensation	12	–	–	253,922	–	–	–	253,922
Dividends to shareholders	15	–	–	–	(276,761)	–	–	(276,761)
Other comprehensive loss		–	–	–	–	(36,541)	–	(36,541)
Net income (loss)		–	–	–	5,781,725	–	(17,212)	5,764,513
Disposal of a subsidiary		–	–	939	–	–	(554)	385
Contribution by non-controlling interests holders to a subsidiary		–	–	–	–	–	30,000	30,000
Balance as of December 31, 2021		**310,486,975**	**22**	**5,672,267**	**9,642,506**	**(110,932)**	**12,746**	**15,216,609**

	Notes	Number of ordinary shares	Ordinary shares RMB	Additional Paid-in capital RMB	Retained earnings RMB	Other Comprehensive Income (loss) RMB	Non-controlling interests RMB	Total equity RMB
(unaudited)								
Balance as of December 31, 2020		**304,453,780**	**21**	**5,417,406**	**4,137,542**	**(74,391)**	**512**	**9,481,090**
Issuance of ordinary shares	*13*	3,310,860	–	–	–	–	–	–
Share-based compensation	*12*	–	–	126,830	–	–	–	126,830
Other comprehensive income		–	–	–	–	(15,792)	–	(15,792)
Net income		–	–	–	2,895,087	–	42	2,895,129
Balance as of June 30, 2021		**307,764,640**	**21**	**5,544,236**	**7,032,629**	**(90,183)**	**554**	**12,487,257**

	Notes	Number of ordinary shares	Ordinary shares RMB	Additional Paid-in capital RMB	Retained earnings RMB	Other Comprehensive loss RMB	Non-controlling interests RMB	Total equity RMB
Balance as of December 31, 2021		**310,486,975**	**22**	**5,672,267**	**9,642,506**	**(110,932)**	**12,746**	**15,216,609**
Issuance of ordinary shares	*13*	1,972,736	–	–	–	–	–	–
Share-based compensation	*12*	–	–	98,833	–	–	–	98,833
Dividends to shareholders	*15*	–	–	–	(487,097)	–	–	(487,097)
Other comprehensive loss		–	–	–	–	43,320	–	43,320
Net income (loss)		–	–	–	2,159,337	–	(10,024)	2,149,313
Balance as of June 30, 2022		**312,459,711**	**22**	**5,771,100**	**11,314,746**	**(67,612)**	**2,722**	**17,020,978**

The accompanying notes are an integral part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

	Year ended December 31,			Six months ended June 30,		
	2019	2020	2021	2021	2022	2022
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*USD*
				(unaudited)		*(Note 2)*
Cash Flows from Operating Activities:						
Net income	2,501,304	3,495,709	5,764,513	2,895,129	2,149,313	320,884
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation, amortization and reduction in right-of-use assets	7,642	36,063	65,973	23,761	39,650	5,920
Share-based compensation	250,428	301,161	253,922	126,830	98,833	14,755
Gain on disposal of investment	–	–	(10,115)	–	–	–
Investment loss	–	–	–	–	8,996	1,343
Provision for loans receivable, financial assets receivable and accounts receivable and contract assets	883,447	1,248,036	1,553,970	642,579	1,188,559	177,447
Provision for contingent liabilities	–	4,794,127	3,078,225	1,220,586	2,162,638	322,873
Foreign exchange loss (gain)	19,461	(101,534)	(35,550)	(13,895)	86,658	12,938
Changes in operating assets and liabilities						
Funds receivable from third party payment service providers	23,762	(12,604)	(21,687)	24,034	(159,295)	(23,782)
Accounts receivable and contract assets	(755,132)	(512,799)	(819,931)	152,151	(574,191)	(85,724)
Financial assets receivable	(929,143)	(2,464,534)	(436,538)	(534,353)	(61,305)	(9,153)
Prepaid expenses and other assets	(536,940)	253,185	11,378	86,702	15,698	2,344
Security deposit prepaid to third-party guarantee companies	(137,283)	17,839	40,258	(45,848)	176,407	26,337
Deferred tax	(713,106)	(326,542)	647,429	432,815	(172,895)	(25,813)
Other non-current assets	(55,362)	(18,423)	(27,846)	(9,659)	(54,068)	(8,072)
Amounts due (from) to related parties	(68,138)	199,995	(776,431)	(752,106)	140,542	20,982
Guarantee liabilities	1,547,680	(1,912,852)	(2,691,248)	(1,171,421)	(2,406,485)	(359,279)
Income tax payable	624,153	171,095	(603,202)	(350,383)	30,234	4,514
Other tax payable	99,378	52,056	(13,117)	(5,749)	(63,758)	(9,519)
Land use rights, net	–	–	(1,036,178)	(1,036,178)	–	–
Accrued expenses and other current liabilities	206,801	88,842	897,670	360,563	(93,959)	(14,028)
Other long-term liabilities	31,184	(16,210)	(1,799)	(2,369)	20,969	3,131
Interest receivable/payable	(27,061)	33,200	(49,996)	(41,550)	5,370	802
Net cash provided by operating activities	**2,973,075**	**5,325,810**	**5,789,700**	**2,001,639**	**2,537,911**	**378,900**

	Year ended December 31,			Six months ended June 30,		
	2019	2020	2021	2021	2022	2022
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*USD*
				(unaudited)		*(Note 2)*
Cash Flows from Investing Activities:						
Purchase of property and equipment and intangible assets	(25,558)	(15,272)	(25,307)	(9,807)	(4,476)	(668)
Loans provided to related parties	–	–	(50,000)	(50,000)	–	–
Repayment of loans provided to related parties	–	–	50,000	–	–	–
Investment in loans receivable	(26,339,327)	(38,720,482)	(40,168,794)	(17,336,499)	(24,707,860)	(3,688,786)
Collection of investment in loans receivable	17,504,444	39,628,524	34,131,231	15,108,308	22,023,551	3,288,030
Disposal of subsidiaries, net of cash received	–	–	(1,458)	–	3,349	500
Capital injection to an investee entity	–	–	–	–	(8,996)	(1,343)
Net cash (used in) provided by investing activities	**(8,860,441)**	**892,770**	**(6,064,328)**	**(2,287,998)**	**(2,694,432)**	**(402,267)**
Cash Flows from Financing Activities:						
Payment of Initial Public Offering ("IPO") costs	(4,838)	–	–	–	–	–
Proceeds from short term loans	1,700,000	186,800	364,053	150,327	190,179	28,393
Repayment of short term loans	(1,500,000)	(200,000)	(150,000)	–	–	–
Loans from Qibutianxia	300,000	–	–	–	–	–
Loans payment to Qibutianxia	(300,000)	–	–	–	–	–
Cash received from investors of the consolidated trusts	8,360,230	3,092,101	5,928,773	3,015,273	4,514,320	673,970
Cash paid to investors of the consolidated trusts	(847,534)	(6,360,483)	(4,193,425)	(2,442,693)	(2,023,656)	(302,124)
Dividend to shareholders	–	–	–	–	(551,666)	(82,362)
Contribution from non-controlling interests	–	129	30,000	–	–	–
Acquisition of non-controlling interests	–	(947)	–	–	–	–
Loans received from non-controlling interests	–	–	344,487	344,487	–	–
Loans payment to non-controlling interests	–	–	(60,168)	(30,168)	–	–
Cash received from a related party for investment	–	–	354,667	344,487	–	–
Cash repayment to a related party	–	–	(354,667)	(30,168)	–	–

	Year ended December 31,			Six months ended June 30,		
	2019	2020	2021	2021	2022	2022
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*USD*
				(unaudited)		*(Note 2)*
Net cash provided by (used in) financing activities	**7,707,858**	**(3,282,400)**	**2,263,720**	**1,351,545**	**2,129,177**	**317,877**
Effect of foreign exchange rate changes	1,762	2,236	(3,411)	(2,752)	(2,377)	(355)
Net increase in cash and cash equivalents	1,822,254	2,938,416	1,985,681	1,062,434	1,970,279	294,155
Cash, cash equivalents, and restricted cash, beginning of year/period	2,013,596	3,835,850	6,774,266	6,774,266	8,759,947	1,307,826
Cash, cash equivalents, and restricted cash, end of year/period	**3,835,850**	**6,774,266**	**8,759,947**	**7,836,700**	**10,730,226**	**1,601,981**
Supplemental disclosures of cash flows information:						
Income taxes paid	(557,295)	(741,490)	(1,213,913)	(580,879)	(539,393)	(80,529)
Interest paid (not including interest paid to investors of consolidated trusts)	(65,776)	(5,728)	(13,757)	(6,727)	(3,941)	(588)
Supplemental disclosure of significant non-cash investing and financing activities:						
Payables for dividends:	–	–	276,991	–	230,095	34,352
Reconciliation to amounts on the consolidated balance sheets:						
Cash and cash equivalents	2,108,123	4,418,416	6,116,360	5,191,999	6,965,238	1,039,883
Restricted cash	1,727,727	2,355,850	2,643,587	2,644,701	3,764,988	562,098
Total cash, cash equivalents, and restricted cash	**3,835,850**	**6,774,266**	**8,759,947**	**7,836,700**	**10,730,226**	**1,601,981**

The accompanying notes are an integral part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

The Company was incorporated in Cayman Islands with limited liability on April 27, 2018. The Group are engaged in matching individual borrowers with credit demand to a diversified pool of financial institutions with credit to supply through a financial technology platform.

The Company's significant subsidiaries and its consolidated Variable Interest Entities ("VIEs") as of June 30, 2022 are as follows:

	Date of Incorporation	Place of Incorporation
Subsidiaries		
HK Qirui International Technology Company Limited ("HK Qirui")	June 14, 2018	Hong Kong
Shanghai Qiyue Information & Technology Co., Ltd. ("Qiyue")	August 7, 2018	PRC
Shanghai Qidi Information Technology Co., Ltd. ("Qidi")	June 27, 2019	PRC
Beihai Qicheng Information & Technology Co., Ltd. ("Qicheng")	August 6, 2019	PRC
VIEs and VIEs' Subsidiaries		
Shanghai Qiyu Information & Technology Co., Ltd. ("Qiyu")	July 25, 2016	PRC
Fuzhou 360 Online Microcredit Co., Ltd. ("Fuzhou Microcredit")	March 30, 2017	PRC
Fuzhou 360 Financing Guarantee Co., Ltd. ("Fuzhou Guarantee")	June 29, 2018	PRC
Shanghai Qiyaoxin Technology Co., Ltd. (formerly known as "Shanghai 360 Financing Guarantee Co., Ltd.", "Shanghai Financing Guarantee")	May 20, 2019	PRC

History of the Group and reorganization under identical common ownership

The Group started its business in 2016 through Qiyu, a limited liability company in the People's Republic of China ("PRC"). In 2018, the Company undertook a series of transactions to redomicile its business from the PRC to the Cayman Islands and established intermediary companies of HK Qirui and Qiyue ("WFOE") for the purpose of establishing a VIE structure of the Group. The WFOE entered into VIE agreements which effectively provided control to the WFOE over the operations of the VIEs.

The VIE arrangement

PRC laws and regulations prohibit or restrict foreign control of companies involved in provision of internet content and certain finance business. To comply with these foreign ownership restrictions, the Company operates substantially all of its service through its VIEs in the PRC.

The VIEs hold leases and other assets necessary to provide services and generate the majority of the Company's revenues. To provide the Company effective control over the VIEs and the ability to receive substantially all of the economic benefits of the VIEs, a series of contractual arrangements were entered into amongst Qiyue ("WFOE"), VIEs and their beneficial shareholders. In June 2022, the set of VIE agreements were terminated and replaced by a set of new VIE agreements signed by the same parties, with no material changes to the major terms.

Agreements that were entered to provide the Company effective control over the VIEs

Voting Proxy Agreement

Pursuant to the voting proxy agreement entered into among WFOE, Qiyu and Shanghai Qibutianxia Information Technology Co., Ltd. (formerly known as Beijing Qibutianxia Technology Co., Ltd. "Qibutianxia"), Qibutianxia would irrevocably authorize the WFOE or any person designated by the WFOE to act as its attorney-in-fact to exercise all of its rights as a shareholder of Qiyu, including, but not limited to: (i) to convene and participate in shareholders' meeting pursuant to the constitutional documents of Qiyu in the capacity of a proxy of Qibutianxia; (ii) to exercise the voting rights pursuant to the relevant PRC laws and regulations and the articles of Qiyu, on behalf of Qibutianxia, and adopt resolutions, including but not limited to dividend rights, sale or transfer or pledge or disposal of part or all of Qiyu's equity; (iii) to nominate, designate or appoint and remove the legal representative, directors, supervisors and other senior management of Qiyu pursuant to the constitutional documents of Qiyu.

The Voting Proxy Agreement has an indefinite term and will be terminated in the event that (i) it is unilaterally terminated by the WFOE, or (ii) it is legally permissible for the WFOE, the Company or any of the subsidiaries to hold equity interests directly or indirectly in Qiyu and the WFOE or its designated person is registered to be the sole shareholder of Qiyu.

Exclusive Option Agreement

Pursuant to the exclusive option agreement entered into among WFOE, Qiyu and Qibutianxia, the sole Registered Shareholder of Qiyu, Qibutianxia irrevocably grants the WFOE an exclusive option to purchase or designate one or more persons to purchase, all or part of its equity interests in Qiyu, and Qiyu irrevocably grants the WFOE an exclusive option to purchase all or part of its assets, subject to applicable PRC laws. The WFOE or its designated person may exercise such options at the lowest price permitted under applicable PRC laws. Qibutianxia and Qiyu will undertake that, among other things, without the WFOE's prior written consent, including but not limited to: (i) they shall not in any manner supplement, change or amend the constitutional documents of Qiyu, increase or decrease their registered capital, or change the structure of their registered capital in other manner; (ii) they shall not at any time following the signing of the Exclusive Option Agreement, sell, transfer, pledge or dispose of in any manner any assets of Qiyu or interest in the business or revenues of Qiyu, or allow the encumbrance thereon of any security interest; (iii) they shall not cause or permit Qiyu to merge, consolidate with, acquire or invest in any person. In addition, Qibutianxia will undertake that, without the WFOE's prior written consent, it will not, among other things including, but not limited to, sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in Qiyu, or allow the encumbrance thereon of any security interest, except for the equity pledge under Qiyu's equity interests pursuant to the Equity Interest Pledge Agreement.

The Exclusive Option Agreement has an indefinite term commencing from its date of signing unless and until all the equity interests and assets subject to the agreement have been transferred to the WFOE and/or its designated person and the WFOE and its subsidiaries or affiliates can legally operate the business of Qiyu, whereby the exclusive option agreement shall terminate. WFOE is entitled to unilaterally terminate the Exclusive Option Agreement while other parties to the Exclusive Option Agreement may not terminate the Exclusive Option Agreement unilaterally, unless otherwise provided under PRC laws.

Agreements that were entered to transfer economic benefits to the Company

Exclusive Business Cooperation Agreement

Pursuant to the exclusive business cooperation agreement between the WFOE and Qiyu, Qiyu agreed to engage the WFOE as its exclusive service provider of, among other things, consulting and technical services required by Qiyu's business. Qiyu will agree to pay the WFOE service fee at the amount which is adjusted at the WFOE's sole discretion taking into account factors including but not limited to: (i) the management and technical difficulty and the complexity of the management, technical consulting and other services provided by the WFOE; (ii) the time required by relevant personnel of the WFOE in providing such management and technical consulting and other services; (iii) the exact content and business value of the management, technical consulting and other services; (iv) the exact content and business value of intellectual property license and lease provided by the WFOE; and (v) the market price of services of similar types. In addition, absent the prior written consent of the WFOE, during the term of the Exclusive Business Cooperation Agreement, with respect to the services subject to the Exclusive Business Cooperation Agreement and other matters, Qiyu and its subsidiaries shall not accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the exclusive business cooperation agreement with any third party. The WFOE would have the exclusive ownership of all the intellectual property rights created as a result of the performance of the Exclusive Business Cooperation Agreement to the extent permitted by applicable PRC laws. The Company considers that the arrangement will ensure the economic benefits generated from the operations of the consolidated affiliated entities flow to the WFOE and hence, the Group as a whole.

The Exclusive Business Cooperation Agreement has an indefinite term. The Exclusive Business Cooperation Agreement may be terminated by the WFOE: (i) when Qiyu becomes insolvent, bankrupt or subject to liquidation or dissolution procedures; (ii) upon the transfer of the entire equity interests in and the transfer of all assets of Qiyu to the WFOE or its designated person pursuant to the exclusive option agreement entered into between the WFOE, Qiyu and Qibutianxia; (iii) when it is legally permissible for the WFOE to hold equity interests directly or indirectly in Qiyu and the WFOE or its designated person is registered to be the shareholder of Qiyu; (iv) when relevant government authorities refuse to renew the expired operating period of Qiyu or the WFOE; (v) by giving Qiyu a 30 days' prior written notice of termination; or (vi) Qiyu breaches the Exclusive Business Cooperation Agreement. Qiyu is not contractually entitled to unilaterally terminate the Exclusive Business Cooperation Agreement with the WFOE.

Loan Agreement

Pursuant to the loan agreement among the WFOE, Qiyu and Qibutianxia, the WFOE is entitled to provide interest-free loans, to the extent permitted by laws, regulations and industry policies of the PRC from time to time at such time and amount as it deems appropriate to Qibutianxia for the purpose of Qiyu's business operation and development, including but not limited to directly injecting such funds to the registered capital of Qiyu. Each of the loans made under this loan agreement has no fixed term, and unless otherwise agreed, the WFOE shall unilaterally decide when to withdraw the loans, provided that the WFOE shall notify Qibutianxia in writing one month in advance. The loan agreement shall remain in effect during Qiyu's term (and any renewable term provided by the PRC law), and shall automatically terminate after the WFOE and/or other entities designated by the WFOE fully exercise all their rights under the exclusive option agreement.

Equity Interest Pledge Agreement

Pursuant to the equity pledge agreement, Qibutianxia agreed to pledge all of its equity interests in Qiyu to the WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the VIE arrangements. In the event of a breach by Qiyu or Qibutianxia of contractual obligations under the VIE arrangements, the WFOE, as pledgee, will have the right to dispose of the pledged equity interests in Qiyu. Qibutianxia has undertaken to the WFOE, among other things, not to transfer its equity interests in Qiyu and not to create or allow any pledge thereon that may affect the rights and interest of the WFOE without its prior written consent.

The Company also has some other sets of VIE contractual arrangements. The arrangements with its significant VIEs include 1) the arrangement among the WFOE, Fuzhou Guarantee and Qibutianxia, and 2) the arrangement among the WFOE, Shanghai Financing Guarantee and two fully owned subsidiaries of Qibutianxia. These sets of the contractual agreements are substantially similar to the set with Qiyu as described above.

In April 2021, the contractual arrangements amongst WFOE, Fuzhou Microcredit and Qibutianxia were terminated and Qibutianxia transferred all of its equity interest in Fuzhou Microcredit to Qiyu. As a result, Fuzhou Microcredit became a wholly-owned subsidiary of Qiyu. This transaction had no impact to the consolidated financial statements.

Risks in relation to VIE structure

The Company believes that the contractual arrangements with Qiyu, Fuzhou Guarantee, Shanghai Financing Guarantee and their shareholders, Qibutianxia, are in compliance with existing PRC laws and regulations and are valid, binding and enforceable and will not result in any violation of PRC laws or regulations and the PRC regulatory authorities may take a contrary view. If the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the regulatory authorities may exercise their discretion and:

- revoke the business and operating licenses of the Company's PRC subsidiaries or consolidated affiliated entities;
- restrict the rights to collect revenues from any of the Company's PRC subsidiaries;
- discontinue or restrict the operations of any related-party transactions among the Company's PRC subsidiaries or consolidated affiliated entities;
- require the Company's PRC subsidiaries or consolidated affiliated entities to restructure the relevant ownership structure or operations;
- take other regulatory or enforcement action is, including levying fines that could be harmful to the Company's business; or
- impose additional conditions or requirements with which the Company may not be able to comply.

The imposition of any of these penalties may result in a material adverse effect on the Company's ability to conduct its business. In addition, if the imposition of any of these penalties causes the Company to lose the rights to direct the activities of the VIEs or the right to receive substantially all of their economic benefits, the Company would no longer be able to consolidate the financial results of the VIEs.

These contractual arrangements allow the Company to effectively control Qiyu, Fuzhou Guarantee and Shanghai Financing Guarantee, and to derive substantially all of the economic benefits from them. Accordingly, the Company treats Qiyu, Fuzhou Guarantee and Shanghai Financing Guarantee as VIEs. Because the Company is the primary beneficiary, the Company has consolidated the financial results of the VIEs.

The following financial statement amounts and balances of the VIEs were included in the accompanying consolidated financial statements after elimination of intercompany transactions and balances. The table below does not include the financial information of the consolidated trusts (see note 2 "Consolidated Trusts"):

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB*
ASSETS				
Cash and cash equivalents	1,829,395	3,709,740	4,605,851	6,556,202
Restricted cash	1,373,623	2,006,874	1,986,512	2,344,124
Funds receivable from third party payment service providers	118,860	131,464	153,151	312,447
Accounts receivable and contract assets, net	2,113,831	2,316,357	2,133,477	1,653,349
Financial assets receivable, net	1,764,738	3,480,605	3,806,243	3,618,560
Security deposit prepaid to third-party guarantee companies	932,983	915,144	874,886	698,478
Amounts due from related parties	478,767	178,791	608,924	384,804
Loans receivable, net	139,144	1,018,124	1,197,532	1,305,091
Prepaid expenses and other assets	507,907	202,070	235,780	253,539
Property and equipment, net	16,773	15,370	15,074	12,831
Intangible assets	1,933	1,802	3,972	4,433
Deferred tax assets	704,589	1,353,420	779,291	967,237
Accounts receivable and contract assets, net-non current	19,508	307,937	217,298	290,528
Financial assets receivable, net-non current	59,270	645,326	597,965	683,078
Amounts due from related parties-non current	–	–	121,855	49,627
Loans receivable, net-non current	–	50,528	1,029,545	2,634,648
Other non-current assets	55,362	31,539	27,729	48,602
Land use rights, net	–	–	1,018,908	1,008,548
Total Assets	**10,116,683**	**16,365,091**	**19,413,993**	**22,826,126**
LIABILITIES				
Short-term loans	200,000	105,238	150,000	150,000
Guarantee liabilities-stand ready	2,106,211	4,181,387	4,818,144	4,538,963
Guarantee liabilities-contingent	734,730	3,543,454	3,285,081	3,320,414
Accrued expenses and other current liabilities	680,987	771,562	1,820,609	1,617,329
Income tax payable	1,037,964	1,151,275	449,553	581,136
Other tax payable	206,291	215,906	218,017	108,509
Amounts due to related parties	55,622	71,562	94,057	82,063
Deferred tax liabilities	–	37,843	65,542	27,328
Other long-term liabilities	31,184	6,806	10,271	23,958
Total liabilities	**5,052,989**	**10,085,033**	**10,911,274**	**10,449,700**

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
				(unaudited)	
Net revenue	7,318,362	11,062,032	13,674,223	6,248,574	6,713,481
Net income	1,707,839	2,541,386	5,462,150	2,930,834	1,566,142

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*
Net cash provided by operating activities	2,010,741	3,715,112	5,431,654	1,861,811	2,453,285
Net cash provided by (used in) investing activities	134,286	(1,012,415)	(1,427,958)	(351,780)	(2,148,700)
Net cash provided by (used in) financing activities	198,242	(94,762)	359,082	673,400	–

The consolidated VIEs contributed 79%, 82%, 82%, 82% (unaudited) and 79% of the Group's consolidated revenue for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, the consolidated VIEs accounted for an aggregate of 50%, 67%, 58% and 61%, respectively, of the consolidated total assets, and 38%, 68%, 60% and 51%, respectively, of the consolidated total liabilities.

There are no assets of the VIEs that are collateral for the obligations of the VIEs and their subsidiaries and can only be used to settle the obligations of the VIEs and their subsidiaries. There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company or its subsidiaries to provide financial support to the VIEs. However, if the VIEs ever need financial support, the Company or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to its VIEs through loans to the shareholder of the VIEs.

Relevant PRC laws and regulations restrict the VIEs from transferring a portion of their net assets, equivalent to the balance of its statutory reserve and its share capital, to the Company in the form of loans and advances or cash dividends.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Historical Financial Information of the Company has been prepared in accordance with U.S. GAAP. For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies, which are effective for the accounting period beginning on January 1, 2022, throughout the Track Record Period, except for the accounting standards as disclosed in Note 2 "Recent accounting pronouncements".

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

Basis of consolidation

The Historical Financial Information include the financial information of the Company, its subsidiaries, and consolidated VIEs. All intercompany transactions and balances have been eliminated.

Consolidated Trusts

Loans funded by the financial institution partners in the Group's loan facilitation business are typically disbursed to the borrowers directly from such partners. However, in order to diversify the Group's funding sources, lower the Group's funding cost and due to the need of certain financial institution partners, loans from such financial institution partners are funded and disbursed indirectly through trusts. Several trusts were formed by third-party trust companies, who administer the trusts.

The trusts fund loans facilitated by the Group using the funds received from its beneficiaries to the borrowers. The trusts provide the returns to its beneficiaries through interest payments made by the borrowers. The borrowers are charged with the interests by the trusts. For the majority of trusts, the Group is either entitled to the residual profit in the trusts or the Group has provided guarantee to the trusts by agreeing to repurchase any loans that are delinquent for 30 to 90 days from which the Group absorbs the credit risk of the trusts resulting from borrowers' delinquencies. The Group determined that the residual profit or the guarantee represents a variable interest in the trusts through which the Group has the right to receive benefits or the obligation to absorb losses from the trusts that could potentially be significant to the trusts. Since the trusts only invest in the loans facilitated by the Group and the Group continues to service the loans through a service agreement post origination and has the ability to direct default mitigation activities, the Group has the power to direct the activities of the trusts that most significantly impact the economic performance of the trusts. As a result, the Group is considered the primary beneficiary of the trusts and consolidated the trusts' assets, liabilities, results of operations and cash flows.

In 2019, the Group received letter of approval for listing and transferring assets backed securities ("ABS") on both Shanghai Stock Exchange and Shenzhen Stock Exchange within the issue scale of RMB5 billion for each, respectively. In 2020, the Group also received letter of approval for listing and transferring assets backed securities ("ABS") on Shenzhen Stock Exchange within the issue scale of RMB10 billion. In 2021, the Group also received letter of approval for listing and transferring assets backed securities ("ABS") on Shanghai Stock Exchange and Shenzhen Stock Exchange within the issue scale of RMB8 billion and RMB4 billion, respectively. For some trusts, the trust beneficial rights, or the loans receivable in the trusts, were transferred, as underlying assets, to the asset backed special plans (the "ABS plans"). The beneficial rights and loans receivable of RMB2.3 billion, RMB1.7 billion, RMB6.5 billion, RMB3.1 billion (unaudited) and RMB3.0 billion in trusts were transferred to the ABS plans for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively. The ABS plans were securitized and listed on Shanghai Stock Exchange and Shenzhen Stock Exchange, with terms of no more than two years. As of June 30, 2022, the Group held the whole subordinated tranche securities to provide credit enhancement. The underlying trusts were continued to be consolidated by the Group. Senior tranche securities held by external financial institution partners were recorded as "payable to investors of the consolidated trusts – current" with the balance of RMB nil, RMB1,765,175, RMB2,139,063 and RMB4,019,635 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively and "payable to investors of the consolidated trusts – noncurrent" with the balance of RMB2,086,946, RMB1,468,890, RMB3,903,597 and RMB3,613,690 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively on the consolidated balance sheet.

As of December 31, 2019, 2020, 2021 and June 30, 2022, the balance of delinquent loans repurchased by the Group from the consolidated trusts are RMB89,938, RMB831,203, RMB904,586 and RMB1,194,155, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, the balance of performing loans upon liquidation of certain consolidated trusts repurchased by the Group from the consolidated trusts per the contracts agreed with the counterparty are RMB18,014, RMB17,185, RMB12,686 and RMB16,081, respectively.

For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, the provision for loan losses of RMB464,379, RMB595,047, RMB661,402, RMB238,525 (unaudited) and RMB463,750 were charged to the consolidated statements of operations, respectively. There were RMB142,882, RMB603,758, RMB1,033,228, RMB95,231 (unaudited) and RMB1,416,707 of loans written off for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

Interest on loans receivable is accrued and credited to income as earned. The Group determines a loan's past due status by the number of days that have elapsed since a borrower has failed to make a contractual loan payment. Accrual of interest is generally discontinued when the loan principal and interest are deemed to be uncollectible. In general, loans receivable is identified as uncollectible when it is determined to be not probable that the balance can be collected.

The following financial statement amounts and balances of the consolidated trusts were included in the Historical Financial Information after elimination of intercompany transactions and balances:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB*
ASSETS				
Restricted cash	354,104	348,976	657,075	1,420,864
Loans receivable, net	9,099,099	6,447,233	8,646,950	9,545,367
Loans receivable, net-noncurrent	–	37,157	1,829,804	1,023,231
Prepaid expenses and other assets	95,840	101,729	104,515	104,515
Total Assets	**9,549,043**	**6,935,095**	**11,238,344**	**12,093,977**

	As of December 31, 2019	2020	2021	As of June 30, 2022
	RMB	*RMB*	*RMB*	*RMB*
LIABILITIES				
Payable to investors of the consolidated trusts-current	4,423,717	3,117,634	2,304,518	5,224,973
Accrued expenses and other current liabilities	19,460	9,608	5,928	11,285
Other tax payable	25,431	27,694	34,448	37,504
Payable to investors of the consolidated trusts-noncurrent	3,442,500	1,468,890	4,010,597	3,613,690
Total liabilities	**7,911,108**	**4,623,826**	**6,355,491**	**8,887,452**

	Year ended December 31, 2019	2020	2021	Six months ended June 30, 2021	2022
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*
Net revenue	1,279,203	2,089,679	1,704,267	663,907	1,108,643
Net income	469,825	899,010	708,908	263,141	418,827

	Year ended December 31, 2019	2020	2021	Six months ended June 30, 2021	2022
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*
Net cash provided by operating activities	382,620	(674,291)	1,329,554	486,996	916,753
Net cash (used in) provided by investing activities	(8,989,137)	1,964,538	(4,619,696)	(1,921,400)	(548,254)
Net cash provided by (used in) financing activities	7,512,696	(3,268,383)	1,735,348	572,579	2,490,664

The consolidated trusts contributed 14%, 15%, 10%, 9% (unaudited) and 13% of the Group's consolidated revenue for the years ended December 31, 2019, 2020, 2021 and six month ended June 30, 2021 and 2022, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, the consolidated trusts accounted for an aggregate of 47%, 28%, 34% and 32%, respectively, of the consolidated total assets, and 60%, 31%, 35% and 43%, respectively, of the consolidated total liabilities.

There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company to provide financial support to the consolidated trusts.

The Group believes that the assets of the consolidated trusts could only be used to settle the obligations of the consolidated trusts.

The carrying amounts of the payable to investors of the consolidated trusts are repayable:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
Within one year	4,423,717	3,117,634	2,304,518	5,224,973
Within a period of more than one year but not exceeding two years	3,442,500	1,468,890	4,010,597	3,613,690
Total	**7,866,217**	**4,586,524**	**6,315,115**	**8,838,663**
Less: Amounts due within one year shown under current liabilities	(4,423,717)	(3,117,634)	(2,304,518)	(5,224,973)
Amounts shown under non-current liabilities	3,442,500	1,468,890	4,010,597	3,613,690

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates. Significant accounting estimates reflected in the Group's financial statements include revenue recognition, financial assets receivable, guarantee liabilities, allowance for loans receivable, allowance for uncollectible accounts receivable and contract assets, allowance for financial assets receivable, and valuation allowance for deferred tax assets.

Revenue recognition

Through collaborating with channel partners to direct users with credit needs to its app, the Group provides services through its facilitation of loan transactions between the borrowers and the financial institution partners through the use of two business models.

The first business model involves the Group providing credit driven services through facilitating loans that are guaranteed by the Group directly or through third-party guarantee companies and insurance companies (referred to as "off-balance capital heavy loans" hereafter), or providing loans through the Consolidated Trusts and Fuzhou Microcredit. In either cases, the Group ultimately bears all the credit risks when the borrowers default.

The second business model involves the Group providing platform services through facilitating loans with no or partial guarantee provided by the Group (referred to as "capital light loans" hereafter) and referral services. In these cases, the Group bears limited credit risks when the borrowers default.

The loans facilitated under both models are with terms of 1~36 months (the majority are within the terms of 1~12 months) and with principal of up to RMB1,000 (the majority are within RMB500).

Loan facilitation and servicing fees

The Group earns loan facilitation and service fees from both off-balance capital heavy loans and capital light loans. The Group's services mainly consist of:

1) Performing customer acquisition, initial and credit screening and advanced risk assessment on the borrowers on its mobile platform and matching the financial institution partners to potential qualified borrowers and facilitating the execution of loan agreements between the parties, referred to as "Loan Facilitation Services" and;

2) Providing collection and other repayment processing services for the financial institution partners over the loan term, referred to as "Post Facilitation Services".

Based on the agreements entered into between the Group's financial institution partners and borrowers, the Group determined that it is not the legal lender or borrower in the loan origination and repayment process. Accordingly, the Group does not record loans receivable and payable arising from the loan between the financial institution partners and the borrowers.

The Group charges service fees directly from financial institution partners based on the contractual agreements. In 2019, the Group cooperates with insurance companies and financing guarantee companies to provide guarantee for the loans between the borrowers and financial institution partners. Under this cooperation, the Group charges guarantee fees from the borrower, including insurance premium collected on behalf of the insurance company.

For the loans the Group is entitled to the full service fee regardless of whether the borrowers choose to early repay or not, the Group has the unconditional right to the consideration. For the loans facilitated with borrowers who have the option of early repayment and upon termination they do not have the obligation to pay the remaining monthly service fees or not have to pay the excessive portion if the total fees are more than 24% of the origination principal on an annualized basis, the Group's right to consideration for the service fees is conditional on whether or not the borrowers repay in advance.

For off-balance capital heavy loans, the Group enjoys a fixed rate of service fees. For capital light loans, the Group enjoys a fixed rate of service fees, while in certain cases, the service fee rate the Group entitled to is subject to adjustment based on the actual default rate of the underlying loans.

Under the off-balance capital heavy loans, the Group also provides a guarantee service to its financial institution partners whereas in the event of default, the financial institution partners are entitled to receive unpaid interest and principal from the Group. Given that the Group effectively takes on all of the credit risk of the borrowers and are compensated by the service fees charged, the guarantee is deemed as a service and the guarantee exposure is recognized as a stand-ready obligation in accordance with ASC Topic 460, Guarantees (see accounting policy for Guarantee Liabilities). Under the capital light model, the Group either provides no guarantee or partial guarantee service. Under the partial guarantee scenario, the Group agrees with each financial institution partner a fixed upper limit of guarantee amount the Group is liable of. If the accumulated defaulted loan amount exceeds the agreed upper limit, the excess portion is borne by the financial institution partners.

The Group recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. To achieve that core principle, the Group applies the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group determines that both the financial institution partners and the borrowers are its customers because they both receive services provided by the Group pursuant to the contractual terms among the Group, the borrowers and the financial institution partners. For each loan facilitated on the platform, the Group considers the loan facilitation service, post facilitation service and guarantee service (not applicable for arrangements where the Group does not provide guarantee service) as three separate services. Of which, the guarantee service is accounted for in accordance with ASC Topic 460, Guarantees, at fair value. Revenue from the guarantee services is recognized once the Group is released from the underlying risk. Starting from 2020, the Group recognized the stand-ready guarantee liability at the inception of each loan, and it was amortized to "revenue from releasing of guarantee liabilities" over the term of the guarantee (see accounting policy for Guarantee Liabilities). While the post-origination service is within the scope of ASC Topic 860, the ASC Topic 606 revenue recognition model is applied due to the lack of definitive guidance in ASC Topic 860. The loan facilitation service and post-origination service are two separate performance obligations under ASC 606, as these two deliverables are distinct in that customers can benefit from each service on its own and the Group's promises to deliver the services are separately identifiable from each other in the contract.

The Group determines the total transaction price to be the service fees chargeable from the borrowers or the financial institution partners. The Group's transaction price includes variable considerations in the form of prepayment risk of the borrowers and service fee allocation rate under capital light model under certain agreements. The Group estimates the prepayment risk of borrowers using the expected value approach on the basis of historical information and current trends of the collection percentage of the borrowers. The service fee allocated to the Group under capital light model would be fluctuated along with the actual default rate of the loans facilitated. The Group uses the service fee allocation rate applicable to the estimated default rate of the underlying loans. The transaction price is allocated amongst the guarantee service, if any, and the other two performance obligations.

The Group first allocates the transaction price to the guarantee liabilities, if any, in accordance with ASC Topic 460, Guarantees which requires the guarantee to be measured initially at fair value based on the stand-ready obligation. Then the remaining considerations are allocated to the loan facilitation services and post facilitation services using their relative standalone selling prices consistent with the guidance in ASC 606. The Group does not have observable standalone selling price information for the loan facilitation services or post facilitation services because it does not provide loan facilitation services or post facilitation services on a standalone basis. There is no direct observable standalone selling price for similar services in the market reasonably available to the Group. As a result, the estimation of standalone selling price involves significant judgment. The Group uses expected cost plus margin approach to estimate the standalone selling prices of loan facilitation services and post facilitation services as the basis of revenue allocation. In estimating its standalone selling price for the loan facilitation services and post facilitation services, the Group considers the cost incurred to deliver such services, profit margin for similar arrangements, customer demand, effect of competitors on the Group's services, and other market factors.

For each type of service, the Group recognizes revenue when (or as) the entity satisfies the service/performance obligation by transferring the promised service (that is, an asset) to customers. Revenues from loan facilitation services are recognized at the time a loan is originated between the financial institution partners and the borrowers and the principal loan balance is transferred to the borrowers, at which time the facilitation service is considered completed. Revenues from post facilitation services are recognized on a straight-line basis over the term of the underlying loans as the post-origination services are a series of distinct services that are substantially the same and that have the same pattern of transfer to the financial institution partners.

Revenue from releasing of guarantee liabilities

Prior to 2020, guarantee liabilities were reduced by repayments for defaults and only the remaining balance at the expiry of the guarantee term was recognized as revenues from guarantee services. With the adoption of ASC 326 in 2020, the stand-ready guarantee liabilities are released into guarantee revenue over the term of the guarantee (see accounting policy for Guarantee Liabilities). For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, revenue from guarantee liabilities were RMB285,407, RMB4,506,935, RMB5,583,135, RMB2,647,734 (unaudited) and RMB3,074,515, respectively.

Incentives

The Group provides incentives to the borrowers by providing coupons which can only be used as a reduction of repayment and ultimately reduced the service fees received by the Group. Because the borrower does not enter into any enforceable commitment by picking up the coupons, no contract arises from the coupons. Therefore the Group records the incentives as a deduction to revenue upon redemption.

Financing income

The Group provides loans through the Consolidated Trusts and Fuzhou Microcredit. The interest rate charged to the borrowers are fixed. The Group recognized revenue under "financing income" the fees and interests charged to the borrowers over the lifetime of the loans using the effective interest method.

Referral service fees

The Group provides the referral services to other platforms, by referring to them the borrowers who have not passed the Group's credit assessment. Specifically, the Group receives a fixed rate of referral fee from the platforms once the borrowers are accepted by the other funding providers on those platforms. The revenue is recognized once the referral is completed as confirmed by those platforms.

The Group provides the referral services to the financial institution partners also through the Group's Intelligence Credit Engine platform, by matching the borrowers and the financial institution partners. For loans originated through the platform, the Group charges the financial institution partners a fixed rate of service fees. The revenue is recognized upon receipt of confirmation by the financial institution partners of loan facilitation at which time the referral service is deemed completed.

For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, RMB375,551, RMB265,300, RMB620,317 and RMB286,594 (unaudited) and RMB382,650, were generated from the referral service, respectively.

Other service fees

Other service fees mainly pertain to the revenue from late fees from borrowers under off-balance capital heavy loans and capital light loans.

The following table presents the disaggregation of revenue for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022:

		Year ended December 31,			**Six months ended June 30,**	
		2019	**2020**	**2021**	**2021**	**2022**
		RMB	*RMB*	*RMB*	*RMB*	*RMB*
					(unaudited)	
Credit driven services		8,013,391	11,403,675	10,189,167	4,856,038	5,868,397
Loan facilitation and servicing fees-capital heavy		6,273,131	4,596,555	2,326,027	1,265,047	1,141,771
Revenue from loan facilitation services	At a point in time	4,396,300	3,160,457	1,399,310	745,134	822,420
Revenue from post-facilitation services	Over time	1,876,831	1,436,098	926,717	519,913	319,351
Financing income	Over time	1,309,616	2,184,180	2,184,128	897,528	1,608,820
Revenue from releasing of guarantee liabilities	Over time	285,407	4,506,935	5,583,135	2,647,734	3,074,515
Other services fees	At a point in time	145,237	116,005	95,877	45,729	43,291
Platform services		1,206,456	2,160,279	6,446,478	2,744,729	2,634,849
Loan facilitation and servicing fees-capital light		814,581	1,826,654	5,677,941	2,392,602	2,128,955
Revenue from loan facilitation services	At a point in time	672,982	1,416,715	4,484,632	1,988,160	1,298,998
Revenue from post-facilitation services	Over time	141,599	409,939	1,193,309	404,442	829,957
Referral services fees	At a point in time	375,551	265,300	620,317	286,594	382,650
Other services fees	At a point in time/ Over time	16,324	68,325	148,220	65,533	123,244
Total net revenue		**9,219,847**	**13,563,954**	**16,635,645**	**7,600,767**	**8,503,246**

Total revenue recognized at a point in time is RMB5,606 million, RMB5,022 million, RMB6,688 million, RMB3,105 million (unaudited) and RMB2,634 million for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022. Total revenue recognized over time is RMB3,613 million, RMB8,542 million, RMB9,947 million, RMB4,496 million (unaudited), RMB5,869 million for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022.

Accounts receivable and Contract Assets, net

For the loans the Group is entitled to the full service fee regardless of whether the borrowers choose to early repay or not, the Group has the unconditional right to the consideration and an accounts receivable is recorded for the monthly service fees allocated to loan facilitation service that have already been delivered in relation to loans facilitated on the Group's platform when recognizing revenue from loan facilitation service. For the loans facilitated with borrowers who have the option of early repayment and upon termination they do not have the obligation to pay the remaining monthly service fees or do not have to pay the excessive portion if the total fees are more than 24% of the origination principal on an annualized basis, the Group's right to consideration for the service fees of facilitation service is conditional on whether or not the borrowers repay in advance. In these instances, the Group records a corresponding contract asset when recognizing revenue from loan facilitation service.

Accounts receivable and contract assets are stated at the historical carrying amount net of write-offs and allowance for collectability in accordance with ASC Topic 310, and from January 1, 2020 ASC Topic 326. The Group established an allowance for uncollectible accounts receivable and contract assets based on estimates, which incorporate historical experience and other factors surrounding the credit risk of specific type of customers which is essentially the expected net default rates used in determining the fair value of guarantee liabilities. The Group evaluates and adjusts its allowance for uncollectible accounts receivable and contract assets on a quarterly basis or more often as necessary.

Uncollectible accounts receivable and contract assets are written off when the consideration entitled to be received by the Group is due and a settlement is reached for an amount that is less than the outstanding historical balance or when the Group has determined the balance will not be collected. Contract assets and accounts receivable are identified as uncollectible when the underlying loan is determined to be not probable that the balance can be collected. The Group will write off contract assets and accounts receivable and the corresponding provisions if the underlying loan is deemed uncollectible.

The Group did not recognize any contract liabilities during the periods presented. The amount of the transaction price allocated to performance obligations that are unsatisfied as of December 31, 2019, 2020, 2021 and June 30, 2022, are RMB978,811, RMB1,195,945, RMB1,637,484 and RMB1,518,044, respectively, all of which pertain to post-origination service. Remaining unsatisfied performance obligations that will be recognized as revenue by the Group within the following 12 months are 99%, 88%, 88% and 81% of the remaining performance obligations as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively, with the remainder recognized thereafter.

The Group determines that acquisition cost paid for financial institution partners based on the amount of loans facilitated represents costs to obtain a contract qualifying for capitalization since these payments are directly related to sales achieved during a period. Such cost was not material during the periods presented.

Revenue recognized for year ended December 31, 2019, from performance obligations satisfied (or partially satisfied) in prior periods pertaining to adjustments to variable consideration due to the change of estimated prepayment rate and service fee allocation rate was immaterial, and for years ended December 31, 2020 and 2021 and six months ended June 30, 2021 and 2022 were RMB73,394, RMB210,818, RMB39,946 (unaudited) and RMB219,680, respectively.

The Group is subject to value-added tax and other surcharges including education surtax and urban maintenance and construction tax, on the services provided in the PRC. The Group has made an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by the governmental authority. Such taxes excluded from revenues are RMB547,344, RMB795,388, RMB995,060, RMB457,537 (unaudited) and RMB503,295, respectively, for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022.

Allowance for credit losses

On January 1, 2020, the Group adopted ASC 326, Financial Instruments – Credit Losses, which requires recognition of allowances upon origination or acquisition of financial assets at an estimate of expected credit losses over the contractual term of the financial assets (the current expected credit loss or the "CECL" model).

The Group's financial assets subject to the CECL model mainly include: loans receivable, accounts receivable, contract assets and financial assets receivable, and the allowance for these financial assets is driven by estimated default rate of underlying loans. The Group does not assign internal risk ratings to loans facilitated as they are of small balance and homogeneous. The Group estimates the default rate of loans on a pool basis by taking into consideration the historical delinquency rate by vintage, adjusted by specific risks for loans within each vintage, correlated industrial and macro-economic factors, and other pertinent information such as CPI and delinquent loan collection rate in assessing future performance of the loan portfolio. The Group monitors the delinquency status by vintage of origination and write off delinquent loans timely when the loans become uncollectible.

The adoption of CECL model does not change the Group's method used to estimate loan losses. The allowance for loans receivable is calculated based on estimated default rate of loans facilitated through the Consolidated Trusts or Fuzhou Microcredit. The allowance for accounts receivable, contract assets, financial assets receivable and accounts receivable, contract assets and financial assets receivables from related parties (recorded as "amounts due from related parties") is assessed in accordance with the estimated default rate of the underlying off-balance loans facilitated. Since the allowance is recorded at loan inception based on the estimated collectability over the entire loan tenure and adjusted in each subsequent reporting period based on update of relevant information, the adoption of the CECL model does not have material impact on the timing and amount of allowance recognized for these financial assets.

Other financial receivables subject to the CECL model mainly include security deposit prepaid to third party guarantee companies, funds receivable from third party payment service providers, other receivables from related parties (recorded as "amounts due from related parties") and security deposit paid to insurance companies, which are of short term and shows no historical default record. The Group determines no allowance is needed for these receivables, except for receivables from related party financial institution partners, which are based on the estimated default rate of underlying loans as discussed above.

The adoption of ASC 326 also requires the Group to record financial guarantee on a gross basis. As such, the Group recognized a separate contingent guarantee liability with an allowance for credit losses following the CECL model at the inception of loans facilitated with guarantee services provided (see accounting policy for Guarantee Liabilities). The allowance is an estimate of future net-payout by the Group upon borrowers' default, which is ultimately based on the same estimated default rate of loans facilitated as discussed above.

Cash and cash equivalents

Cash and cash equivalents mainly consist of funds in banks, which are highly liquid and are unrestricted as to withdrawal or use.

Restricted cash

Restricted cash represents:

(i) Deposit to funding banks which is used to secure timely loan repayment. As of December 31, 2019, 2020, 2021 and June 30, 2022, the amount of restricted cash related to deposit to the funding banks is RMB1,373,623, RMB2,006,874, RMB1,986,512 and RMB2,344,124, respectively.

(ii) Cash held by the trusts and ABS plans through segregated bank accounts which can only be used to invest in loans or other securities as stipulated in the trust agreement and ABS plan. Substantially all trusts have a maximum operating period of two years. The cash in the trusts is not available to fund the general liquidity needs of the Group.

Security deposit prepaid to third-party guarantee companies

Security deposit prepaid to third-party guarantee companies mainly represents deposit prepaid to licensed third-party vendors the Group cooperates with to provide guarantee to secure timely loan repayment for financial institution partners.

Funds receivable from third party payment service providers

The Group opened accounts with third party online payment service providers to collect and transfer the loan funds and interest to financial institution partners or borrowers. The Group also uses such accounts to collect the transaction fee and service fee, and repay and collect the default loan principal and interest. The balance of funds receivable from third party payment service providers mainly includes:

(a) Funds provided by Fuzhou Microcredit but not yet transferred to the borrowers by third party payment service providers due to the settlement time lag;

(b) Repayment of loan principal and interest amounts received from the borrowers but not yet transferred to the investors by third party payment service providers due to the settlement time lag; and,

(c) Accumulated amounts of transaction fee, service fee received, payment and collection of default loan and interest at the balance sheet date.

Fair value

Fair value is considered to be the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying values of financial instruments, which consist of cash and cash equivalents, restricted cash, security deposits, accounts receivable and contract assets, financial assets receivable, funds receivable from third party payment service providers, loans receivable, short-term loan, payable to investors of the consolidated trusts, and amounts due from/to related parties are recorded at cost which approximates their fair value due to the short-term nature of these instruments.

As of June 30, 2022, the Group's long-term financial instruments that are not reported at fair value on balance sheet include loans receivable, payable to investors of the consolidated trusts, accounts receivable and contract assets, financial assets receivable, and accounts receivable, contract assets and financial assets receivable from related parties (recorded as "amounts due from related parties"). Fair values of these financial instruments are estimated using a discounted cash flow model based on contractual cash flows. The fair values of loans receivable, accounts receivable and contract assets, financial assets receivable are classified as Level 3 fair value measurement due to the significant unobservable inputs concerning the estimation of default rate. The fair value of payable to investors of the consolidated trusts is classified as Level 2 fair value measurement.

As of June 30, 2022, the differences between fair values and carrying amount for loans receivable and payable to investors are due to the discount factor or interests in future periods, and the fair value approximates the carrying amount. For accounts receivable and contract assets, financial assets receivable, the differences are due to the discount factor solely and the fair value approximates the carrying amount.

The Group does not have any assets or liabilities that are recorded at fair value subsequent to initial recognition on a recurring basis. Fair value measurement on a nonrecurring basis for the six months ended June 30, 2022 included that used in impairment of an equity-method investment which was classified as a Level 3 fair value measurement.

Loans receivable

Loans receivable represents loans facilitated through the Consolidated Trusts and Fuzhou Microcredit. Loans receivable are recorded as receivable, reduced by a valuation allowance estimated as of the balance sheet date.

The allowance for loan losses is determined at a level believed to be reasonable to absorb probable losses inherent in the portfolio as of each balance sheet date. The allowance is provided based on an assessment performed on a portfolio basis. All loans are assessed collectively depending on factors such as delinquency rate, size, and other risk characteristics of the portfolio. About adoption of ASC 326, see accounting policy of "Allowance for credit losses".

The Group charges off loans receivable as a reduction to the allowance for loans receivable when the loan principal and interest are deemed to be uncollectible. In general, loans receivable is identified as uncollectible when it is determined to be not probable that the balance can be collected.

Property and equipment, net

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Leasehold improvements	Over the shorter of the lease term or expected useful lives
Electronic equipment	5 years
Furniture and office equipment	5 years

Gains and losses from the disposal of furniture and equipment are recognized in the consolidated statements of operations.

Depreciation expense on property and equipment for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022 were RMB6,837, RMB10,439, RMB13,483, RMB5,944 (unaudited) and RMB7,580, respectively.

Land use rights, net

Land use rights represent lease prepayments to the local government authorities and are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the term of the agreement, which is 50 years. Under ASC 842, land use rights were identified as operating lease right-of-use assets, which is separately disclosed as "Land use rights, net" in the Group's consolidated balance sheets.

Guarantee liabilities

For the loans facilitated through the loan facilitation business, the Group provides a guarantee service to its financial institution partners whereas in the event of default, the financial institution partners are entitled to receive unpaid interest and principal from the Group. In general, any unpaid interest and principal are paid when the borrower does not repay as scheduled.

From February 2018, to follow the recent regulation change, particularly the Circular 141 which came into effect in December 2017, the Group began to involve third-party licensed vendors including financing guarantee companies and insurance companies to provide guarantee for new loans facilitated for certain financial institution partners. Under the cooperation with financing guarantee companies, these guarantee companies initially reimburses the loan principal and interest to the financial institution partners upon borrower's default. Although the Group does not have direct contractual obligation to the financial institution partners for defaulted principal and interest, the Group provides back to back guarantee to the licensed guarantee companies. As agreed in the back to back guarantee contract, the Group would pay the licensed guarantee companies for actual losses incurred based on defaulted principal and interest. Under the cooperation with insurance companies, the Group is obligated to provide funding in the form of security deposit with the insurance companies which is used to compensate the financial institution partners for borrowers' default. Given that the Group effectively takes on all of the credit risk of the borrowers, the Group recognizes a stand ready obligation for its guarantee exposure in accordance with ASC Topic 460.

Under capital light model, in the condition of no guarantee service provided, the Group does not take any credit risk and not record any guarantee liabilities associated with those loans. Besides, in the condition of partial guarantee, the amount of guarantee exposure is immaterial for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 (unaudited) and 2022.

At the inception of each loan, the Group recognizes the guarantee liability at fair value in accordance with ASC 460-10, which incorporates the expectation of potential future payments under the guarantee and takes into both non-contingent and contingent aspects of the guarantee. Subsequent to the loan's inception, the guarantee liability is composed of two components: (i) ASC Topic 460 component; and (ii) ASC Topic 450 component. The liability recorded based on ASC Topic 460 is determined on a loan by loan basis and it is reduced when the Group is released from the underlying risk, i.e. as the loan is repaid by the borrower or when the investor is compensated in the event of a default. This component is a stand ready obligation which is not subject to the probable threshold used to record a contingent obligation. When the Group is released from the stand ready liability upon expiration of the underlying loan, the Group records a corresponding amount as "Revenue from releasing of guarantee liabilities "in the consolidated statements of operations. The other component is a contingent liability determined based on probable loss considering the actual historical performance and current conditions, representing the obligation to make future payouts under the guarantee liability in excess of the stand-ready liability, measured using the guidance in ASC Topic 450. The ASC Topic 450 contingent component is determined on a collective basis and loans with similar risk characteristics are pooled into cohorts for purposes of measuring incurred losses. The ASC 450 contingent component is recognized as part of expense on guarantee liabilities in the consolidated statements of operations. At all times the recognized liability (including the stand ready liability and contingent liability) is at least equal to the probable estimated losses of the guarantee portfolio.

On January 1, 2020, the Group adopted ASC 326, Financial Instruments – Credit Losses, which requires gross accounting for guarantee liability. As a result, at inception of the guarantee, the Group will recognize both a stand-ready guarantee liability under ASC 460 with an associated financial assets receivable, and a contingent guarantee liability with an allowance for credit losses under Current expected credit loss ("CECL") model. Subsequent to the initial recognition, the ASC 460 stand-ready guarantee is released into guarantee revenue on a straight-line basis over the term of the guarantee, while the contingent guarantee is reduced by the payouts made by the Group to compensate the investors upon borrowers' default. Allowance for credit losses under CECL model was included in "Provision for contingent liabilities" and revalued at each period end to reflect updated estimation for future net pay-out. Upon adoption, the Group recognized the cumulative effect of approximately RMB1.43 billion as a decrease to the opening balances of retained earnings, as of January 1, 2020, net of tax effect.

The following table sets forth the cumulative effect of the changes on the Group's consolidated balance sheet as of January 1, 2020 due to the adoption of ASC 326:

	As of December 31, 2019	Adjustments due to the Adoption of ASC 326	As of January 01, 2020
ASSETS			
Financial assets receivable	1,971,824	117,321	2,089,145
Deferred tax assets	697,348	336,830	1,034,178
LIABILITIES			
Guarantee liabilities-stand ready	2,212,125	(63,723)	2,148,402
Guarantee liabilities-contingent	734,730	1,952,545	2,687,275
Other tax payable	263,856	(4,275)	259,581
SHAREHOLDERS' EQUITY			
Retained earnings	2,071,332	(1,430,396)	640,936

Financial assets receivable

Financial assets receivable is recognized at loan inception which is equal to the stand-ready liability recorded at fair value in accordance with ASC 460-10-30-2(b) and considers what premium would be required by the Group to issue the same guarantee service in a standalone arm's-length transaction.

The fair value recognized at loan inception is estimated using a discounted cash flow model based on the expected net payouts by incorporating a markup margin. The Group estimates its expected net payouts according to the product mix, default rates, loan terms and discount rate. The financial assets receivable is accounted for as a financial asset, and reduced upon the receipt of the service fee payment from the borrowers. At each reporting date, the Group estimates the future cash flows and assesses whether there is any indicator of impairment. If the carrying amounts of the financial assets receivable exceed the expected cash to be received, an impairment loss is recorded for the financial assets receivable not recoverable and is recorded in the consolidated statements of operations. About adoption of ASC 326, see accounting policy of "Allowance for credit losses". Impairment losses of RMB150,940, RMB285,720, RMB243,139, RMB102,769 (unaudited) and RMB163,875, were recorded in the consolidated statements of operations during the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

Facilitation, origination and servicing expenses

Facilitation, origination and servicing expense represents cost of services which consists primarily of variable expenses and vendor costs, and costs related to risk management, credit assessment, borrower and system support, payment processing services and third-party collection agencies with facilitating and servicing loans.

Facilitation and origination expense includes expense related to the Group's borrower referral program under which the Group provides cash incentives to existing borrowers who have successfully referred a new borrower/borrowers to the Group. Such cash reward is offered when the new borrower makes a drawdown. As the cash reward is directly associated with the new borrower acquisition, the Group accounted for it as origination expense to facilitate the loans. The Group recorded RMB14.7 million, RMB13.1 million, RMB23.9 million, RMB9.5 million (unaudited) and RMB12.0 million of cash reward for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

Sales and marketing expenses

Sales and marketing expenses primarily consist of variable marketing and promotional expenses and general brand and awareness building, including fees paid to channel partners for directing user traffic to the Group. Salaries and benefits expenses related to the Group's sales and marketing personnel and other expenses related to the Group's sales and marketing team are also included in the sales and marketing expenses. For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, the advertising and marketing related expenses were RMB2,725,812, RMB859,386, RMB1,803,243, RMB706,679 (unaudited) and RMB1,031,406, respectively.

Funding costs

Funding cost consists of interest expense the Group pays to financial institution partners of the Consolidated Trusts and the asset backed securities, trust issuance and costs incurred by the trusts.

Government grant

Government grants are primarily referred to the amounts received from various levels of local governments from time to time which are granted for general corporate purposes and to support its ongoing operations in the region. The grants are determined at the discretion of the relevant government authority and there are no restrictions on their use. The government subsidies are recorded as other income in the period the cash is received. The government grants received by the Group is RMB128,147, RMB74,449, RMB17,783, RMB5,067 (unaudited) and RMB194,439 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

Income taxes

Current income taxes are provided on the basis of net profit (loss) for financial reporting purposes, adjusted for income and expenses which are not assessable or deductible for income tax purposes, in accordance with the laws of the relevant tax jurisdictions.

Deferred income taxes are provided using assets and liabilities method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Deferred tax assets are recognized to the extent that these assets are more likely than not to be realized. In making such a determination, the management consider all positive and negative evidence, including future reversals of projected future taxable income and results of recent operation.

In order to assess uncertain tax positions, the Group applies a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Group recognizes interest and penalties, if any, under accrued expenses and other current liabilities on its consolidated balance sheets and under other expenses in its consolidated statements of operations. The Group did not have any significant unrecognized uncertain tax positions as of and for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 (unaudited) and 2022.

Value added taxes ("VAT")

The Consolidated Trusts are subject to VAT at the rate of 3%, while the other entities under the Group are subject to VAT at the rate of 6% as general taxpayers, and related surcharges on revenue generated from providing services. Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. Net VAT balance between input VAT and output VAT is recorded in the line item of other tax payable on the consolidated balance sheets.

Certain risks and concentrations

As of December 31, 2019, 2020, 2021 and June 30, 2022, substantially all of the Group's cash and cash equivalents as well as restricted cash were held in major financial institutions located in the PRC, which management considers to be of high credit quality.

For the year ended December 31, 2019 and 2020, financial institution partner A and B funded loans which generated greater than 10% of the total revenues. For the year ended December 31, 2021, financial institution partner C and D funded loans which generated greater than 10% of the total revenues.

For the six months ended June 30, 2021, financial institution partner C and D funded loans which generated greater than 10% (unaudited) of the total revenues. For the six months ended June 30, 2022, financial institution partner C funded loans which generated greater than 10% of the total revenues.

Share-based compensation

Share-based payment transactions with employees, such as stock options and restricted share units are measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis in the consolidated statements of operations over the period during which the employee is required to perform service in exchange for the award. The Group has elected to account for forfeitures as they occur.

Foreign currency translation

The reporting currency of the Group is the Renminbi ("RMB"). The Group's operations are principally conducted through the companies located in the PRC where the RMB is the functional currency. The functional currency of the other major entities incorporated outside of PRC is the United States dollar ("USD").

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in currencies other than functional currency are translated into functional currency at the exchange rates prevailing at the balance sheet date. Transactions in currencies other than functional currency during the year are converted into the functional currency at the applicable rates of exchange prevailing on the transaction date. Transaction gains and losses are included in earnings as foreign exchange gains (loss).

The Historical Financial Information of the Group are translated from the functional currency into reporting currency. Assets and liabilities denominated in foreign currencies are translated using the applicable exchange rates at the balance sheet date. Equity accounts other than earnings generated in current period are translated at the appropriate historical rates. Revenues, expenses, gains and losses are translated using the periodic average exchange rates. The resulting foreign currency translation adjustment are recorded in other comprehensive income (loss).

Convenience translation

The Group's business is primarily conducted in China and all of the revenues are denominated in RMB. The financial statements of the Group are stated in RMB. Translations of balances in the consolidated balance sheets, and the related consolidated statements of operations, changes in equity and cash flows from RMB into US dollars as of and for the six months ended June 30, 2022 are solely for the convenience of the readers and were calculated at the rate of USD1.00=RMB6.6981, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on June 30, 2022. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into USD at that rate or at any other rate.

Employee defined contribution plan

Full time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on a certain percentage of the employee's salaries. The Group has no legal obligation for the benefits beyond the contributions, and the Group cannot utilize the contributed amount for future obligations if employee left the Group. The total amount that was expensed as incurred was RMB71,433, RMB72,632, RMB146,426, RMB62,914 (unaudited) and RMB85,868 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

Income per share

Basic income per ordinary share is computed by dividing net income attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period assuming the ordinary shares were issued and outstanding from the earliest period presented.

Diluted income per ordinary share reflects the potential dilution that could occur if securities were exercised or converted into ordinary shares. Ordinary share equivalents are excluded from the computation in income periods should their effects be anti-dilutive. The Group had restricted share units and share options, which could potentially dilute basic earnings per share in the future.

Dividends

Dividends of the Company are recognized when declared.

Segment reporting

The Group uses management approach to determine operation segment. The management approach considers the internal organization and reporting used by the Group's chief operating decision maker ("CODM") for making decisions, allocation of resource and assessing performance.

The Group's CODM has been identified as the Chief Executive Officer who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group. The Group operates and manages its business as a single operating segment.

Substantially all of the Group's long-lived assets are located in the PRC and substantially all of the Group's revenues are derived from within the PRC. Therefore, no geographical segments are presented.

Operating leases

The Group accounts for operating leases in accordance with ASC 842, Leases ("ASC 842") after the adoption on January 1, 2019. The Group determines if a contract contains a lease based on whether it has the right to obtain substantially all of the economic benefits from the use of an identified asset and whether it has the right to direct the use of an identified asset in exchange for consideration, which relates to an asset the Group does not own. As part of the lease agreements, the Group may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise those options. Right of use ("ROU") assets represent the Group's right to use an underlying asset for the lease term and lease liabilities represent the Group's obligation to make lease payments arising from the lease. ROU assets are initially measured based on the lease liability, adjusted for any initial direct costs, any lease payments made prior to lease commencement and for any lease incentives, and are included in other assets (long term) on the Group's consolidated balance sheets. Lease liabilities are recognized at the present value of the future lease payments at the lease commencement date, and are included in accrued expenses and other current liabilities (short term) and other long-term liabilities on the Group's consolidated balance sheets. The discount rate used to determine the present value of the future lease payments is the Group's incremental borrowing rate, because the interest rate implicit in most of the Group's leases is not readily determinable. The Group's incremental borrowing rate represents the rate would be incurred to borrow on a collateralized basis over a similar term for an amount equal to the lease payments in a similar economic environment. Operating lease expense is recorded on a straight-line basis over the lease term. The Company does not possess any leases that have variable lease payments or residual value guarantees.

Recent accounting pronouncements

For the year ended December 31, 2019, the Group's total operating revenue exceeded US$1.35 billion. Therefore, the Group no longer qualified as an emerging growth company as of December 31, 2019, pursuant to the Jumpstart Our Business Startups Act of 2012. In 2019, the Group has adopted all applicable accounting standards which have been effective for public companies for the year beginning on January 1, 2019.

Recently Adopted Accounting Guidance

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which has subsequently been amended by ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10, ASU 2019-11 and ASU 2020-03. This ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of the Group's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2019, including final periods within those fiscal years. For all other public business entities, the guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early application of the pending content that links to this paragraph is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The Group has adopted the new standard effective January 1, 2020, using the modified retrospective transition method. Please refer to "Allowance for credit losses".

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurements by removing, modifying, or adding certain disclosures. The ASU eliminates such disclosures as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and valuation processes for Level 3 fair value measurements. The ASU adds new disclosure requirements for Level 3 measurements. The Group has adopted this new standard effective on January 1, 2020. The adoption of this new standard did not have a material impact on the Group's Historical Financial Information.

In December 2019, the FASB issued ASU 2019-12, a new accounting standard update to simplify the accounting for income taxes. The new guidance removes certain exceptions for recognizing deferred taxes for investments, performing intra period allocation and calculating income taxes in interim periods. It also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. The Group has adopted this new standard effective on January 1, 2021. The adoption of this new standard did not have a material impact on the Group's Historical Financial Information.

Recent Accounting Guidance Not Yet Adopted

No new accounting pronouncements issued but not yet adopted are expected to have a material impact on the Company's Historical Financial Information.

3. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS, NET

The Group's accounts receivable as of December 31, 2019, 2020, 2021 and June 30, 2022, are as follows:

As of December 31, 2019	Accounts receivable	Allowance for uncollectible Accounts receivable	Accounts receivable, net
Accounts receivable from loan facilitation service	2,371,709	(184,425)	2,187,284
Accounts receivable from post facilitation service	24,092	(273)	23,819
Total	**2,395,801**	**(184,698)**	**2,211,103**

As of December 31, 2020	Accounts receivable	Allowance for uncollectible Accounts receivable	Accounts receivable, net
Accounts receivable from loan facilitation service	151,004	(17,462)	133,542
Accounts receivable from post facilitation service	21,170	(3,958)	17,212
Accounts receivable from referral services	12,180	(1,836)	10,344
Total	**184,354**	**(23,256)**	**161,098**

As of December 31, 2021	Accounts receivable	Allowance for uncollectible Accounts receivable	Accounts receivable, net
Accounts receivable from loan facilitation service	502	(375)	127
Accounts receivable from post facilitation service	5,825	(1,683)	4,142
Accounts receivable from referral services	10,797	–	10,797
Total	**17,124**	**(2,058)**	**15,066**

As of June 30, 2022	Accounts receivable	Allowance for uncollectible Accounts receivable	Accounts receivable, net
Accounts receivable from referral services	25,080	–	25,080
Total	**25,080**	**–**	**25,080**

The movement of allowance for uncollectible accounts receivables for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022, are as follows:

	Opening balance as of January 1, 2019	Current year net provision	Write off in the current year	Ending balance as of December 31, 2019
Accounts receivable from loan facilitation service	77,152	171,602	(64,329)	184,425
Accounts receivable from post facilitation service	4,184	12,779	(16,690)	273
Total	**81,336**	**184,381**	**(81,019)**	**184,698**

	Opening balance as of January 1, 2020	Current year net provision	Write off in the current year	Ending balance as of December 31, 2020
Accounts receivable from loan facilitation service	184,425	(102,832)	(64,131)	17,462
Accounts receivable from post facilitation service	273	33,241	(29,556)	3,958
Accounts receivable from referral services	–	1,836	–	1,836
Total	**184,698**	**(67,755)**	**(93,687)**	**23,256**

	Opening balance as of January 1, 2021	Current year net provision	Write off in the current year	Ending balance as of December 31, 2021
Accounts receivable from loan facilitation service	17,462	(11,309)	(5,778)	375
Accounts receivable from post facilitation service	3,958	1,732	(4,007)	1,683
Accounts receivable from referral services	1,836	–	(1,836)	–
Total	**23,256**	**(9,577)**	**(11,621)**	**2,058**

	Opening balance as of January 1, 2022	Current period net provision	Write off in the current period	Ending balance as of June 30, 2022
Accounts receivable from loan facilitation service	375	–	(375)	–
Accounts receivable from post facilitation service	1,683	–	(1,683)	–
Total	**2,058**	**–**	**(2,058)**	**–**

The Group's contract assets as of December 31, 2019, 2020, 2021 and June 30, 2022, are as follows:

As of December 31, 2019	**Contract assets**	**Allowance for Uncollectible Contract assets**	**Contract assets, net**
Contract assets from loan facilitation service	143,685	(6,662)	137,023
Contract assets from post facilitation service	3,977	(231)	3,746
Total	**147,662**	**(6,893)**	**140,769**

As of December 31, 2020	**Contract assets**	**Allowance for Uncollectible Contract assets**	**Contract assets, net**
Contract assets from loan facilitation service	2,714,861	(222,526)	2,492,335
Contract assets from post facilitation service	29,259	(10,045)	19,214
Contract assets from referral services	29,818	–	29,818
Total	**2,773,938**	**(232,571)**	**2,541,367**

As of December 31, 2021	**Contract assets**	**Allowance for Uncollectible Contract assets**	**Contract assets, net**
Contract assets from loan facilitation service	3,097,872	(287,397)	2,810,475
Contract assets from post facilitation service	282,767	(26,457)	256,310
Contract assets from referral services	238,877	–	238,877
Total	**3,619,516**	**(313,854)**	**3,305,662**

As of June 30, 2022	**Contract assets**	**Allowance for Uncollectible Contract assets**	**Contract assets, net**
Contract assets from loan facilitation service	3,276,001	(299,395)	2,976,606
Contract assets from post facilitation service	463,530	(25,318)	438,212
Contract assets from referral services	351,395	–	351,395
Total	**4,090,926**	**(324,713)**	**3,766,213**

The movement of allowance for uncollectible contract assets for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022, are as follows:

	Opening balance as of January 1, 2019	**Current year net provision**	**Write off in the current year**	**Ending balance as of December 31, 2019**
Contract assets from loan facilitation service	758	8,895	(2,991)	6,662
Contract assets from post facilitation service	421	1,728	(1,918)	231
Total	**1,179**	**10,623**	**(4,909)**	**6,893**

	Opening balance as of January 1, 2020	Current year net provision	Write off in the current year	Ending balance as of December 31, 2020
Contract assets from loan facilitation service	6,662	220,582	(4,718)	222,526
Contract assets from post facilitation service	231	11,217	(1,403)	10,045
Total	**6,893**	**231,799**	**(6,121)**	**232,571**

	Opening balance as of January 1, 2021	Current year net provision	Write off in the current year	Ending balance as of December 31, 2021
Contract assets from loan facilitation service	222,526	157,708	(92,837)	287,397
Contract assets from post facilitation service	10,045	52,379	(35,967)	26,457
Total	**232,571**	**210,087**	**(128,804)**	**313,854**

	Opening balance as of January 1, 2022	Current period net provision	Write off in the current period	Ending balance as of June 30, 2022
Contract assets from loan facilitation service	287,397	77,952	(65,954)	299,395
Contract assets from post facilitation service	26,457	25,673	(26,812)	25,318
Total	**313,854**	**103,625**	**(92,766)**	**324,713**

The Group's accounts receivable and contract assets generated from related parties and recorded in amounts due from related parties as of December 31, 2019, 2020, 2021 and June 30, 2022, are as follows:

As of December 31, 2019	Accounts receivable and contract assets	Allowance for uncollectible accounts receivable and contract assets	Accounts receivable and contract assets, net
Accounts receivable from loan facilitation service	131,743	(9,648)	122,095
Accounts receivable from post facilitation service	1,950	(481)	1,469
Contract assets from loan facilitation service	47,028	(2,062)	44,966
Contract assets from post facilitation service	795	(144)	651
Total	**181,516**	**(12,335)**	**169,181**

As of December 31, 2020	Accounts receivable and contract assets	Allowance for uncollectible accounts receivable and contract assets	Accounts receivable and contract assets, net
Accounts receivable from referral services	1,004	–	1,004
Contract assets from loan facilitation service	82,528	(8,072)	74,456
Contract assets from post facilitation service	951	(227)	724
Total	**84,483**	**(8,299)**	**76,184**

As of December 31, 2021	Accounts receivable and contract assets	Allowance for uncollectible accounts receivable and contract assets	Accounts receivable and contract assets, net
Contract assets from loan facilitation service	953,846	(120,208)	833,638
Contract assets from post facilitation service	5,178	(1,809)	3,369
Total	**959,024**	**(122,017)**	**837,007**

As of June 30, 2022	Accounts receivable and contract assets	Allowance for uncollectible accounts receivable and contract assets	Accounts receivable and contract assets, net
Contract assets from loan facilitation service	592,384	(118,719)	473,665
Contract assets from post facilitation service	15,762	(6,457)	9,305
Contract assets from referral services	54,116	–	54,116
Total	**662,262**	**(125,176)**	**537,086**

The movement of allowance for uncollectible accounts receivables and contract assets generated from related parties and recorded in amounts due from related parties for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 are as follows:

	Opening balance as of January 1, 2019	Current year net provision	Write off in the current year	Ending balance as of December 31, 2019
Accounts receivable from loan facilitation service	9,437	18,698	(18,487)	9,648
Accounts receivable from post facilitation service	1,515	6,947	(7,981)	481
Contract assets from loan facilitation service	219	7,680	(5,837)	2,062
Contract assets from post facilitation service	18	1,951	(1,825)	144
Total	**11,189**	**35,276**	**(34,130)**	**12,335**

	Opening balance as of January 1, 2020	Current year net provision	Write off in the current year	Ending balance as of December 31, 2020
Accounts receivable from loan facilitation service	9,648	30,215	(39,863)	–
Accounts receivable from post facilitation service	481	14,533	(15,014)	–
Contract assets from loan facilitation service	2,062	22,683	(16,673)	8,072
Contract assets from post facilitation service	144	7,639	(7,556)	227
Total	**12,335**	**75,070**	**(79,106)**	**8,299**

	Opening balance as of January 1, 2021	Current year net provision	Write off in the current year	Ending balance as of December 31, 2021
Contract assets from loan facilitation service	8,072	117,613	(5,477)	120,208
Contract assets from post facilitation service	227	6,482	(4,900)	1,809
Total	**8,299**	**124,095**	**(10,377)**	**122,017**

	Opening balance as of January 1, 2022	Current period net provision	Write off in the current period	Ending balance as of June 30, 2022
Contract assets from loan facilitation service	120,208	5,594	(7,083)	118,719
Contract assets from post facilitation service	1,809	7,806	(3,158)	6,457
Total	**122,017**	**13,400**	**(10,241)**	**125,176**

The year/period end balances primarily consisted of receivables and contract assets associated with loans originated in the current year/period. The past-due balance of the Group's accounts receivable as of December 31, 2020, 2021 and June 30, 2022 is immaterial.

The year/period end balances primarily consisted of receivables associated with loans facilitated in the current year/period. The principal of accounts receivable and contract assets as of December 31, 2020 from loans facilitated in 2019 is immaterial.

As of December 31, 2021, the principal of accounts receivable and contract assets by year of origination:

	2021	2020	Total
As of December 31, 2021			
Loan facilitation service	2,708,137	390,236	3,098,373
Post facilitation service	249,726	38,867	288,593
Referral Service	249,674	–	249,674
Total	**3,207,537**	**429,103**	**3,636,640**

As of June 30, 2022, the principal of accounts receivable and contract assets by year of origination:

	2022	2021	2020	Total
As of June 30, 2022				
Loan facilitation service	2,447,427	742,111	86,463	3,276,001
Post facilitation service	433,153	15,378	14,999	463,530
Referral Service	376,475	–	–	376,475
Total	**3,257,055**	**757,489**	**87,959**	**4,116,006**

4. FINANCIAL ASSETS RECEIVABLE, NET

The Group's financial assets receivable as of December 31, 2019, 2020, 2021 and June 30, 2022, are as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
Financial assets receivable	2,142,627	4,601,642	4,897,854	4,821,201
Allowance for uncollectible receivables	(170,803)	(390,834)	(493,646)	(519,563)
Financial assets receivable, net	**1,971,824**	**4,210,808**	**4,404,208**	**4,301,638**

The movement of financial assets receivable for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 are as follows:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
Balance at beginning of year/period	1,250,277	2,142,627	4,601,642	4,897,854
Adoption of ASC 326	–	117,321	–	–
Addition in the current year/period	3,650,311	6,885,976	6,626,322	3,012,766
Collection in the current year/period	(2,721,168)	(4,478,593)	(6,189,783)	(2,951,461)
Write-off	(36,793)	(65,689)	(140,327)	(137,958)
Balance at end of year/period	**2,142,627**	**4,601,642**	**4,897,854**	**4,821,201**

The movement of allowance for uncollectible receivables for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 are as follows:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
Balance at beginning of year/period	56,656	170,803	390,834	493,646
Current year/period net provision	150,940	285,720	243,139	163,875
Write-off	(36,793)	(65,689)	(140,327)	(137,958)
Balance at end of year/period	**170,803**	**390,834**	**493,646**	**519,563**

The Group's financial assets receivable generated from related parties and recorded in amounts due from related parties as of December 31, 2019, 2020, 2021 and June 30, 2022 are as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
Financial assets receivable	130,765	3,149	–	5,802
Allowance for uncollectible receivables	(13,633)	(2,033)	–	(340)
Financial assets receivable, net	**117,132**	**1,116**	**–**	**5,462**

The movement of financial assets receivable generated from related parties and recorded in amounts due from related parties for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 are as follows:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
Balance at beginning of year/period	125,936	130,765	3,149	–
Addition in the current year/period	329,164	35,151	–	6,112
Collection in the current year/period	(316,926)	(124,830)	(309)	(308)
Write-off	(7,409)	(37,937)	(2,840)	(2)
Balance at end of year/period	**130,765**	**3,149**	**–**	**5,802**

The movement of allowance for uncollectible receivables generated from related parties and recorded in amounts due from related parties for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 are as follows:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
Balance at beginning of year/period	5,806	13,633	2,033	–
Current year/period net provision	15,236	26,337	807	342
Write-off	(7,409)	(37,937)	(2,840)	(2)
Balance at end of year/period	**13,633**	**2,033**	**–**	**340**

The following table summarizes the past-due status on the Group's financial assets receivable as of December 31, 2020, 2021 and June 30, 2022:

	0-30 days past due	31-60 days past due	Current	Total financial assets receivable
December 31, 2020	15,673	9,572	4,576,397	4,601,642
December 31, 2021	15,594	12,038	4,870,222	4,897,854
June 30, 2022	32,536	34,257	4,754,408	4,821,201

The year/period end balances primarily consisted of receivables associated with loans facilitated in the current year/period. The principal of financial assets receivable as of December 31, 2020 from loans facilitated in 2019 is immaterial.

As of December 31, 2021, the principal of financial assets receivable by year of origination:

	2021	2020	Total
As of December 31, 2021	4,078,249	819,605	4,897,854

As of June 30, 2022, the principal of financial assets receivable by year of origination:

	2022	2021	2020	Total
As of June 30, 2022	2,390,103	2,095,971	335,127	4,821,201

5. LOANS RECEIVABLE, NET

Loans receivable consists of the following:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
Loans receivable	9,591,204	8,010,081	13,652,723	15,844,979
Less allowance for loan losses	(351,639)	(421,767)	(948,893)	(1,336,642)
Loans receivable, net	**9,239,565**	**7,588,314**	**12,703,830**	**14,508,337**

As of December 31, 2019, 2020, 2021 and June 30, 2022, the accrued interest receivables are RMB42,770, RMB87,278, RMB86,144, and RMB113,658 (net of allowance RMB2,252, RMB3,200, RMB5,987 and RMB9,588, respectively), which is recorded under loans receivable.

The following table presents the past-due status on loans as of December 31, 2019, 2020, 2021 and June 30, 2022:

	0-30 days past due	31-60 days past due	Total amount past due	Current	Total loans
December 31, 2019	90,420	55,992	146,412	9,444,792	9,591,204
December 31, 2020	43,766	32,038	75,804	7,934,277	8,010,081
December 31, 2021	113,771	87,171	200,942	13,451,781	13,652,723
June 30, 2022	134,692	102,233	236,925	15,608,054	15,844,979

The Group has not recorded any financing income on an accrual basis for the loans that are past due for more than 60 days for the six months ended June 30, 2022 (60 days in 2021, 2020 and 2019). Loans are returned to accrual status if they are brought to non-delinquent status or have performed in accordance with the contractual terms for a reasonable period of time and, in the Group's judgment, will continue to make periodic principal and interest payments as scheduled. For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, the Group has charged off loans receivable of RMB162 million, RMB637 million, RMB475 million, RMB156 million (unaudited) and RMB536 million, respectively.

Movement of allowance for loan losses is as follows:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
Balance at beginning of year/period	25,895	351,639	421,767	948,893
Provision for loan losses	486,991	698,701	965,419	907,317
Gross write-off	(161,976)	(636,766)	(475,352)	(535,743)
Recoveries	729	8,193	37,059	16,175
Balance at end of year/period	**351,639**	**421,767**	**948,893**	**1,336,642**

The principal of loans receivable as of December 31, 2020 by year of origination is as follows:

	2020	2019	Total loans
Loans receivable	7,987,657	22,424	8,010,081

The principal of loans receivable as of December 31, 2021 by year of origination is as follows:

	2021	2020	Total loans
Loans receivable	13,614,369	38,354	13,652,723

The principal of loans receivable as of June 30, 2022 by year of origination is as follows:

	2022	2021	2020	Total loans
Loans receivable	11,436,797	4,391,267	16,915	15,844,979

6. LAND USE RIGHTS, NET

Land use rights represent acquired right to use the parcel of land on which the Group's regional headquarters and affiliated industrial park stand. In 2021, the Group acquired the land use rights in Shanghai from the local authorities. Amortization of the land use right is made over the remaining term of the land use right period from the date when the land was made available for use by the Group. The land use rights are summarized as follows:

	As of December 31, 2021	As of June 30, 2022
	RMB	*RMB*
Cost	1,036,178	1,036,178
Accumulated amortization	(17,270)	(27,630)
Land use rights, net	1,018,908	1,008,548

The total amortization expense for the year ended December 31, 2021 and six months ended June 30, 2021 and 2022 amounted to RMB17,270, RMB6,908 (unaudited) and RMB10,360, respectively.

7. SHORT-TERM LOANS

Short-term loans as of December 31, 2019 represents bank borrowings of RMB200,000 obtained from domestic commercial banks. The short-term loan of RMB100,000 bears interest rates of one year Loan Prime Rate ("LPR") plus 1.45%, RMB35,000 applying a fixed rate of 5.95%, and RMB65,000 applying a fixed rate of 5.45%.

Short-term loans as of December 31, 2020 represents bank borrowings of USD12,500 and RMB105,238 obtained from domestic commercial banks. The short-term loan of USD12,500 bears interest rates of Hong Kong InterBank Offered Rate ("HIBOR") plus 300bps. The loan of RMB105,238 applying a fixed rate of 4.05%.

Short-term loans as of December 31, 2021 represents bank borrowings of USD38,850 and RMB150,000 obtained from domestic commercial banks, and the latter loan is guaranteed by Shanghai Qibutianxia Co., Ltd. The short-term loan of USD38,850 bears interest rates of London InterBank Offered Rate ("LIBOR") plus 300bps for the year ended December 31, 2021. The loan of RMB150,000 applying a fixed rate of 4.05%.

Short-term loans as of June 30, 2022 includes newly raised bank borrowings of USD 30,000 obtained from domestic commercial banks during the six months ended June 30, 2022. The short-term loan of USD30,000 bears interest rates of London InterBank Offered Rate ("LIBOR") plus 330bps for the six months ended June 30, 2022.

The weighted average interest rate for the outstanding borrowings as of December 31, 2019, 2020, 2021 and June 30, 2022 was 5.64%, 3.65%, 3.46% and 4.70%, respectively. There is one financial covenant stipulating that the Company shall not make dividend distribution before the loans, interest and other payable due under the contract are paid.

In June 2022, 360 Changfeng signed a mortgage loan agreement of RMB1 billion with tenure of 25 years. The interest rate is based on market price quote for loans with tenure of more than five years minus 136bps. The loan is guaranteed by the land use rights owned by 360 Changfeng and is for the specific use of construction of the regional headquarters and the affiliated industrial park. As of June 30, 2022, the unused amount of the mortgage loan is RMB1 billion. The mortgage loan agreement requires the subsidiary's registered capital to be paid in the same proportion of the total facility used. Subsequently in September, the registered capital of the subsidiary has been fully paid.

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB*
User traffic direction fees	217,932	201,041	472,269	472,101
Payable for third-party service fee	145,834	196,718	298,411	341,097
Payable to financial institution partners *(1)*	212,279	163,234	422,423	347,313
Payable to shareholder of non-controlling interests *(2)*	–	–	296,617	303,407
Dividend payable *(3)*	–	–	276,991	230,095
Accrued payroll and welfare	92,502	144,784	409,216	317,612
Lease liability	21,020	28,528	25,779	37,535
Others	31,351	75,456	56,623	68,197
Total	**720,918**	**809,761**	**2,258,329**	**2,117,357**

(1) Payable to financial institution partners mainly include amounts collected from the borrowers but have not been transferred to the financial institution partners due to settlement time lag.

(2) Payable to shareholder of non-controlling interests mainly includes loans from Shanghai Changfeng Investment (Group) Co., Ltd. ("Changfeng") to acquire land use right, the principal of RMB90,000 of which is repaid in September, 2022.

(3) Dividends payable as of December 31, 2021 has been paid in January 2022 and May 2022 respectively. Dividends payable as of June 30, 2022 has been paid in July, 2022.

9. GUARANTEE LIABILITIES

The movement of guarantee liabilities for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 is as follows:

Guarantee liabilities-stand ready

	RMB
As of January 1, 2019	**1,399,174**
Provision at the inception of new loans	3,979,475
Net payout *(1)*	(2,881,118)
Release on expiration	(285,406)
As of December 31, 2019	**2,212,125**
Adoption of ASC 326	(63,723)
As of January 1, 2020	**2,148,402**
Provision at the inception of new loans	6,921,127
Released into revenue	(4,896,032)
As of December 31, 2020	**4,173,497**
As of January 1, 2021	**4,173,497**
Provision at the inception of new loans	6,626,322
Released into revenue	(5,981,675)
As of December 31, 2021	**4,818,144**
As of January 1, 2022	**4,818,144**
Provision at the inception of new loans	3,018,878
Released into revenue	(3,298,059)
As of June 30, 2022	**4,538,963**

Guarantee liabilities-contingent

	RMB
As of January 1, 2019	**–**
Expense on guarantee liabilities	734,730
As of December 31, 2019	**734,730**
Adoption of ASC 326	1,952,545
As of January 1, 2020	**2,687,275**
Provision for contingent liabilities	4,794,127
Net payout *(1)*	(3,937,948)
As of December 31, 2020	**3,543,454**

	RMB
As of January 1, 2021	**3,543,454**
Provision for contingent liabilities	3,078,224
Net payout *(1)*	(3,336,597)
As of December 31, 2021	**3,285,081**
As of January 1, 2022	**3,285,081**
Provision for contingent liabilities	2,162,638
Net payout *(1)*	(2,127,305)
As of June 30, 2022	**3,320,414**

(1) Net payout represents the amount paid upon borrowers' default net of subsequent recoveries from the borrowers during a given period.

The following table summarizes the past-due status on the Group's contractual amounts of the outstanding loans subject to guarantee:

	0-30 days past due	**31-60 days past due**	**61-90 days past due**	**Over 90 days past due**	**Current**	**Total loans**
December 31, 2020	355,252	158,048	68,919	–	55,019,645	55,601,864
December 31, 2021	446,780	235,769	57,526	–	49,117,630	49,857,705
June 30, 2022	456,773	228,107	32,970	–	49,904,061	50,621,911

As of December 31, 2019, 2020, 2021 and June 30, 2022, the contractual amounts of the outstanding loans subject to guarantee by the Group is estimated to be RMB47,189,538, RMB55,601,864, RMB49,857,705 and RMB50,621,911, respectively. The approximate term of guarantee compensation service ranged from 1 month to 12 months, 1 month to 24 months, 1 month to 36 months and 1 month to 36 months, as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, the contractual amounts of the outstanding loans (excluding loans that are written off) that have been compensated by the Group were RMB2,237,563, RMB2,402,825, RMB3,129,264 and RMB3,769,627, respectively.

10. RELATED PARTY BALANCES AND TRANSACTIONS

The table below sets forth the major related parties and their relationships with the Group, with which the Group entered into transactions during the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 (unaudited) and 2022:

Name of related parties	**Relationship with the group**
360 Security Technology Inc. ("360 Group")	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qifutong Technology Co., Ltd. ("Qifutong")	An affiliate of 360 Group, ultimately controlled by Mr. Zhou, the Chairman of the Group
Shanghai Qibutianxia Information Technology Co., Ltd. ("Qibutianxia")	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qicaitianxia Technology Co., Ltd. ("Qicaitianxia")	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qihu Technology Co., Ltd. ("Qihu")	An affiliate of 360 Group, ultimately controlled by Mr. Zhou, the Chairman of the Group

Name of related parties	Relationship with the group
Jinshang Consumer Finance Co.,Ltd. ("Jinshang")	An affiliate of an entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Zixuan Information Technology Co., Ltd. ("Beijing Zixuan")	Entity controlled by Mr. Zhou, the Chairman of the Group
Xixian New Area Financial Asset Exchange Co., Ltd. ("Xixian")	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qifei Xiangyi Consultation Co., Ltd. ("Beijing Qifei")	Entity controlled by Mr. Zhou, the Chairman of the Group
Hangzhou Qifei Huachuang Technology Co, Ltd. ("Hangzhou Qifei")	Investee of the Group
Shanghai Jiehu Internet Technology Co., Ltd. ("Shanghai Jiehu")	An affiliate of 360 Group, ultimately controlled by Mr. Zhou, the Chairman of the Group
Kincheng Bank of Tianjin Co., Ltd. ("Kincheng Bank")	An affiliate of an entity controlled by Mr. Zhou, the Chairman of the Group
Tianjin Yujie Technology Co., Ltd. ("Yujie")	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Hongying Information Technology Co., Ltd. ("Hongying")	Entity controlled by Mr. Zhou, the Chairman of the Group
Shareholders	Shareholders of the Group
Others	Entities controlled by Mr. Zhou, the Chairman of the Group

The Group entered into the following transactions with its related parties:

For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, services provided by the related parties were RMB129,061, RMB143,881, RMB523,054, RMB178,078 (unaudited) and RMB318,246, respectively.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*
Bandwidth service fee charged by Qihu	46,191	80,514	108,743	51,696	62,882
Brand fees charged by Qihu	–	–	23,585	–	23,584
Referral service fee charged by Qihu	47,640	24,507	19,789	12,273	880
Referral service fee charged by Yujie	–	15,152	347,585	101,715	221,380
Corporate expenses allocated from Qibutianxia	3,230	11,321	7,075	5,660	–
Rental expenses charged by Beijing Qifei	5,074	7,137	–	–	–
Rental expenses charged by Hongying	–	–	11,899	5,696	7,340
Labor cost charged by Xixian	10,657	2,130	–	–	–
Referral service fee charged by Qifutong	7,905	–	–	–	–
Others	8,364	3,120	4,378	1,038	2,180
Total	**129,061**	**143,881**	**523,054**	**178,078**	**318,246**

For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, services provided to the related parties were RMB1,037,480, RMB346,378, RMB2,178,561, RMB1,050,036 (unaudited) and RMB787,157, respectively.

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*
Referral service fee charged from Qicaitianxia	197,018	3,558	–	–	–
Referral service fee charged from Kincheng Bank	–	–	–	–	108,757
Loan facilitation services fee charged from Jinshang	59,871	150,515	219,513	89,582	62,967
Loan facilitation services fee charged from Beijing Zixuan	517,776	47,516	37	37	–
Loan facilitation services fee charged from Kincheng Bank	–	15,254	1,574,456	852,625	289,961
Post-origination services fee charged from Jinshang	43,497	48,094	69,398	32,644	36,043
Post-origination services fee charged from Beijing Zixuan	215,019	74,417	56	56	–
Post-origination services fee charged from Kincheng Bank	–	433	297,489	62,042	268,747
Others	4,299	6,591	17,612	13,050	20,682
Total	**1,037,480**	**346,378**	**2,178,561**	**1,050,036**	**787,157**

Beijing Zixuan is the subsidiary of Qibutianxia which is ultimately controlled by Mr. Zhou. Beijing Zixuan runs a P2P platform, referring individual investors as the financial institutional partner to the Group's platform. Jinshang is an affiliate of an entity controlled by Mr. Zhou and provides funds to the borrowers through the Group's platform. Kincheng Bank is an affiliate of an entity controlled by Mr. Zhou and provides funds to the borrowers through the Group's platform. The Group collected service fees from Beijing Zixuan, Jinshang and Kincheng Bank. The amounts from Beijing Zixuan, Jinshang and Kincheng Bank represent the loan facilitation service and post-facilitation service fees charged from them.

The Company has held bank deposit with Kincheng Bank of Tianjin Co., Ltd ("Kincheng") which amounted to RMB320,491 and RMB2,519,337 as December 31, 2021 and June 30, 2022. The related interest income was RMB29,312, RMB8,561 (unaudited) and RMB31,996 for the year ended December 31, 2021, six months ended June 30, 2021 and 2022, respectively and interest receivable as of December 31, 2021 and June 30, 2022 was RMB79 and RMB21,913 respectively.

As of December 31, 2019, 2020, 2021 and June 30, 2022, amounts due from related parties were RMB478,767, RMB193,305, RMB978,175 and RMB788,522, respectively, and details are as follows:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB*
Trade related				
Jinshang	50,666	158,655	194,123	200,965
Kincheng Bank	–	13,505	771,335	572,272
Beijing Zixuan	404,416	5,608	–	–
Others	3,226	4,437	2,559	5,127
Non-trade related				
Shareholders *(1)*	20,459	11,100	10,158	10,158
Total	**478,767**	**193,305**	**978,175**	**788,522**

(1) The balance represents the ADS registration fees incurred on behalf of certain shareholders that are to be reimbursed from them.

As of December 31, 2019, 2020, 2021 and June 30, 2022, amounts due to related parties were RMB55,622, RMB71,562, RMB214,057 and RMB178,687, respectively, and details are as follows:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB*
Trade related				
Qibutianxia	186	12,000	7,500	–
Qihu	39,836	24,624	144,999	127,688
Yujie	–	16,061	30,165	13,200
Others	7,626	10,507	19,556	25,962
Non-trade related				
Qibutianxia	1,656	1,656	1,656	1,656
Others	6,318	6,714	10,181	10,181
Total	**55,622**	**71,562**	**214,057**	**178,687**

Qibutianxia provided joint back to back guarantee to certain third party guarantee companies for the loans facilitated by the Group. The amounts of loans under such arrangement are RMB22,831,912, RMB19,346,618, RMB11,803,492 and RMB7,115,977 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively.

In September, 2020, Beijing Qifei transferred to the Group part of its interest in Hangzhou Qifei, a joint venture company established by Beijing Qifei and an independent third party. After the transfer, Beijing Qifei and the Group hold 26% and 25% of the equity interest in the investee, respectively. As part of the arrangement, the Group is responsible to assist Hangzhou Qifei in meeting certain performance targets. The Group accounted for the equity investment using alternative measurement, and the carrying amount was nil since no capital contribution has been made as of December 31, 2021. The Company made investment of RMB8,996 to Hangzhou Qifei during the six months ended June 30, 2022, and the investment was fully impaired at the same period after considering the business forecast of the investee and the fair value of this equity investment. Thus, the carrying amount of Hangzhou Qifei is nil as of June 30, 2022. The Company is not obligated to fund its remaining unpaid share of registered capital of RMB41,004 till June 30, 2028 and given the uncertainty with regards to the financial position of the investee, the probability of future contribution and the exact amount cannot be estimated, thus no additional liabilities are accrued as of June 30, 2022.

In October 2020, the Group established a company, Shanghai 360 Changfeng Technology, Co., Ltd. ("360 Changfeng") in Shanghai, China through Qiyu together with Shanghai Jiehu and an independent third party, Changfeng, to develop and build regional headquarter and the affiliated industrial park in Shanghai. Changfeng, Shanghai Jiehu and the Group each holds 30%, 30% and 40% of the equity interests of the 360 Changfeng, respectively. The shareholders execute their voting rights based on their equity interest and the stakeholders' meeting will pass the resolutions with the approval of stakeholders representing more than half of the voting rights.

In December 2021, the Group acquired the 30% equity interest held by Shanghai Jiehu and became the controlling shareholder of 360 Changfeng. The transaction is a business acquisition under common control as both Shanghai Jiehu and the Group is ultimately controlled by Mr. Zhou, and has been retrospectively reflected in the Historical Financial Information of the Company for all periods presented. The impact to prior year financials was inconsequential.

Pursuant to the agreement, the shareholders is obligated to contribute initial funding for acquisition of land use rights and funds required for subsequent developments will be mainly financed by external financings with any remaining shortfall funded by the shareholders ratably in proportion to their respective equity interest ownership.

As of December 31, 2020, no capital contribution was made and carrying amount of the investment was zero. As of December 31, 2021 and June 30, 2022, shareholders of the company have invested a total of RMB1.0 billion, of which RMB0.3 billion was funded by the Changfeng.

11. INCOME TAXES

PRC

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law"), domestically-owned enterprises and foreign-invested enterprises are subject to a uniform tax rate of 25%. Qiyu received its "high and new technology enterprises" status in 2018 and renewed it in 2021 and was entitled for a preferential income tax rate of 15% from 2018 to 2023. In November 2020, Qiyue received its "high and new technology enterprises" status and was entitled to a reduced EIT rate of 15% from 2020 to 2022. From August 2019, Qicheng benefits from a preferential tax rate of 15% as it falls within the encouraged industries catalogue in western China. The 40% of the EIT payables of Qicheng could be further reduced as it is located in Autonomous Region of China. From 2021, two of the Company's subsidiaries benefit from a preferential tax rate of 15% as they are registered in Hainan and engaged in encouraged business activities. From 2022, Beihai Borui Credit Service Co., Ltd., benefits from a preferential tax rate of 15% as it falls within the encouraged industries catalogue in western China.

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on its income or capital gains. In addition, the Cayman Islands do not impose withholding tax on dividend payments.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the Company's subsidiaries domiciled in Hong Kong has introduced a two-tiered profits tax rate regime which is applicable to any year of assessment commencing on or after April 1, 2018. The profits tax rate for the first HK$2 million of profits of corporations will be lowered to 8.25%, while profits above that amount will continue to be subject to the tax rate of 16.5%. Additionally, payments of dividends by the subsidiary incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

The current and deferred portion of income tax expenses included in the consolidated statements of operations, which were all attributable to the Group is as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*
Current tax	1,179,089	1,355,651	1,053,979	639,412	573,083
Deferred tax	(713,106)	(769,615)	204,217	23,945	(176,351)
Total	**465,983**	**586,036**	**1,258,196**	**663,357**	**396,732**

Reconciliation between the income tax at PRC statutory tax rate and income tax expense is as follows:

	Year ended December 31,		
	2019	2020	2021
	RMB	*RMB*	*RMB*
Income before income tax benefit	2,967,287	4,081,745	7,022,709
Statutory tax rate in the PRC	25%	25%	25%
Income tax at statutory tax rate	741,822	1,020,436	1,755,677
Effect of different tax rate of subsidiary operation in other jurisdiction	3,875	3,728	11,708
Effect of non-deductible expenses	63,070	75,881	64,841
Effect of preferential tax rate and tax exemption	(202,095)	(452,033)	(487,655)
Effect of enacted tax rate change of deferred tax assets/liabilities	(95,048)	248	1,125
Effect of research and development super-deduction	(47,846)	(69,802)	(106,515)
Effect of valuation allowance movement of deferred tax assets	2,205	7,578	19,015
Income tax expense	**465,983**	**586,036**	**1,258,196**

The effect of the preferential tax rates on the income per share is as follows:

	Years ended December 31, (Amounts in Thousands Except Per Share Data)		
	2019	2020	2021
	RMB	*RMB*	*RMB*
Tax saving amount due to preferential tax rates	297,143	451,785	486,530
Income per share effect-basic	1.03	1.51	1.58
Income per share effect-diluted	0.99	1.47	1.51

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the deferred tax assets and deferred tax liabilities are as follows:

	As of December 31,		
	2019	2020	2021
	RMB	*RMB*	*RMB*
Deferred tax assets:			
Guarantee liabilities	1,182,114	1,628,214	1,263,699
Advertising expenses	290,720	–	–
Provision for financial assets receivable, accounts receivable and contract assets	236,252	34,889	34,889
Provision for loan losses	84,452	186,462	330,684
Depreciation of land use rights	–	–	14,162
Net operating loss carry forwards	12,951	22,785	37,376
Gross deferred tax assets	**1,806,489**	**1,872,350**	**1,680,810**
Valuation allowance on deferred tax assets	(2,205)	(9,783)	(28,798)
Total deferred tax assets	**1,804,284**	**1,862,567**	**1,652,012**
Deferred tax liabilities:			
Uncollected revenues	(1,106,936)	(501,848)	(938,721)
Total deferred tax liabilities	**(1,106,936)**	**(501,848)**	**(938,721)**
Net deferred tax assets	**697,348**	**1,360,719**	**713,291**

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, the Company's experience with tax attributes expiring unused and tax planning alternatives. Considering all the above factors, as of December 31, 2019, 2020, 2021 and June 30, 2022, the Group recorded an allowance of RMB2,205, RMB9,783, RMB28,798 and RMB42,591 respectively for deferred tax assets which are not more likely than not to be realized.

As of June 30, 2022, the Group had net operating loss carryforwards in PRC entities of RMB281,462, which will expire from 2023 to 2027.

The authoritative guidance requires that the Group recognizes the impact of a tax position in the financial statements if that position is more likely than not of being sustained upon audit by the tax authority, based on the technical merits of the position. Under PRC laws and regulations, arrangements and transactions among related parties may be subject to examination by the PRC tax authorities. If the PRC tax authorities determine that the contractual arrangements among related companies do not represent a price under normal commercial terms, they may make adjustments to the companies' income and expenses. A transfer pricing adjustment could result in additional tax liabilities.

According to PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or withholding agent. The statute of limitations will be extended five years under special circumstances, which are not clearly defined (but an underpayment of tax liability exceeding RMB0.1 million is specifically listed as a special circumstance). In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion.

Aggregate undistributed earnings of the Group's PRC subsidiaries and VIE and VIEs' subsidiaries that are available for distribution was RMB4,264,093, RMB5,964,686, RMB13,225,574 and RMB15,509,955 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively.

In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises ("FIEs") earned after January 1, 2008, are subject to a 10% withholding income tax. In addition, under tax treaty between the PRC and Hong Kong, if the foreign investor is incorporated in Hong Kong and qualifies as the beneficial owner, the applicable withholding tax rate is reduced to 5%, if the investor holds at least 25% in the FIE, or 10%, if the investor holds less than 25% in the FIE. A deferred tax liability should be recognized for the undistributed profits of PRC subsidiaries unless the Company has sufficient evidence to demonstrate that the undistributed dividends will be reinvested and the remittance of the dividends will be postponed indefinitely. The Group plans to indefinitely reinvest undistributed profits earned from its China subsidiaries in its operations in the PRC. Therefore, no withholding income taxes for undistributed profits of the Group's subsidiaries have been provided as of December 31, 2019, 2020, 2021 and June 30, 2022.

Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting basis over tax basis in a domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Group completed its feasibility analysis on a method, which the Group will ultimately execute if necessary to repatriate the undistributed earnings of the VIE without significant tax costs. As such, the Group does not accrue deferred tax liabilities on the earnings of the VIE given that the Group will ultimately use the means.

The effective tax rate is based on expected income and statutory tax rates. For interim financial reporting, the Group estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with the guidance on accounting for income taxes in an interim period. As the year progresses, the Group refines the estimates of the year's taxable income as new information becomes available. This continual estimation process often results in a change to the expected effective tax rate for the year. When this occurs, the Group adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year to- date provision reflects the expected annual tax rate.

The Group's effective tax rate for the six months ended June 30, 2021 and 2022 was 18.0% (unaudited) and 15.0%, respectively.

The Group did not incur any interest and penalties related to potential underpaid income tax expenses.

12. SHARE-BASED COMPENSATION

Share incentive plan

In May 2018, the shareholders and board of directors of the Company adopted the Share Incentive Plan (the "2018 plan") for the granting of share options and restricted share units to employees, directors and consultants to reward them for services to the Company and to provide incentives for future service. Under the 2018 plan, the maximum aggregate number of shares which may be issued is 25,336,096 ordinary shares, plus an annual increase equal to 1.0% of the total number of the then issued and outstanding shares. The share options expire 10 years from the date of grant.

The Company's board of directors and shareholders approved the 2019 Share Incentive Plan (the "2019 Plan") and amended it in August 2020, for the granting of share options and restricted share units to employees, directors and consultants to reward them for services to the Company and to provide incentives for future service. Under the 2019 plan, the maximum aggregate number of shares which may be issued is 17,547,567 ordinary shares, and may increase annually by an amount up to 1.0% of the total number of ordinary shares then issued and outstanding commencing with the first fiscal year beginning January 1, 2021 or such fewer amount as determined by the board of directors. The share options expire 10 years from the date of grant.

Stock options

On May 20 and November 20, 2018, and May 20, 2020 and November 20, 2021, the Company granted 24,627,493, 690,023, 3,514 and 2,400 stock options, respectively, with an exercises price of US$0.00001 per share to certain employees, directors and officers. The stock options shall vest over a period from immediate to 4 years. The grant date fair value per option was RMB48.64, RMB60.77, RMB32.02 and RMB64.46, respectively.

On November 2021, the compensation committee of the board of directors of the Company approved to convert the form of 10,264,366 outstanding restricted share units into stock options to purchase the same number of shares as represented by the restricted share units with an exercises price of US$0.00001 per share. This conversion did not affect the fair value of the awards immediately before and after the modification as the exercise price is nominal. In addition, there were no other changes to the awards including the vesting conditions and classification. Accordingly, modification accounting is not required and the cost will continue to be recognized based on the grant-date fair-value-based measure.

The Company mainly used the binomial model to estimate the fair value of the options granted on the respective grant dates with assistance from an independent valuation firm. The fair value of options approximates the fair value of underlying ordinary shares as the exercise price is nominal.

The fair value per option was estimated at the date of grant using the following assumptions:

	Year ended, December 31, 2018 *RMB*
Risk-free rate of interest	3.18%
Estimated volatility rate	51.32%-53.49%
Dividend yield	0.00%
Expected life (years)	5.00
Exercise price	USD0.00001

The risk-free rate of interest is based on the yield of US Treasury Strip Bond as of the valuation date. The expected volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as the expected expiration term. The fair value of ordinary share underlying the options has been determined by considering a number of objective and subjective factors such as operating and financial performance, round of financing investment, discount for lack of marketability and general and industry specific economic outlook, amongst other factors.

A summary of option activity during period from January 1, 2019 to June 30, 2022 is as follows:

	Number of Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contract Life**	**Aggregate Intrinsic Value**
		USD	*Years*	*RMB*
Options outstanding at January 1, 2019	25,244,577	0.00001	7.89	1,346,041
Options forfeited in 2019	(1,741,363)	0.00001	6.79	–
Options exercised in 2019	(5,470,244)	0.00001	6.87	(186,043)
Options outstanding at December 31, 2019	18,032,970	0.00001	6.91	613,301
Options exercisable at December 31, 2019	8,411,583	0.00001	6.69	286,078
Options vested or expected to be vested at December 31, 2019	18,032,970	0.00001	6.91	613,301

	Number of Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contract Life**	**Aggregate Intrinsic Value**
		USD	*Years*	*RMB*
Options outstanding at January 1, 2020	18,032,970	0.00001	6.91	613,301
Options granted in 2020	3,514	0.00001	8.79	135
Options forfeited in 2020	(145,759)	0.00001	5.83	–
Options exercised in 2020	(10,279,338)	0.00001	5.75	(395,343)
Options outstanding at December 31, 2020	7,611,387	0.00001	6.20	292,734
Options exercisable at December 31, 2020	3,639,244	0.00001	5.99	139,965
Options vested or expected to be vested at December 31, 2020	7,611,387	0.00001	6.20	292,734

	Number of Options	Weighted Average Exercise Price *USD*	Weighted Average Remaining Contract Life *Years*	Aggregate Intrinsic Value *RMB*
Options outstanding at January 1, 2021	7,611,387	0.00001	6.20	292,734
Options granted in 2021	2,400	0.00001	9.64	175
Options converted in 2021	10,264,366	0.00001	8.89	749,915
Options forfeited in 2021	(348,236)	0.00001	5.84	(25,442)
Options exercised in 2021	(4,584,580)	0.00001	4.94	(334,949)
Options outstanding at December 31, 2021	12,945,337	0.00001	8.03	945,786
Options exercisable at December 31, 2021	4,051,903	0.00001	7.01	296,032
Options vested or expected to be vested at December 31, 2021	12,945,337	0.00001	8.03	945,786

	Number of Options	Weighted Average Exercise Price *USD*	Weighted Average Remaining Contract Life *Years*	Aggregate Intrinsic Value *RMB*
Options outstanding at January 1, 2022	12,945,337	0.00001	8.03	945,786
Options forfeited in 2022	(755,190)	0.00001	7.75	(43,756)
Options exercised in 2022	(1,584,034)	0.00001	6.03	(91,779)
Options outstanding at June 30, 2022	10,606,113	0.00001	7.75	614,518
Options exercisable at June 30, 2022	3,002,620	0.00001	6.65	173,972
Options vested or expected to be vested at June 30, 2022	10,606,113	0.00001	7.75	614,518

As of June 30, 2022, there was RMB211,281 of unrecognized compensation cost related to share options that are expected to be recognized over a weighted-average vesting period of 1.22 years.

Restricted Share Units

A summary of the restricted share units for the year ended December 31, 2019 was stated below:

	Number of Restricted Share Units	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2019	–	–
Granted	2,003,301	36.18
Forfeited	(438,627)	50.12
Vested	(297,849)	41.16
Outstanding at December 31, 2019	1,266,825	30.18

A summary of the restricted share units for the year ended December 31, 2020 was stated below:

	Number of Restricted Share Units	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2020	1,266,825	30.18
Granted	15,959,139	40.31
Forfeited	(150,502)	30.63
Vested	(753,642)	30.43
Outstanding at December 31, 2020	16,321,820	40.07

A summary of the restricted share units for the year ended December 31, 2021 was stated below:

	Number of Restricted Share Units	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2021	16,321,820	40.07
Granted	3,102,418	68.45
Converted	(10,264,366)	40.84
Forfeited	(749,794)	38.39
Vested	(1,448,632)	37.06
Outstanding at December 31, 2021	6,961,446	52.38

A summary of the restricted share units for the six months ended June 30, 2022 was stated below:

	Number of Restricted Share Units	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2022	6,961,446	52.38
Granted	258,500	43.43
Forfeited	(260,238)	65.41
Vested	(388,702)	66.59
Outstanding at June 30, 2022	6,571,006	50.52

The restricted share units granted shall vest in accordance with contractual schedules over a period from three to five years. The fair value of the restricted share units was determined by the closing sales price of the shares on the grant date, adjusted by the present value of expected dividends to be paid during the vesting period. The total fair value of the restricted share units vested for the six months ended June 30, 2022 was RMB25,885. As of June 30, 2022, there was RMB253,248 of unrecognized compensation cost related to restricted share units that are expected to be recognized over a weighted-average vesting period of 1.37 years.

The Company recognizes the compensation costs on a straight-line basis over the requisite service period of the award, which is generally the vesting period. Total share-based compensation expense of share-based awards granted to employees and directors was as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB	*RMB*	*RMB*	*RMB* (*unaudited*)	*RMB*
Facilitation, origination and servicing expenses	55,601	72,192	75,209	30,893	34,704
Sales and marketing expenses	6,805	8,164	12,340	5,565	525
General and administrative expenses	188,022	220,805	166,373	90,372	63,604
Total	**250,428**	**301,161**	**253,922**	**126,830**	**98,833**

13. ORDINARY SHARES

5,000,000,000 shares was authorized at par value of USD0.00001 per share. The ordinary shares include Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share is entitled to one vote and each Class B ordinary share is entitled to twenty votes on all matters that are subject to shareholder vote. All classes of ordinary shares are entitled to the same dividend right. Class B ordinary shares could be converted into Class A ordinary shares, at the option of the holders, on one-for-one basis. All Class B ordinary shares are beneficially owned by Mr. Zhou, the Chairman of the Company.

As of December 31, 2019, there were 293,420,800 ordinary shares outstanding, par value $0.00001 per share, consisting of 253,600,214 Class A ordinary shares and 39,820,586 Class B ordinary shares. As of December 31, 2020, there were 304,453,780 ordinary shares outstanding, with par value of $0.00001 per share, consisting of 264,633,194 Class A ordinary shares and 39,820,586 Class B ordinary shares. As of December 31, 2021, there were 310,486,975 ordinary shares outstanding, with par value of $0.00001 per share, consisting of 270,666,389 Class A ordinary shares and 39,820,586 Class B ordinary shares. As of June 30, 2022, there were 312,459,711 ordinary shares outstanding, with par value of $0.00001 per share, consisting of 272,639,125 Class A ordinary shares and 39,820,586 Class B ordinary shares.

14. STATUTORY RESERVES AND RESTRICTED NET ASSETS

In accordance with the PRC laws and regulations, the PRC entities of the Group are required to make appropriation to certain statutory reserves, namely general reserve, industry specific reserve, enterprise expansion reserve, and staff welfare and bonus reserve, all of which are appropriated from net profit as reported in their PRC statutory accounts. The PRC entities of the Group are required to appropriate at least 10% of their after-tax profits to the general reserve until such reserve has reached 50% of their respective registered capital.

Appropriations to the enterprise expansion reserve and the staff welfare and bonus reserve are to be made at the discretion of the board of directors of the PRC entities of the Group. There are no appropriations to these reserves by the PRC entities of the Group for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 (unaudited) and 2022.

As a result of PRC laws and regulations and the requirement that distributions by the PRC entities of the Group can only be paid out of distributable profits computed in accordance with the PRC GAAP, the PRC entities of the Group restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital, capital reserve and statutory reserves of the PRC entities of the Group. As of December 31, 2019, 2020, 2021 and June 30, 2022, the aggregated amounts of paid-in capital, capital reserve and statutory reserves represented the amount of net assets of the relevant entity in the Group not available for distribution amounted to RMB2,615,880, RMB2,740,408, RMB8,283,560 and RMB14,536,140, respectively (including the statutory reserve fund of RMB14,880, RMB125,389, RMB168,541 and RMB218,082, as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively).

15. DIVIDENDS

Quarterly Dividend Policy

On November 15, 2021, the board of directors of the Company approved a quarterly cash dividend policy. Under the policy, the Company will declare and distribute a recurring cash dividend every fiscal quarter, starting from the third fiscal quarter of 2021, at an amount equivalent to approximately 15% to 20% of the Company's net income after tax for such quarter. The determination to make dividend distributions and the exact amount of such distributions in any particular quarter will be based upon the Company's operations and financial conditions, and other relevant factors, and subject to adjustment and determination by the board of directors.

The board of directors of the Company has approved a dividend of US$0.14 per ordinary share, or US$0.28 per ADS, for the third fiscal quarter of 2021 in accordance with the Company's dividend policy, which is paid on January 18, 2022 to shareholders of record as of the close of business on December 15, 2021.

The board of directors of the Company has approved a dividend of US$0.13 per ordinary share, or US$0.26 per ADS, for the fourth fiscal quarter of 2021 in accordance with the Company's dividend policy, which was paid on May 13, 2022 to shareholders of record as of the close of business on April 6, 2022.

The board of directors of the Company has approved and declared a dividend of US$0.11 per ordinary share, or US$0.22 per ADS, for the first fiscal quarter of 2022 in accordance with the Company's dividend policy on May 26, 2022, which was paid on July 27, 2022 to shareholders of record as of the close of business on June 20, 2022.

16. LEASE

Operating lease as lessee

The Group enters into operating leases primarily for general office space. The Group's leases typically have original terms not exceeding 5 years. These leases have remaining lease terms of 1 year to 3 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year.

Lease costs are included in facilitation, origination and servicing expense, sales and marketing expense, and general and administrative expenses. Operating lease expenses were RMB20,139, RMB28,999, RMB51,608, RMB23,752 (unaudited) and RMB32,064 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively, included amortization expenses of land use rights of nil, nil, RMB17,270, RMB6,908 (unaudited) and RMB10,362 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively. Under ASC 842, land use rights agreements are also considered as operating lease contracts. See Note 6 for separate disclosures related to land use right.

Supplemental cash flows information related to leases was as follows:

	Year ended December 31,			**Six months ended June 30,**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*
Cash paid for amounts included in the measurement of lease liabilities:					
Operating cash flows from operating leases	22,896	30,536	33,252	16,844	21,565
Right-of-use assets obtained in exchange for lease obligations:					
Operating leases	29,667	36,236	25,349	9,871	55,845

The following table shows ROU assets and lease liabilities as of December 31, 2019, 2020, 2021 and June 30, 2022 (except lease term and discount rate):

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB*
Right-of-use assets	55,362	48,990	42,606	76,030
Operating lease liabilities-current	21,020	28,528	25,779	37,535
Operating lease liabilities-non current	31,184	14,974	13,177	34,147

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB*
Weighted-average remaining lease term	2.27	1.69	2.09	2.29
Weighted-average discount rate	9.88%	6.16%	6.22%	4.75%

The maturities of operating lease liabilities as of December 31, 2019, 2020, 2021 and June 30, 2022 are as follows:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB*
Within one year	26,157	32,255	28,203	38,326
Within a period of more than one years but not more than two years	26,260	13,582	7,034	25,146
Within a period of more than two years but not more than three years	5,177	710	3,550	11,785
Within a period of more than three years but not more than four years	269	–	382	–
Total undiscounted lease payments	**57,863**	**46,547**	**39,169**	**75,257**
Imputed interest	(5,659)	(3,045)	(213)	(3,575)
Total lease liabilities	**52,204**	**43,502**	**38,956**	**71,682**
Less: Amount due for settlement with 12 months shown under current liabilities	(21,020)	(28,528)	(25,779)	(37,535)
Amount due for settlement after 12 months shown under non-current liabilities	31,184	14,974	13,177	34,147

17. COMMITMENTS AND CONTINGENCIES

Contingencies

Historically the Group has provided guarantees to certain financial institution partners through a subsidiary that does not hold a financing guarantee license. In October 2019, the China Banking and Insurance Regulatory Commission ("CBIRC") and other government authorities, promulgated a new regulation pursuant to which this structure, may not deemed appropriate. The Group has ceased the business in 2020, and for existing loans, the Group will execute the contract until the expiration of the loans. The new regulation is silent with respect to any grace period that may be permitted to undertake the restructuring. Management has concluded, with the advice of the Group's legal counsel, that it is not reasonably possible to estimate any potential financial exposure the Group may have as a result of operating the business during this intermediate time period, due to the substantial uncertainties regarding the interpretation and application of the relevant laws and regulations. As of June 30, 2022, the outstanding loan balance under this guarantee model amounted to RMB0.06 billion, constituting 0.04% of total outstanding loan balance facilitated by the Group (excluding loans delinquent for more than 180 days).

In July 2020 and in February 2021, CBIRC promulgated two regulations stating that regional banks that carry out internet lending business shall mainly serve local customers, and are not allowed to conduct the internet lending business beyond the local administrative area of their registered place, except those who have no physical business branch, conducting business primarily online as well as meeting the other conditions prescribed by the CBIRC. The Company has changed its distribution strategy so that only local borrowers would be matched to regional banks for new loans facilitated starting from January 1, 2022. The Company believed that, as advised by the Group's legal counsel, given the lack of exact definition regarding the regional banks in the existing laws and regulations, there are uncertainties as to how the regulation will be implemented, therefore the impact to the Company's current business operations cannot be reasonably estimated.

In September, 2021, the People's Bank of China ("PBOC") issued a new regulation stating that organizations that engage in credit investigation business should obtain the credit reporting business license and comply with its other provisions within an 18-month grace period from its effectiveness date of January 1, 2022. Given that the rule does not specify the legitimacy of existing data analytics or precision marketing service providers in the financial service industry, the Company has concluded, as advised by its legal counsel, that it is not reasonably possible to estimate its impact on the Company's current business operations for credit assessment on borrowers and the potential penalties incurred by the Company thereof.

The Company and its certain current and former officers and directors are named as defendants in a putative securities class action brought by investors who purchased the Company's securities between April 30, 2020 and July 8, 2021 and who allegedly suffered damages as a result of alleged misstatements and omissions in the Company's public disclosure documents in connection with its compliance and data collection practices. On January 14, 2022, Lead Plaintiff filed an Amended Complaint. On March 15, 2022, the Company filed a motion to dismiss the Amended Complaint. On September 26, 2022, Lead Plaintiff notified the Court that he does not intend to file a Second Amended Complaint. The Court entered a judgement in favor of defendants on September 29, 2022. Plaintiff has until October 31, 2022 to appeal the judgement. As the Plaintiff has not appealed till such date, the judgement is final and the Company had no losses over this case.

Commitments

As of June 30, 2022, the Group has certain capital commitments that primarily related to commitments for construction of the regional headquarters and the affiliated industrial park. The total capital commitments contracted but not yet reflected in the Historical Financial Information was not less than RMB500 million (US$74.6 million) as of June 30, 2022. All of these capital commitments will be fulfilled in the future according to the construction progress.

18. NET INCOME PER SHARE

Basic and diluted net income per share for each of the periods presented were calculated as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB	*RMB*	*RMB*	*RMB (unaudited)*	*RMB*
Numerator:					
Net income attributable to shareholders of the Company	2,501,595	3,496,606	5,781,725	2,895,087	2,159,337
Denominator:					
Weighted average Class A and Class B ordinary shares outstanding used in computing basic income per ordinary share	288,827,604	298,222,207	307,265,600	305,886,883	311,109,257
Plus: incremental weighted average ordinary shares from assumed exercise of stock options and restricted share units using the treasury stock method	12,110,866	8,442,892	14,132,153	15,071,309	9,141,937
Weighted average Class A and Class B ordinary shares outstanding used in computing diluted income per ordinary share	300,938,470	306,665,099	321,397,753	320,958,192	320,251,194
Basic net income per share	**8.66**	**11.72**	**18.82**	**9.46**	**6.94**
Diluted net income per share	**8.31**	**11.40**	**17.99**	**9.02**	**6.74**

For the years ended December 31, 2019, 2020, 2021 and six months ended June 31, 2021 and 2022, no options or restricted share units were excluded from the calculation of diluted net income per share due to the anti-dilutive effect.

19. SUBSEQUENT EVENTS

On August 18, 2022, the board of directors of the Company has approved a dividend of US$0.09 per ordinary share, or US$0.18 per ADS, for the second fiscal quarter of 2022 in accordance with the Company's dividend policy, which is expected to be paid on October 28, 2022 to shareholders of record as of the close of business on September 16, 2022.

On November 11, 2022, the board of directors of the Company has approved a dividend of US$0.08 per ordinary share, or US$0.16 per ADS, for the third fiscal quarter of 2022 in accordance with the Company's dividend policy, which is expected to be paid on January 18, 2023 to shareholders of record as of the close of business on December 12, 2022.

20. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Company in respect of any period subsequent to June 30, 2022 and up to the date of this report.

360 DIGITECH, INC.
ADDITIONAL INFORMATION – FINANCIAL STATEMENT SCHEDULE I

The following Schedule I has been provided pursuant to the requirements of Rules 12-04(a) and 5-04(c) of Regulation S-X, which require condensed financial information as to the financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented as the restricted net assets of the Company's PRC subsidiaries and VIEs which may not be transferred to the Company in the forms of loans, advances or cash dividends without the consent of PRC government authorities as of December 31, 2021, was more than 25% of the Company's consolidated net assets as of December 31, 2021.

CONDENSED BALANCE SHEETS
(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("USD"))

	As of December 31,			
	2019	**2020**	**2021**	**2021**
	RMB	*RMB*	*RMB*	*USD* *(Note 2)*
ASSETS				
Cash and cash equivalents	6,905	19,560	7,117	1,117
Amount due from related parties	–	–	10,134	1,590
Amount due from subsidiaries and VIEs	1,659,444	1,632,772	1,711,633	268,593
Investments in subsidiaries and VIEs	5,566,790	7,940,533	14,032,928	2,202,071
TOTAL ASSETS	**7,233,139**	**9,592,865**	**15,761,812**	**2,473,371**
LIABILITIES AND EQUITY				
LIABILITIES				
Accrued expenses and other current liabilities	5,582	2,751	310,373	48,704
Amount due to subsidiaries	14,115	27,973	–	–
Short term loans	–	81,563	247,576	38,850
TOTAL LIABILITIES	**19,697**	**112,287**	**557,949**	**87,554**
EQUITY				
Ordinary shares ($0.00001 par value per share 5,000,000,000 shares authorized, 302,707,339 shares issued and 293,420,800 shares outstanding as of December 31, 2019, 309,833,035 shares issued and 304,453,780 shares outstanding as of December 31, 2020, and 315,433,018 shares issued and 310,486,975 shares outstanding as of December 31, 2021, respectively)	20	21	22	3
Additional paid-in capital	5,117,184	5,417,406	5,672,267	890,102
Retained earnings	2,071,332	4,137,542	9,642,506	1,513,120
Other comprehensive loss	24,906	(74,391)	(110,932)	(17,408)
TOTAL EQUITY	**7,213,442**	**9,480,578**	**15,203,863**	**2,385,817**
TOTAL LIABILITIES AND EQUITY	**7,233,139**	**9,592,865**	**15,761,812**	**2,473,371**

CONDENSED STATEMENTS OF OPERATIONS
(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("USD"))

	Year ended December 31,			
	2019	**2020**	**2021**	**2021**
	RMB	*RMB*	*RMB*	*USD*
				(Note 2)
Operating costs and expenses	(12,922)	(16,453)	(51,233)	(8,040)
Interest income (loss)	712	(2,349)	(5,383)	(845)
Foreign exchange losses	(491)	(376)	(133)	(21)
Other income, net	453	15,148	–	–
Net loss before taxes and income from equity in subsidiaries and VIEs	**(12,248)**	**(4,030)**	**(56,749)**	**(8,906)**
Equity in earnings of subsidiaries and VIEs	2,513,843	3,500,636	5,838,474	916,183
Net income before taxes	**2,501,595**	**3,496,606**	**5,781,725**	**907,277**
Income tax expenses	–	–	–	–
Net income attributable to shareholders of the Company	2,501,595	3,496,606	5,781,725	907,277
Net income attributable to ordinary shareholders of the Company	**2,501,595**	**3,496,606**	**5,781,725**	**907,277**

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS
(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("USD"))

	Year ended December 31,			
	2019	**2020**	**2021**	**2021**
	RMB	*RMB*	*RMB*	*USD*
				(Note 2)
Net income attributable to shareholders of the Company	2,501,595	3,496,606	5,781,725	907,277
Other comprehensive income, net of tax of nil:				
Foreign currency translation adjustment	21,223	(99,297)	(36,541)	(5,734)
Other comprehensive income (loss)	21,223	(99,297)	(36,541)	(5,734)
Total comprehensive income	2,522,818	3,397,309	5,745,184	901,543
Comprehensive income attributable to ordinary shareholders	2,522,818	3,397,309	5,745,184	901,543

CONDENSED STATEMENTS OF CASH FLOWS
(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("USD"))

	Year ended December 31,			
	2019	**2020**	**2021**	**2021**
	RMB	*RMB*	*RMB*	*USD*
				(Note 2)
Cash Flows from Operating Activities:				
Net income attributable to shareholders of the Company	2,501,595	3,496,606	5,781,725	907,277
Adjustments to reconcile net income to net cash used in operating activities:				
Equity in earnings of subsidiaries and VIEs	(2,513,843)	(3,500,636)	(5,838,474)	(916,183)
Changes in operating assets and liabilities				
Accrued expenses and other current liabilities	(3,070)	(2,625)	31,197	4,896
Amounts due from subsidiaries and VIEs	(276,960)	(65,801)	–	–
Net cash used in operating activities	**(292,278)**	**(72,456)**	**(25,552)**	**(4,010)**
Cash Flows from Investing Activities:				
Investments in subsidiaries	(35,652)	–	–	–
Loans payment to subsidiaries and VIEs	–	–	(153,778)	(24,131)
Net cash used in Investing Activities	**(35,652)**	**–**	**(153,778)**	**(24,131)**
Cash Flows from Financing Activities:				
Payment of IPO costs	(3,080)	–	–	–
Proceeds from short-term loans	–	86,305	169,291	26,565
Net cash (used in) provided by financing activities	**(3,080)**	**86,305**	**169,291**	**26,565**
Effect of foreign exchange rate changes	1,761	(1,194)	(2,404)	(376)
Net (decrease) increase in cash and cash equivalents	(329,249)	12,655	(12,443)	(1,952)
Cash, cash equivalents, and restricted cash, beginning of year	336,154	6,905	19,560	3,069
Cash, cash equivalents, and restricted cash, end of year	**6,905**	**19,560**	**7,117**	**1,117**
Supplemental disclosures of cash flows information:				
Payables for dividends:	–	–	276,991	43,466

Notes to condensed financial statements

1. The condensed financial statements of 360 DigiTech, Inc. have been prepared using the same accounting policies as set out in the Historical Financial Information except that the equity method has been used to account for investments in subsidiaries and VIEs. Such investment in subsidiaries and VIEs are presented on the balance sheets as interests in subsidiaries and VIEs and the profit of the subsidiaries and VIEs is presented as equity in earnings of subsidiaries and VIEs on the statement of operations.

2. As of December 31, 2019, 2020 and 2021, there were no material contingencies, significant provisions of long-term obligations of the Company, except for those which have been separately disclosed in the Historical Financial Information.

3. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote disclosure certain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the accompanying Historical Financial Information.