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Yirendai annual report 2017

BEIJING, July 10, 2017 /PRNewswire/ -- Yirendai Ltd. (NYSE: YRD) (Yirendai or the Company), one of China's leading online consumer finance markets, announced plans to release its unaudited financial results for the second quarter ended June 30, 2017 prior to the opening of the U.S. market on Tuesday, August 1, 2017. Yirendai management will hold a profit conference call at 8:00 a.m..m Eastern Time on August 1, 2017 (or 8:00 p.m.m Beijing/Hong Kong time, August 1, 2017). The contact information for the Earnings Conference Call is: International: 1-412-902-4272 UNITED States. Toll-free: 1-888-346-8982 Hong Kong Toll Free: 800-905945 China Toll Free: 4001-201203 Conference ID: Yirendai A replay of the conference call can be accessed by phone at the following numbers until August 8, 2017: International: 1-412-317-0088 United States Toll-Free: 1-877-344-7529 Replay Access Code: 10110363 In addition, a live and archived webcast of the conference call will be available at yirendai.investorroom.com. About Yirendai Yirendai Ltd. (NYSE: YRD) is a leading online consumer financing market in China that connects investors and individual borrowers. The Company provides an effective solution to meet the demand of vastly underserved individual investors and borrowers in China through an online platform that automates key aspects of its operations to effectively match borrowers with investors and execute loan transactions. Yirendai deploys an exclusive risk management system that allows the Company to effectively assess the creditworthiness of borrowers, adequately assess the risks associated with borrowers, and provide investors with quality investment opportunities. Yirendai's online marketplace provides borrowers with quick and convenient access to consumer credit at competitive prices and investors easy and fast access to an alternative asset class with attractive returns. For more information, please visit yirendai.investorroom.com. For investor and media requests, Please contact: YirendaiHui (Matthew) LiDirector of Investor RelationsEmail: ChristensenIn ChinaChristian ArnellPhone: '86 (0) 10-10-59001548E-mail: In U.S.Linda BergkampPhone: (480) 614-3004Email: SOURCE Yirendai Ltd. Annual Report 20-F 20-F YoY Changes Ticker: YRD CIK: 1631761 View year-over-year differences in assessing the financial trajectory of Yirendai Ltd. Sample 10-K Year after Year (YoY) Comparison this annual report of 20 F to its by reading our highlights to see which text and tables have been deleted, added and amended by Yirendai Ltd. Continue page 2 BEIJING, April 29, 2019 (GLOBE NEWSWIRE) -- Yirendai Ltd. (NYSE: YRD) (Yirendai or the Company), a leading fintech company in China, announced that it has filed its annual report on Form 20-F for the December 31, 2018 with the Securities and Exchange Commission on April 29, 2019. The annual report can be found on Yirendai's website at . The Company will provide a free paper copy of the annual report containing its audited consolidated financial statements to its shareholders and ON-demand ADS holders. About Yirendai Ltd. Yirendai Ltd. (NYSE: YRD) is a leading fintech company in China that connects investors and individual borrowers. The Company provides an effective solution to meet the demand of vastly underserved individual investors and borrowers in China through an online platform that automates key aspects of its operations to effectively match borrowers with investors and execute loan transactions. Yirendai deploys an exclusive risk management system that allows the Company to effectively assess the creditworthiness of borrowers, adequately assess the risks associated with borrowers, and provide investors with quality investment opportunities. Yirendai's online marketplace provides borrowers with quick and convenient access to consumer credit at competitive prices and investors easy and fast access to an alternative asset class with attractive returns. For more information, please visit ir.yirendai.com. For investor and media inquiries, please contact: YirendaiHui (Matthew) Li / Lydia YuInvestor RelationsEmail: ir@yirendai.com Yiren Digital Ltd. is engaged in online consumer finance market activities in China. The Company operates in China through Yi Ren Heng Ye Technology Development (Beijing) Co., Ltd. (Heng Ye) and its consolidated variable interest entity, Heng Cheng Technology Development (Beijing) Co., Ltd. (Heng Cheng). Heng Cheng operates its website, www.yirendai.com, and has an Internet Content Provider (ICP) license as an Internet information provider. Its online market facilitates standard lending products, express lending products and vertical lending products to borrowers. Uses for these loan products include home renovations, good sustainable shopping, travel and continuing education. Its online market provides investors with a variety of investment tools, such as the automated investment tool and the self-dedicated investment tool. It maintains a secondary lending market in its market where investors can transfer the loans they hold before maturity at the fair value of the remaining loans. Yirendai Ltd. listed on the New York Stock Exchange (NYSE) in 2015 raised US$75 million in its IPO. In October 2019, he changed its name from Yirendai Ltd to Yiren Digital Ltd. On January 31, 2017, Mox Reports released a 38-page report on Yirendai; Court YRD. The leaked internal emails raise much deeper concerns. His questions were: YRD's actions were averted by China's traditional smart money. The external property is dominated by a few American quant funds which Existing concerns have weighed on the stock, including fraud, the explosion of guaranteed exposure to subprime credit and new illegal activities in China. To attract lenders, YRD guarantees deep subprime loans. But YRD's risk reserve is deeply underfunded while deep exposure to subprimes now exceeds 80%. An anonymous fund affiliated with the President quickly undervalued almost all of its YRD actions as a result of the new PRC guidelines that made these guarantees illegal. Recently leaked internal emails show that the president of YRD is forcing employees of the parent company to make undisclosed purchases in USD or to be fired. In conclusion, Mox Reports stated that, based on the above information, it was mind-boggling to understand how any reasonable investor would want to obtain long shares of YRD at any price. 19 January 2019 A report by Zhiyuan Sun has been published on Seeking Alpha; Yirendai's income comes from suspicious haircut loans. He stressed that U.S. investors were not aware of the critical information and that Yierndai's shares were overvalued by 50%. A summary of the points discussed in his report was: - YRD is not in compliance with regulations, with 60% of its revenues coming from prohibited discount loans. The company did not disclose details of its questionable lending and sales practices in its filings with the SEC. The company's new business developments are misleading, as they would imply a catastrophic squeeze on its net margins. U.S. and international investors are completely in the dark about what's going on behind the scenes in China's P2P lending sector. The author said he wanted Yirendai to succeed. However, he believes that with the risk of punitive damages, two-thirds of the income from illegal flows and 4/5 of the net margins at the risk of a tightening, the author saw no alternative but to conclude yrd as a highly feasible short idea. Mox Reports: Short YRD. The leaked internal emails raise much deeper concerns, January 31, 2017 Zhiyuan Sun (Seeking Alpha): Yirendai Revenues Come From Suspect Haircut Loans, Jan 19. 2019 Yirendai: Annual Report YE- Dec.2018 Yirendai: Annual Report YE- Dec.2017 Yirendai: Annual Report YE- Dec.2016 Table of Contents UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. FORMULAIRE 20549 20-F (Mark One) o DECLARATION OF SONSCING TO ARTICLE 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934 OR x ARTICLE 13 OR 15(d) SECURITIES EXCHANGE ACT OF 1934 For the year ended December 2016. OR o TRANSITION REPORT CONFORMEMENT TO ARTICLE 13 OR 15 d) OF THE SECURITIES EXCHANGE ACT of 1934 For the transition period of OR o SHELL COMPANY REPORT CONFORMEMENT TO ARTICLE 13 OR (d) OF THE SECURITIES EXCHANGE ACT of 1934 Date of event requiring this company-shell report . Commission file number: 001-37657 Yirendai Ltd. Ltd. registrant's name as specified in its charter) N/A (Translation of the registrant's name) Cayman Islands (Jurisdiction of Incorporation or Organization) 10/F, Building 9, 91 Jianguo Road Chaoyang District, Beijing 100022 The People's Republic of China (Address of the main executive offices) Yu Cong, Chief Financial Officer Telephone: '86 10 5395-3680 Email: ir@yirendai.com 10/F, Building 9, 91 Jianguo Road Chaoyang District, Beijing 100022 The People's Republic of China (name, telephone, email and/or facsimile number and company contact person address) Registered or registered in accordance with Section 12(b) of the Act: Title of each class Name of each exchange on which U.S. depository shares registered (one U.S. depository share representing two common shares , par value US$0.0001 per share) New York Stock Exchange Common Shares , US$0.0001 par value per share - New York Stock Exchange - Not for trading, but only in connection with listing on the New York Stock Exchange of U.S. custodians. Securities registered or to be registered under section 12(g) of the Act: Table of Securities for which there is a reporting obligation under section 15 (d) of the Act: Indicate the number of shares outstanding in each of the issuer's classes of capital or common shares at the end of the period covered by the annual report. 119,512,300 common shares, face value of US$0.0001 per share, as of December 31, 2016. Indicate by control mark whether the registrant is a well-known senior issuer, as defined under Rule 405 of the Securities Act. Yes o No x If this report is an annual or transitional report, indicate by control mark if the registrant is not required to file reports in accordance with section 13 or 15 (d) of the Securities Exchange Act of 1934. Yes o No x Indicate by control mark if the registrant: (1) has filed all reports to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 in the previous 12 months (or for such a short period of time that the registrant was required to file such reports) and (2) was subject to these filing requirements within the last 90 days. Yes x No o Indicate by verification mark if the registrant has submitted electronically and posted on his corporate website, if any, all interactive data files to be submitted and displayed in accordance with Rule 405 of Regulation S-T (232.405 of this chapter) in the previous 12 months (or for a period so short that the registrant was required to submit and post these records). Yes x No o Indicate by check mark if is a large accelerated filer, an expedited filer, an unserumed filer, or an emerging growth company. See the definition of large accelerated declarant, accelerated declaring and emerging growth company in Exchange Act. Large expedited reporting o Fast-tracking x Unsurred Reporting o Emerging Growth Company x If an emerging growth company that prepares its financial statements in accordance with the United States. according to GAAP, indicate by control mark whether the registrant has chosen not to use the extended transition period to comply with new or revised financial accounting standards† under section 13 (a) of the Foreign Exchange Act. x †The term new or revised financial accounting standard refers to any update by the Financial Accounting Standards Board to its codification of accounting standards after April 5, 2012. By control mark the basis of the registrant's accounting used to prepare the financial statements included in the filing: U.S. GAAP x International Accounting Standards Board o Other o If Other standards were verified in response to the previous question, indicating by reference mark what financial status point the registrant chose to follow. Point 17 o Point 18 o If this is an annual report, indicate by control mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Foreign Exchange Act). Yes o No x (APPLICABLE ONLY TO THE IMPLYED RESULTS IN THE PROCEDURES OF THE YEAR AND FIVE YEARS) Please indicate by cheque whether the registrant has filed all documents and reports to be filed by sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 as a result of the distribution of securities under a plan. Yes o No o Table of content INTRODUCTION Unless otherwise stated or the context otherwise requires in this annual report: ADS refers to our U.S. custodian shares, each of which represents two common shares; The APR or annual percentage rate refers to the annual rate that is charged to borrowers, including a fixed interest rate and a transaction fee rate, expressed as a one-time percentage that represents the actual annual cost of borrowing over the life of a loan; China or PRC refers to the People's Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macao and Taiwan; CreditEase refers to CreditEase Holdings (Cayman) Limited, our parent company and majority shareholder; The net deferral rate M3 for loans made over a specified period, which we refer to as vintage, is defined as the difference between (i) the total outstanding principal balance of loans that become more than three months delinquent over a specified period, and (ii) the total amount of payments due beyond and interest accrued during the same period for all loans of the same vintage that became more than three delinquent months, divided by (iii) the total initial principal of loans facilitated in such a vintage; Common shares refer to our common shares, with a par value of US$0.0001 per share; The payment ratio refers to the percentage of an investor's unpaid principal and accrued interest paid to the investor under our default quality assurance program. We are currently implementing a 100% payment ratio that allows investors to fully recover their outstanding capital and accrued interest in the event of default; Intermediate online lending information service providers refer to the markets that connect borrowers and investors; The primary borrower refers to credit card holders with stable credit performance and salary income. To determine whether a prospective borrower has a stable credit return and salary income, we review that borrower's credit card statement for the last six months and/or the people's bank of China or PBOC credit report for the past five years, as well as the borrower's salary for the last six months; RMB and Renminbi refer to China's legal currency; $US, U.S. dollars, dollars and dollars are the legal currency of the United States; and Yirendai, we, we, our company and our refer to Yirendai Ltd., its subsidiaries and consolidated variable interest entities. (ii) PROSPECTIVE INFORMATION Content Table This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views on future events. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You may identify these forward-looking statements by words such as may, will, expect, anticipate, target, estimate, intend, plan, believe, is/is likely to, potential, continue or similar expressions. We have based these forward-looking statements in large part on our current expectations and projections about future events and financial trends that we believe may affect our financial position, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to: Our goals and strategies our future business development, our financial position and our Operating results Operating The expected growth of the online consumer finance market in China; our expectations of the loan load rates facilitated by our platform and the adequacy of our quality assurance program; our expectations for market demand and acceptance of our products and services; our expectations of our relationships with investors and borrowers our plans to invest in our proprietary technologies in the areas of data collection and processing, as well as in new business initiatives; Competition in our industry and relevant government policies and regulations for our industry. We would like to warn you not to place undue reliance on these forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in the 3D item. Key Information — Risk Factors. These risks are not exhaustive. We operate in a changing environment. New risks arise from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which a factor, or a combination of factors, may cause actual results to differ from those contained in any forward-looking statement. We undertake no obligation to update or revise any forward-looking statements, except as required by applicable law. You should read this annual report and the documents we refer to in this annual report completely and understanding that our actual future results may be significantly different from what we expect. iii Table of contents PART I Point 1. Identity of directors, senior management and advisors Not applicable. Point 2. Offer statistics and schedules are not applicable. Point 3. Key Information A. Selected Financial Data The following consolidated summary statements for the years ended December 31, 2014, 2015 and 2016, the consolidated summary balance sheet at December 31, 2015 and 2016 were derived from our audited consolidated financial statements included in this annual report beginning on page F-1. The following summary consolidated operating statements for the year ended December 31, 2013 and the summary consolidated balance sheet at December 31, 2013 and 2014 are the result of our audited consolidated financial statements not included in this Annual Report. Our historical results do not necessarily indicate the expected results for future periods. Selected consolidated financial data must be read in conjunction with dans leur intégralité, par référence à nos états financiers consolidés vérifiés et aux notes connexes et au « point 5 ». Revue d'exploitation et financière et perspectives » ci-dessous. Nos états financiers consolidés vérifiés sont préparés et présentés conformément aux PCGR des États-Unis. For the Year Ended December 31, 2013 2014 2015 2016 RMB(1) RMB(1) RMB(1) RMB(1) RMB US$ (in thousands, except for share, per share and per ADS data, and percentages) Summary Consolidated Statements of Operations: Net revenues 19,247 196,525 1,313,639 3,237,991 466,368 Operating costs and expenses: Sales and marketing 32,091 137,746 679,771 1,571,038 226,277 Origination and servicing 7,715 21,820 86,360 180,076 25,936 General and administrative 30,724 64,637 137,114 402,111 57,916 Total operating costs and expenses (70,530) (224,203) (903,245) (2,153,225) (310,129) Interest income — — 4,799 36,843 5,306 Fair value adjustments related to consolidated asset backed financing entities — — (11,333) (19,735) (2,842) Non-operating income, net — — — 575 83 (Loss)/income before provision for income taxes (51,283) (27,678) 403,860 1,102,449 158,786 Income tax (expense)/benefit — (30) (128,521) 13,949 2,009 Net (loss)/income (51,283) (27,708) 275,339 1,116,398 160,795 Weighted average number of ordinary shares outstanding(2) : Basic 100,000,000 100,000,000 100,652,055 118,240,414 118,240,414 Net (loss)/income per ordinary share Basic (0.5128) (0.2771) 2.7356 9.4418 1.3599 Net (loss)/income per ADS(3) Basic (1.0256) (0.5542) 5.4712 18.8836 2.7198 Weighted average number of ordinary shares outstanding(2): 100,000,000 100,000,000 100,652,055 118,937,082 118,937,082 Diluted Net (loss)/income per ordinary share Diluted (0.5128) (0.2771) 2.7356 9.3865 1.3519 Net (loss)/income per ADS(3) Diluted (1.0256) (0.5542) 5.4712 18.7730 2.7038 1 Table of Contents (1) Starting from the second quarter of 2016, we changed our reporting currency from the U.S. dollar to the Renminbi, to reduce the impact of increased volatility of the RMB to US$ exchange rate on our reported operating results. La variation de notre monnaie déclarante a été reflétée rétroactivement pour toutes les périodes présentées ci-après. (2) Le 5 janvier, En 2015, nous avons réalisé un partage d'actions de 10 000 pour 1, de sorte que notre capital-actions autorisé de 50 000 $ US a été divisé en 500 000 000 d'actions ordinaires d'une valeur nominale de 0,0001 $ US chacune, dont 10 000 actions ordinaires ont été émises et en circulation et appartenaient à CreditEase. Le 25 juin 2015, nous avons émis 99 990 000 actions ordinaires, valeur nominale de 0,0001 $ US chacune à CreditEase, pour un prix d'achat global de 9 999 $ US. Le fractionnement des actions et l'émission d'actions ont été reflétés rétroactivement pour toutes les périodes présentées ci-après. (3) Chaque ADS représente deux actions ordinaires. Au décembre 2013 2014 2015 RMB RMB RMB RMB US$ (thousands) Summary Consolidated Balance Sheet: Cash and Cash Equivalents — 1,378,846,120,968,225,139,453 restricted species — — 483 965 1,218,286,175,470 Maturing — 30,000 98,917 14,247 available for sale — — — 1,158,000 166,787 Total assets 29,860,402,144 2,190,003 4,783,388 Quality Assurance Program Liabilities — 546 332 1,471,000 211,868 Total Liabilities 10,740 178,736 1,213,061 2.6 43,469,380,739 Total equity 19,120,223,408 976 942 2 139 919 308 213 Exchange Rate Information Our business is primarily conducted in China and almost all of our revenues are denominated in RMB. However, periodic reports to shareholders will include the amounts of the current period translated into U.S. dollars using the current exchange rates of the time, for the convenience of readers. Unless otherwise stated, all translations of RMB in U.S. dollars and U.S. dollars to RMB in this annual report were made at a rate of RMB6.9430 to US$1.00, the exchange rate set out in the Statistical Release H.10 of the Federal Reserve System Board of Governors as of December 30, 2016, the last business day of 2016. We do not make any statement that amounts of RMB or U.S. dollars could or could have been converted to U.S. dollars or RMB, as may be the case, at any time, or not at all. The PRC government imposes controls on its foreign exchange reserves, in part through direct regulation of the conversion of the RMB into foreign exchange and by restrictions on foreign trade. On April 14, 2017, the exchange rate was RMB6.8835 at 1.00 $US. The following table provides information on exchange rates between the RMB and the U.S. dollar for the specified periods. Exchange Rate Period Period-End Average(1) Low High (RMB per U.S. Dollar) 2012 6.2301 6.2990 6.3879 6.2221 2013 6.0537 6.1412 6.2438 6.0537 2014 6.2046 6.1704 6.2591 6.0402 2015 6.4778 6.2869 6.4896 6.1870 2016 6.9430 6.6549 6.9580 6.4480 October 6.7735 6.7303 6.7819 6.6685 November 6.8837 6.8402 6.9195 6.7534 December 6.9430 6.9198 6.9580 6.8771 2017 January 6.8768 6.8907 6.9575 6.8360 February 6.8665 6.8694 6.8821 6.8517 March 6.8832 6.8940 6.9132 6.8687 April (through April 14) 6.8835 6.8899 6.8988 6.8832 2 Table of Contents Source: Federal Reserve Statistical Release (1) Annual averages are calculated based on the average month-end rate of the relevant year. Monthly averages are calculated using the average daily rates over the relevant period. B. Capitalization and non-applicable debt. C. Reasons for the offer and use of the product Not applicable. D. Risk Risks to our company We have a limited operating history in a new and evolving market, making it difficult to assess our future prospects. The market for China's online consumer finance markets is new and may not grow as expected. The regulatory framework in this market is also evolving and may remain uncertain for the foreseeable future. Borrowers and potential investors may not be familiar with this market and may have difficulty distinguishing our services from those of our competitors. Convincing new borrowers and potential investors of the value of our services is essential to increasing the volume of loan transactions facilitated by our market and to the success of our business. We launched our online market in March 2012 and have a limited operating history. In addition, starting in the fourth quarter of 2014, we began offering new loan products at different prices. As our business grows or in response to competition, we can continue to introduce new products or make adjustments to our existing products, or make adjustments to our business model. As part of the introduction of new products or in response to general economic conditions, we can impose stricter borrower qualifications to ensure the quality of loans on our platform, which can hinder the growth of our business. Any significant changes to our business model, such as our offering of a quality assurance program starting in January 2015 and the revision of the quality assurance program's funding policy in the fourth quarter of 2015, may not achieve the expected results and may have a significant and negative impact on our financial position and results of operations. This makes it difficult to assess effectively our future prospects. The risks and challenges we face or may face in this rapidly developing and rapidly changing market can have an impact on our business and outlook. These risks and challenges include our ability to, among other things: Navigating a changing regulatory environment Broaden the base of borrowers and investors served in our market; Expanding our offering of loan products Improve our risk management capabilities Improve our operational efficiency Cultivating a dynamic consumer finance ecosystem Maintain the security of our platform and the confidentiality of the information provided and used on our platform; Attracting, retaining and motivating talented employees and defending ourselves against litigation, intellectual property, privacy or other claims. 3 Table Table Content If we fail to educate borrowers and potential investors about the value of our platform and services, if our market market does not grow as we expect, or if we do not meet the needs of our target market, or other risks and challenges, our operations and results of operations will be harmed. If we are unable to maintain or increase the volume of loan transactions facilitated by our market or if we are unable to retain existing borrowers or investors or attract new borrowers or investors, our operations and results of operations will be negatively affected. The volume of loan transactions facilitated by our market has increased rapidly since our inception. The total amount of loans facilitated by our market amounted to RMB20,277.9 million (US$2,920.6 million) in 2016, from RMB9,557.6 million in 2015 to RMB2,228.6 million in 2014. To maintain the strong growth momentum of our market, we must continually increase the volume of loan transactions by retaining current participants and attracting more users. We intend to continue to devote significant resources to our user acquisition efforts, including the establishment of new acquisition channels, particularly as we continue to expand our market and introduce new lending products. We use online channels, such as search engine marketing, search engine optimization and partnerships with Internet companies, and CreditEase's on-site sales network for user acquisition. In 2014, 2015 and 2016, 48.1%, 49.5% and 42.5% of our borrowers were acquired through CreditEase references, respectively, contributing 59.8%, 67.0% and 61.8% of the total amount of loans facilitated by our market. If there are not enough eligible loan applications, investors may be unable to deploy their capital in a timely or effective manner and may seek alternative investment opportunities. If there are not enough investor commitments, borrowers may be unable to obtain capital through our market and may turn to other sources for their borrowing needs and investors who wish to exit their investments before maturity in the secondary lending market may not be able to do so in a timely manner. The overall volume of transactions may be affected by several factors, including the recognition and reputation of our brand, the interest rates offered to borrowers and relative to market rates, the effectiveness of our risk control, the repayment rate of borrowers in our market, the effectiveness of our platform, the macroeconomic environment and other factors. As part of the introduction of new products or in response to general economic conditions, we may also impose stricter borrower qualifications to ensure the quality of loans on our platform, which can negatively affect the growth in loan volume. In addition, more, we have entered into a framework cooperation agreement with CreditEase, under which CreditEase will provide us with offline user acquisition services, we cannot assure you that we will continue to receive sufficient support from CreditEase. If one of our current user acquisition channels becomes less efficient, if we are unable to continue to use one of these channels, or if we fail to use new channels, we may not be able to attract new borrowers and investors in a cost-effective manner or convert potential borrowers and investors into borrowers and active investors. , and we could even lose our existing borrowers and investors to our competitors. If we are unable to attract qualified borrowers and sufficient commitments to investors or if borrowers and investors do not continue to participate in our market at current rates, we may not be able to increase the volume and revenues of our loan transactions as we expect, and our operations and results of operations could be negatively affected. 4 Content Table Laws and regulations governing the intermediary online lending information services industry in China are growing and evolving and subject to change. If we do not obtain and maintain the required approvals, licenses or permits applicable to our business, our business situation, financial position and results of operations would be significantly and unfavorably affected. Due to the relatively short history of the intermediate services industry in information on online lending in China, the PRC government has not yet established a comprehensive regulatory framework governing our industry. Prior to the introduction of an industry-specific regulation in mid-2015, the CPP government simply relied on general and fundamental laws and regulations to govern the online lending information intermediate services industry, including the CPP Contracts Act, the general principles of civil law in the CPP and related judicial interpretations promulgated by the General People's Court. See Article 4. Company Information — B. Business Overview — Regulation — Online Loan Information Policy Regulations. In July 2015, the China Banking Regulatory Commission, or CBRC, and nine other CPP regulators jointly published a series of policy measures for the online lending information information industry entitled Guidelines for promoting healthy development of online finance, or guidelines. The Guidelines have officially introduced for the first time the regulatory framework and basic principles for the administration of the intermediate online lending information services industry in China. Based on the core principles of the Guidelines, in August 2016, CBRC and three other CPP regulators jointly issued interim measures on the administration of commercial online lending information activities. Line. or interim measures. The interim measures require online lending information intermediaries and their branches that offer to provide intermediate online lending information services to file with the local financial regulatory service where it is registered within 10 business days of obtaining the business licence. Local financial regulators have the power to evaluate and classify online loan information intermediaries who have filed a file, and to publicize file filing information and classification results on their official websites. An online lending information intermediary must apply for an appropriate telecommunications company licence in accordance with the relevant requirements of the telecommunications authorities after the end of the filing, and is required to explicitly identify itself as an online lending information intermediary in its scope of activity. In accordance with the Guidelines and Interim Measures, the relevant authorities are in the process of providing detailed implementation rules concerning, among other things, filing procedures, evaluation standards and classification rules for online loan information intermediaries, as well as specific rules and procedures concerning, among other things, the application for an appropriate telecommunications company licence and the change in scope of activities through existing lending information intermediaries. have not yet been formulated and published. We are not in a position to predict with certainty the impact, if any, that future laws, court precedents, rules or regulations relating to the online lending information industry will affect our operations, our financial position and our results of operations. According to the circular of the General Office of the Council of State on the publication of the Plan to implement the special correction of the risks associated with Internet financing promulgated in April 2016, the relevant authorities are in the process of assessing the existing practices of online lending information intermediaries in the market and requesting that those identified during the evaluation be rectified as being in conflict with the Guidelines and interim measures. We cannot assure you that our practices will not be required to be corrected or that our corrective measures and results will be satisfactory to the appropriate authorities, and we cannot assure you that we will be able to make the deposits successfully, obtain and maintain the required licenses and meet others. regulations set out in applicable laws, rules and regulations. To the extent that we do not conduct our business in a manner required by the appropriate authorities, or do not take corrective action when required by the appropriate authorities, or if we do not obtain and maintain any required approval, license or permit or meet other applicable requirements. Applicable. our business, business, financial position and results of operations would be significantly and unfavourably affected. 5 Content Table If our practice is deemed to violate PRC laws, rules or regulations, our business situation, financial position and results of operations would be significantly and unfavourably affected. According to the Guidelines published in 2015 and interim measures published in 2016 to specifically regulate the intermediate online lending information services industry in China, intermediaries who provide intermediary online lending information services should not engage in certain activities, including, among other things, raising funds for the intermediary itself, (ii) holding investor funds or setting up a capital pool with investors' funds. , (iii) provide guarantees or guarantees to investors regarding principals and investment returns, (iv) issue or sell any wealth management or other financial product, or act as an agent in the sale of financial products, (v) the mismatch between the expected time of an investor's exit and the maturity date, (vi) the completion of securitization or equivalent activities , (vii) the promotion of its financing products on physical premises other than through authorized electronic channels, such as telephones, mobile phones and the Internet, and (viii) crowd financing. The interim measures also require intermediaries who provide intermediaries providing online lending information services to strengthen their risk management,

improve efforts to monitor and verify information about borrowers and investors, and set up custody accounts with banks qualified to hold client funds, among other things. We believe that the Guidelines and interim measures represent the beginning of the CPP government's action to regulate the online lending information industry, which will be followed by greater implementation of the rules and regulations. For example, in February 2017, CBRC published the Online Loan Fund Depository Activities Guidelines, or Custodian Guidelines, which clarify the requirement to create custody accounts with commercial banks for investor funds held by online lending platforms. See Article 4. Company Information — B. Business Overview — Regulation — Online Loan Information Policy Regulations. To comply with laws, rules and regulations Relating to the online lending information industry, we have implemented a variety of policies and procedures that we believe set industry best practices, including, without limitation, the following: (i) we do not use our own capital to invest in loans facilitated by our online market; (ii) we undertake no obligation to provide guarantees to investors under an agreement for the full return on capital and interest of the loan; iii) we don't stand funds and funds lent by our platform are deposited and settled by a third-party custody account managed by a qualified bank, China Guangfa Bank; iv Heng Cheng, our variable interest entity operating our online consumer financing market, has obtained the Internet Information Services License, or ICP License, as an Internet Information Provider, from the relevant local counterpart of the Ministry of Industry and Information Technology in accordance with applicable laws; (v) we fully disclose on our website all relevant information to investors and borrowers, such as disclosure to borrowers of interest rates, payment schedule, transaction fees and other fees and penalties; and (vi) we have made great efforts to maintain the security of our platform and the confidentiality of the information provided and used throughout our platform. However, laws, rules and regulations are expected to continue to evolve in this emerging industry. The PRC government is expected to provide detailed implementation rules on some key requirements of interim measures, and the interpretation of interim measures by local authorities may be different from our understanding. We cannot be sure that our existing practices would not be considered to violate existing or future laws, rules and regulations. For example, our automated investment tool automatically distributes the committed funds of several investors among several approved borrowers, which goes beyond the simple one-on-one correspondence between investors and borrowers and could be seen as creating a lag between the expected time of an exit investor and the maturity date and offering wealth management products; If our automated investment tool does not match investors engaged with timely approved borrowers, we may be deemed to hold investor funds and form a capital pool incidentally; For investor protection purposes, we have implemented the Quality Assurance Program to limit potential investor losses due to borrower defaults. See Article 4. Company Information — B. Business Overview — Risk Management — Investor Protection. While the quality assurance program is different from providing investors with guarantees regarding the return on capital and interest on the loan, our quality assurance program could be considered by THE CPP's regulatory authorities as credit improvement services or as form of guarantee prohibited by provisional measures; interim measures require that the balance of money borrowed by the same person not exceed RMB200,000 (US$28,806) on an intermediate online lending information platform and not exceed RMB1 million (US$144,030) overall intermediate lending information platforms in the PRC. While we are in the process of adjusting our relevant policy and plan to stop facilitating loans with more than RMB200,000 (28,806 $US) as of May 1, 2017, some loans on our platform that have been facilitated in the past have outstanding balances beyond this limit. In addition, due to the lack of an arrangement for industry-wide information exchange, we cannot assure you that the total amount of loans made by a borrower on our platform and other intermediary online lending information platforms at any given time does not exceed the limit set out in the interim measures; we rely heavily on references from CreditEase's extensive on-site sales network to acquire borrowers. In 2014, 2015 and 2016, 48.1%, 49.5% and 42.5% of our borrowers were acquired through CreditEase references, respectively. This practice could be considered by THE PRC's regulatory authorities to promote the financing of products through offline channels, which is prohibited by interim measures; and While we are transitioning to a full online financial services platform, some independent third parties are starting to promote and sell wealth management products on our platform. While we believe that such a practice does not violate interim measures, given that we act as intermediaries for sellers and buyers of wealth management products and do not sell any of these products ourselves or act as agents for sellers or buyers, we cannot assure you that the CPP regulatory authorities would be of the same opinion as ours. 6 Content Table We have had frequent communications with government authorities to clarify these and other regulatory requirements and ensure full compliance with our activities. As of the date of this annual report, we have not been subject to any significant fines or other penalties under any PRC law, rule or regulation, including those governing the online lending information industry in China. However, if our practice is deemed to violate laws, rules or regulations, we may face, among other things, a regulatory warning, a correction order, a conviction, fines and criminal liability. If such situations occur, our activities, financial position and outlook would be significantly and unfavorably affected. If our trade agreements with some investors were found to be contrary to THE laws and regulations of the PRC, and our operations and results of operations could be significantly and negatively affected. As part of our strategy to expand our investor base from individual investors to institutional investors, in October 2015 we established a business relationship with a trust, Huijin No. 28 Single Capital Trust E1, or Trust No. 1, as part of a pilot program under which The No. 1 Trust invested in through our platform using funds received from its investor, who is also its sole beneficiary. Trust No. 1 is administered by an independent, Crown-owned trust company, which acts as a trustee, with the aim of providing returns to its sole beneficiary by extending the loans to a total capital amount of RMB250 million (US$36.0 million) to borrowers recommended by our platform. The no. 1 trust settlor and sole beneficiary is Fengsheng Private Investment Fund No. 1, or Fund No. 1, a fund managed by Zhe Hao Shanghai Asset Management Company, or Zhe Hao, a subsidiary of CreditEase. Investors in Fund No. 1 are CPP individuals who are not affiliated with our company. In April 2016, Zhe Hao, on behalf of Fund No. 1, transferred all of the beneficiary rights of Fund No. 1 to Trust No. 1 to China International Capital Corporation Limited, a special purpose vehicle, which subsequently issued and listed rmb250 million assets on the Shenzhen Stock Exchange in China , loans being invested by Trust No. 1 through our platform as underlying assets. Heng Ye, one of our CPP subsidiaries, purchased assets backed by RMB47.5 million (US$6.8 million) through the Shenzhen Stock Exchange. In July 2016, we established a business relationship with another trust, Huijin No. 28 Single Capital Trust E2, or Trust No. 2, which is of the structure similar to Trust No. 1 described above — Trust No. 2 is administered by an independent government-owned trust company and owns a fund, CreditEase Consumer Credit Investment Fund managed by Zhe Hao , or Fund 2. , as a settlor and the sole beneficiary. Trust No. 2 invested a total of RMB30 million (US$43.2 million) in loans through our online marketplace using funds raised by its sole beneficiary from end investors, including RMB30 million (US$4.3 million) invested by Heng Cheng, one of our variable interest entities in the CPP. In April 2017, Zhe Hao, on behalf of Fund No. 2, transferred the beneficiary rights of Fund No 2 in Trust No. 2 to Bohai International Trust Co., Ltd., an independent third party, which subsequently completed an issue of assets-backed securities of RMB300 million (US$43.2 million) through private placements. We purchased a total of RMB102.3 million (US$14.7 million) of asset-backed securities when they were issued. 7 Content Table Although we are not part of the fundraising process by trusts or funds, we cannot assure you that our trust services will not be considered by the CPP regulations as violating mutual fund laws or regulations. In addition, we transferred cash to each of the trusts in an amount equal to a certain percentage of the total assets put into the trusts by their respective settlors, which were fully used to invest in loans on our platform, as a to protect trusts from potential losses due to defaults on loans in which trusts have invested. In limited circumstances, the rest of these funds may be returned to us, and we cannot assure you that we will not be considered by THE CPP regulators to bear some credit risk or provide credit improvement services under such an arrangement. In addition, we cannot assure you that Heng Ye's purchase of asset-backed securities through the Shenzhen Stock Exchange and Heng Cheng's subscription to Fund No. 1, the sole beneficiary of Trust No. 1, would not be considered investments in loans facilitated by the online market it operates using its own capital. Furthermore, while we believe that Heng Ye's purchase of assets-backed securities listed on the Shenzhen Stock Exchange is not a form of securitization of loan products prohibited by interim measures, we cannot assure you that the REGULATORY authorities of the PRC would agree with ours. If any of these business arrangements were found to be contrary to THE laws and regulations of the PRC, our operations and results of operations could be significantly and negatively affected. If we are unable to maintain low default rates for loans facilitated by our platform, our operations and results of operations may be significantly and negatively affected. Investments in loans in our market carry inherent risks because the return on capital on a loan investment made through our platform is not guaranteed, although we intend to limit investor losses due to borrower defaults within an acceptable range of industry through various preventive measures that we have taken or are taking. Our ability to attract borrowers and investors and build confidence in our market depends greatly on our ability to effectively assess a borrower's credit profile and maintain low default rates. To conduct this evaluation, we used a series of procedures and developed an exclusive model for credit assessment and decision-making. Our credit rating model aggregates and analyzes data submitted by a borrower as well as data we collect from a number of internal and external sources, and then generates a Yirendai rating for the potential borrower. The note will also be used to approve and rank the borrower in one of four segments of our current price schedule. If our credit rating model contains programming or errors, is ineffective, or if data provided by borrowers or third parties is incorrect or out of date, our loan pricing and approval process could be negatively affected, resulting in misclassified or misclassified loans or incorrect loan approvals or refusals. If we are not able to effectively and accurately evaluate the credit profiles of borrowers, borrowers segmented into appropriate category in the price grid, or price loans on our platform appropriately, we may either be unable to offer to offer Fee rates for borrowers and returns for investors, or unable to maintain low loan default rates facilitated by our platform. In addition, once a loan application is approved, we do not further monitor aspects of the borrower's credit profile, such as changes to the borrower's credit report and the borrower's purchase model from online merchants. If the borrower's financial situation deteriorates, we may not be able to take steps to avoid default by the borrower and thus maintain low default rates for loans facilitated by our platform. The borrowers we currently serve, including those below categories A, B, C and D of our rate schedule, are prime borrowers. If we expand to serve new groups of borrowers beyond the primary borrowers in the future, we may have difficulty or inability to maintain low default rates on loans facilitated by our market. Although we offer investor protection services in the form of a quality assurance program, should widespread defaults occur, investors may still suffer losses and lose confidence in our market and business and results of operations may be materially and negatively affected. If default rates increased, we could set aside additional liquidity in our quality assurance program and recognize additional expenses and liabilities in our financial statements, which could have a significant negative impact on our working capital, financial position, results of operations and business activities. We may not or do not generate enough cash to replenish our quality assurance program as needed. In addition, because we offer investors protection in the form of a quality assurance program, high default rates would affect the profitability of our loan products. Especially since our Class A loans have an average transaction fee rate of 5.6%, which is lower than the average transaction fee rates for our other loan categories, failure to achieve a low default rate for our Class A loans will reduce our profit margin and may even result in losses. Historically, Class A loans have not been profitable. For the cumulative historical lifetime M3 Net Charge-off Rates for all lending products facilitated by our platform, see Article 5. Review and outlook for operations and financial Operating Results — Major Factors Affecting Our Operating Results — Efficiency of Risk Management. 8 Table of Materials We have little experience in operating our quality assurance program. If it is underfunded or overfunded, or if we do not accurately anticipate the expected net payments from the quality assurance program or if we do not successfully implement the quality assurance program, our financial results and competitive position could be damaged. We have little experience in operating our new quality assurance program, launched in January 2015. We have set aside a amount of cash in an interest-bearing custody account. If a loan defaults, we withdraw funds from the custody account to repay the principal and interest accrued for the defaulted loan to investors. Since we only started our online consumer finance business in March 2012, we have little information on the default rates on loans facilitated by our platform. In addition, given our limited operating history and the introduction of new products, we have little information on historical expense reduction rates, and we may not be able to accurately predict fees for our target borrower group. Given these challenges, we may be under-funding or over-funding our quality assurance program. If we sub-finance below our quality assurance program and we are not or are not able to replenish the quality assurance program to a sufficient level over time, investors may not be fully protected from losses. This can lead to negative investor sentiment, which could affect our ability to retain existing investors and attract new investors, and investors can file a complaint against us, whether or not they have the legal right to seek damages from us, which could result in additional expenses and divert management's attention from our business activities. Conversely, if we oversan our quality assurance program, it will reduce the amount of our working capital because we cannot use the funds set aside in the quality assurance program for our operations and lose business opportunities. Should any of these events occur, our competitive position and operating results could be significantly and negatively affected. For the first three quarters of 2015, the amount of money we set aside for the quality assurance program is not sufficient to cover all net payments for loans facilitated during this period. In the fourth quarter of 2015, we revised our quality assurance program funding policy. In 2016, we set aside enough cash in the quality assurance program to cover expected net payments. Funding and operation of the quality assurance program can have a significant impact on our financial situation. A significant increase in our net payments under our quality assurance program will have a negative impact our net income and net income. See Article 5. Review of Operations and Operations and Outlook —A. Operating Results — Selected Operating States — Quality Assurance Program. In addition, subject to the terms and limitations of our investor agreements, we currently allow investors to fully recover their outstanding principal and accrued interest in the event of default. As the industry continues to evolve and become more sophisticated, we can review our policy or the terms and conditions under which we offer the quality assurance program so that investors can recover less than 100% of the outstanding outstanding and accrued interest. However, if our estimate of industry trend or market acceptance is not correct, such a reduction in the quality assurance payment ratio can also cause negative investor sentiment, which could affect our ability to retain existing investors as well as attract new investors, and cause a significant negative impact on our competitive position and operating results. If our lending products are not sufficiently accepted by the market, our financial results and competitive position will be damaged. We incur expenses and resources from the outset to develop, acquire and market new loan products. For example, we have developed four different segments of our current tariff schedule, which we call Class A, Grade B, Grade C and Grade D loans in this annual report. Since our inception, we have facilitated the decline of Class A loans. As part of our efforts to introduce risk-based pricing, we raised minimum qualification standards for Category A loans and began facilitating Class B and D loans in the fourth quarter of 2014 and Class C loans in the first quarter of 2015. For a more detailed description of the four price categories we currently offer, please see item 4. Company Information — B. Business Overview — Risk Management — Owner Credit Rating Model and Loan Qualification System. New loan products must achieve high levels of market acceptance in order for us to recover our investment in development, acquisition and marketing. 9 Content Table Our existing or new lending products and changes to our platform may not achieve sufficient market acceptance for many reasons, including, but not limited to: our inability to accurately predict market demand and supply-lending products that meet this demand in a timely manner; Borrowers and investors using our platform may not like, find it useful or agree with any changes; our correct price failure of new loan products; defects, errors or failures on our platform; negative publicity about our lending products or the performance or efficiency of our platform; Regulatory advice that new products or platform changes do not comply with applicable PRC laws, rules or regulations; and Introducing or Introducing competing products by our competitors. Another example is the automated investment tool we offer to investors. With our automated investment tool, an investor can lend to borrowers in our market for a specified period of time, and the investor's funds are automatically distributed among approved borrowers. However, we are exclude the possibility that there may be a lag between the expected time of the investor's exit and the maturity date of the loans to which the automated investment tool allocates the investor's funds. Investors who use our automated investment tool typically invest for a shorter period of time than the terms of the underlying loans. If we are not able to find another investor to take over the rest of the loans from the initial investor who uses our automated investment tool at the time of his expected exit, then the initial investor will have to stay invested in the loans and his liquidity expectation would not be met. If such lags occur across the board, investor acceptance or satisfaction with our automatic investment tool would be negatively affected. If our new loan products are not adequately accepted in the marketplace, our competitive position, results of operations and financial position could be damaged. If we are not effectively competitive, our operating results could be damaged. The online consumer finance industry in China is extremely competitive and evolving. We compete with a large number of consumer finance markets. We also compete with financial products and businesses that attract borrowers, investors or both. As far as borrowers are concerned, we are primarily competing with traditional financial institutions, such as consumer finance business units in commercial banks, credit card issuers and other consumer finance companies. For investors, we compete primarily with other investment products and asset classes, such as equities, bonds, investment trust products, bank savings accounts, real estate and alternative asset classes. Our competitors operate with different business models, have different cost structures or selectively participate in different market segments. They could ultimately be more effective or adaptable to new regulatory, technological and other developments. Some of our current and potential competitors have much more financial, technical, marketing and other resources than we do and may be able to devote more resources to the development, promotion, sale and support of their platforms. Our competitors may also have longer operating backgrounds, more basic borrowers or investors. greater brand recognition and brand loyalty and broader relationships with our partners than we do. In addition, a current or potential competitor may acquire one or more of our existing competitors or form a strategic alliance with one or more of our competitors. Our competitors may be better at developing new products, offering more attractive investment returns or lower fees, responding more quickly to new technologies and undertaking broader and more effective marketing campaigns. In response to competition and in order to increase or maintain the volume of facilitated lending transactions facilitated we may have to offer a higher return on investment to investors or charge lower transaction fees, which could have a significant and negative impact on our business and results of operations. If we are unable to compete with these companies and meet the need for innovation in our industry, the demand for our market could stagnate or decrease significantly, we may experience a reduction in revenues or our market may not achieve or maintain a more widespread market acceptance, which could adversely affect our operations and results of operations. 10 Content Table If we do not promote and maintain our brand effectively and cost-effectively, our operations and results of operations may be damaged. We believe it is essential to effectively develop and maintain brand awareness to attract and retain new existing borrowers and investors in our marketplace. The successful promotion of our brand and our ability to attract qualified borrowers and enough investors depend in large part on the effectiveness of our marketing efforts and the success of the channels we use to promote our market. Our efforts to build our brand have led us to incur significant expenses, and it is likely that our future marketing efforts will require us to incur significant additional expenses. These efforts may not result in increased revenues in the immediate future or at all, and even if they do, any increase in revenues may not offset the expenses incurred. If we fail to promote and maintain our brand while incurring significant expenses, our operating results and financial position would be negatively affected, which could affect our ability to grow our business. The credit and other information we receive from third parties about a borrower may be inaccurate or may not accurately reflect the creditworthiness of the borrower, which may compromise the accuracy of our credit rating. For credit assessment purposes, we obtain credit information from third parties, such as financial institutions and e-commerce providers, and assess applicants' credit and assign credit ratings to borrowers based on this credit information. A credit rating given to a borrower may not reflect the actual creditworthiness of that particular borrower because the credit rating may be based on outdated, incomplete or inaccurate data on consumer reports. Although we do not not borrowers hold more than one loan that has been facilitated by our platform at once, we currently do not have a complete way to determine whether borrowers have obtained loans through other consumer finance markets, creating the risk by which a borrower can borrow money through our platform in order to repay loans to investors on other platforms. In addition, there is a risk that, as a result of obtaining a borrower's credit information, the borrower will have: Becoming a delinquent in the payment of a default; default on a pre-existing debt bond; Additional debt or other adverse financial events. This inaccurate or incomplete information on borrowers' credit could compromise the accuracy of our credit assessment and undermine the effectiveness of our control over our default rates, which in turn could damage our reputation and damage our business, financial position and results of operations. In addition, our business of connecting individual investors and borrowers can be an intermediary service, and our contracts with these investors and borrowers can be considered intermediation contracts under the CPP Contracts Act. Under the CPP Contracts Act, an intermediary cannot claim a service fee and is liable for damages if he intentionally conceals any material or provides false information about the conclusion of an intermediation contract, which is detrimental to the client's interests. See Article 4. Company Information — B. Business Overview — Regulations — Online Loan Information Intermediary Regulations — Personal Loan Regulations. Therefore, if we do not provide important information to investors, or if we do not identify false information received from borrowers or others and in turn provide this information to investors, and in both cases if we are also found to be at fault, due to a defect or a deemed failure to perform appropriate care, such as proper verification of information or supervision of employees. , we could be held liable for damages to investors as an intermediary under the CPP Contracts Act. In addition, if we do not meet our obligations under agreements with investors and borrowers, we could also be held liable for damages to borrowers or investors under the CPP Contracts Act. On the other hand, we assume no responsibility solely because we have not correctly assigned a loan rating to a particular borrower in the process of facilitating a loan transaction, as long as we do not conceal any intentionally important facts or provide false information, and are not found to be at fault otherwise. However, due to the lack of detailed regulations and guidance in the area of intermediate online lending information services and the possibility that the government authority of the CPP new laws and regulations governing intermediate online lending information services in the future, there are significant uncertainties regarding the interpretation and enforcement of current or future PRC laws and regulations for information on online lending. Line. the service industry, and there is no guarantee that the government authority of the CPP will eventually have a view that is consistent with us. 11 Content Table Any damage to our brand or reputation or damage to the reputation of the online consumer financing industry can have a significant and negative impact on our business and results of operations. Improving the recognition and reputation of our brand is essential to our business and our competitiveness. Factors that are essential to this objective include, but are not limited to, our ability to: Maintaining the quality and reliability of our platform Provide borrowers and investors with superior experience in our market Improve and improve our credit reporting and decision-making models Effectively manage and resolve complaints from borrowers and investors and effectively protect the personal information and privacy of borrowers and investors. Our brand and reputation may also be adversely affected if the guarantee company providing guarantees to the loans we facilitated between August 2013 and December 2014 does not repay the principal and interest accrued on defaulted loans in accordance with the terms of the guarantee arrangement. Any malicious or innocent negative allegations made by the media or other parties about the above or other aspects of our company, including, but not limited to, our management, activities, compliance with the law, our financial situation or our prospects, whether well founded or not, could seriously damage our reputation and damage our business and operating results. As the market in China's online consumer financing markets is new and the regulatory framework in this market is also changing, negative publicity about the industry may occur from time to time. Negative publicity about the Chinese consumer market industry in general can also have a negative impact on our reputation, regardless of whether we have engaged in inappropriate activities. In addition, certain factors that may damage our reputation are beyond our control. Negative publicity about our partners, outsourced service providers or other counterparties, such as negative publicity about their debt collection practices and any failure on their part to adequately protect borrower and investor information, comply with applicable laws and regulations, or otherwise comply with the required quality and service standards could adversely affect the quality and service standards required. our reputation. In addition, any negative developments in the online consumer finance market industry, such as bankruptcies or failures in other consumer finance markets, and in particular a large number of such bankruptcies or failures, or the negative perception of the industry as a whole, together, as a result of any failure of other consumer finance markets to detect or prevent money laundering or other illegal activities, even if they are factually incorrect or based on isolated incidents, could damage our image, undermine the trust and credibility we have established, and negatively impact our ability to attract new borrowers and investors. Negative developments in the online consumer finance market industry, such as widespread borrower defaults, fraudulent behaviour and/or the closure of other online consumer finance markets, may also result in more extensive regulatory control of the sector and limit the scope of eligible business activities that can be conducted by online consumer financing markets like us. If any of these events occur, our operations and results of operations could be significantly and negatively affected. 12 Table of Materials We have suffered net losses in the past and we may suffer net losses in the future. We recorded net losses of RMB27.7 million in 2014 and accumulated deficits of RMB90.4 million as of December 31, 2014. Although we recorded a net profit of RMB275.3 million and RMB1,116.4 million (US$160.8 million) in 2015 and 2016, and retained earnings of RMB184.9 million and RMB1 $177.1 million (US$169.5 million) at December 31, 2015 and 2016, respectively, we cannot assure you that we will be able to continue to generate net income or that we will have undivided earnings in the future. We expect our operating expenses to increase in the foreseeable future as we seek to continue to grow our business, attract borrowers, investors and partners, and further improve and develop our products and lending platforms. These efforts may be more costly than we currently anticipate, and we may not be able to increase our revenues sufficiently to offset these higher expenses. There are other factors that could have a negative impact on our financial situation. For example, the default rates of loans facilitated by our platform may be higher than expected, which may result in lower-than-expected net revenues and additional expenses related to higher-than-expected net payments from the Quality Assurance Program. In addition, we have adopted an action incentive plan, and we can provide equity-based scholarships to eligible participants from time to time under the plan, which will result in stock-based compensation expenses for us. Due to the above and other factors, our net revenue growth may slow, our net profit margins may decline or we may suffer additional net losses in the future and not be able to maintain profitability on a quarterly or annual basis. In addition, our net sales growth rate is likely to decline as our net sales increase. Our quarterly results may fluctuate significantly and may not fully reflect the underlying performance of our Our quarterly operating results, including levels of our net revenues, expenses, net income (loss) and other key indicators, may vary significantly in the future due to a variety of factors, some of which are beyond our control, and comparisons of our operating results from one period to the next may not be significant, especially given our limited operating history. Therefore, quarterly results are not necessarily an indication of future performance. Fluctuations in quarterly results can affect the price of our ADSs. Factors that may cause fluctuations in our quarterly financial results include: our ability to attract new borrowers and investors and maintain relationships with existing borrowers and investors; loan volumes and the original channels of borrowers and investors, including the relative combination of online and offline channels; Increased responsibility for the quality assurance program related to interim expenses additions for the increase in the expected net payment; changes in our product line and the introduction of new lending products; our actual and expected net quality assurance payments for loans facilitated by our platform and the amount we have set aside in the quality assurance program; The amount and timing of operating expenses related to the acquisition of borrowers and investors, such as the amount of reference fees CreditEase charges us for the acquisition of the borrower, as well as the maintenance and expansion of our business, operations and infrastructure; our decision to manage the growth in loan volume over the period. network outages or security vulnerabilities; economic, industrial and market conditions in general; Our focus on the experience of borrowers and investors rather than short-term growth; and timetable for spending on the development or acquisition of technologies or businesses. 13 Content Table In addition, we experience the seasonality of our business, reflecting seasonal fluctuations in Internet use and traditional personal consumption habits, as our individual borrowers typically use their borrowing product to finance their personal consumption needs. For example, we generally experience a lower transaction value in our online consumer finance market during national holidays in China, especially during the Chinese New Year holiday season in the first each year. Although our rapid growth has somewhat masked this seasonality, our operating results could be affected by such seasonality in the future. Failed managing our cash flow and cash flow can have a significant and adverse impact on our financial position and results of operations. We generated negative cash flows from RMB227.0 million operating activities in 2014 and positive cash flows from the operating activities of RMB861.3 million and RMB2 $113.4 million (US$304.4 million) in 2015 and 2016, respectively. Our cash flow from operating activities primarily includes borrowers' transaction costs. Historically, borrowers have paid transaction fees primarily on a monthly basis over the life of the loan, which has contributed to our negative cash flow generation from operating activities. In the fourth quarter of 2014, we adopted a new fee collection schedule whereby we collect all transaction fees in advance at the end of our loan facilitation services, either we collect a portion of the transaction fees in advance and the rest on a monthly basis during the term of the loan. However, we cannot assure you that the new fee collection schedule will improve our cash position. The inability to collect payments from customers, borrowers in particular, in a timely and sufficient manner can affect our liquidity, financial position and results of operations. In addition, during the first three quarters of 2015, the amount of money we set aside for the quality assurance program was not sufficient to cover all net payments for loans facilitated during this period. In the event that actual or projected net quality assurance program payments exceed the balance of the quality assurance program, we will or may have to increase the amount of money available in our quality assurance program, which could have a significant negative effect on our working capital. Our reputation may be damaged if the information provided by borrowers is inaccurate, misleading or incomplete, including whether borrowers use the proceeds of the loan for purposes other than those originally provided. Borrowers provide a variety of information that is included in the loan lists in our market. We do not verify all the information we receive from borrowers, and this information may be inaccurate or incomplete. For example, we often do not check a borrower's homeownership status or intended use of the loan proceeds, and the borrower may use the proceeds of the loan for other purposes with increased risk. as originally planned. In addition, investors do not, and will not have, access to detailed financial information about borrowers. If investors invest in loans through our platform based on information provided by borrowers that are inaccurate, misleading or incomplete, these investors may not receive their expected returns and our reputation may be damaged. In addition, inaccurate, misleading or incomplete information about borrowers could also place us liable as an intermediary under the CPP Contracts Act. Prc. Point 4. Company Information —b. Business Overview—Regulation — Online Loan Information Intermediary Regulations — Personal Loan Regulations below. 14 Content Table Fraudulent activity in our market could have a negative impact on our results of operations, brand and reputation and lead to a decrease in the use of our loan products and services. We are subject to the risk of fraudulent activity in both our market and associated with borrowers, investors and third parties who process information about borrowers and investors. For example, we detected an organized fraud incident involving our FastTrack loan products in July 2016. After discovering the fraud incident, we suspended the offer of FastTrack loan products until the end of July 2016, when we implemented stricter requirements to prevent a similar type of fraud incident. Our resources, technologies and fraud detection tools may not be sufficient to accurately detect and prevent fraud. Significant increases in fraudulent activity could have a negative impact on our brand and reputation, reduce the volume of loan transactions facilitated by our platform and lead us to take additional steps to reduce the risk of fraud, which would increase our costs. High-profile fraudulent activities could even lead to regulatory intervention, divert our management's attention and lead us to incur additional expenses and costs. Should any of these events occur, our operating results and financial position would be significantly and unfavorably affected. Successful strategic relationships with our partners are important to our future success. We plan to continue to leverage our strategic relationships with existing partners in the Chinese online consumer finance industry to grow our business, while pursuing new relationships with other partners such as traditional financial institutions and traders in a larger number of sectors. For example, in the future, we could partner with traditional financial institutions to combine the efficiency benefits of online consumer financing markets with the low financing costs of traditional financial institutions. Identifying, negotiating and documenting relationships with partners requires a lot of time and resources, as does the integration of third-party data and services into our Our current agreements with our partners often do not prohibit them from working with our competitors or offering competing services. Our competitors can be effective in encouraging our partners to promote their products or services, which in turn can reduce the volume of loans facilitated by our market. Some types of partners may devote more resources to supporting their own competing companies. In addition, these partners may not function as intended under our agreements with them, and we can disagreements or disputes with these partners, which could damage our brand and reputation. If we cannot establish and maintain effective strategic relationships with our trading partners, our business will be damaged. The misconduct, errors and non-functioning of our employees and third-party service providers could damage our business and reputation. We are exposed to many types of operational risks, including the risk of misconduct and error on the part of our employees and third-party service providers. Our business relies on our third-party employees and service providers to interact with borrowers and potential investors, process a large number of transactions and support the loan collection process, all of which involve the use and disclosure of personal information. We could be significantly affected if transactions were redirected, diverted or mishandled, if personal information was disclosed to unintentional recipients, or if an operational failure or failure in transaction processing occurred, whether as a result of human error, deliberate sabotage or fraudulent manipulation of our operations or systems. In addition, the way we store and use certain personal information and interact with borrowers and investors through our market is governed by various CPP laws. It is not always possible to identify and deter misconduct or errors by third-party employees or service providers, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanageable risks or losses. If one of our third-party employees or service providers takes, converts or abuses funds, documents or data or does not follow protocol when interacting with borrowers and investors, we may be liable for damages and subject to regulatory action and penalties. We could also be perceived as having facilitated or participated in the illegal embezzlement of funds, documents or data, or non-compliance with protocol, and therefore be subject to civil or criminal liability. In addition, we currently rely on CreditEase and in the future can continue to rely on CreditEase or other third-party service providers for loan recovery services. Aggressive practices or misconduct by one of our third-party service providers, including CreditEase, in collecting loans could damage our reputation. 15 More content table, as we rely on some third-party services, such as third-party payment platforms and child care and settlement providers, to conduct our business, if these third-party service providers did not function properly, we cannot assure you that we would be able to find an alternative in a timely and cost-effective manner or not at all. Any of these events could result in a decrease in our ability to operate our borrowers and investors, the inability to attract borrowers and investors, reputational damage, regulatory intervention and financial harm, which could have a negative impact on our business, our financial position and our results of operations. Fluctuations in interest rates could have a negative impact on the volume of transactions. All loans facilitated by our market are issued with fixed interest rates. If interest rates rise, investors who have already committed capital may lose the opportunity to take advantage of higher rates. If interest rates fall after a loan is made, borrowers through our platform can prepay their loans to take advantage of lower rates. Investors through our platform would lose the ability to collect the above-paid interest rates on prepaid loans and could delay or reduce future loan investments. As a result, fluctuations in the interest rate environment may discourage investors and borrowers from participating in our market, which could harm our business. A severe or prolonged slowdown in the Chinese or global economy could have a significant and negative impact on our trade and financial situation. Any prolonged slowdown in the Chinese or global economy can have a negative impact on our business, results of operations and financial position. In particular, general economic factors and conditions in China or around the world, including the general interest rate environment and unemployment rates, can affect borrowers' willingness to apply for loans and the ability and desire of investors to invest in loans. Economic conditions in China are sensitive to the global economic situation. Global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The recovery from the 2008 and 2009 lows has been uneven and there are new challenges, including the escalation of the European sovereign debt crisis from 2011, the end of quantitative easing by the US Federal Reserve, the economic slowdown in the euro area in 2014 and the UK's expected exit from the European Union. China's economy has slowed since 2012 and this slowdown could continue. The long-term effects of expansionary monetary and fiscal policies adopted by central banks and financial authorities in some of the world's major economies, including the United States and China, are very There was also concern about unrest in Ukraine, the Middle East and Africa, which have led to volatility in financial and other markets. There was also concern about the economic impact of tensions in relations between China and other countries, including surrounding Asian countries. If Chinese and global economic uncertainties persist, many of our investors may delay or in loans facilitated by our platform. Unfavourable economic conditions could also reduce the number of qualified borrowers seeking loans on our platform, as well as their ability to make payments. If any of these situations occur, the amount of loans facilitated by our platform and our net revenues will decrease, and our business and financial situation will be negatively affected. In addition, persistent turbulence in international markets can affect our ability to access financial markets to meet liquidity needs. We may need additional capital, and the funding may not be available on terms that are acceptable to us, or not at all. In 2014, our main sources of liquidity were the advances of our parent company, CreditEase, representing the operating costs and expenses paid or incurred by the various CreditEase affiliates on our behalf, as our online consumer finance market activity was carried out by various subsidiaries and variable interest entities of CreditEase as a business unit under CreditEase at the time. We completed our CreditEase cutout in the first quarter of 2015, and we will not have such advances from CreditEase in the future. As of December 31, 2014, 2015 and 2016, we had cash and cash equivalents of RMB1.4 million, RMB 846.1 million and RMB968.2 million (US$139.4 million), respectively. While we believe that our projected cash flow from operating activities will be sufficient to meet our working capital requirements and projected capital expenditures over the next 12 months, we cannot assure you that this will be the case. We may need additional monetary resources in the future if we experience changes in business conditions or other developments. We may also need additional monetary resources in the future if we find and want to seize opportunities for investment, acquisition, capital expenditures or similar actions. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand at the time, we may seek to issue equity or debt or obtain credit facilities. The issuance and sale of additional equity would result in additional dilution for our shareholders. Debt would result in an increase in fixed bonds and could result in operating restrictive covenants that would restrict our operations. We cannot assure you that the funding will be amounts or conditions acceptable to us, the last case. 16 Content Table Our ability to protect the confidential information of our borrowers and investors may be affected by cyberattacks, computer viruses, physical or electronic break and enters or similar disruptions. Our platform collects, stores and processes certain personal and other sensitive data of our borrowers and investors, making it an attractive and potentially vulnerable target for cyber cyber computer viruses, physical or electronic break and enters or similar disturbances. Although we have taken steps to protect the confidential information to which we have access, our security measures could be violated. Since the techniques used to sabotage or gain unauthorized access to systems change frequently and are generally not recognized until they are thrown against a target, we cannot be able to anticipate these techniques or implement adequate preventive measures. Any accidental or deliberate breach of security or other unauthorized access to our platform could result in the theft and use of confidential information about borrowers and investors for criminal purposes. Security breaches or unauthorized access to confidential information could also expose us to liabilities related to information loss, lengthy and costly litigation, and negative publicity. If security measures are violated as a result of third-party actions, employee errors, malfeasation or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our relationships with borrowers and investors could be severely damaged, we could incur significant liability and our activities could be adversely affected. If we do not maintain an effective system of internal control of financial reporting, we may not be able to accurately report our financial results or prevent fraud. We are subject to reporting obligations under U.S. securities laws. Section 404 of the Sarbanes-Oxley Act of 2002 and related rules require that we include a management report on the effectiveness of our internal control over financial reporting in our Annual Report on Form 20-F, beginning with our annual report for the year ending December 31, 2016. Our management concluded that our internal control over financial reporting was effective as of December 31, 2016. See Article 15. Checks and procedures. In addition, once we cease to be an emerging growth company as such a term is defined in the Jobs Act, our independent accounting firm must certify and report on the effectiveness of our internal control over financial reporting. In the future, our management may conclude that our internal control over financial reporting is not effective. In addition, while our management concludes that our internal control over financial reporting is effective, our independent accounting firm, after conducted its own independent tests, may publish an unfavourable opinion audit report if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, our reporting obligations can strain our financial, operational and financial management, operational and financial resources and systems. Future. We may not be able to complete our assessment tests and the necessary corrective measures in a timely manner. During the documentation and testing of our internal control procedures, in order to meet the requirements of Section 404, we can identify weaknesses and deficiencies in our internal control over financial reporting. In addition, if we do not maintain the adequacy of our internal control over financial reporting, as these standards are amended, supplemented or amended from time to time, we may not be able to consistently conclude that we have effective internal control over financial information under section 404. If we fail to achieve and maintain an effective internal control environment, we may experience significant inaccuracies in our financial statements and fail to meet our reporting obligations, which would likely result in investors losing confidence in our reported financial information. This in turn could limit our access to financial markets, adversely affect our operating results and lower the trading price of our ADSs. In addition, ineffective internal control of financial reporting could expose us to an increased risk of fraud or misuse of the company's assets and subject us to potential write-off of the exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to reaffirm our financial statements from previous periods. 17 Content Table Our operations depend on the performance of Internet infrastructure and fixed telecommunications networks in China. Almost all Internet access in China is maintained through state-owned telecommunications operators under administrative control and regulatory oversight of the Ministry of Industry and Information Technology, or MIIT. We rely primarily on a limited number of telecommunications service providers to provide us with data communication capability through local telecommunications lines and Internet data centers to host our servers. We have limited access to other networks or services in the event of disruptions, failures or other problems with China's Internet infrastructure or fixed telecommunications networks provided by telecommunications service providers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to cope with the increase in traffic on our platform. We cannot assure you that the Internet infrastructure and Fixed telecommunications networks in China will be able to support the demands associated with the continued growth of Internet use. In addition, we have no control over the costs of services provided by telecommunications service providers. If the prices we pay for telecommunications and Internet services increase significantly, our operating results could be negatively impacted. In addition, if Internet access or other fees for Internet users increase, our user traffic may decrease and our business may be harmed. Any significant interruption of service on our platform or in our IT systems, including events beyond our control, could prevent us from processing or posting loans in our market, reducing the attractiveness of our market and resulting in a loss of borrowers or investors. In the event of a platform failure and loss of physical data, our ability to execute our service obligations, process requests or make loans available in our market would be significantly and negatively affected. The satisfactory performance, reliability and availability of our underlying platform and network infrastructure are critical to our operations, customer service, reputation and ability to retain existing borrowers and investors and attract new borrowers. Much of our system equipment is housed in a rented facility in Beijing that is operated by our IT staff. We also maintain a real-time backup system in a separate facility also located in Beijing. Our operations depend on our ability to protect our systems from damage or interruptions caused by natural disasters, power or telecommunications failures, air quality problems, environmental conditions, computer viruses or attempts to harm our systems, criminal acts and similar events. If there is a service interruption or damage to our leased facilities in Beijing, we may experience service disruptions as well as delays and additional expenses in the organization of new facilities. Any interruption or delay in our service, whether as a result of a third-party error, our error, natural disasters or security breaches, whether accidental or deliberate, could damage our relationships with our borrowers and investors and our reputation. In addition, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses we may suffer. Our disaster recovery plan has not been tested under real-world disaster conditions, and we may not have the capacity to recover all data and services in the event of a breakdown. These factors could prevent us from processing or posting payments on loans, damage our brand and reputation, divert the attention of our employees, subject us to liability and bring in borrowers and abandoning our market, which could adversely affect our business, our financial position and our results of operations. Our platform and internal systems rely on highly technical software, and if it contains undetected errors, our business could be negatively affected. Our platform and internal systems rely on highly technical and complex software. In addition, our platform and internal systems depend on the ability of these software to store, recover, process and manage vast amounts of data. The software on which we rely contains, and can now or may contain undetected errors or bugs in the future. Some errors can only be discovered after the code has been released for external or internal use. Errors or other design defects in the software on which we rely can result in a negative experience for borrowers and investors using our platform, delay the introduction of new features or improvements, cause errors or compromise our ability to protect the data of borrowers or investors or our intellectual property. Any errors, bugs or defects discovered in the software on which we rely could damage our reputation, the loss of borrowers or investors, or liability for damages, one of which could adversely affect our business, results of operations and our financial situation. 18 Content Table We cannot prevent others from unauthorized use of our intellectual property, which could adversely affect our business and our competitive position. We consider our trademarks, domain names, know-how, proprietary technologies and similar intellectual property to be essential to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality, divestiture of inventions and non-compete agreements with our employees and others to protect our property rights. We have applied for two brands and for the transfer of five CreditEase trademarks to us, all of which are pending with the Trademark Office under the State Administration for Industry and Commerce. We have also obtained a worldwide, royalty-free license from CreditEase to use some of its brands, which CreditEase is in the process of transferring to us. As of the date of this annual report, a total of six trademarks have been transferred to us by CreditEase. However, the trademark licenses granted to us by CreditEase have not been filed with the Trademark Office with the State Administration for Industry and Commerce. See Article 4. Company Information — B. Business Overview — Intellectual Property and Point 4. Company Information — B. Business Overview — Regulation — Intellectual Property Rights Regulation. Thus, we cannot assure you that none of our intellectual property rights will be challenged, invalidated, circumvented or misappropriated, or that such intellectual property will be sufficient to provide us with competitive advantages. In addition, due to the rapid pace of technological change in our industry, parts of our business rely on developed or authorized by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable or not at all terms. It is often difficult to register, maintain and enforce intellectual property rights in China. Legislative laws and regulations are subject to judicial interpretations and executions and may not be applied consistently due to the lack of guidelines on statutory interpretation. Agreements of confidentiality, awarding of inventions and non-competition may be violated by counterparties, and there may not be adequate remedies available to us for such a violation. As a result, we may not be able to effectively protect our intellectual property rights or enforce our contractual rights in China. It is difficult and costly to prevent unauthorized use of our intellectual property and the steps we take may be inadequate to prevent the misappropriation of our intellectual property. In the event that we use litigation to enforce our intellectual property rights, such litigation could result in substantial costs and misappropriation of our financial and management resources. We cannot provide any assurance that we will prevail in such disputes. In addition, our trade secrets may be disclosed or made available to our competitors or discovered independently. To the extent that our employees or consultants use intellectual property owned by others in their work, disputes may arise over the rights to know-how and related inventions. Failure to protect or enforce our intellectual property rights could have a significant negative impact on our business, financial position and results of operations. We may be the subject of claims for intellectual property infringement, which can be costly to defend and disrupt our business. We cannot be certain that our business or any other aspect of our business does not otherwise infringe or violate trademarks, patents, copyrights, know-how or other intellectual property rights held by third parties. From time to time we may be subject to lawsuits and claims relating to the intellectual property rights of others. In addition, there may be third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are violated by our products, services or other aspects of our business to our insinterest. Holders of these intellectual property rights may seek to enforce these intellectual property rights against us in China, the United States or other jurisdictions. If third-party infringement claims are brought against us, we may be forced to divert management's time and other resources from our activities and operations to defend ourselves against these claims, regardless of their merits. 19 Table of Content In the application and interpretation of Chinese intellectual property rights laws and procedures and standards for the granting of trademarks, patents, copyrights, know-how or other intellectual property rights in China are still evolving and uncertain, and we cannot assure you that the courts or regulatory authorities of the PRC would agree with our analysis. If we have violated the intellectual property rights of others, we could be our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop our own alternatives. As a result, our operations and results of operations may be significantly and negatively affected. From time to time, we may evaluate and potentially consume strategic investments or acquisitions, which may require significant management attention, disrupt our operations and adversely affect our financial results. We can evaluate and consider strategic investments, combinations, acquisitions or alliances to further enhance the value of our market and better serve borrowers and investors. These transactions could be important to our financial position and results of operations if consumed. If we are able to identify an appropriate business opportunity, we may not be able to pass the transaction and, even if we consume such a transaction, we may not be able to obtain the benefits or avoid the difficulties and risks of such a transaction. Strategic investments or acquisitions will involve risks commonly encountered in business relationships, including: difficulties in assimilating and integrating the operations, personnel, systems, data, technologies, products and services of the acquired company; inability to achieve expected levels of revenue, profitability, productivity or other benefits. difficulty retaining, training, motivating and integrating key personnel diverting management's time and resources from our normal day-to-day operations; difficulties in successfully integrating technology and licensed or acquired rights into our lending platform and products; difficulties in maintaining uniform standards, controls, procedures and policies within the combined organizations; difficulties in maintaining relationships with customers, employees and suppliers of the acquired business. risks of entering markets in which we have little or no previous experience; regulatory risks, including remaining in compliance with existing regulators or receiving the necessary approvals before or after closing, as well as being subject to new regulators overseeing an acquired business; contractual obligations that contain conditions that are not beneficial to us, require us to authorize or waive intellectual property rights or our risk of liability failure to successfully pursue success The acquired technology liability for the activities of the business acquired prior to acquisition, including claims for intellectual property infringement, violations of laws, commercial disputes, tax obligations and other known and unknown liabilities; Potential disruptions to our ongoing operations and unforeseen costs and unknown risks and liabilities associated with strategic investments or acquisitions. 20 Content Table We cannot make investments or acquisitions, or any future investment or acquisition may not be successful, may not benefit our business strategy, may not generate enough revenue to offset the associated acquisition costs, or otherwise result in the expected benefits. In addition, we cannot assure you that a future investment or acquisition of new businesses or technologies will lead to the successful development of new or improved loan products and services or that any new or improved loan product and service, if developed, will be accepted by the market or will prove profitable. Our company depends on the ongoing efforts of our senior management. If one or more of our key executives were unable or unable to continue working in their current positions, our business could be severely disrupted. Our business activities depend on the ongoing services of our senior management, particularly the executives named in this annual report. While we have provided different incentives to our management, we cannot assure you that we can continue to retain their services. If one or more of our key executives were unable or unseable to continue working in their current positions, we may not be able to replace them easily or not at all, our future growth could be limited, our business could be severely disrupted and our financial situation and results of operations could be significantly and unfavorably affected. , and we could incur additional expenses to recruit. , train and retain qualified staff. In addition, even if we have confidentiality and non-compete agreements with our management, there is no assurance that a member of our management team will not join our competitors or form a competing company. If a dispute arises between our current or former leaders and us, we may have to incur substantial costs and expenses in order to implement such agreements in China or we may be unable to implement them at all. Competition for employees is intense, and we may not be able to attract and retain employees necessary to support our company. We believe our success depends on the efforts and talent of our employees, including risk management, software engineering, financial and marketing staff. Our future success depends on our continued ability to attract, develop, motivate and qualified and qualified employees. Competition for highly qualified technical, risk management and financial personnel is extremely intense. We may not be able to hire and retain these employees at compensation levels consistent with our current compensation and salary structure. Some of the companies we compete with for experienced employees have more resources than we do and may be able to offer more attractive terms of employment. In addition, we invest a lot of time and expense in training our employees, which increases their value to competitors who may seek to recruit them. If we do not retain our employees, we could incur significant expenses in hiring and training their replacements, and the quality of our services and our ability to serve borrowers and investors could decrease, which could have a significant negative effect on our business. Increased labour costs in the CPP can hurt our business and operating results. China's economy has seen increases in inflation and labour costs in recent years. As a result, average CPP wages are expected to continue to rise. In addition, CPP laws and regulations require us to pay various statutory benefits to employees, including pension, housing fund, medical insurance, work-related damage insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The appropriate government agencies can examine whether an employer has made adequate payments to statutory benefits, and whether employers who do not make adequate payments may be subject to late payment fees, fines and/or other penalties. We expect our labour costs, including wages and employee benefits, to continue to rise. Unless we can control our labour costs or pass these increased labour costs on to our users by increasing the costs of our services, our financial position and results of operations may be negatively affected. 21 Content Table If we can't maintain our corporate culture as we grow, we could lose the innovation, collaboration and focus that contribute to our business. We believe that an essential element of our success is our corporate culture, which we believe fosters innovation, encourages teamwork and cultivates creativity. As we develop the infrastructure of a public company as we continue to grow, it may be difficult for us to maintain these valuable aspects of our corporate culture. Failure to preserve our culture could have a negative impact on our future success, including our ability to attract and retain employees, encourage innovation and teamwork, and effectively focus and pursue our business goals. We do not have business insurance coverage. Insurance companies in China do not currently offer as wide a range of insurance products as insurance companies At this time, we do not have any commercial liability or disruption insurance to cover our business. We have determined that the costs of insuring these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it difficult for us to have such insurance. Any interruption of uninsured activity can result in substantial costs and misappropriation of resources, which could have a negative impact on our operating results and financial position. We face risks from natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations. We are vulnerable to natural disasters and other calamities. Fires, floods, typhoons, earthquakes, loss of electricity, telecommunications outages, break and enters, war, riots, terrorist attacks or similar events can result in server outages, outages, system failures, technology platform failures or Internet outages, which could result in data loss or corruption or software or hardware malfunctions, and affect our ability to deliver products and services on our platform. Our activity could also be affected by the effects of Zika virus, Ebola, H1N1, H7N9, avian influenza, Severe Acute Respiratory Syndrome or SARS, or other epidemics. Our business activities could be disrupted if one of our employees is suspected of having Zika virus, Ebola, H1N1, H7N9, avian influenza, SARS or another outbreak, as it may require our employees to be quarantined and/or our offices disinfected. In addition, our operating results could be affected to the extent that any of these epidemics harm the Chinese economy in general. Risks related to our creditEase cut and our relationship with CreditEase We rely on our parent company, CreditEase, for the smooth running of our business. We have limited experience as a stand-alone company. We began our online consumer finance market activities in March 2012, and Yirendai Ltd. was incorporated in 2014 in the Cayman Islands as a wholly owned subsidiary of CreditEase. Founded in 2006 by our Executive Chairman, Mr. Ning Tang, CreditEase is a leading financial services company focused on providing inclusive financing and wealth management products and services. China. Inclusive financing aims to provide access to affordable and accountable financing solutions to those in China who are often unable to access them. We completed our CreditEase cutout in the first quarter of 2015. Historically, CreditEase has provided us with the origin and service, financial, administrative, commercial and marketing, risk management, human resources and legal services, as well as the services of a number of its executives and employees. Although we have become a stand-alone company, we are CreditEase continue to provide us with some support services during a transition period. We also relied on CreditEase to make our online consumer finance market work. In the future, we expect to continue to rely on CreditEase for various aspects of our business, such as risk management, offline acquisition of new borrowers and investors, and exceptional loan collection services. Although we have a series of agreements with CreditEase regarding our ongoing commercial cooperation and service agreements with CreditEase, we cannot assure you that we will continue to receive the same level of support from CreditEase after becoming a stand-alone company. The cost of the services CreditEase provides us may increase from time to time depending on the trade negotiations between CreditEase and us. For example, in accordance with our contractual agreement with CreditEase, the fee rate for offline borrower acquisition services that CreditEase provides us has recently increased from 5% to 6% of loans made to borrowers referred by CreditEase for the three years starting in 2016. Subsequently, the duty rate can be adjusted on an annual basis based on commercial negotiation, and after taking into account the costs to CreditEase for the provision of such services and according to market rates. In addition, borrowers, investors and business partners may react negatively to our CreditEase cut. As such, our CreditEase cut-out can have a significant and negative impact on our business. In addition, due to our exit from CreditEase, our historical growth and financial performance may not be indicative of our future performance as a stand-alone public company. 22 Content Table Our financial information included in this annual report may not be representative of our financial position and results of operations if we had worked as a stand-alone company. Prior to the creation of Yirendai Ltd., our

online consumer finance business was carried out by various subsidiaries and variable interest entities of CreditEase. We completed our CreditEase cutout in the first quarter of 2015, and all of our online consumer finance business activities are now carried out by our own subsidiaries and consolidated variable interest entities. Given that we and CreditEase's subsidiaries and variable interest entities that operated our online market business are under the joint control of CreditEase, our consolidated financial statements include assets, liabilities, revenues, expenses cash flow that was directly attributable to our operations for all periods presented. In particular, our consolidated balance sheets include assets and liabilities that are specifically identifiable to our business; and our consolidated operating statements include all and expenses related to us, including the costs and expenses allocated from CreditEase to us. CreditEase's allocations, including the amounts allocated to origin and service expenses, sales and marketing expenses, and general and administrative expenses, were made using a proportionate method of allocating costs and based on the size or volume of transactions for the provision of services attributable to us. We made numerous estimates, assumptions and allocations in our historical financial statements because we did not act as a stand-alone company prior to our exit from CreditEase in the first quarter of 2015. While our management believes that the assumptions underlying our historical financial statements and allocations above are reasonable, our historical financial statements do not necessarily reflect our results of operations, financial position and cash flow as if we had operated as a stand-alone company during these periods. See Article 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions for our arrangements with CreditEase and Item 5. Review and outlook for operations and financial and notes to our consolidated financial statements included elsewhere in this annual report for our historical cost allocation. In addition, by becoming a stand-alone company, we have implemented our own financial, administrative and other support systems to replace CreditEase's systems, whose cost may have been significantly different from allocating costs with CreditEase for the same services. Therefore, you should not consider our historical results as indicators of our future performance. Negative changes in CreditEase's market position, brand recognition or financial position can have a significant and negative impact on our marketing efforts and the strength of our brand. Prior to our initial public offering, we were a wholly owned subsidiary of CreditEase, and after our initial public offering, CreditEase remains our majority shareholder. We have benefited significantly and we expect to continue to benefit significantly from our partnership with CreditEase in the marketing of our brand and our market. CreditEase's field sales network references currently represent the majority of our borrowers and the volume of loans. In 2014, 2015 and 2016, 48.1%, 49.5% and 42.5% of our borrowers were acquired through CreditEase references, respectively, contributing 59.8%, 67.0% and 61.8% of the total amount of facilitated by our market. If CreditEase's user references decrease or become less effective, the quality of borrowers referred by CreditEase does not meet our borrower qualification standards, or if we are unable to continue to use CreditEase as a user acquisition channel for any reason, our business and results of operations may be adverse and and and Affected. Although the value of transactions through China's online consumer finance markets is expected to increase from RMB4.6 billion in 2014 to RMB247.6 billion in 2019, according to iResearch, there is no guarantee that we would be able to find other user acquisition channels to replace CreditEase's references on commercially reasonable terms. , or not at all. We also benefit from the strong recognition of the CreditEase brand in China, which gives us credibility and broad marketing reach. If CreditEase loses its market position, the effectiveness of our marketing efforts through our association with CreditEase can be significantly and negatively affected. In addition, any negative advertising associated with CreditEase or any negative developments regarding CreditEase's market position, financial position, or compliance with legal or regulatory requirements in China, are likely to have a negative impact on the effectiveness of our marketing as well as our reputation and brand. 23 Content Table Our agreements with CreditEase may be less favourable to us than similar agreements negotiated between unaffiliated third parties. In particular, our non-compete agreement with CreditEase limits the scope of the activities we are authorized to conduct. We have a series of agreements with CreditEase and the terms of these agreements may be less favourable to us than if they were negotiated with unaffiliated third parties. In particular, under our non-compete agreement with CreditEase, we agree during the non-competition period, which will end at the beginning of (i) one year after the end date of the audit or (ii) the fifteenth anniversary of the completion of our initial public offering, not to compete with CreditEase in the company currently led by CreditEase, other than the online consumer finance market activity currently conducted or envisaged by us at the date of the agreement and any other companies that we and CreditEase can mutually agree from time to time. The end of control date refers to the earliest (i) the first date when CreditEase no longer holds at least 20% of the voting power of our securities then in circulation or (ii) the first date when CreditEase ceases to be the largest advantageous owner of our voting securities then in circulation. Such contractual limitations can have a significant impact on our ability to diversify our revenue streams and have a significant and negative impact on our business and outlook if the growth of China's online consumer market industry slows. In addition, in accordance with our core transaction agreement CreditEase, we agree to compensate CreditEase for liabilities arising from litigation and other contingencies related to our business and have assumed these commitments as part of our CreditEase cutout. The allocation of and the commitments between CreditEase and our company may not reflect the allocation that would have been achieved by two unaffiliated parties. In addition, as long as CreditEase continues to control us, we may not be able to file a complaint against CreditEase in the event of a contractual breach, despite our contractual rights under the agreements described above and other intersy company agreements concluded from time to time. CreditEase will control the outcome of the shares of our company's shareholders. As of March 31, 2017, CreditEase held 83.6% of our outstanding common shares and total voting power. CreditEase's voting power gives it the power to control certain shares that require shareholder approval under cayman Islands law, our current memorandum and association articles and requirements of the New York Stock Exchange, including approval of mergers and other business combinations, changes to our memorandum and statutes. , the number of shares available on issue under any share incentive scheme and the issuance of significant amounts of our common shares in private placements. CreditEase's voting control may result in transactions that may not be beneficial to the holders of our ADSs and prevent transactions that would benefit the holders of our ADSs. For example, CreditEase's voting control may prevent a transaction involving a change of control on our part, including transactions in which a holder of our ADS may otherwise receive a premium for securities held by that holder over the current market price. In addition, CreditEase is not prohibited from selling a majority stake in us to a third party and may do so without the approval of the holders of our ADSs and without providing for the purchase of ADSs. If CreditEase is acquired or undergoes a change of control, any acquirer or successor will have the right to exercise vote control and contractual rights to CreditEase, and may do so in a manner that could vary significantly from CreditEase's. In addition, the significant concentration of equity ownership can affect the trading of ADSs because of investors' perception that conflicts of interest may exist or occur. See — We may have conflicts of interest with CreditEase and, due to CreditEase's majority interest in our company, we may not be able to resolve such disputes on terms that are favourable to us. We may have conflicts of interest with CreditEase and, due to CreditEase's majority interest in our company, we may not be able to resolve such disputes at favourable conditions for us. Conflicts of interest may arise between CreditEase and us in a number of areas related to our ongoing relationships. Potential conflicts of interest that we have identified include: 24 Materials Table Non-compete agreements with CreditEase. We and CreditEase have entered into a non-compete agreement under which we agree not to compete with each other's core business. CreditEase agrees not to compete with us in a company of the same nature as (i) the online consumer finance market activity currently conducted or contemplated by us on the date of the agreement and (ii) other companies that we and CreditEase can mutually agree from time to time. We agree not to compete with CreditEase in the creditEase-led business, other than (i) the online consumer finance market activity operated by us at the date of the agreement and (ii) other companies that we and CreditEase can mutually agree from time to time. · Recruitment and retention of employees. Because CreditEase and we are engaged in consumer finance activities in China, we can compete with CreditEase in hiring new employees, particularly with respect to risk management issues. We have a non-solicitation agreement with CreditEase that prevents us and CreditEase from hiring any of its employees. · Our board members or executives may have conflicts of interest. Our Executive Chairman, Ning Tang, and two directors, Quan Zhou and Tina Ju, are members of the Board of Directors of CreditEase. In addition, we have provided and may continue to provide incentive compensation to CreditEase employees and consultants in the future. These relationships could create or appear to create conflicts of interest when these individuals are faced with decisions with potentially different implications for CreditEase and us. · Selling shares in our company. CreditEase may decide to sell all or part of our shares it owns to a third party, including one of our competitors, thereby giving that third party a substantial influence on our business and business. Such a sale could be contrary to the interests of our employees or other shareholders. · Distribution of business opportunities. Under our non-compete agreement with CreditEase, we agree not to compete with CreditEase in CreditEase's operations. There may be other business opportunities that we and CreditEase find attractive and that would complement our respective activities. CreditEase may decide to take such opportunities itself, which would prevent us from taking advantage of these opportunities. · Develop business relationships with CreditEase's competitors. As long as CreditEase remains our majority shareholder, we may be limited in our ability to do business with its This may limit our ability to market our in the best interests of our company and our other shareholders. Although our company has become a stand-alone public company, we plan to operate as a subsidiary of CreditEase as a subsidiary of CreditEase. From time to time CreditEase can make strategic decisions that it believes are in the best interests of its business as a whole, including our company. These decisions may be different from the decisions we would have made on our own. For example, we may be required to pay CreditEase for services we currently enjoy free of charge from CreditEase, such as information and data sharing. See Article 7. Major Shareholders and Related Party Transactions — Related Party Transactions B. — Cutting Agreements with CreditEase — Intellectual Property Licensing Agreement. CreditEase's decisions with respect to us or our company can be resolved in a way that favours CreditEase and therefore CreditEase's own shareholders, which may not coincide with the interests of our other shareholders. We have an audit committee, consisting of three independent directors, to review and approve all proposed transactions between related parties, including transactions between us and CreditEase. However, we may not be able to resolve any potential conflict, and even if we do, the resolution may be less favourable to us than if we were dealing with an unchecked shareholder. Even if both parties seek to do business on terms designed to be similar to those that could have been done between unaffiliated parties, this may not end in practice. In addition, if CreditEase has sought to amend or violate the terms of the non-compete agreement with us in order to compete in the online consumer financing market or otherwise, such disputes may not be resolved in our favour in light of CreditEase's majority interest in us. Should CreditEase compete with us, our business, financial position, results of operations and outlook could be significantly and unfavorably affected. 25 Table of Matters Our Executive Chairman, Mr. Ning Tang, has a considerable influence on us and our corporate affairs. Our Executive Chairman, Mr. Ning Tang, has a considerable influence on us and our corporate affairs. Mr. Tang holds 43.4% of the total outstanding shares of CreditEase, which is our majority shareholder as of March 31, 2017. In addition, as Mr. Tang, as a director of CreditEase, currently holds three of the five votes on the Board of Directors of it therefore controls CreditEase's decision-making and indirectly has considerable influence on us, as our corporate issues and issues require shareholder approval, such as the election of directors and the approval of major mergers, acquisitions or other business combination transactions. This concentrated control will limit the our common shares and ADSs to influence corporate issues and could also discourage others from pursuing any merger, takeover or other change of control, which could have the effect of depriving the holders of our common shares and ADSs of the opportunity to sell their shares at a premium to the current market price. We are a controlled company within the meaning of the NYSE Listed Companies Manual and, as a result, we will rely on exemptions from certain corporate governance requirements that protect shareholders of other companies. We are a controlled company as defined in the nyse's manual because CreditEase holds more than 50% of our outstanding common shares. As long as we remain a controlled company under this definition, we are entitled to choose to rely on certain exemptions from corporate governance rules, including an exemption from the rule that the majority of our board of directors must be an independent director. As a result, you will not have the same protection afforded to shareholders of companies subject to these corporate governance requirements. Risks to our Corporate Structure If the CPP Government believes that contractual agreements relating to Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities, do not comply with the regulatory restrictions imposed by the PRC on foreign investment in the industries concerned, or whether these regulations or interpretation of existing regulations change in the future , we could be subject to heavy penalties or be forced to give up our interests in these transactions. Foreign ownership of businesses on the Internet, such as the distribution of information online, is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own more than 50% of the stakes in a value-added telecommunications service provider (excluding e-commerce) and any foreign investor must have experience in providing value-added telecommunications services abroad and maintain a good track record in accordance with the 2007 Foreign Investment Industry Orientation Catalogue , as amended, and other applicable laws and regulations. We are a Cayman Islands company and our SUBSIDIARies of RPC are considered foreign-owned companies. In order to comply with the laws and regulations of the PRC, we conduct our business in China through a contractual agreements between Yi Ren Heng Ye Technology Development (Beijing) Co., Ltd., or Heng Ye, Heng Cheng Technology Development (Beijing) Co., Ltd., or Heng Cheng, and Heng Cheng shareholders, and a series of contractual arrangements between Chongqing Heng Yu Da Technology Co., Ltd., or Heng Yu Da Co., Ltd., or Yi Ren Wealth Management, and the shareholders of Yi Ren Wealth Management. As a result of these contractual agreements, we exercise control over Heng Cheng and Yi Ren Wealth Management and consolidate their operating results in our U.S. GAAP financial statements. For a detailed description of these contractual arrangements, see Point 4. Company Information — C. Company History and Structure. In the opinion of our PRC lawyers, Han Kun Law Offices, our current ownership structure, the ownership structure of Heng Ye and Heng Yu Da, our PRC subsidiaries, and Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities, contractual arrangements between Heng Ye, Heng Cheng and Heng Cheng shareholders and contractual arrangements between Heng Yu Da , Yi Ren Wealth Management and Yi Ren Wealth Management shareholders are not in violation of existing PRC laws, rules and regulations; and these contractual arrangements are valid, binding and enforceable in accordance with their terms and applicable PRC laws and regulations. However, Han Kun's law firms have also informed us that there are significant uncertainties regarding the interpretation and enforcement of current or future PRC laws and regulations and there is no assurance that the CPP government will eventually have an opinion consistent with the views of our CPP lawyers. 26 Content Table It is not certain that new PRC laws, rules or regulations relating to the structures of variable interest entities will be adopted or, if adopted, what they would provide. In particular, in January 2015, the Department of Commerce, or MOC, issued a draft discussion bill on the Foreign Investment Bill for public review and comment. Among other things, the Foreign Investment Bill broadens the definition of foreign investment and introduces the principle of real control to determine whether a company is considered a foreign-invested enterprise or an ETA. Under the Foreign Investment Bill, variable interest entities would also be considered ET, if ultimately controlled by foreign investors, and would be subject to restrictions on foreign investment. However, the bill has not taken a position on what will be action taken with respect to existing companies with the variable interest entity structure, whether or not those companies are controlled by Chinese parties. It is not known when the project will be adopted and whether the final version will have substantial changes to the project. See — There are significant uncertainties the timing, interpretation and implementation of the CPP Foreign Investment Bill and the impact it may have on the viability of our current corporate structure, corporate governance and business activities. » » If the ownership structure, contractual agreements and activities of our company, Heng Ye, Heng Yu Da, Heng Cheng or Yi Ren Wealth Management are found to be contrary to existing or future PRC laws or regulations, or if we do not obtain or maintain any of the required permits or approvals, the relevant government authorities would have broad discretion to deal with such a violation, including levying fines, forfeiting our income or revenues from Heng Ye, Heng Yu Da, Heng Cheng or Yi Ren Wealth Management, revoking commercial or operating licenses of Heng Ye, Heng Yu Da, Heng Cheng or Yi Ren Wealth Management, closing our servers or blocking our online platform , stopping or placing onerous restrictions or conditions on our operations. , requiring us to undergo costly and disruptive restructuring, restricting or prohibiting the use of the proceeds of our initial public offering to finance our activities and operations in China, and taking other regulatory or enforcement actions that could adversely affect our business. Either of these measures could significantly disrupt our business operations and seriously damage our reputation, which would adversely affect our business, financial position and results of operations. If any of these events result in our inability to direct the operations of Heng Cheng or Yi Ren Wealth Management, and/or our inability to receive economic benefits from Heng Cheng and Yi Ren Wealth Management, we may not be able to consolidate their results in our consolidated financial statements in accordance with U.S. GAAP. We rely on contractual agreements with Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities and their respective shareholders for part of our business activities, which may not be as effective as direct ownership in ensuring operational control. We have relied and intend to continue to rely on contractual agreements with Heng Cheng and its shareholders to operate our website www.yirendai.com web. We have also relied on contractual agreements with Yi Ren Wealth Management and its shareholders to operate our wealth management website and mobile application, which serve as an online portal for investment products, including lending products offered on our platform as well as other investment products offered by third parties. For a description of these contractual arrangements, see Point 4. Information on the Company's organizational structure—C. These contractual agreements may not be as effective as the property to give us control of our consolidated variable interest entities. For example, Heng Cheng, Yi Ren Wealth Management and their respective shareholders could violate their contractual agreements with us by omitting, among other things, including maintaining our website and using domain names and trademarks in an acceptable manner or taking other steps that are detrimental to our interests. 27 Content Table If we were directly owned by Heng Cheng and Yi Ren Wealth Management, we would be able to exercise our rights as a shareholder to make changes to the board of Heng Cheng and Yi Ren Wealth Management, which in turn could implement changes, subject to any applicable fiduciary duty, to the management and operating level. However, under the current contractual agreements, we rely on the performance of Heng Cheng, Yi Ren Wealth Management and their respective shareholders of their obligations under the contracts to exercise control over Heng Cheng and Yi Ren Wealth Management. The shareholders of Heng Cheng and Yi Ren Wealth Management may not act in the best interests of our company or fail to fulfill their obligations under these contracts. These risks exist throughout the period during which we intend to operate our business through contractual agreements with Heng Cheng and Yi Ren Wealth Management. While we have the right to replace any shareholder of Heng Cheng or Yi Ren Wealth Management under their respective contractual arrangements, if a shareholder of Heng Cheng or Yi Ren Wealth Management is not cooperative or if any dispute over these contracts is still unresolved, we will have to enforce our rights under these contracts through the laws and arbitration of the PRC. , litigation and other legal proceedings and will therefore be subject to uncertainties in the LEGAL system of the PRC. See — Any failure of Heng Cheng or Yi Ren Wealth Management, our consolidated variable interest entities or their respective shareholders to meet their obligations under our contractual agreements with them would have a material negative effect on our business below. As a result, our contractual agreements with Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities, may not be as effective in ensuring our control over the relevant part of our business activities as direct ownership. Any omission by Heng Cheng or Yi Ren Wealth Management, our consolidated variable interest entities or their respective shareholders from fulfilling their obligations under our contractual agreements with them would have a material negative effect on our business. If Heng Cheng or Yi Ren Wealth Management, our consolidated variable interest entities, or their respective shareholders, do not meet their respective obligations under the arrangements we may have to incur substantial costs and spend additional resources to enforce these arrangements. We may also have to rely on legal remedies under the laws of the PRC, including seeking a specific performance or injunction, and seeking damages, which we cannot you will be effective under the laws of the PRC. For example, if the shareholders of Heng Cheng or the shareholders of Yi Ren Wealth Management refused to transfer their interest in Heng Cheng, or Yi Ren Wealth Management, as the case may be, to us or to our design if we exercise the option to purchase in accordance with these contractual arrangements, or if they act otherwise in bad faith towards us, then we may have to take legal action to compel them to fulfill their contractual obligations. All agreements under our contractual agreements are governed by THE laws of the PRC and provide for the settlement of disputes by arbitration in China. As a result, these contracts would be interpreted in accordance with THE laws of the PRC and all disputes would be resolved in accordance with the CPP's legal procedures. The legal system of the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the CPP legal system may limit our ability to enforce these contractual agreements. In the meantime, there are very few precedents and few formal guidelines on how contractual arrangements in the context of a consolidated variable interest entity should be interpreted or applied under CPP legislation. There remains significant uncertainty as to the final outcome of such arbitration if legal action becomes necessary. In addition, under THE laws of the PRC, arbitrators' decisions are final and the parties cannot appeal the results of arbitration to the courts unless such decisions are revoked or declared unenforceable by a competent court. If the losing parties do not execute the arbitration awards within a specified time frame, the parties in force can only enforce the arbitration awards before the PRC courts through arbitration recognition procedures, which would require additional expenses and delays. In the event that we are unable to implement these contractual arrangements, or if we experience significant delays or other obstacles in the process of executing these contractual arrangements, we may not be able to exercise effective control over our consolidated variable interest entities, and our ability to conduct our business may be adversely affected. See — Risks of doing business in China — Uncertainties about the interpretation and enforcement of Chinese laws and regulations could limit the legal protections you and we have access to. Shareholders of Heng Cheng and Yi Ren Wealth Management, our consolidated, variable-interest entities, may have potential conflicts of interest with which can have a significant and negative impact on our business and financial situation. The holdings of Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities, are held by Mr. Ning Tang, our founder and executive chairman, and two others, Mr. Fanshun Kong and Ms. Yan Tian. Their interests in Heng Cheng Cheng Yi Ren Wealth Management may differ from the interests of our company as a whole. These shareholders may violate, or violate, heng Cheng or Yi Ren Wealth Management, the existing contractual arrangements we have with them and Heng Cheng, or Yi Ren Wealth Management, as appropriate, which would have a significant negative effect on our ability to effectively control Heng Cheng or Yi Ren Wealth Management and receive economic benefits from Heng Cheng or Yi Ren Wealth Management. For example, shareholders may be able to ensure that our agreements with Heng Cheng or Yi Ren Wealth Management are executed in a manner that is unfavourable to us by failing, among other things, to make payments due under the contractual arrangements due to us in a timely manner. We cannot assure you that when conflicts of interest arise, any of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favour. 28 Content Table At this time, we do not have arrangements to resolve potential conflicts of interest between these shareholders and our company, except that we could exercise our option to purchase under the exclusive option agreement with these shareholders to ask them to transfer all of their interests in Heng Cheng and Yi Ren Wealth Management to an entity or person designated by us. , to the extent permitted by the laws of the PRC. If we cannot resolve any conflict of interest or dispute between us and the shareholders of Heng Cheng and Yi Ren Wealth Management, we should rely on legal proceedings, which could result in disruption to our business and subject us to significant uncertainty as to the outcome of such a legal proceeding. Contractual arrangements for Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities, may be subject to scrutiny by the PRC tax authorities and may determine that we, Heng Cheng or Yi Ren Wealth Management, owe additional taxes, which could have a negative impact on our financial situation and the value of your investment. Under applicable PRC laws and regulations, arrangements and transactions between related parties may be audited or challenged by CPP tax authorities within 10 years of the taxable year in which the transactions are made. The CPP Business Income Tax Act requires every company in China to submit its annual corporate income tax return and a report on transactions with its parties related to the relevant tax authorities. Tax authorities impose reasonable tax adjustments if they have identified related party transactions that are incompatible with the principles of full competition. We could face significant and adverse tax consequences if the PRC tax authorities determine that (i) contractual arrangements between Heng Ye, our wholly owned subsidiary in China, Heng Cheng, our the variable interest entity in China, and the shareholders of Heng Cheng, and (ii) the contractual arrangements between Heng Yu Da, our wholly owned subsidiary in China, Yi Ren Wealth Management, our consolidated variable interest entity in China, and the shareholders of Yi Ren Wealth Management were not entered into at arm's length in such a way as to result in an unacceptable reduction in taxes under applicable PRC laws. , rules and regulations, and adjust the revenues of Heng Cheng and Heng Yu Da in the form of a transfer price adjustment. An adjustment in transfer pricing could, among other things, result in a reduction in the expense deductions recorded by Heng Cheng and Yi Ren Wealth Management for CPP tax purposes, which in turn could increase its tax obligations without reducing the tax expenditures of Heng Ye and Heng Yu Da. In addition, if Heng Ye or Heng Yu Da ask Heng Cheng shareholders or Yi Ren Wealth Management shareholders, as appropriate, to transfer their interests in Heng Cheng or Yi Ren Wealth Management, as appropriate, at face value or value under these contractual arrangements, this transfer could be considered a gift and subject Heng Ye to CPP income tax. In addition, CPP tax authorities may impose late payment fees and other penalties on Heng Cheng and Yi Ren Wealth Management for adjusted but unpaid taxes in accordance with applicable regulations. Our financial situation could be significantly and unfavourably affected if the tax obligations of our consolidated variable interest entities increase or if they are required to pay late payment fees and other penalties. We may lose the ability to use and benefit from the assets held by Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities, which are important to the operation of our business if one of these entities goes bankrupt or is subject to dissolution or liquidation proceedings. Heng Cheng and Yi Ren Wealth Management, our consolidated, variable-interest entities, hold certain assets that are important to the operation of our business. Under contractual agreements, our consolidated variable interest entities cannot and their respective shareholders cannot induce them to sell, transfer, mortgage or dispose of their legal or beneficial assets or interests in the business in any way without our prior consent. However, in the event that Heng Cheng shareholders or Yi Ren Wealth Management shareholders violate these contractual arrangements and voluntarily liquidate Heng Cheng or Yi Ren Wealth Management, or heng Cheng or Yi Ren Wealth declare bankruptcy and that all or part of their assets would be subject to privileges or rights of third-party creditors, or would otherwise be transferred without our consent. , we cannot continue some or part of our business activities, which could and adversely affect our operations, financial position and results of operations. If Heng Cheng or Yi Ren Wealth Management are subject to voluntary or involuntary liquidation proceedings, independent third-party creditors may claim rights to some or most of these assets, which affects our ability to operate our business, which could have a significant and negative impact on our business, financial position and results of operations. 29 Content Table If the chops of Heng Ye and Heng Yu Da, our subsidiaries of the PRC, and Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities, are not safely retained, stolen or used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be seriously and adversely compromised. In China, a company cuts or seals the company serves as the company's legal representation to third parties, even when it is not accompanied by a signature. Each company legally registered in China is required to maintain a corporate chop, which must be registered with the local Public Safety Bureau. In addition to this mandatory company chop, companies may have several other chops that can be used for specific purposes. The chops of Heng Ye and Heng Yu Da, our subsidiaries PRC, and Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities are generally safely owned by staff designated or approved by us in accordance with our internal control procedures. To the extent that these chops are not safely kept, stolen or used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be seriously and unfavourably compromised and these companies may be required to comply with the terms of any document so hashed, even if they were hasted by a person who did not have the power and authority to do so. In addition, if chops are misused by unauthorized persons, we could disrupt our normal business activities. We may have to take business or legal action, which could involve a lot of time and resources to resolve while diverting the management of our operations. Risks of doing business in China Changes in China's economic, political or social conditions or government policies could have a material negative impact on our operations and results of operations. Virtually all of our operations are located in China. As a result, our business, our prospects, our and our operating results can be significantly influenced by political, economic and social conditions in China in general and by continued economic growth in China as a whole. China's economy differs from the economies of most developed countries in many respects, including government participation, level of development, growth rate, exchange control and allocation of Although the Chinese government has implemented measures that focus on using market forces for economic reform, reducing state ownership of productive assets and establishing better corporate governance in commercial enterprises, a substantial portion of China's productive assets still belong to the government. In addition, the Chinese government continues to play an important role in regulating industry development by imposing industrial policies. The Chinese government also exerts significant control over China's economic growth by allocating resources, controlling the payment of foreign currency-denominated bonds, establishing monetary policy and giving preferential treatment to certain industries or companies. Although the Chinese economy has experienced significant growth in recent decades, growth has been uneven, both geographically and in various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the entire Chinese economy, but can have a negative effect on us. For example, our financial position and results of operations may be affected by government control over capital investments or changes to tax regulations. In addition, in the past, the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may lead to a decline in economic activity in China and, since 2012, China's economic growth has slowed. Any prolonged slowdown in the Chinese economy can reduce demand for our products and services and have a significant and negative impact on our business and results of operations. 30 Table of content uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protections available to us. The LEGAL system of the CPP is based on written laws and previous court decisions have limited value as precedents. Because these laws and regulations are relatively new and the LEGAL system of the CPP continues to evolve rapidly, interpretations of many laws, regulations and rules are not always uniform and there are uncertainties in the application of these laws, regulations and rules. In particular, the CPP's laws and regulations regarding the online lending information industry are evolving to evolve. While we have taken steps to comply with laws and regulations that apply to our business activities, including the Guidelines, Interim Measures and Guardian Guidelines, and avoid conducting activities that could be considered illegal to raise funds, build a capital pool or provide guarantees to investors under current applicable laws and regulations. , the government authority of the PRC may enact new laws and and regulate the online lending information industry and amend existing laws and regulations in the future. See — Risks to our business — If our practice is deemed to violate THE laws or regulations of the PRC, our business, financial and operating results would be significantly and negatively affected. We cannot assure you that our practices would not be deemed to violate THE laws or regulations of the PRC. In addition, the evolution of the intermediate services industry in online lending information may result in changes in THE laws, regulations and policies of the PRC or in the interpretation and enforcement of existing laws, regulations and policies that may limit or restrict online consumer financing markets like us, which could have a significant and negative impact on our business and operations. From time to time, we may use administrative and judicial procedures to enforce our legal rights. However, given that the administrative and judicial authorities of the PRC have significant discretion in interpreting and implementing legislative and contractual arrangements, it may be more difficult to assess the outcome of administrative and judicial proceedings and the level of legal protection we enjoy than in more developed legal systems. In addition, the CPP's legal system is based in part on internal government policies and rules (some of which are not published in a timely manner or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Such uncertainties, including uncertainty about the scope and effect of our contractual, property (including intellectual property) and procedural rights, could have a significant and negative impact on our business and affect our ability to continue operations. There are significant uncertainties about the timing, interpretation and implementation of the CPP Foreign Investment Bill and the impact it may have on the viability of our current corporate structure, corporate governance and business activities. In January 2015, the MOC published a foreign investment bill to replace, when it was enacted, the trio of existing laws regulating foreign investment in China, namely the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Law and the Wholly Foreign-invested Law, as well as their implementation rules and ancillary regulations. The Foreign Investment Bill embodies an expected regulatory trend by the CPP to streamline its foreign investment regulatory regime in line with current international practice and legislative efforts to unify the legal requirements of companies for foreign and domestic investment. There are significant uncertainties about its timing, interpretation and The Foreign Investment Bill, if passed as proposed, can have a significant impact on the viability of our current corporate structure, corporate governance and business activities in many respects. 31 Content Table Among other things, the Foreign Investment Bill expands the definition of foreign investment and introduces the principle of real control to determine whether a company is considered a foreign company or an ETA. The Foreign Investment Bill expressly provides that entities established in China but controlled by foreign investors will be treated as ENTREPRISES. Once an entity is considered an ETA, it may be subject to the restrictions or prohibitions on foreign investment set out in a negative list which will be published separately by the State Council at a later date. If an IFE proposes to do business in an industry subject to restrictions on foreign investment in the negative list, the FIE must go through a market entry authorization through the MOC before it is established. If an FIE proposes to do business in an industry subject to bans on foreign investment in the negative list, it should not engage in the company. However, an EFA that is subject to restrictions on foreign investment at the time of the market authorization may apply in writing to be treated as a domestic investment of the PRC if it is ultimately controlled by the PRC government authorities and its affiliates and/or CPP citizens. In this regard, control is broadly defined in the bill to cover the following summary categories: (i) holding 50% or more of the voting rights of the entity in question; (ii) hold less than 50% of the voting rights of the entity in question, but have the power to obtain at least 50% of seats on the board of directors or other equivalent decision-making bodies, or to have the voting power to exert significant influence over the board of directors, the shareholders' meeting or other equivalent decision-making bodies; or (iii) have the power to exert decisive influence, through contractual agreements or trusts, over transactions, financial matters or other key aspects of the entity's business operations. Once an entity is declared a FIE, it will be subject to the foreign investment restrictions or prohibitions set out in a negative list, which will be published separately by the State Council at a later date, if the FIE is engaged in an industry on the negative list. Unless underlying the FIE does not fall under the negative list, which requires the MOC to enter the market, prior approval by government authorities, as required by the current legal regime for foreign investment, would no longer be necessary for the creation of the FIE. The structure of the variable interest entity, or LIFE structure, has been adopted by many CPP-based companies, including us, to obtain the and permits in industries that are currently subject to restrictions on foreign investment in China. See — Risks related to our corporate structure and Point 4. Company Information — C. Organizational Structure. Under the Foreign Investment Bill, variable interest entities that are controlled through a contractual agreement would also be considered ENTREPRISES if they are ultimately controlled by foreign investors. Therefore, for all companies whose life structure is part of an industry category that is included in the negative list as a restricted industry, the LIFE structure can only be considered legitimate if the ultimate control person is/is of CPP nationality (whether cppib companies or CPP citizens). Conversely, if the actual control person is/is of foreign nationality, variable interest entities will be treated as ETAs and any transaction of the industry category on the negative list without authorization to enter the market may be considered illegal. It is not certain that we would be considered ultimately controlled by the Chinese parties. CreditEase is our parent company and majority shareholder as of the date of this annual report. Although Mr. Ning Tang, our Executive Chairman and Citizen of the CPP, holds less than 50% of CreditEase's voting power, he has the power to appoint three directors to CreditEase's five-member board of directors. However, it is not clear that these factors are sufficient to give Mr. Tang control over us under the Foreign Investment Bill. In addition, the Foreign Investment Bill has not taken a position on the measures that will be taken with respect to companies that currently employ a LIFE structure, whether or not these enterprises are controlled by Chinese parties. Furthermore, it is not clear whether the online consumer finance market industry, in which our variable-interest entities operate, will be subject to the foreign investment restrictions or prohibitions set out in the negative list to be published. If the adopted version of the Foreign Investment Act and the final negative list dictate other measures, such as the authorization to enter the MOC market or some restructuring of our structure and business activities, which will be supplemented by companies whose existing life structure is like us, there may be significant uncertainties as to whether we can carry out these actions in a timely manner, or not at all, and our commercial and financial situation may be significantly and unfavourably. The Foreign Investment Bill, if passed as proposed, can also have a significant impact on our corporate governance practice and increase our compliance costs. For example, the Foreign Investment Bill imposes strict requirements for timely and periodic reporting on foreign investors and applicable ENTREPRISES. We may be affected by the complexity, uncertainties changes to THE PRC regulations for Internet-related businesses and businesses, as well as any lack of required approvals, licenses or permits applicable to our business, can have a significant negative impact on our business and results of operations. The CPP government largely regulates the Internet industry, including foreign ownership of Internet industry companies and licensing and licensing requirements. These Internet-related laws and regulations are relatively new and evolving, and there are significant uncertainties associated with their interpretation and application. Therefore, in certain circumstances, it may be difficult to determine which actions or omissions may be considered in violation of applicable laws and regulations. 32 Content Table We have only contractual control over our website. We do not directly own the website due to the restriction of foreign investment in companies providing value-added telecommunications services in China, including Internet information services. This can significantly disrupt our operations, subject us to sanctions, compromise the application of related contractual arrangements, or have other adverse effects on us. Changes in the CPP regulatory system for the Internet industry could lead to the creation of new regulators. For example, in May 2011, the Council of State announced the creation of a new department, the State Internet Information Office (with the participation of the Information Office of the State Council, MITT and the Ministry of Public Security). The main role of this new agency is to facilitate policy development and legislation development in this area, to lead and coordinate with relevant departments with respect to the administration of online content, and to address inter-departmental regulatory issues with respect to the Internet industry. Heng Cheng, our consolidated variable interest entity operating our online marketplace, and Yi Ren Wealth Management, our consolidated, variable-interest entity operating our wealth management website and mobile application, may be deemed to provide commercial Internet information services as well as data processing and transaction processing services, which would require Heng Cheng and Yi Ren Wealth Management to obtain an ICP license and an EDI license. An ICP license is a value-added telecommunications company operating licence required for the provision of commercial information services over the Internet. See Article 4. Company — B. Business Overview — Regulation — Value-Added Telecommunications Services Regulations. Heng Cheng has obtained an ICP license, and Yi Ren Wealth Management is applying for an ICP license. In addition, as we provide mobile applications to mobile device users, it is not certain that Heng Cheng and Yi Ren Wealth Management will be required to obtain a in addition to the ICP license. While we believe that not obtaining such a separate license is consistent with current market practice, there is no assurance that we will not be required to apply for an operating license for our mobile applications in the future. An EDI license is a value-added telecommunications business operating licence required to provide data processing and transaction processing services. Interim measures jointly published by four CPP regulators in August 2016 require, among other things, that online lending information intermediaries apply for an appropriate telecommunications company licence in accordance with the relevant requirements of telecommunications authorities after the filing of records with the local financial regulatory service has been completed. In accordance with the Guidelines and interim measures, the relevant authorities are in the process of providing detailed implementation rules regarding file filing procedures and procedures for applying for an appropriate telecommunications company licence through online lending information intermediaries. We plan to apply for any required telecommunications service license once detailed implementation rules are available. The circular on strengthening the administration of foreign investment and the operation of value-added telecommunications activities, published by MITT in July 2006, prohibits domestic telecommunications service providers from leasing, transferring or selling licenses to operate telecommunications companies to any foreign investor in any form, or from providing resources , sites or facilities to any foreign investor for its illegal operation of a telecommunications company in China. According to this circular, either the holder of a licence to operate value-added telecommunications services or its shareholders must directly own the domain names and trademarks used by these licensees in their provision of value-added telecommunications services. The circular also requires that each licensee have the necessary facilities, including servers, for its approved business operations and to maintain these facilities in the areas covered by its license. Heng Cheng currently owns the relevant domain names and brands in our value-added telecommunications business and has the staff to operate our websites. If an ICP licensee does not comply with the requirements and fails to remedy this requirement within a specified time frame, MITT or its local counterparts have the discretion to take administrative action against the licensee, including the revocation of its PKI licence. 33 Content Table The interpretation and enforcement of the EXISTing laws, regulations and policies of the PRC, as well as possible new laws, regulations or policies relating to the Internet industry, created uncertainties about the legality of existing and future foreign investment in internet companies and businesses in China, including our business. We cannot assure you that we have obtained all the necessary permits or licences to operate in China or that we will be able to maintain or obtain new licences. If the CPP government believes that we function without appropriate approvals, licenses or permits or enacts new laws and regulations that require additional approvals or licenses or that impose additional restrictions on the operation of any part of our business, it has the power, among other things, to collect fines, to confiscate our revenues. , revoke our business licenses and force us to cease our relevant activities or impose restrictions on the affected part of our business. Any of these actions taken by the CPP government can have a significant negative impact on our operations and results of operations. Failure on our part or by our third-party service providers to comply with applicable anti-money laundering laws and regulations could damage our reputation. In cooperation with our partner watchdogs and payment companies, we have adopted various policies and procedures, such as internal controls and customer know-how procedures, for anti-money laundering purposes. In addition, we rely on our third-party service providers, particularly on-call banks and payment companies that handle the transfer of funds between borrowers and lenders, to have their own appropriate anti-money laundering policies and procedures. Custody banks and payment companies are subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations and are regulated in this regard by the PBOC. If any of our third-party services do not comply with applicable anti-money laundering laws and regulations, our reputation could suffer and we could be subject to regulatory intervention, which could have a significant negative impact on our operations, financial position and results of operations. Any negative perception of the industry, such as this one, stems from the inability of other consumer finance markets to detect or prevent money laundering activities, even if they are factually incorrect or based on isolated incidents, could compromise our image or undermine the and the credibility we have established. The Guidelines, jointly published by ten CPP regulators in July 2015, aim, among other things, to require Internet finance service providers, including online lending information intermediaries, to comply with certain anti-money laundering requirements, including the implementation of a customer identification program. , monitoring and reporting suspicious transactions, retaining customer information and transaction records, and assistance to the Department of Public Security and the Judicial Authority in investigations and proceedings relating to anti-money laundering issues. Interim measures taken jointly by four CPP regulators in August 2016 require, among other things, that online lending information intermediaries comply with certain anti-money laundering obligations, including verifying customer identification, reporting suspicious transactions, and preserving customer information and transaction records. The Custodian Guidelines published by the PBOC in February 2017 require online lending platforms to set up on-call accounts with commercial banks and comply with the anti-money laundering requirements of the commercial banks concerned. We cannot assure you that the anti-money laundering policies and procedures we have adopted will be effective in protecting our market from exploitation for money laundering purposes or will be deemed to be in compliance with applicable anti-money laundering implementation rules if and when they are adopted. We rely on dividends and other distributions on equity paid by our CPP subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our CPP subsidiaries to make payments to us could have a significant negative impact on our ability to conduct our business. We are a holding company, and we rely on dividends and other distributions on equity paid by our CPP subsidiaries for our cash and financing needs, including funds to pay dividends and other cash distributions to our shareholders and to serve any debt we may incur. If our CPP subsidiaries are in debt on their own behalf in the future, the debt instruments may restrict their ability to pay dividends or make other distributions to us. In addition, CPP tax authorities may require Heng Ye and Heng Yu Da to adjust their taxable income under the contractual arrangements they currently have in place with our consolidated variable interest entities in a manner that would have a significant and adverse impact on their ability to pay us dividends and other distributions. See — Risks to our corporate structure — Contractual arrangements for Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities, may be subject to scrutiny by the and they may determine that we, or any other consolidated variable interest entity in the CPP, owe additional taxes, which could have a negative impact on our financial situation and the value of your investment. 34 Content Table Under the prC laws and regulations, our CPP subsidiaries, as wholly foreign companies in China, can only pay dividends on their respective accumulated after-tax profits, in accordance with the accounting standards and regulations of the PRC. In addition, one is required to set aside at least 10% of its after-tax profits each year, if any, to finance certain statutory reserve funds, until the total amount of these funds reaches 50% of its registered capital. At its discretion, an entirely foreign company may allocate a portion of its after-tax profits based on CPP accounting standards to the well-being of staff and bonus funds. These reserve funds and staff welfare and bonus funds are not distributed in the form of cash dividends. Any limitation on the ability of our CPP subsidiaries to pay dividends or make other distributions could significantly and negatively limit our ability to grow, make investments or acquisitions that could benefit our business, pay dividends or finance and conduct our business. See also — If we are classified as a CPP resident business for CPP income tax purposes, such a classification could have adverse tax consequences for us and our non-CPP shareholders or ADS holders. The PRC regulation of loans and direct investments in CPP entities by offshore holding companies and government control of currency conversion may delay or prevent us from using the proceeds of our initial public offering and simultaneous private placement to make or make additional capital contributions to our CPP subsidiaries. , which could have a significant and negative impact on our liquidity and our ability to finance and expand our business. Under THE laws and regulations of the PRC, we are authorized to use the proceeds of our initial public offering and simultaneous private placement to finance our CPP subsidiaries by providing additional loans or capital contributions to our CPP subsidiaries, subject to applicable registration and government approval requirements. All loans to our CPP subsidiaries, which are treated as foreign-owned under CPP law, are subject to CPP regulations and foreign currency loan registrations. For example, loans made by us to our prc subsidiaries to finance their activities cannot exceed legal limits and must be registered with the local counterparty of the State Foreign Exchange Administration, or SAFE. According to the interim measures on the management of external debts promulgated by SAFE, the Ministry of Finance and the National Development and Reform Commission on 8 January 2003, the legal limit for the amount foreign debt of a foreign-invested company is the difference between the amount of the total investment approved by the MOC or its local counterpart and the amount of the registered capital of that foreign-invested company. According to the People's Bank of China circular on issues relating to the overall macroprudential management of cross-border financing issued by the People's Bank of China in January 2017, or Circular 9, the maximum amount of external debt that each of our CPP subsidiaries or or variable interest entities or other national entities of the CPP are allowed to borrow twice their respective net assets, as indicated in their respective recent audited financial reports. In accordance with Circular 9 and other PRC laws and regulations relating to external debt, within a one-year grace period from January 11, 2017, the legal limit for the total amount of foreign-invested company's external debt, which is subject to its own election, is either the difference between the amount of total investment and the amount of registered capital approved by the MOC or its local counterpart. , or twice of their respective net assets. For our combined variable interest entities or other national cpp entities, the limit for the total amount of external debt is twice their respective net assets in accordance with Circular 9. In addition, according to the opinion of the National Development and Reform Commission on the promotion of administrative reform of the foreign debt registration and registration system issued by the National Development and Reform Commission in September 2015, any loans we grant to our consolidated variable rate entities or to other CPP operating companies that have been national entities of the PRC for more than a year must be filed with the Commission development and reform or its local counterpart and must also be registered with SAFE or its local branches. We may also decide to fund our CPP subsidiaries through capital contributions. These capital contributions must be approved by the MOC or its local counterpart. On March 30, 2015, SAFE issued a circular from the State Foreign Exchange Administration on the reform of the management approach to the settlement of foreign-owned enterprises, or Circular 19, which expands a pilot reform of the administration of foreign-equity settlement for foreign-owned enterprises at the national level. Circular 19 came into force and replaced the previous Circular 142 and Circular 36 on 1 June 2015. On 9 June 2016, SAFE issued a circular from the State Foreign Exchange Administration on the reform and regulation of policies to control the settlement of foreign currency capital accounts, or circular 16, in order to further expand and strengthen this reform. Under Circulars 19 and Circular 16, foreign-owned companies of the PRC are permitted to use their foreign exchange funds in connection with capital accounts and RMB funds from the settlement of transactions against expenses in connection with its current accounts or expenses under the capital assets authorized by laws and regulations, except that these funds must not be used to (i) expenses beyond the commercial scope or expenses of the business prohibited by laws and regulations; (ii) investments in securities or other securities proceeds guaranteed by the capital issued by the banks; (iii) provide loans to unaffiliated companies, except where they are expressly authorized in the commercial licence; (iv) the construction or purchase of real estate for purposes other than self-use (excluding real estate companies). In addition, SAFE has strengthened its monitoring of the flow and use of RMB's capital converted from the foreign currency registered capital of a foreign-owned company. The use of this RMB capital cannot be changed without SAFE's approval, and these RMB capital cannot be used to repay rmb loans if the proceeds of these loans have not been used. Violations of these circulars could result in heavy monetary or other penalties. These circulars may significantly limit our ability to use the converted RMB from the cash provided by our offshore financing activities to finance the establishment of new entities in China by our CPP subsidiaries, to invest or acquire other CPP companies through our CPP subsidiaries, or to establish new variable interest entities in the CPP. 35 Content Table In light of the various requirements imposed by THE PRC regulations on loans and direct investments in CPP entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals in a timely manner. , if applicable, with respect to future loans to our CPP subsidiaries or future capital contributions from our CPP subsidiaries. If we do not obtain these registrations or do not obtain these approvals, our ability to use the proceeds we expect to receive from our initial public offering and private placement and to capitalize or otherwise finance our CPP operations could be adversely affected, which could have a significant and negative impact on our liquidity and our ability to finance and expand our business. Fluctuations in exchange rates could have a significant negative effect on our operating results and the price of our ADSs. Almost all of our revenues and expenses are denominated in RMB, while our reporting currency is the U.S. dollar. As a result, exchange rate fluctuations between the U.S. dollar and the RMB will affect the relative purchasing power of our U.S. dollar assets and the proceeds of our initial public offering. Our reporting currency is the U.S. dollar, while the functional currency of our CPP subsidiaries and entities variable interest is the RMB. Gains and losses from the measurement of assets and liabilities that are receivable or payable in RMB are included in our consolidated operating statements. The measure has spent the U.S. dollar value of our operating results based on exchange rate fluctuations, and the U.S. dollar value of our operating results will continue to vary as exchange rates fluctuate. One RMB against the U.S. dollar could reduce our operating profits and the translated value of our net assets when declared in U.S. dollars in our financial statements. This could have a negative impact on our operations, financial position or results of operations, as reported in U.S. dollars. If we decide to convert our RMB into U.S. dollars to pay dividends on our common shares or other commercial purposes, the appreciation of the U.S. dollar against the RMB would have a negative effect on the amount in U.S. dollars available to us. In addition, currency fluctuations relative to the periods when profits are generated may make it more difficult to compare our reported operating results from one period to the next. The value of the RMB against the U.S. dollar and other currencies is affected, among other things, by changes in China's political and economic conditions and China's exchange rate policies. On July 21, 2005, the CPP government changed its 10-year-old policy of adage for the value of the RMB to the U.S. dollar, and the RMB appreciated by more than 20% against the U.S. dollar over the next three years. However, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in the RMB exchange rates and achieve its political objectives. Between July 2008 and June 2010, the exchange rate between the RMB and the U.S. dollar was stable and traded within a narrow range. Since June 2010, the RMB has fluctuated against the U.S. dollar, sometimes significantly and unpredictably. Since October 1, 2016, Renminbi joins the International Monetary Fund's (IMF) basket of currencies that make up the Special Drawing Right (SDR), as well as the U.S. dollar, the euro, the Japanese yen and the pound sterling. In the fourth quarter of 2016, the RMB depreciated significantly against a backdrop of a rising U.S. dollar and persistent capital outflows from China. With the development of the foreign exchange market and progress towards the liberalization of interest rates and the internationalization of Renminbi, the PRC government could in the future announce further changes to the exchange rate system and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or the PRC or U.S. government policy could affect the exchange rate between the Renminbi and the U.S. dollar in the future. There is still significant international pressure on the CPP government to flexible monetary policy. Any significant appreciation or impairment of the RMB may have a material and adverse impact on our revenues, earnings and financial position, as well as on the value and dividends payable on our U.S. dollar ADSs. For example, to the extent that we have to convert convert dollars we receive from our initial RMB IPO to pay our operating expenses, the appreciation of the RMB against the U.S. dollar would have a negative effect on the amount of RMB we received from the conversion. Conversely, a significant depreciation of the RMB against the U.S. dollar could significantly reduce the U.S. dollar equivalent of our earnings, which could adversely affect the price of our ADSs. 36 Content Table Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions to reduce our exposure to foreign exchange risk. While we may decide to enter into hedging operations in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately cover our exposure or not at all. In addition, our foreign exchange losses can be amplified by the CPP's foreign exchange control regulations that limit our ability to convert the RMB into foreign currency. As a result, exchange rate fluctuations can have a significant negative effect on the price of our ADSs. Government control of currency conversion can limit our ability to effectively use our net income and affect the value of your investment. The PRC government imposes controls on the convertibility of the RMB in foreign currency and, in some cases, on the payment of foreign currency outside China. We receive almost total of our net revenues in RMB. As part of our current business structure, our Cayman Islands company relies on dividend payments from our CPP subsidiaries to fund any cash and financing needs we may have. Under the CPP's current exchange regulations, payments of current account items, such as profit distributions and trade- and service-related foreign exchange transactions, may be made in foreign currency without SAFE's prior approval by complying with certain procedural requirements. As a result, our CPP subsidiaries are able to pay us foreign currency dividends without SAFE's prior approval, provided that the payment of such dividends outside the CPP complies with certain procedures under the PRC's foreign exchange regulations, such as foreign investment registrations by the advantageous owners of our company who are residents of the CPP. But approval or registration with the relevant government authorities is required when rmb must be converted into foreign currency and handed out from China for capital expenditures such as repayment of foreign currency-denominated loans. In light of the inflow of capital into China in 2016 due to the weakening of the RMB, the PRC government has imposed more restrictive exchange rate policies and intensified consideration of major outflows. More restrictions and a substantial control process are safe to regulate cross-border transactions that re-entered the capital account. The CPP government could also, at its discretion, restrict future access to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining enough foreign currency to meet our foreign currency demands, we may not be able to pay foreign currency dividends to our shareholders, including the holders of our ADSs. Failure to adequately contribute to various employee benefit plans, as required by CPP regulations, may subject us to penalties. Under THE laws and regulations of the CPP, we are required to participate in various government-sponsored benefit plans, including certain social insurance, housing funds and other social assistance-based payment obligations, and to contribute to plans in amounts equal to certain percentages of wages, including bonuses and allowances, from our employees up to a maximum amount specified by the local government from time to time in other places. where we operate our businesses. The requirement for employee benefit plans has not been applied uniformly by local governments in China given the different levels of economic development in different locations. We did not pay enough benefits to employees. We may be required to make contributions for these plans as well as pay late fees and fines. If we are subject to late fees or fines for underpaid employee benefits, our financial position and results of operations may be adversely affected. 37 Content Table Mergers and Acquisitions Rules and some other PRC regulations establish complex procedures for certain acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to continue to grow through acquisitions in China. The Mergers and Acquisitions Regulations of Foreign Investors, or Mergers and Acquisitions Rules, adopted by six CPP regulators in August 2006 and amended in 2009, as well as other mergers and acquisitions regulations and rules have established additional procedures and requirements that could make mergers and acquisitions of foreign investors longer and more complex. , including requirements in some cases that the MOC would be notified in advance of any change-of-control operation in which a takes control of a national PRC company. In addition, the anti-monopoly law requires the MOC to be notified in advance of any concentration of commitment if certain thresholds are triggered. In addition, the security review rules issued by the MOC, which came into effect in September 2011, specify that mergers and acquisitions of foreign investors that raise national defence and security concerns, as well as mergers and acquisitions by which foreign investors can acquire de facto control companies that raise national security concerns are subject to strict scrutiny by the MOC, and the rules prohibit any activity to circumvent a security review, including by structuring the transaction through a proxy or a contractual control agreement. In the future, we could grow our business by acquiring complementary businesses. Compliance with the requirements of the above regulations and other relevant rules for conducting such transactions could take a long time, and any required approval process, including obtaining

approval from the MOC or its local counterparts, could delay or impede our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share. CPP regulations regarding foreign investment activities by CPP residents may limit the ability of our CPP subsidiaries to increase their registered capital or distribute profits or otherwise expose us or our resident owners of the CPP to liability and penalties under CPP law. IN July 2014, SAFE issued the circular on relevant issues relating to the investment and financing of national residents and the round-trip investment of special purpose vehicles, or SAFE 37 circular, which requires RESIDENTs or entities of the PRC to register with SAFE or its local branch as part of the creation or control of an offshore entity established for the purpose of investing or financing abroad. In addition, these CPP residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes significant events related to any change in basic information (including changes in these citizens or CPP residents, name and operating life), increases or decreases in the amount of investment , transfers or exchanges of shares, or mergers or divisions. The SAFE 37 circular is published to replace the notice on relevant foreign exchange administration issues for PRC residents who engage in financing and round-trip investments via special purpose vehicles abroad, or circular SAFE 75. SAFE issued the opinion on the simplification and improvement of foreign exchange administration for direct investment in February 2015, which came into force on 1 June 2015. This notice amended circular SAFE 37 requiring residents or entities of the PRC to register with qualified banks rather than SAFE or its local branch as part of the creation or control of an offshore entity established for the purpose of investing or financing abroad. If our shareholders who are residents or entities of the PRC do not complete their registration if necessary, our CPP subsidiaries may be prohibited from distributing their profits and proceeds from any capital reduction, share transfer or liquidation, and we may be limited in our ability to contribute more capital to our CPP subsidiaries. Prc. failure to comply with the SAFE record described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions. All of our shareholders who directly or indirectly own shares in our Cayman Islands holding company and who are known to us as RESIDENTs of the PRC have completed the required foreign exchange registrations as part of our recent corporate restructuring. However, we may not be able to be informed of the identity of all RESIDENTs or entities of the PRC with direct or indirect interests in our company, nor can we compel our beneficial owners to comply with SAFE registration requirements. Therefore, we cannot assure you that all of our beneficial shareholders or owners who are residents or entities of the PRC have complied with SAFE regulations and that they will do so or will obtain the applicable registrations or approvals required by SAFE regulations in the future. Failure by these beneficial shareholders or owners of safe regulations, or the failure of our foreign exchange subsidiaries to alter the foreign exchange records of our CPP subsidiaries, could subject us to fines or legal sanctions, restrict our foreign or cross-border investment activities, limit the ability of our CPP subsidiaries to make distributions or pay us dividends, or affect our ownership structure. , which could hurt our business and our prospects. 38 Content Table Any non-compliance with CPP regulations regarding registration requirements for employee inventory incentive plans may subject members to the cpp plan or us to fines and other legal or administrative penalties. In February 2012, SAFE issued notices on foreign exchange administration matters for domestic individuals participating in the Company's share incentive plan, replacing previous rules enacted in March 2007. In accordance with these rules, citizens of the PRC and non-PRC citizens residing in China for a continuous period of at least one year and participating in any plan to induce the shares of a foreign-listed company, subject to a few exceptions, are required to register with SAFE through a national qualified agent. , which could be the PRC's subsidiary of this foreign-listed company. , and complete some other procedures. In addition, an institution entrusted to the foreign country must be retained to deal with matters related to the exercise or sale of stock options and the purchase or sale of shares and We, our executives and other employees who are citizens of the CPP or who have resided in the CPP for an ongoing period of at least one year and who have obtained options or other scholarships are subject to these regulations. Failure to complete SAFE registrations may subject them to fines and legal penalties and may also limit our ability to contribute additional capital to our CPP subsidiaries and limit to distribute dividends to us. We also face regulatory uncertainties that could limit our ability to adopt additional incentive plans for our directors, officers and employees under the CPP Act. See Article 4. Company Information — B. Business Overview — Regulation — Currency Regulations — Equity Incentive Plan Regulations. If we are classified as a CPP resident business for CPP income tax purposes, such a classification could have adverse tax consequences for us and our non-CPP shareholders or ADS holders. Under the CPP Business Income Tax Act and its implementation rules, a business established outside the CPP with a de facto management body within the CPP is considered a resident business and will be subject to corporate income tax on its global income at a rate of 25%. Implementation rules define the term de facto management body as the body that exercises total and substantial control over the overall and overall management of a company's business, productions, personnel, accounts and properties. In April 2009, the State Tax Administration issued a circular, known as Circular 82, which provides specific criteria for determining whether the de facto management body of a PRC-controlled company incorporated abroad is located in China. Although this circular applies only to offshore companies controlled by CPP companies or PRC groups, and not to those controlled by individuals or foreigners such as us, the criteria set out in the circular may reflect the general position of the State Tax Administration on how the fact management body test should be applied to determine the status of tax resident of all offshore companies. According to Circular 82, a foreign-incorporated business controlled by a cpp company or a group of CPP businesses will only be considered a CPP tax resident because of its de facto management body in China and will only be subject to CPP business income tax if all of the following conditions are met. (i) the primary location of day-to-day operational management is in the CPP; (ii) decisions on the company's financial and human resources matters are made or subject to approval by CPP organizations or staff; (iii) the company's principal assets, books and records, the seals The company and the resolutions of boards of directors and shareholders are located or maintained in the CPP; (iv) at least 50% of the voting board members or senior executives usually reside in the CPP. We believe that none of our entities outside of China are a CPP resident business for CPP tax purposes. See Article 10. Additional information — E. Taxation — Taxation of the People's Republic of China. However, a company's status as a tax resident is CPP tax administration and uncertainties remain about the interpretation of the term de facto management body. As the almost majority of our executives are based in China, it is not clear how the tax residency rule will apply to our case. If the CPP tax authorities determine that Yirendai Ltd. or one of our subsidiaries outside of China is a CPP resident business for CPP business income tax purposes, then Yirendai Ltd. or that subsidiary could be subject to CPP tax at a rate of 25% on its global income. , which could significantly reduce our net income. In addition, we will also be subject to the CPP's corporate income tax reporting obligations. In addition, if the CPP tax authorities determine that we are a CPP resident business for business income tax purposes, gains made on the sale or other provision of our ADSs or common shares may be subject to CPP tax at a rate of 10% for non-CPP companies or 20% for non-CPP individuals (in the case of non-CPP individuals) each case, subject to the provisions of any applicable tax treaty), if these gains are deemed to come from CPP sources. It is not clear whether non-PRC shareholders in our company would be able to claim the benefits of any tax treaty between their country of tax residence and the CPP in the event that we are treated as a resident of the CPP. Such a tax can reduce the return on investment in our ADSs. 39 Content Table The discontinuation of preferential tax treatment or the imposition of any additional tax could adversely affect our financial position and results of operations. The Corporate Income Tax Act and its rules of application have adopted a uniform statutory corporate income tax rate of 25% for all businesses in China. The Business Income Tax Act and its rules of application also allow companies classified as software companies to benefit from a two-year income tax exemption from the first year of profit taking, followed by a reduced tax rate of 12.5% for the following three years. Heng Ye, one of our subsidiaries, was referred to as a software company in July 2016 and is therefore eligible for a corporate income tax exemption for 2015 and 2016 and a reduction in corporate income tax at a rate of 12.5% from 2017 to 2019. However, Heng Ye's qualification as a software company is subject to an annual evaluation by the china. If Heng Ye does not maintain its software company characterization, its applicable corporate income tax rate would increase to 25%, which could have a negative impact on our financial position and results of operations. The current CPP income tax laws and regulations are unclear as to whether the quality assurance program provision and the actual net quality assurance program payments are tax deductible for platform intermediaries. Currently, we are treating this as a temporary difference, which means that the quality assurance program provision is not deductible, while actual net quality assurance payments would be tax deductible when payments occur. However, due to the CPP's unclear income tax laws and regulations and the uncertainty in practice, there is a risk that actual net payments from the quality assurance program will not be deductible before taxable income. We may not be able to obtain certain benefits under a relevant tax treaty on dividends paid by our CPP subsidiaries through our Hong Kong subsidiary. We are a holding company incorporated under Cayman Islands laws and, as such, we rely on dividends and other equity distributions from our CPP subsidiaries to meet some of our cash requirements. Under the CPP Business Income Tax Act, a 10% source tax rate currently applies to dividends paid by a resident company of the CPP to a foreign investor, unless the incorporation of such a foreign investor has a tax treaty with China that provides preferential tax treatment. In accordance with the arrangement between mainland China and the Hong Kong Special Administrative Region for the avoidance of double taxation and income tax evasion, or the double tax evasion arrangement, this withholding tax rate may be lowered to 5% if a Hong Kong resident company owns no less than 25% of a CPP business. In addition, administrative measures to ensure that non-resident businesses receive treatment under tax treaties, which came into effect in August 2015, require non-resident businesses to determine whether they are qualified for preferential tax treatment under tax treaties and to file relevant documents and documents with tax authorities. There are also other conditions for taking advantage of the reduced withholding tax rate in accordance with other relevant tax rules and regulations. See Article 10. Additional information — E. Taxation — Taxation of the People's Republic of China. As of December 31, 2015 and 2016, we had not recorded any tax at source on the retained profits of our subsidiaries in the PRC, as we intended to re-invest all profits generated by our CPP subsidiaries for the operation and expansion of our China, and we intend to continue this practice for the foreseeable future. If our tax policy were to change to allow our profits to be distributed abroad, we would be subject to a significant withholding tax. We cannot assure you that our determination as to our qualification to receive preferential tax treatment will not be challenged by the appropriate tax authorities or that we will be able to complete the necessary returns with the relevant tax authorities and benefit from the preferential withholding tax rate of 5% under the double taxation agreement with dividends payable by our PRC subsidiaries to Yirendai Hong Kong Limited, our Hong Kong subsidiary. A closer look at the CPP's acquisition transactions could have a negative impact on potential acquisitions that we may pursue in the future. The tax authorities of the PRC have tightened their control over the direct or indirect transfer of certain taxable assets, including, in particular, holdings in a resident business of the PRC, by a non-resident company by enacting and implementing SAT Circulars 59 and Circular 698, which came into effect in January 2008, and a Circular 7 to replace some of the existing rules in Circular 698. , which came into force in February 2015. 40 Table of Content Under Circular 698, when a non-resident business makes an indirect transfer by indirectly transferring the interests of a resident business from the CPP by getting rid of the holding company's holding company abroad, the non-resident business, being the assignee, may be subject to CPP business income tax, if the indirect transfer is considered to be an improper use of the corporation's structure without reasonable business purposes. As a result, gains from this indirect transfer may be subject to CPP tax at a maximum rate of 10%. Circular 698 also provides that when a non-PRC resident business transfers its interests in a CPP resident business to its related parties at a price below fair market value, the competent tax authority has the power to make a reasonable adjustment to the taxable income of the transaction. In February 2015, the SAT issued Circular 7 to replace the rules on indirect transfers in Circular 698. Circular 7 introduced a new tax regime significantly different from that of Circular 698. Circular 7 extends its tax jurisdiction not only to indirect transfers in Circular 698, but also to the transfer of other taxable assets, by the transfer of a foreign intermediary holding company abroad. In addition, Circular 7 provides clearer criteria than Circular 698 on how to assess reasonable business purposes and has introduced safe harbors for internal group restructuring and the purchase and sale of equity through a public securities market. Circular 7 also calls into question both the foreign assignee and the assignee (or any other person who is required to pay the transfer) of the taxable assets. When a non-resident makes an indirect transfer by indirectly transferring taxable assets by divesting the interests of a foreign holding company, the non-resident business being the assignor, or the transferee, or the CPP entity that directly owned the taxable assets may report to the relevant tax authority this indirect transfer. Use of a substance on form the CPP Tax Authority may disable the holding company's existence abroad if it does not have a reasonable business objective and was created to reduce, avoid or defer CPP tax. As a result, gains from this indirect transfer may be subject to CPP business income tax, and the transferee or any other person who is required to pay the transfer is required to withhold applicable taxes, currently at a rate of 10% for the transfer of interests in a CPP resident business. We are faced with uncertainties regarding the relationship and impact on future private equity financing transactions, stock exchanges or other transactions involving the transfer of shares of our company by investors who are not resident companies of the CPP. CPP tax authorities may sue these non-resident businesses in connection with a declaration or transferees with respect to the withholding tax, and ask our CPP subsidiaries to assist with the filing. As a result, we and non-resident businesses in such transactions may be subject to deposit or tax obligations, circular 59 or Circular 698 and Circular 7, and we may be required to spend valuable resources to comply with Circulars 59, Circulars 698 and Circular 7 or to establish that we and our non-resident businesses should not be taxed under these circulars. , which can have a significant negative impact on our financial position and results of operations. The PRC tax authorities have the discretion, under Circular 59, Circular 698 and SAT Circular 7, to make adjustments to taxable capital gains based on the difference between the fair value of the transferred taxable assets and the cost of the investment. Although we currently have no plans to pursue acquisitions in China or elsewhere in the world, we may pursue acquisitions in the future that may involve complex business structures. If we are considered a non-resident business under the CPP Business Income Tax Act and the CPP tax authorities make adjustments to the taxable income of transactions under Circular 59 or Circular 698 and CDP Circular 7, our income tax costs associated with these potential acquisitions will be increased. , which could have a negative impact on our financial position and results of operations. The audit report included in this annual report is by an auditor who is not inspected by the Public Companies Accounting Supervisory Board and, as such, our investors are deprived of the benefits of such an inspection. U.S. law requires our independent accounting firm that publishes audit reports included in our annual report filed with the U.S. Securities and Exchange Commission as auditors of publicly traded companies in the United States and a company registered with the U.S. Public Company Accounting Oversight Board or PCAOB. Pcaob. be subject to regular inspections by THE PCAOB to assess its compliance with U.S. laws and professional standards. Because our auditors are located in the People's Republic of China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB. 41 Table of content inspections of other companies that PCAOB has carried out outside China have identified deficiencies in the audit procedures and quality control procedures of these firms, which can be addressed as part of the inspection process to improve the future quality of the audit. This lack of PCAOB inspections in China prevents PCAOB from regularly evaluating our auditor's audits and quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections. The inability of PCAOB to conduct audit inspections in China makes it more difficult to assess the effectiveness of our auditor's audit procedures or quality control procedures compared to auditors outside China who are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and in the quality of our financial statements. If additional remedial action is imposed on the big four accounting firms based in the CPP, including our independent accounting firm, in the context of administrative proceedings brought by the SEC alleging that these firms do not meet the specific criteria set by the SEC with respect to requests for production of documents, we may be unable to file future financial statements in a timely manner in accordance with the requirements of the Foreign Exchange Act. Starting in 2011, the Chinese subsidiaries of the Big Four accounting firms, including our independent accounting firm, were affected by a conflict between U.S. and Chinese law. Specifically, for some U.S.-listed companies operating and audited in mainland China, the SEC and PCAOB sought access from Chinese accounting firms to their audit working papers and related documents. However, the companies were informed and informed that under Chinese law they could not respond directly to U.S. regulators on these requests, and that requests from foreign regulators for access to such documents in China had to be tailored through the China Securities Regulatory Commission or the CSRC. At the end of this impasse led the SEC to initiate administrative proceedings under Section 102 of its rules of practice and under the Sarbanes-Oxley Act of 2002 against Chinese accounting firms, including our independent accounting firm. In January 2014, the administrative law judge made an initial decision to impose sanctions on companies, including a temporary suspension of their right to practice before the SEC. accounting firms have filed an application to review the original decision. On February 6, 2015, before a review by the SEC commissioners took place, the companies reached a settlement with the SEC. Under the regulations, the SEC agrees that future SEC requests for the production of documents should normally be made to the CSRC. Companies will receive corresponding section 106 applications and will be required to comply with a detailed set of procedures for these applications, which essentially require them to facilitate production through the CSRC. If they do not meet specific criteria, the SEC retains the power to impose a variety of additional corrective measures on businesses depending on the nature of the failure. Corrective measures for future non-compliance could include, if necessary, a six-month automatic bar on the execution by a single firm of certain audit work, the opening of a new procedure against a firm or, in extreme cases, the resumption of the ongoing proceedings against the four firms. In the event that the SEC restarts administrative procedures, depending on the end result, U.S.-listed companies with significant CPP activities may have difficulty or impossible to retain auditors in relation to their CPP activities, which could result in financial statements being determined to be not meeting the requirements of the Foreign Exchange Act. , including possible removal from the list. In addition, any negative news regarding such future proceedings against these audit firms may cause investor uncertainty regarding Chinese companies listed in the United States and the market price of our ADSs may be adversely affected. If our independent accounting firm has been denied, even temporarily, the opportunity to practice before the SEC and we have not been able to find in a timely manner another registered accounting firm to verify and issue an opinion on our financial statements, our financial statements may be determined not to comply with the requirements of the Foreign Exchange Act. Such a determination could ultimately lead to the write-off of our common shares from the New York Stock Exchange or the delisting of the SEC, or both, which would significantly reduce or effectively terminate the trading of our ADSs in the United States. 42 Table of Content Risks Related to Our U.S. Deposit Shares The market price of our ADSs can be volatile. The trading price of our ADSs ranged from US$3.35 to US$42.34 per ADS in 2016. Trading prices for our ADSs are likely to be volatile and could fluctuate because of factors beyond our control. This may occur due to general market and industry factors, such as market performance and price fluctuations or underperformance or the deterioration of financial results of the Internet or other Chinese-based companies that have registered their securities in the United States in recent years. Lla Lla some of these companies have experienced significant volatility since their initial public offering, including, in some cases, a substantial decline in their trading prices. The trading performance of other Chinese companies' securities after their offerings may affect investor attitudes towards Chinese companies listed in the United States, which may therefore have an impact on the business performance of our ADSs, regardless of our actual operating performance. In addition, any new or negative perception about inadequate corporate governance practices or fraudulent accounting, corporate structure or other issues on our part or other Chinese companies may also have a negative impact on investor attitudes toward Chinese companies in general, including us, as we have conducted inappropriate activities. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the sharp decline in U.S., China and other equity prices in late 2008, early 2009, the second half of 2011, the third quarter of 2015 and the first quarter of 2016. , which could have a significant negative effect on the market price of our ADSs. In addition to the above factors, the price and trading volume of our ADSs can be highly volatile due to multiple factors, including: Regulatory developments that affect us, our users or our industry announcements of studies and reports related to our loan products and service offerings or those of our competitors; changes in economic performance or market valuations in other online consumer finance markets; actual or expected changes in our quarterly operating results and changes or revisions to our expected results; Changes in financial estimates by securities research analysts conditions in the Internet and unsecured consumer finance industries; announces new product and service offerings, acquisitions, strategic relationships, joint ventures or capital commitments by us or our competitors; The additions or departures of our senior managers negatively prejudicial publicity about us, our management or our industry; exchange rate fluctuations between the RMB and the U.S. dollar; the release or expiry of lockdown restrictions or other transfer restrictions on our outstanding common shares or ADSs; and perceived potential sales or sales additional common shares or ADSs. 43 Content Table If securities or industry analysts do not publish research or publish inaccurate or unfavorable research on our business, the market price of our ADSs and our trading volume may decrease. The trading market for our ADSs will depend in part on the research and reporting that securities or industry analysts publish about us or our company. If research analysts do not establish and maintain adequate search coverage, or if one or more of the analysts who cover us downgrade our ADSs or publish inaccurate or unfavorable research on our business, the market price for our ADSs would likely decrease. If one or more of these analysts stop covering our company or do not regularly publish reports about us, we may lose visibility in the financial markets, which in turn could lower the market price or the volume of transactions in our ADSs. Since we do not expect to pay dividends in the foreseeable future, you must rely on the price appreciation of our ADSs to obtain a return on investment. We currently intend to retain most, if not all, of our available funds and all future profits to finance the development and growth of our business. As a result, we do not expect to pay cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income. Our Board of Directors has the discretion to distribute dividends, subject to our memorandum and our statutes and certain restrictions under cayman islands law, namely that our company may pay dividends only on profits or stock premiums, and provided that under no circumstances is a dividend paid if it does not render our company unable to pay its debts as they fall due in the normal course of business. In addition, our shareholders may, by ordinary resolution, declare a dividend, but no dividend may exceed the amount recommended by our Board of Directors. Even if our Board of Directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend, among other things, on our future operating results and cash flows, on our capital requirements and surplus, on the amount of distributions, if any, received by us from our subsidiaries. , our financial situation, contractual restrictions and other factors deemed to be by our board of directors. Therefore, the return on investment in our ADSs will likely depend entirely on any future appreciation of the prices of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs. Substantial future sales or perceived potential sales of our ADSs on the public market could our ADSs to decline. Sales of our ADSs on the public market, or the perception that these sales could occur, could lower the market price of our ADSs. As of March 31, 2017, we had 119,596,100 common shares outstanding. Of these shares, 18,985,100 common shares are in the form of ADS. Aside from ADSs held by a fund affiliated with Mr. Ning Tang, all of our SDAs are freely transferable without restriction or additional registration under the Securities Act. The remaining common shares outstanding may be put up for sale, subject to volume and other restrictions applicable under Rules 144 and 701 under the Securities Act. To the extent that the shares are sold on the market, the market price of our ADSs could fall. Some holders of our common shares may require us to register under the Securities Act the sale of their shares. The registration of these shares under the Securities Act would ensure that the SDAs representing these shares would be freely tradable without restriction under the Securities Act immediately after the registration was effective. Sales of these shares in the form of ADS on the public market could lower the price of our ADSs. We have adopted an action incentive plan, under which we have the discretion to award a wide range of equity-based scholarships to eligible participants. See Article 6. Directors, executives and employees — B. Compensation — Action Incentive Plan. We have registered certain common shares that we can issue under this stock compensation plan and intend to register all common shares that we may issue under this share compensation plan. Once we register these common shares, they can be sold freely on the public market as ADS at the time of issuance, subject to volume limitations applicable to affiliates and relevant blocking agreements. If many of our common shares or common equity securities are sold on the public market as SAA after they are eligible for sale, sales could reduce the trading price of our ADSs and affect our ability to raise future capital. In addition, all common shares we issue as part of a share incentive plan would dilute the percentage interest held by investors who purchased ADSs. 44 Content Table You, as HOLDERs of ADS, may have fewer rights than the holders of our common shares you must act through the custodian to exercise these rights. ADS holders do not have the same rights as our shareholders and can only exercise voting rights with respect to the underlying common shares in accordance with the terms of the deposit agreement. Under our current memorandum and statutes, the minimum notice period required to convene a general meeting is seven days. When a general meeting is called, you may not receive sufficient notice to allow you to remove the shares underlying your ADSs so you can vote on a specific issue. In addition, the custodian and his agents may not be able to send you voting instructions or execute your voting instructions in a timely manner. We will make every reasonable effort to get the custodian to grant you voting rights in a timely manner, but we cannot assure you that you will receive the voting documents in time to ensure that you can ask the depositor to vote on the shares underlying your ADSs. In addition, the custodian and his agents will not be responsible for any failure to execute the voting instructions, the manner in which a vote is cast or the effect of such a vote. As a result, you may not be able to exercise your right to vote and may lack recourse if the shares underlying your ADSs are not voted on as you requested. In addition, as an ADS holder, you will not be able to call a general meeting of shareholders. Except in limited circumstances, the custodian of our ADSs will give us a discretionary proxy to vote on our common shares underlying your ADSs if you do not vote at shareholder meetings, which could harm your interests. Under the filing agreement for our ADSs, the custodian will give us a discretionary agent to vote on our common shares underlying your ADSs at shareholder meetings if you do not give voting instructions to the custodian, unless: we did not provide the custodian with our notice of meeting and related voting documents in a timely manner. we have told the custodian that we do not want a discretionary agent to be given; we have informed the custodian that there is substantial opposition to an issue that needs to be voted on at the meeting; an issue to be voted on at the meeting would have a significant and unfavourable impact on shareholder rights; or voting at the meeting is by show of hands. The effect of this discretionary power of attorney is that, if you do not give voting instructions to the custodian, you cannot prevent our common shares underlying your ADSs from being voted on, in the absence of the situations described above. This may make it more difficult for shareholders to influence our management. Holders of our common shares are not subject to this discretionary agent. Your rights to pursue claims against the custodian as an ADS holder are limited by the terms of the deposit agreement. Under the deposit agreement, any action or proceeding against or involving the custodian, arising from or relying on the transactions or transactions contemplated in this way or under the possession of ADSs can only be initiated in a state or or or New York court, New York, and you, as the holder of our ADSs, will have irrevocably waived any objection you may have to the establishment of the place of such a procedure, and irrevocably subject to the exclusive jurisdiction of those courts in such an action or proceeding. However, the custodian may, at his sole discretion, require that any dispute or difference arising from the relationship created by the deposit agreement be mentioned and ultimately settled by an arbitration under the terms described in the deposit agreement. In addition, we may amend or terminate the deposit contract without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the deposit contract as amended. See Article 12. Description of non-equity securities — D. American Depositary Shares for more information. 45 Content Table Your right to participate in any future rights offer may be limited, which may result in a dilution of your assets. From time to time we may distribute rights to our shareholders, including the rights to acquire our securities. However, we cannot make these rights available to you in the United States unless we register both the rights and titles to which the rights relate under the Securities Act or an exemption from registration requirements is available. Under the deposit agreement, the custodian will not make the rights available to you unless the underlying rights and securities that will be distributed to ADS holders are registered under the Securities Act or exempt from registration under the Securities Act. We are not required to file a registration statement regarding these rights or securities or to attempt to declare such an effective registration statement and we may not be able to establish a necessary exemption from registration under the Securities Act. As a result, you may not be able to participate in our rights offers in the future and may be diluted in your holdings. You cannot receive cash dividends if the depositor decides that it is not practical to make them available to you. The custodian will only pay cash dividends on ADSs to the extent that we decide to distribute dividends on our common shares or other deposited securities, and we do not currently intend to pay cash dividends on our common shares for the foreseeable future. To the extent that there is a distribution, the custodian of our ADSs has agreed to pay you the dividends in cash or distributions it receives on our common shares or other securities deposited after deducting its expenses and expenses. You will receive these distributions in proportion to the number of common shares your ADS represent. However, the custodian may, at his discretion, decide that he is unfair or or to make a distribution available to all ADS holders. For example, the custodian may determine that it is not possible to distribute certain goods by mail or that the value of certain distributions may be less than the cost of sending them. In these cases, the custodian may decide not to distribute these assets to you. You may be subject to limitations on the transfer of your ADSs. Your ADSs are transferable to the custodian's books. However, the custodian may close his transfer books at any time or from time to time when he deems it appropriate in carrying out his duties. In addition, the custodian may refuse to deliver, transfer or register ADS transfers in general when our books or custodian's books are closed, or at any time if we or the depositor deems it desirable to do so because of any statutory requirement or any government agency, or under any provision of the deposit contract. , or for any other reason. We have been named as defendants in two putative shareholder class actions that could have a significant negative impact on our business, financial position, results of operations, cash flow and reputation. We will have to defend ourselves against the putative shareholder class actions described in article 8. Financial Information — A. Consolidated Statements and Other Financial Information — Judicial Proceedings, including Appeals of these lawsuits if our original defence was unsuccessful. We are not currently in a position to estimate the potential loss or range of losses, if any, associated with the settlement of these lawsuits. In the event that our initial defence of these proceedings is unsuccessful, there is no guarantee that we will prevail in any appeal. Any adverse outcome of these cases, including the appeal by any plaintiff of a judgment in connection with these lawsuits, could have a material adverse effect on our business, financial position, results of operations, cash flow and reputation. In addition, there is no assurance that our insurance companies will cover all or part of the defence costs, or any liabilities that may arise from these issues. The court process can use a significant portion of our resources and divert the attention of management from the day-to-day operations of our business, which could harm our business. We may also be subject to claims related to these issues, and we cannot predict the impact that claims may have on our business or financial results. 46 Content Table Some Judgments Obtained Against Us by shareholders may not be enforceable. We are an exempt company limited by shares incorporated under the laws of the Cayman Islands. We conduct almost total of our operations in China and almost all of our assets are located in China. In addition, the majority of our and executives reside in China, and most of these people's assets are located in China. Therefore, it may be difficult or impossible for you to perform the U.S. procedure service on us or these individuals, or to bring an action against us or those people in the United States in case you believe your rights have been violated under U.S. federal securities laws or otherwise. Even if you succeed in taking such action, the cayman islands and the PRC laws may render you unable to enforce a judgment against our property or the property of our directors and officers. There is no legal application in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not parties to any reciprocal enforcement treaty or recognition of such judgments), a judgment obtained in that jurisdiction will be recognized and applied in the courts of the Cayman Islands at common law. , without reconsidering the merits of the underlying dispute, by an action brought against the foreign judgment debt before the Grand Court of the Cayman Islands, provided that such a judgment (a) is rendered by a competent foreign court, b) imposes on the debtor of judgment a liability to pay a liquidated sum for which the judgment was rendered, (c) is not final d) , a fine or penalty, and (e) was not obtained in a manner and is not of a kind whose execution is contrary to natural justice or public order of the Cayman Islands. However, it is unlikely that the Cayman Islands courts will apply a judgment obtained from the U.S. courts under the provisions of the U.S. Federal Securities Liability Act if those judgments are determined by the Cayman Islands courts to give rise to obligations to make criminal or punitive payments. As such a decision has not yet been rendered by a Cayman Islands court, it is not certain that such civil liability judgments by the American courts would be enforceable in the Cayman Islands. Recognition and enforcement of foreign judgments is provided for under the CPP Civil Procedures Act. PRC courts may recognize and apply foreign judgments in accordance with the requirements of the PRC Civil Procedures Act based either on treaties between China and the country where the judgment is rendered, or on principles of reciprocity between jurisdictions. China does not have treaties or other forms of reciprocity with the United States that provide for reciprocal recognition and enforcement of foreign judgments. In addition, in accordance with the on the civil proceedings of the PRC, the PRC courts will not apply a foreign judgment against us or our director and officers if they decide that the judgment violates the fundamental principles of THE laws of the PRC. Prc. national sovereignty, security or the public interest. Therefore, it is not clear whether a PRC court would apply a judgment rendered by a U.S. court and on what basis. You may have difficulty protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law. We are an exempt company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and statutes, the Cayman Islands Corporate Law (revision of 2016) and the common law of the Cayman Islands. The right of shareholders to take action against directors, the shares of minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are largely governed by the Cayman Islands common law. The common law of the Cayman Islands stems in part from a relatively limited judicial precedent in the Cayman Islands as well as from the common law of England, whose court decisions are persuasively, but not binding, on a Cayman Islands court. The rights of our shareholders and the fiduciary duties of our directors under cayman islands law are not as clearly established as they would be under laws or judicial precedents in certain jurisdictions in the United States. In particular, the Cayman Islands have a less developed set of securities laws than the United States. Some U.S. states, such as Delaware, have more developed corporate law organizations and are interpreted by the courts than the Cayman Islands. In addition, Cayman Islands companies may not have standing to bring a shareholder derivatives action in U.S. federal court. Cayman Islands shareholders exempted from companies such as us have no general right under Cayman Islands law to inspect company records or obtain copies of the shareholder lists of those companies. Our directors have the discretion, under our current submission and by statute, to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but they are not required to make them available to our shareholders. This may make it more difficult for you to obtain the information necessary to establish the facts necessary for a shareholder resolution or to solicit proxies from other shareholders in the context of a proxy application. 47 Content Table Due to all of the above, our public shareholders may have more than to protect their interests from actions taken by management, board members or majority shareholders than they would as public shareholders of a U.S.-incorporated corporation. Our memorandum and statutes contain anti-takeover provisions that could discourage a third party acquire us and harm the rights of the holders of our common shares and ADSs. Our memorandum and by-law contain certain provisions that could limit the ability of others to acquire control of our company, including a provision that gives our Board of Directors the power to establish and issue one or more sets of preferred shares from time to time without our shareholders acting and determining any series of preferred shares. , the terms and rights of this series. These provisions could have the effect of depriving our shareholders and ADS holders of the ability to sell their shares or ADSs at a premium to the prevailing market price by discouraging third parties from seeking control of our company in connection with a takeover bid or similar transactions. We are an emerging growth company within the meaning of the Securities Act and we can take advantage of some of the reduced reporting requirements. We are an emerging growth company as defined in the Employment Act, and we may take advantage of certain exemptions from various requirements applicable to other public companies that are not emerging growth companies, including, more importantly, not being required to comply with the auditor certification requirements under section 404 of the Sarbanes-Oxley Act of 2002 as long as we are an emerging growth company. Therefore, if we elect not to comply with these auditor certification requirements, our investors may not have access to certain information that they may consider important. The Jobs Act also provides that an emerging growth company does not need to comply with new or revised financial accounting standards before such a date that a private company is otherwise required to comply with these new or revised accounting standards. However, we have chosen to withdraw from this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to withdraw from the extended transition period under the Employment Act is irrevocable. We are a foreign private issuer under the rules of the Foreign Exchange Act and, as such, we are exempt from certain provisions applicable to U.S. domestic public companies. As we are eligible as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of U.S. securities rules and regulations that apply to domestic issuers. including: The rules of the Foreign Exchange Act requiring the SEC to file quarterly reports on Form 10-Q or current reports on Form 8-K; Sections of the Foreign Exchange Act regulating the solicitation of proxies, consents or authorizations for a security registered under the Foreign Exchange Act; Exchange rates; Sections of the Foreign Exchange Act requiring insiders to file public reports on their ownership and trading activities and their liability to insiders who profit from transactions made in a short period of time; and selective disclosure rules by issuers of important non-public information under the FD Regulations. 48 Table of Materials We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis in the form of press releases, distributed in accordance with the rules and regulations of the New York Stock Exchange. Press releases relating to financial results and significant events will also be provided to the SEC on Form 6-K. However, the information we are required to file with or provide with the SEC will be less extensive and less timely than information required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be offering you the same protections or information that would be available to you if you invested in a U.S. national issuer. As a company incorporated in the Cayman Islands, we are authorized to adopt certain country-of-origin practices with respect to corporate governance issues that differ significantly from the NYSE's corporate governance listing standards; these practices may offer less protection to shareholders than if we fully complied with the NYSE's corporate governance listing standards. As a Cayman Islands company listed on the New York Stock Exchange, we are subject to the NYSE's corporate governance listing standards. However, NYSE rules allow a foreign private issuer like us to follow the corporate governance practices of their home country. Certain corporate governance practices in the Cayman Islands, which are our home country, may differ significantly from the NYSE's corporate governance listing standards. At this time, we do not intend to rely on the country of origin practice in terms of our corporate governance. However, if we choose to follow the country of origin practice in the future, our shareholders may receive less protection than they would otherwise under the NYSE listing standards for U.S. domestic issuers. There can be no assurance that we will not be a passive foreign investment company, or PFIC, U.S. federal income tax purposes for a taxable year, which could subject U.S. investors in our ADSs or common shares to significant negative consequences on U.S. income tax. We will be a passive foreign investment company or PFIC if, in a particular taxable year, either a) 75% or more of our gross income for that year consists of certain types of passive or b income) of 50% or more of the average quarterly value of our assets (determined on the basis of fair market value) during that year produce or are held for production production (the asset test). While the law in this regard is not clear, we intend to treat Heng Cheng and Yi Ren Wealth Management as the property of us for the purposes of U.S. federal income tax, not only because we have effective control over the operation of these entities, but also because we are entitled to virtually total economic benefits and as a result, we consolidate their operating results in our consolidated financial statements. Assuming that we are the owner of Heng Cheng and Yi Ren Wealth Management for the purposes of U.S. federal income tax, and based on our income and assets, including goodwill, and the value of our ADS and common shares, we do not believe we were a PFIC for the fiscal year ended December 31 , 2016 and do not expect to become a PFIC in the foreseeable future. While we do not expect to become a PFIC, because the value of our assets for asset testing can be determined by reference to the market price of our ADSs or common shares, fluctuations in the market price of our ADSs or common shares may lead us to become a PFIC for current or subsequent taxable years. Determining whether or become a PFIC will also depend, in part, on the composition of our revenues and assets, which may be affected by how and how quickly we use our liquid assets and the cash raised in our initial public offering. If we determine not to deploy large amounts of money for active purposes or if it has been determined that we do not own the shares of Heng Cheng and Yi Ren Wealth Management for the purposes of U.S. federal income tax, our risk of being a PFIC may increase significantly. Given that there are uncertainties in the application of the relevant rules and that the pfic status is a factual determination made annually after the closing of each taxable year, there is no assurance that we will not be a PFIC for the current taxable year or any future taxable year. If we are a PFIC in a taxable year, a U.S. holder (as defined in point 10. Additional Information — E. Taxation—United States Federal Income Tax Considerations) may result in a significant increase in U.S. income tax on the gain recognized on the sale or other provision of ADSs or common shares and on the receipt of distributions on ADSs or common shares to the extent that such gain or distribution is treated as an excess distribution under federal income tax rules United States and this holder may be subject to heavy reporting requirements. In addition, if we are a PFIC for any year in which a U.S. holder holds our ADSs or common shares, we will generally continue to be treated as a PFIC for all subsequent years in which that U.S. holder holds our ADS or common shares. For more information, see Point 10. Additional Information—E. Taxation—United Taxation—United Federal Income Tax Considerations — Considerations for Passive Foreign Investment Corporations. 49 Content Table We incur increased costs as a result of being a public company, especially after we cease to call ourselves an emerging growth company. As a Crown corporation, we incur significant legal, accounting and other expenses that we have not incurred as a private company. The Sarbanes-Oxley Act of 2002, as well as the rules implemented by the SUITE by the SEC and the New York Stock Exchange, impose various requirements on corporate governance practices of public companies. As a company with net sales of less than US$1.07 billion in net sales for our last fiscal year, we are considered an emerging growth company under the Employment Act. An emerging growing company can take advantage of accurate reporting and other requirements that otherwise generally apply to public companies. These provisions include the exemption from the auditor certification requirement under section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growing company's internal control over financial reporting and permission to delay the adoption of new or revised accounting standards until these standards apply to private companies. However, we have chosen to withdraw from the provision that allows us to delay the adoption of new or revised accounting standards and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to withdraw from the extended transition period under the Employment Act is irrevocable. We expect these rules and regulations to increase our legal and financial compliance costs and make some business activities longer and more expensive. Once we are no longer an emerging growth company, we plan to incur significant expenditures and significant management efforts to ensure compliance with the requirements of section 404 of the Sarbanes-Oxley Act of 2002 and other SEC rules and regulations. We also expect that as a public company, we will be more difficult and more expensive to obtain liability insurance for directors and officers, and we may be required to accept reduced policy limits and coverage or to incur much higher costs to obtain the same or similar coverage. In addition, we will incur additional costs associated with reporting requirements for state-owned enterprises. It may also be more difficult for us to find qualified people to serve on our board of directors or as executives. We are currently assessing and monitoring the evolution of these rules and regulations, and we cannot predict or estimate with certainty the amount of additional costs we may incur or when those costs may be incurred. In the past, shareholders of a public company have often filed securities class actions after periods of market price instability. If we were involved in a class action, it could divert much of the attention and other resources from our management of our operations and operations, which could adversely affect our operating results and force us to incur significant expenses to defend the lawsuit. Any class action of this kind, whether successful or not, could damage our reputation and limit our ability to raise capital in the future. In addition, if a successful claim is made against us, we may be required to pay substantial damages, which could have a material negative effect on our financial position and results of operations. Point 4. Company Information A. History and Development of the Company We began our online consumer finance market activities in March 2012 as a business unit under our parent company, CreditEase, which remains our parent company and majority shareholder following our initial public offering in December 2015. CreditEase incorporated Yirendai Ltd. into the Cayman Islands to be our holding company in September 2014. Yirendai Ltd. then established a wholly owned subsidiary in Hong Kong, Yirendai Hong Kong Limited or Yirendai HK, in October 2014, and Yirendai HK also created Yi Ren Heng Ye Technology Development (Beijing) Co., Ltd., or Heng Ye, our wholly owned subsidiary in China, in January 2015. Yirendai HK also created Chongqing Heng Yu Da Technology Co., Ltd., or Heng Yu Da, our wholly owned subsidiary in China, in March 2016. 50 Table of Contents Heng Cheng Technology Development (Beijing) Co., Ltd., or Heng Cheng, was established in China in September 2014. Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian are shareholders of Heng Cheng, which owns 40%, 30% and 30% of Heng Cheng's equity respectively as of the date of this annual report. We gained control and became the largest beneficiary of Heng Cheng in February 2015 by entering into a series of contractual agreements with Heng Cheng and its shareholders. In order to execute our strategy of providing more value-added services to investors, we created Yiren Financial Information Service (Beijing) Co., Ltd., or Yi Ren Wealth Management, in China in October 2016 to primarily conduct our wealth management business, with the goal of providing investors with a wider range of investment options, including third-party fund and insurance products. Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian are shareholders of Yi Ren Wealth Management, which owns 40%, 30% and 30% of Yi Ren Wealth's equity respectively as of the date of this annual report. We gained control and became the main beneficiary of Yi Ren Wealth Management by in a series of contractual agreements with Yi Ren Wealth Management and its shareholders in October 2016. On December 18, 2015, our ADS began trading on the New York Stock Exchange under the symbol YRD. From our initial public offering, we collected net proceeds of approximately US$64.9 million after deducting subscription commissions and offer fees payable to us. In addition to our initial public offering, we sold 2,000,000 common shares to Baidu (Hong Kong) Limited, or Baidu Hong Kong, in a private placement, resulting in net proceeds of approximately US$9.0 million. We currently conduct our online consumer finance market activities in China through Heng Ye and Heng Yu Da, and our consolidated variable interest entities, Heng Cheng and Yi Ren Wealth Management. Heng Cheng operates our website www.yirendai.com ICP license as an internet information provider. Yi Ren Wealth Management operates our wealth management website and mobile application, which serves as an online portal for investment products, including loan products offered by us as well as other investment products offered by third parties. Yi Ren Wealth Management is applying for an ICP license. Our main executive offices are located at 10/F, Building 9, 91 Jianguo Road, Chaoyang District, Beijing, People's Republic of China. Our phone number at this address is 86 10 5395-3680. B. Business Overview We are a leading online consumer finance market in China connecting investors and individual borrowers, according to iResearch. We have facilitated more than RMB32.3 billion (US$4.7 billion) in loans from its inception in March 2012 to December 31, 2016. Our online platform automates key aspects of our operations and allows us to effectively match borrowers with investors and execute loan transactions. Drawing on the extensive experience of our parent company CreditEase, we provide an effective solution to meet the demand of investors and individual borrowers who are largely underserved in China. CreditEase is a leading financial services company focused on providing inclusive financing and wealth management products and services in China. Our borrowers and investors come from a variety of channels, including online sources, such as the Internet and our mobile applications, as well as offline sources, such as CreditEase's field sales network references. In 2014, 2015 and 2016, we facilitated more than RMB550.8 million, 2 RMB million and RMB7,577.8 million (US$1,091.4 million) of loans through our mobile applications, respectively, representing 24.7%, 28.6% and 37.4% of the total amount of loans facilitated by our market during the respective periods. We are currently targeting primary borrowers, including credit card holders with stable and stable credit returns Income. We focus strategically on the primary borrowers because we believe that members of this group tend to be more creditworthy and more receptive to Internet financing solutions. In the future, we could expand to serve new groups of borrowers beyond the primary borrowers, allowing us to seize the opportunities offered by China's growing unsecured consumer financing market. Our online marketplace offers qualified borrowers who successfully apply online and meet our borrower requirements with quick and convenient access to affordable credit at competitive prices. All loans facilitated by our market have fixed interest rates. To ensure a transparent market, interest rates, transaction fees and other fees are all clearly disclosed to borrowers from the outset. 51 Content Table Our online marketplace offers investors attractive returns with investment thresholds as low as RMB100 (14.4 $US). Investors have the option to individually select specific loans to invest or use our automated investment tool that identifies and selects loans based on a targeted return. We also offer investors a quality assurance program to limit losses to investors due to borrower defaults. In addition, we offer investors access to a liquid secondary market, giving them the opportunity to exit their investments before the underlying loans become due. We currently conduct our business operations exclusively in China, and our online consumer finance market does not facilitate investment by U.S.-based investors. We are transitioning to a comprehensive online financial services platform that offers a diverse portfolio of services to meet a variety of client needs, regardless of the stage of their lives. Many users contacted us but were unable to take advantage of our services due to the segmentation and transactional nature of our services. In the future, we will actively improve customer engagement and grow our user base by offering more products, features and tools delivered through our platform and selected partners. We believe we have developed an industry-leading risk management system using our proprietary credit decision and fraud detection modules. We are accumulating data from our expanding borrower base and CreditEase's extensive database to improve the sophistication and reliability of our risk management system. Our proprietary risk management system allows us to more effectively assess borrowers' creditworthiness in a market where reliable credit ratings and borrower databases are still at an early stage of development. This system also allows us to price the risks associated with borrowers and offer quality investment opportunities to investors. We generate revenue primarily from the fees charged for our services by matching investor investors borrowers and other services we provide over the life of a loan. We charge borrowers a transaction fee for services provided through our platform to facilitate loan transactions, and charge investors a service fee for the use of our automated investment tool or self-directed investment tool. As an information intermediary, we do not use our own capital to invest in loans facilitated by our market. We have experienced significant growth since the launch of our market in March 2012. Our total net sales increased from RMB196.5 million in 2014 to RMB1,313.6 million in 2015, and to RMB3,238.0 million (US$466.4 million) in 2016. We recorded a net loss of RMB27.7 million in 2014, a net profit of RMB275.3 million in 2015 and RMB1,116.4 million (US$160.8 million) in 2016. Our Market solution encompasses the significant opportunities offered by a financial system that leaves many creditworthy people underserved or even underserved. Our online business model, reinforced by a technology-driven, user-centric platform, allows us to effectively match borrowers with investors. We offer borrowers quick and convenient access to consumer credit at competitive rates, while we offer investors quick and easy access to another asset class with attractive returns. 52 Content Table - Historically, borrowers' and investors' funds have been deposited into a custody account managed by any of the many online payment platforms established by third parties. In August 2015, we fully migrated to a new system whereby China Guangfa Bank, one of the largest commercial banks in China, took over the on-call accounts previously managed by the various third-party payment platforms. Our target group of borrowers currently targets major borrowers, including credit card holders with stable credit returns and salary income. We focus strategically on primary borrowers because we believe that members of this group tend to be more creditworthy and receptive to Internet financing solutions. Borrower Profile and Base Based on the information provided to us, as of December 31, 2016, our historical borrower profile was 80.2% male and 19.8% female, while 73.9% were 35 years of age or younger. In 2014, 2015 and 2016, we facilitated loans to 39,344, 146,390 and 321,019 borrowers through our platform, We do not allow borrowers to hold more than one loan that has been facilitated by our platform at once. The total amount of funds lent to borrowers through our platform was RMB2,228.6 million, RMB9,557.6 million and RMB20,277.9 million (US$2,920.6 million) in 2014, 2015 and 2016, respectively. Borrower Acquisition We are attracting an increasing number of borrowers through various online channels. Our efforts to acquire online borrowers are supported by our big data capabilities and are search engine marketing, search engine optimization, mobile app downloads in major app stores, partnership with online channels through application programming interfaces, as well as various marketing campaigns. 53 Content Table We also acquire borrowers through references from CreditEase's extensive on-site sales network at more than 252 sites in China as part of our contractual agreement with CreditEase. Under this arrangement, CreditEase is required to direct borrowers in our target borrower group to our online marketplace, in exchange for which we pay CreditEase a reference fee. The cost of the services CreditEase provides us may increase from time to time, based on the trade negotiations between CreditEase and us. In 2016, in accordance with our contractual agreement with CreditEase, the fee rate for offline borrower acquisition services that CreditEase provides to us increased from 5% to 6% of loans made to borrowers referred by CreditEase for the three years from 2016. Subsequently, the duty rate can be adjusted on an annual basis based on commercial negotiation, and after taking into account the costs to CreditEase for the provision of such services and according to market rates. Once a potential borrower is referred to us, all remaining aspects of the transaction lifecycle are processed by us, our online market facilitating the loan transaction, from demand to credit decision to matching and serving. Our reference agreement with CreditEase is designed to ensure that CreditEase does not compete with our online consumer finance market activities. In 2014, 2015 and 2016, 48.1%, 49.5% and 42.5% of our borrowers were acquired through CreditEase references, respectively. The average size of loans from offline channels tends to be larger than loans from online channels. The following table provides a breakdown of the number of borrowers using our channel platform: For the year ended December 31, 2014 2015 2016 Number of Borrowers(1): Online Channel Borrowers 20 422 74 000 184 430 Offline Borrowers channels 18,922 72,390 136,589 Total number of borrowers 39,344,346,390,321,019 (1) The number of term borrowers represents the number of borrowers whose loans were financed during this period. We do not allow borrowers to hold more than one loan that has been facilitated by our platform at once. A borrower who obtains loans through our platform both online and offline channels during a is counted as a borrower acquired from online channels for the purposes of the table above. For the year ended December 31, 2014 2015 2016 RMB RMB RMB US $(thousands) Amount of loans facilitated(1) 2,228,562 9,557 613 20 277 927 2,920 629 Loans generated online 896,003 3,152 272 7,745 724 1,115,616 Offline Loans (2) 1,332,559 6,405.2 341 12,532 203 1,805,013 (1) October 2016, we have launched a new program called the Recharging Program where we facilitate a new loan for a qualified borrower to replace their existing loan on our platform. The Recharging Program is a service offered to qualified borrowers to enhance the customer experience and meet their lifetime credit needs. Only the additional amount, that is, the portion of the new loan exceeding the outstanding balance of the existing loan, is included in the amount of the facilitated loans presented in the table above and elsewhere in this annual report. The total contractual amount of all loans facilitated in 2016, which included all new loans facilitated under the Reloading Program, amounted to RMB20,486 million (US$2,951 million). (2) RMB247.4 million of offline channel loans for 2015 were financed by Trust No. 1. RMB300.0 million loans generated by offline channels for 2016 were financed by Trust No. 2. For more information on trusts, please see item 5. Operational and Financial Review and Prospectus —A. Operating Results — Critical Accounting Policies, Judgments and Estimates—Presentation, Combination and Consolidation Base. Our target investor group accepts investor investments of all income levels. However, we are focusing our efforts on attracting wealthy mass investors. This large and rapidly growing sector of the Chinese population is currently underserved by traditional investment products in China. We are looking to attract wealthy mass investors because members of this demographic are a significant untapped source of capital. In the future, we plan to expand our investor base by currently focusing on individual investors to include institutional investors as well. 54 Content Table Investor Profile and Investor Base Based on information provided to us, as of December 31, 2016, our historical investor profile was 56.1% male and 44.0% female, while 78.5% were 40 years of age or younger. In 2014, 2015 and 2016, 34,527, 326,055 and 597,765 investors invested through our platform, respectively. The total amount of funds invested by investors through our market was RMB2.6 billion, RMB11.9 billion and RMB25.0 billion (US$3.6 billion) in 2014, 2015 and 2016, respectively. Acquisition of investors We attract a growing majority of our through online channels and currently attract almost all of our investors from these channels. Our investor acquisition efforts are focused on strengthening our brand name, building investor confidence and word of mouth. We also attract investors through CreditEase's field sales network, which refers potential investors to our market who have expressed interest in types loan products available in our online marketplace. The following table provides a breakdown of the number of investors using our channel platform: For the year ended December 31, 2014 2015 2016 Number of investors (1): Online Channel Investors 25,093 317.051 597.765 Offline Channel Investors 9,434 9,004 — Total Investor Number 34,527,326,055,597,765 (1) The number of term investors represents the number of investors who have made at least one investment in loans during this period. An investor who makes investments through our platform through online and offline channels over a period of time is counted as an acquired investor from online channels for the purposes of the table above. Our products and services offered to borrowers Our online marketplace primarily facilitates standard lending products and FastTrack lending products to borrowers. For the loan products we facilitate, the IPR paid by borrowers is between 16.9% and 39.5%, the specific rate depending on a risk assessment of the borrower. We believe these loans are simple, quality credit products that facilitate the budget of their repayment obligations and meet their financial needs. All of our loan products are unsecured, have fixed monthly payments and offer terms of 12, 18, 24, 36 or 48 months. In October 2016, we launched a new program called the Recharging Program where we facilitate a new loan for a qualified borrower to repay their existing loan on our platform. The Recharging Program is a service offered to qualified borrowers to enhance the customer experience and meet their lifetime credit needs. The loan rights structure facilitated under the Recharging Program is the same as that of other loan products, except that we offer an upfront fee credit for the existing loan to encourage acceptance of the new loan, which is considered a cash incentive to the borrower and recorded as a reduction in income. Standard Loan Products In 2014, 2015 and 2016, the average loan amounts for our standard loan products were approximately RMB66,187, RMB82,816 and RMB89,058 (12,827.1 $US), respectively. To apply for a standard loan, the borrower must complete an online application providing information such as CPP ID information, a bank statement with proof of monthly income and a PBOC credit report, as well as the desired amount and duration of the loan. In 2014, 2015 and 2016, our standard lending products accounted for the majority of loans made through our 55 Table of FastTrack Loan Products FastTrack ready content is a new and expanding product that is currently only available through our mobile apps. These loans can reach RMB100,000 (US$14,403.0). In 2014, 2015 and 2016, the average FastTrack loan amounts were RMB36,328, RMB39,458 and (5,640.1 $US), respectively. To apply for a FastTrack loan, a borrower completes an online application providing CPP ID information, e-commerce account information, mobile phone number, credit card statement and, if applicable, PBOC credit report, housing fund information and life insurance policy information , as well as the amount and duration of the loan desired. This product offers near-instant credit approval, allowing qualified borrowers to receive an initial decision in as fast

as ten minutes. Loan Pricing Mechanism We facilitate lending through our market using a price grid with four price categories, each with a calculated RPA to match a risk assessment of borrowers in that particular segment. Once a borrower's credit information has entered our proprietary credit rating and loan qualification system, this system automatically decides which of the borrower's four segments falls under, and applies the fee rate for the relevant segment to the borrower. In the future, we plan to increase the number of segments in our pricing schedule. Loans are cited as a fee rate displayed as an RPA, which includes a fixed interest rate that borrowers pay to investors, and a transaction fee rate that we charge borrowers for our services, and represents the total cost of borrowing for borrowers. LRAs for term loans in our market currently range from 16.9% to 39.5%, allowing us to cover a wide range of high-quality risk assets. All loans offered through our market have fixed interest rates, which are paid to investors minus defaults over the life of the applicable loan and fees charged to investors. In addition, we charge borrowers a transaction fee to match them with investors. Transaction fees are billed as a percentage of the loan contract. A late payment penalty fee is imposed as a percentage of the amount owed. All fees are clearly disclosed to the borrower in advance. Investor Services Through our market, investors have the opportunity to invest in a wide range of attractive return lending products. We believe that our proprietary credit rating and fraud detection systems will increase investor confidence in the quality of the loans in which they invest. Investment Tools Our online marketplace provides investors with several investment tools. Automated investment tool. Automated investment tool is the most popular way for investors to invest in loans through our market. Through our automated investment tool, an investor agrees to invest a specified amount of money to borrowers through our market for a fixed period of time. Once an investor commits funds using the tool, their funds are automatically distributed among approved borrowers. Our automated investment tool automatically reinvests investors' funds as soon as a loan is available allowing investors to accelerate cash flow reinvestment without having to continually review our website or mobile app. Unless an emergency withdrawal fee is paid, investors using our automated investment tool are not allowed to withdraw their funds before the specified investment period expires, which does not necessarily correspond to the duration of the loans to which the automated investment tool allocates the investor's funds. In 2014, 2015 and 2016, the vast majority of funds invested by investors through our market were invested using this automated investment tool. The minimum threshold for a loan commitment made through our automated investment tool is RMB100 (14.4 $US). In 2014, in 2015 and 2016, the average amount invested by our automated investment tool by each investor was RMB76,612, RMB35,327 and RMB41,530 (5,981.6 $US), respectively, and current average annual rates of return for investors after deducting management fees ranged from 5.0% to 10.5%. The specific rate of return offered to an investor using our automated investment tool varies depending on the duration of the investment, which can be as short as three months, and the average return on interest on loans to which the automated investment tool allocates the investor's funds, which also depend on the duration of the loan. 56 Content Table Self-ddid investment tool. Our self-directed investment tool allows investors to personally choose from the hundreds of new loan opportunities approved borrowers that are displayed in our market every day. After choosing a desired loan, the investor then agrees to lend a specified amount of money to a specific borrower through our market for a fixed term that must correspond to the term of the borrower's loan. In order to encourage investors to diversify their risks, we have a policy capping each investor's investment in a given loan at 20% of the loan amount. Our platform offers investors using our self-directed investment tool the ability to use filters based on credit and application data, such as duration, amount and interest rate, to filter loans on our platform for review. The minimum threshold for a loan commitment made through our self-grating investment tool is RMB100 (14.4 $US). In 2014, 2015 and 2016, the average amount invested by our self-managed investment tool by each investor was RMB51,570, RMB85,787, respectively. RMB58 419 (8,414.1 $US). The rate of return offered to an investor after deducting management fees varies depending on the length of the investment term, with 9.0% for a 12-month loan and 11.25% for a 48-month loan. Quality Assurance Program In January 2015, we launched our current quality assurance program. Under the current arrangement, we have set aside a certain amount of money in an interest-bearing custody account. Interest. The Quality Assurance Program covers loans from and after January 1, 2015. If a loan is the result of a default or after January 1, 2015, we will withdraw funds from the Quality Assurance Program to repay the principal and interest accrued for the defaulted loan, unless the quality assurance program is exhausted. At the beginning of each loan, we set aside cash in an amount equal to a certain percentage of the loan amount facilitated on our platform. We reserve the right to revise this percentage upwards or downwards from time to time. In addition, we monitor the rest of the quality assurance program on a monthly basis and adjust on a quarterly basis by putting an appropriate additional amount of money from other sources into the quality assurance program as required to ensure that we can adequately cover the expected net payments. See — Risk Management — Investor Protection. Secondary Loan Market We maintain a secondary lending market in our market where investors can transfer the loans they hold before maturity at the fair value of the remaining loans. This secondary lending market is liquid, with loans typically exchanging hands on the same day they are posted. This liquidity provides investors with the opportunity to enter and exit their investments without waiting for maturity, increasing their frequency and willingness to lend and, therefore, the amount of funds ultimately available to borrowers. Fees charged to investors We charge investors various current fees as well as non-fixed fees, depending on their specific investment activity in our market. We charge investors a monthly management fee for the use of our automated investment tool and our self-graing investment tool. Monthly management fees for the use of the automated investment tool are the difference between interest rates on underlying loans ranging from 10.0% to 12.5%, and targeted returns offered to investors ranging from 5.0% to 10.5%. The monthly management fee for the use of the self-grating investment tool is equal to 10% of the interest investors receive, ranging from 10.0% to 12.5%. A one-time fee is charged to all investors for each loan transferred to our secondary lending market. 57 Content Table Our platform and transaction process We believe our platform allows for a quick loan application process, a credit assessment that more accurately determines an applicant's creditworthiness and an overall user experience Our platform touches every point of our relationship with our borrowers and investors, from the application process to financing and serving loans. We provide an automated and streamlined application process. For borrowers and investors alike, the process is designed to look simple, transparent and efficient, but our platform leverages sophisticated and proprietary technology to make it possible. The whole process from the request to disburse the funds usually takes one to two days. Step 1: Ask Our borrower application process begins with a prospective borrower applying for a loan. Borrowers can apply via our website or mobile apps. For borrowers acquired through CreditEase's field sales network, a CreditEase seller will guide the potential borrower through the completion of the application process and enter the required application and information into our system. As part of the online and offline application process, the potential borrower is asked to provide various personal details. The specific personal information required will depend on the borrower's desired loan proceeds, but generally include CPP ID information, employer information, bank account information, credit card information and a PBOC credit report. For our FastTrack product, applicants can complete an application on our three-step platform in just ten minutes, significantly reducing the time normally spent applying for a loan. New investors are connecting to our market through a simple online portal in which they enter their CPP ID card information and bank account information. Prior to June 2015, the funds they invested in our market were deposited into a custody account managed by any of the many online payment platforms established by third parties. In August 2015, we fully migrated to a new system whereby China Guangfa Bank took over the on-call accounts of investors previously managed by the various third-party payment platforms. Step 2: Checking When submitting an application completed by borrowers from online and offline channels, our credit models are filled with all the information contained in the loan application submitted. Additional data from a number of internal and external sources are then matched with the application, including the following data: Internal Historical credit data accumulated through our online platform; and Behavioural data that we glas on an applicant's behavior when they apply to us to obtain loans, such as the stated self-deed use of products or the use of multiple devices to access our platform; External credit database maintained by CreditEase; personal identity information held by an organization operated by the Department of Public Safety; personal credit information by an organization operated by the PBOC; online data from Internet or wireless service providers, including information on social networks; online shopping and payment information for their accounts with some popular Chinese popular Websites; data on credit card statements authorized by applicants; and fraud list and database. 58 Content Table This data is then aggregated and used to verify an applicant's identity, to detect fraud, and to assess and determine creditworthiness. Step 3: Anti-Fraud, Credit Assessment and Decision Making In Order to effectively select applicants, we have designed an initial qualification phase to review basic information about a prospective borrower that has been submitted with the application and collected by us from available sources. By policy, we do not allow borrowers to hold more than one loan that has been facilitated by our platform at the same time, although we currently do not have a complete way of determining whether borrowers have obtained loans through other consumer financing markets. Once completed, an initial audit is conducted using our anti-fraud system, and the prospective borrower's loan application passes either to the next phase of the application process or the prospective borrower is notified of the decision to refuse the application. After the initial qualification, we would review the credit using our proprietary credit rating model to generate a Yirendai rating for the potential borrower that determines the decision whether or not to grant credit. Our current proprietary credit rating model comes from a credit rating system that was developed by CreditEase in collaboration with Fair Issac Corporation, or FICO, a leading U.S. provider of analytics software and tools used to manage risk and fight fraud. We have further modified our credit rating system to adapt it to the realities of the Chinese market, which has still had no widely available source of consumer credit information. Today, our credit rating system uses our own rating criteria and is regularly monitored, tested, updated and validated by our risk management team. After generating the Yirendai note, our credit decision system decides whether the prospective borrower is qualified. Unqualified borrowers are notified of the decision to refuse their application for non-compliance with the minimum requirements. For a potential borrower who passes our initial qualification phase and submits an application for our loan products, the application is paid to our credit assessment team for review. A member of our credit assessment team will first conduct a telephone audit interview with the applicant. After the initial telephone check interview, a junior member a senior member of our credit assessment team will analyze Yirendai's application and rating. If a member of the credit assessment team suspects that there may be fraud in a particular loan application or determines that is necessary to complete the credit decision process, this team member will perform more due diligence and verification, such as additional phone calls to the borrower applicant and the applicant's employer that are identified in the application. Although these additional steps have led us to uncover cases of invalid information provided by potential borrowers in the past, the number of such cases has not been significant. As a result of this review, the credit assessment team will approve the loan as it is, approve the loan with one or more modified sets of loan features, or refuse the loan application. In 2014, 2015 and 2016, 18.8%, 25.7% and 39.7% of all loan applications that passed the initial qualification phase were approved by our credit assessment team, respectively. The approval rate of our credit assessment team has improved as we enhance our initial qualification process by rejecting unqualified borrowers at an early stage. In 2014, 2015 and 2016, 12.8%, 12.7% and 14.5% of all loan applications were approved. Step 4: Approval, Registration and Financing Once the loan application is approved, we make a loan agreement available online for review and approval of the prospective borrower. This loan agreement is between the borrower, the investors who finance the borrower's loan and our platform. Upon acceptance of the loan agreement, if the loan has not been automatically matched through an automated investment tool, the loan is then entered into our market for investors to consider. Once a loan is listed on our market, investors can then purchase the loan using our automated or self-designed investment tools. Before a loan is paid to the borrower, it must be fully underwritten by investors. Our liquidity management system is designed to ensure the rapid and efficient matching of borrower loan applications with investor investment demand through the use of a detailed demand forecasting model and real-time monitoring. Once a loan is fully underwritten, the funds are then taken from a custody account and paid to the borrower. 59 Content Table Step 5: Maintenance and Recovery We use an automated process to collect regular loan payments from our borrowers. At the origin of the loan, we establish a payment schedule with payment occurring on a fixed business day each month. Borrowers then make regular loan repayments via a third-party payment platform to a custody account, and we debit the custody account for the transfer of loan repayments to lender investors. We check custody account balances and reconcile transactions with our records on a daily basis. As a daily service for borrowers, we provide payment reminder services such as sending reminder text messages on the day a refund is due. Once a refund is due, we also send text messages during the first fourteen days of delinquency. We outsource all stages of the collection process to CreditEase, which begins once a loan is a 15-day delinquent. To facilitate repayment and serve investors, the recovery process is divided into separate steps based on the severity of the delinquency, which dictates the level of recovery actions taken. For example, text messages and reminder emails are sent to an offender borrower at the beginning of the collection process, and if the payment is still outstanding, the collection team will make phone calls and then travel to the delinquent borrower's home. While all stages of the collection process are entrusted to CreditEase, we handle all restructuring or deferral decisions for outstanding loans that are above a certain threshold, while CreditEase's collection teams have the discretion to make decisions for loans that are below that threshold. Risk Management Traditional risk management tools and the types of consumer finance data available in developed economies, such as widely available consumer credit assessment services, are currently at an early stage of development in China. We believe that our industry-leading risk management capabilities give us a competitive advantage by attracting capital to our market by providing investors with the comfort they invest in high-quality loans through a sustainable market. Exclusive Fraud Detection System We use an exclusive fraud detection system, part of our larger risk management system, to identify and reject applications from potential borrowers. Our system combines quantitative modeling, Internet technology, offline verification and the use of third-party services. The quantitative modeling aspect of our fraud detection system involves the use of a big data platform to locate potential inconsistencies in a particular borrower application. The aspect of Internet technology includes the verification and monitoring of intellectual property. Our offline verification activities involve members of our credit assessment team who turn to potential borrowers to inquire about any inconsistencies in a loan application. Our big data platform is also used to improve our offline verification processes. Finally, we use third-party services to verify the online behavior of potential borrowers, and use the database government agency to verify their identity card numbers against known criminals. We also maintain a blacklist after detecting fraudulent borrowers. Currently, our risk management system uses more than 250 decision rules and contains a blacklist containing more than 1,000,000 fraud detection data points. Exclusive credit rating model and loan qualification system We use an exclusive credit rating model to assess the creditworthiness of potential borrowers. This credit rating model comes from one of a rating system that was developed by CreditEase in collaboration with FICO. We have also modified our credit rating model to adapt to the realities of the Chinese market, which has historically had no widely available source of consumer credit information. Our credit rating model aggregates and analyzes the data submitted by the borrower as well as the data we collect from a number of internal and external sources, and then generates a Yirendai rating for the potential borrower. Our relationship with CreditEase allows us to further improve the depth of our credit rating model through our ability to rely on ten years of lending data. In addition to its strong analytical base, our credit rating model is regularly monitored, tested, updated and validated by our risk management team. 60 Content Table The following table presents the key criteria that have a significant impact on a borrower's Yirendai rating: Criteria Examples effect on yirendai Score Purpose of the loan Personal consumption No Monotonic Correlation Attributes Clients Education Fund Positive correlation Higher education leads to a higher score Yirendai Use and performance of loans from other financial institutions Maximum amount of loans that the borrower has borrowed from commercial banks Positive correlation The higher the amount of bank loans, the higher the score Yirendai Credit Card Use and the Payment Model Frequency of Credit Card Use Negative correlation Above a certain threshold, the higher the frequency of credit card usage, the lower Yirendai's score is Record Public Record Court Record . . . No monotonous correlation A borrower's yirendai score is lower if it has been subject to court performance Income and Debt Status Wages Positive correlation Below a certain threshold, the higher the salary, the higher the score Yirendai Geographic Province or city where the borrower is located. No monotonous correlation A borrower's yirendai score is lower if it is located in a province or city where we face intense competition in the Job Stability market Duration of Employment. Positive correlation The longer the job, the higher Yirendai's score Merchant Purchasing Model Recent Average Consumption Level Positive correlation The higher the recent average consumption level, the higher the Yirendai rating Yirendai scores derived from our proprietary credit rating model containing the above criteria are used to determine which of the four segments of our current rate schedule a particular borrower falls into. Currently, to be eligible for any of the four segments, a prospective borrower must first meet our definition of primary borrower, and then meet the following minimum borrower qualification standards that we have established for each of the four segments: 61 Borrower Minimum Qualification Standard Content Table A healthy buying model at online merchants(1) and healthy credit card behaviour(2) OR credit card holder with a limit credit card is no less than RMB70. .000 (US$10,082.1) and a monthly after-tax income of at least RMB10,000 (1,440.3 $US) B healthy buying model at online merchants (1) and behaviour Stable credit card (3) C stable buying model with online merchants(4) and stable credit card behavior(3) D buying model mostly stable with online merchants(4) and mainly stable credit card behavior(3) or salaried employee with a credit card in some preferred industry categories that we believe to be more creditworthy, which include, for example, commercial banks (1) healthy buying model means a buying model with online merchants that includes, among other things, an online buying history of at least four years. (2) Healthy credit card behaviour refers to credit card behaviour that includes, among other things, regular on-time payments and a relatively low level of average credit utilization. (3) Stable credit card behaviour refers to credit card behaviour that includes, among other things, regular on-time payments and a moderate level of average credit utilization. (4) stable purchasing model refers to a buying model at online merchants that includes, among other things, an online shopping history of up to two years. Of the four segments, Category A represents the lowest risks associated with borrowers, while Category D represents the highest risks. The LRAs that correspond to the four segments of our current rate schedule range from 16.9% to 39.5%, allowing us to obtain appropriate prices for a wide range of loans. LRAs represent the actual annual cost of borrowing over the life of a loan charged to borrowers, which includes and fixed interest costs. The following table shows the current IPR, the annual interest rate and the average transaction fee rate for each of the segments of our tariff schedule: Value-quality RPA interest rate(1) Average transaction fee rate(2) At 16.9% 10.0-12.5% 5.6% B 27.4% 10.0-12.5% 17.3% C 33.35% 1 0.0-12.5% 24.8% D 39.5% 10.0-12.5% 27.6% (1) The annual interest rate borrowers pay to investors ranges from 10.0% to 12.5% depending on the length of the loan. (2) The transaction fee rate is calculated as the total amount of transaction fees we charge borrowers for the duration of the loan, divided by the total amount of capital. The average transaction fee rate shown in the table above is the simple average transaction fee rates for loans that fall under the same price category, but with different tenures and repayment schedules. Given that both the interest rate and the REA are annualized rates, while the average transaction fee rate is calculated as described above, the sum of the annual interest rate and the average transaction fee rate is not equal to the ICSC. We have facilitated the decline of Class A loans in our market since our inception, and these loans represent the majority of the historic loans facilitated by our online consumer financing market. As part of our efforts to introduce risk-based pricing, we raised minimum qualification standards for Category A loans and began facilitating Class B and D loans in the fourth quarter of 2014, and Class C loans in the first quarter of 2015. The introduction of these new price categories is part of our ongoing focus on principal borrowers and allows us to further segment this group of borrowers and prices the risks associated with them more effectively. We allow potential borrowers who initially do not meet our borrower criteria to reapply for a loan after a certain period of time, usually six months, if they are able to demonstrate a verifiable improvement in the criteria that affect their Yirendai score. For potential borrowers we determine present a fraud risk, replications are never allowed. 62 Content Table Our Risk Management Committee, Risk Management Division and Credit Assessment Team At the organizational level, we have a risk management committee, made up of our Executive Chairman, CEO, Chief Financial Officer and Chief Financial Officer, which meets monthly to review credit risks liquidity and operations on our platform. We have an independent risk management division, responsible for analyzing loan performance, validating credit ratings and performance of the credit decision. This division engages in a variety of risk management activities, including reporting on performance trends, monitoring loan concentrations and stability, conducting economic stress tests on loans, randomly checking loan decisions of our credit assessment team members, and conducting peer-reviewed and external risk assessments. Our credit assessment team December 31, 2016. Each loan product application received through our platform is reviewed by a junior member and a senior member of our credit assessment team. Members of our credit assessment team analyze loan applications and also assist in fraud detection and verification of borrowers, leveraging the skills gained through on-the-job training and experience to evaluate loans through direct communications with potential borrowers. For each loan application, a junior team member will make an initial recommendation which will then be reviewed by a senior team member, who has the power to veto the junior team member's recommendation. In 2014, 2015 and 2016, 18.8%, 25.7% and 39.7% of all loan applications that passed the initial qualification phase were approved by our credit assessment team, respectively. Loan and Collections Service Our technology platform is capable of monitoring and tracking payment activity. With built-in payment tracking features and automated missed payment notifications, the platform allows us to monitor current loan performance in real time. CreditEase has developed a strategy to optimize the recovery process for our outstanding loans. Our collection process is divided into separate steps depending on the severity of the delinquency, which dictates the level of collection steps taken. Loans progress throughout the recovery cycle based on the number of days required, but can be accelerated depending on specific circumstances. Investor Protection Prior to August 2013, we provided investors with investor protection in the form of a quality assurance program, under which we set aside some of the service charges we received under the Quality Assurance program. In the event that a loan defaults for more than a fortnight, we will use the quality assurance program money to pay the principal of the loan and the interest accrued to the investor. Under our agreements with investors, our contractual obligation to repay defaulted loans is limited to the amount of money we have set aside in the quality assurance program. We charged investors a quality assurance program management fee at a rate of 10% of the loan interest for this service. In August 2013, we replaced the old quality assurance program with a warranty system. As part of this system, we worked with Tian Da Xin An, a warranty company, to investors the opportunity to purchase the assurance that their principal and interest would be repaid in the event of default on their loans, and the guarantee company charged investors 10% of the loan interest for the guarantee service. Historically, more than 99% of investors have opted for the guarantee system. When we switched to the guarantee model in August 2013, we paid Tian Da Xin An a one-time fee of US$0.3 million to cover outstanding loan balances. Unpaid. as part of our previous quality assurance program. As of January 1, 2015, we have terminated our relationship with the guarantee company, which will continue to guarantee all previously secured loans, and launched our current quality assurance program. This quality assurance program covers loans from and after January 1, 2015. Under this arrangement, at the beginning of each loan, we set aside cash equal to a certain percentage of the loan amount facilitated on our platform into an interest-bearing custody account managed by china Guangfa Bank. We reserve the right to revise this percentage upwards or downwards from time to time. Factors we consider in determining this percentage include market dynamics, product lines, profitability, cash position and our actual and expected net quality assurance payments. 63 Content Table Under the Quality Assurance Agreement, if a borrower defaults for 15 days in the repayment of a principal and interest down payment on a loan, we will withdraw an amount from the custody account to repay the delinquent portion of the principal and interest to the corresponding investor. If a borrower defaults 90 days in the repayment of a principal and interest deposit on a loan, we will withdraw an amount from the custody account to repay the principal and delinquent payment interest, plus the entire outstanding balance of the loan's principal, to the corresponding investor. If the quality assurance program becomes insufficient to repay all investors with outstanding loans, these investors will be repaid on a pro-rata basis, and their outstanding outstanding balances will be deferred to the next time the quality assurance program is restored, when a distribution will be made again to all investors with outstanding loans. Following the replenishment of the quality assurance program, in the event that the amount of funds is again insufficient to repay all investors with outstanding loans, investors will again be repaid on a pro-rata basis, although in this case, the number of prorated investors in the quality assurance program will increase to include unpaid investors from previous periods as well as unpaid investors from the current period. If the quality assurance program is continually underfunded, investors may have to wait long periods to receive a full distribution of the quality assurance program, or suffer a loss on their investment if the quality assurance program is not Starting in November 2015, we imposed a two-year limit on the period during which an investor is entitled to receive a distribution of the Quality Assurance Program, which means that if an investor has not recovered the total amount of the default at the time of two years and 90 days from the original maturity date , then the investor will no longer have the right to receive pro pro reimbursement of our quality assurance program. As a result, investors will bear the risk of not being able to fully recover their investment capital and unpaid interest. Once we make a payment to an investor, we seek to collect the borrower's amounts through the collection process. The amount collected from the borrower, if any, is remitted to first replenish the part of the quality assurance program used to repay the investor, and if there is an additional amount left, then to reimburse our collection costs. If we are unable to collect sufficient amounts from the default borrower to cover our collection costs, our quality assurance service contract with investors requires investors to reimburse us for litigation or arbitration costs that we were able to advance on their behalf during the collection process, although in practice we supported the un recovered portion of these and other collection expenses. In the first three quarters of 2015, the amount of money we set aside for the quality assurance program was equivalent to 6% of the loans facilitated by our market during the period. This amount was not sufficient to cover all net payments for loans facilitated during this period. In the fourth quarter of 2015, in order to continue to attract new investors and retain existing investors and remain in line with current industry practice in China, we revised our quality assurance program financing policy to ensure that we have set aside sufficient liquidity in the quality assurance program to cover expected net payments. , based on our commercial intent, but not our legal obligation. In addition to setting aside a certain percentage of the loan amount at the beginning of each loan, we monitor the balance of the quality assurance program on a monthly basis and adjust on a quarterly basis by putting an appropriate additional amount of money from other sources into the quality assurance program as required to ensure that we can adequately cover the expected net payments. Our current quality assurance program funding policy is designed to have sufficient liquidity in the quality assurance program to cover expected net payments. Subject to the terms and limitations of our investor agreements, we currently allow investors to fully recover their outstanding capital and accrued interest in the event of default. However, as the industry continues to evolve and become more sophisticated, we can review our policy or the terms and conditions under which we offer the quality assurance program so that investors can recover less than 100% of the outstanding capital and accrued interest. 64 Table of Materials For our liabilities associated with the quality assurance program, see Point 5. Review of operations and outlook —A. Operating Results — Selected Operating States — Quality Assurance Program. Our Our We believe that our technology platform is a competitive advantage and an important reason why borrowers and investors use our market. The main features of our technology platform are: Highly automated process. Our platform covers all five stages of the customer's lifecycle: application; Verification evaluation and decision of credit; Registration and funding and maintenance and collections. Our web and mobile platform also offers a superior customer experience. We offer a quick and easy-to-use online application process and provide borrowers and investors with access to online support and tools throughout the process and throughout the life of the loan or investment. Our liquidity management system is designed to ensure the rapid and efficient matching of borrower loan applications with investor investment demand in anticipation of borrowing demand on a weekly and monthly basis and by monitoring real-time cash flows. · Mobile apps. We have developed a variety of mobile applications that are user-friendly for borrowers and investors, allowing borrowers and investors to access our platform at any time or anywhere that is convenient. We launched our first mobile app in the fourth quarter of 2013, and approximately 24.7%, 28.6% and 37.4% of loans in terms of amount were facilitated by our mobile applications in 2014, 2015 and 2016, respectively. · Exclusive fraud detection. We use a combination of current and historical data obtained during the application process, third-party data and sophisticated analytics tools to help determine an application's risk of fraud. High-risk applications are further investigated. In the event that the fraud is confirmed, the application is cancelled, and we identify and report the characteristics of the loan to help refine our fraud detection efforts. · Evolutionary platform. Our platform is built on a distributed and balanced IT infrastructure, which is both highly scalable and reliable. Infrastructure can be easily expanded as data storage needs and user visits increase. We have designed a unified platform that administers all systems and servers and can automatically reconfigure or redeploy systems or servers whenever necessary. · Data security. Our network is configured with multiple layers of security to isolate our databases from unauthorized access and we use sophisticated security protocols for between applications. To prevent unauthorized access to our system, we use a firewall system and also maintain a peripheral network, or DMZ, to separate our external services from our internal systems. All of our website and public and private APIs use Secure Sockets Layer networking protocol. · Stability. Our systems infrastructure is housed in redundant data centers co-located in two separate districts of Beijing. We have several layers of redundancy to ensure the reliability of our network. We also have a work data redundancy model with complete backups of our databases and our daily development environment. Brand Promotion Our general marketing efforts are designed to enhance brand awareness and reputation and attract and retain borrowers and investors. We believe that reputation and word of mouth drive the continued organic growth of our borrower and investor bases. In this regard, our association with CreditEase is a valuable marketing and promotional asset. 65 Content Competition Table The online consumer financing market industry in China is extremely competitive and we are competing with other consumer finance markets. Our main competitor is Lufax (). Given the low barriers to entry into the online consumer financing industry, more players can enter this market and increase the level of competition. We anticipate that more established Internet, technology and financial services companies with large existing user bases, substantial financial resources and established distribution channels could enter the market in the future. We also compete with other financial products and businesses that attract borrowers, investors or both. As far as borrowers are concerned, we are competing with other consumer finance markets and traditional financial institutions, such as consumer finance business units in commercial banks, credit card issuers and other consumer finance companies. For investors, we compete primarily with other investment products and asset classes, such as equities, bonds, investment trust products, bank savings accounts and real estate. Intellectual Property We consider our trademarks, domain names, know-how, proprietary technologies and similar intellectual property as essential to our success, and we rely on secret trademark and trade law and confidentiality, the awarding of inventions and non-compete agreements with our employees and others to protect our property rights. We applied for two brands and for the five brands of CreditEase to us, all of which are pending with the Trademark Office under the State Administration for Industry and Commerce. We have obtained a global, royalty-free and exclusive license from CreditEase to use certain brands related to our business, which CreditEase is in the process of transferring to us. As of the date of this annual report, a total of six trademarks have been transferred to us by CreditEase. We also obtained a worldwide license and no royalty from CreditEase to use some of its brands, including (Chinese equivalent CreditEase). Despite our efforts to protect our exclusive rights, unauthorized parties may attempt to copy or obtain and otherwise use our technology. Monitoring the unauthorized use of our technology is difficult and costly, and we cannot be sure that the actions we have taken will prevent the diversion of our technology. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and the misappropriation of our resources. In addition, third parties may sue us alleging a violation of their property rights or declaring their non-violation of our intellectual property rights. In the event of a successful infringement claim and our inability or inability to develop non-counterfeit technology or authorize counterfeit or similar technology in a timely manner, our business could be harmed. In addition, even if we are able to authorize counterfeit or similar technology, the licence fees could be substantial and adversely affect our operating results. See Article 3. Key Information — Risk Factors D. — Business Risks — We may not be able to prevent others from using our intellectual property without authorization, which could affect our business and competitive position and point 3. Key Information —D. Risk Factors—Risks to Our Business —We may be the subject of intellectual property infringement claims that can be costly to defend and disrupt our operations and operations. Insurance We maintain home insurance policies covering certain equipment and other assets essential to our business activities to protect ourselves from risks and unforeseen events. We also provide social security insurance, including retirement insurance, unemployment insurance, work-related damage insurance and medical insurance for our employees. We do not maintain discontinuation of business or general liability insurance for third parties, nor do we maintain product liability or key man insurance. We consider our insurance coverage to be sufficient for our business activities in China. 66 Table of Seasonality Content We experience seasonality in our business, reflecting seasonal fluctuations in Internet use and traditional personal consumption habits, as our individual borrowers generally use their borrowing product to finance their personal consumption needs. For example, we generally experience Lower transaction value in our online consumer finance market during national holidays in China, especially during the Chinese New Year holiday period in the first quarter of each year. Overall, the historical seasonality of our business has been slight due to our rapid growth, but could still increase in the future. Due to our limited operating history, the seasonal trends we have experienced in the past may not apply or be our future operating results. Regulations This section provides a summary of the most important rules and regulations that affect our business activities in China. As an online consumer finance market connecting investors to individual borrowers, we are regulated by various government authorities, including, among others: the Ministry of Industry and Information Technology, or MIIT, regulating telecommunications and telecommunications-related activities, including, but not limited to, Internet information services and other value-added telecommunications services; the People's Bank of China, or PBOC, as China's central bank, regulating the formation and implementation of monetary policy, issuing the currency, supervising commercial banks and assisting in the administration of financing; The China Banking Regulatory Commission, or cbrc, regulates financial institutions and enacts regulations relating to the administration of financial institutions. Foreign Investment Industry Catalogue Regulations Relating to foreign investment activities in the PRC by foreign investors are primarily governed by the Foreign Investment Industry Orientation Catalogue, or catalogue, which has been promulgated and amended from time to time by the MOC and the National Development and Reform Commission. The industries listed in the catalogue are divided into three categories: encouraged, restricted and prohibited. Industries that are not included in the catalogue are generally considered to be a fourth authorized category. The creation of entirely foreign enterprises is generally permitted in encouraged and licensed industries. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold majority stakes in such joint ventures. In addition, restricted-class projects are subject to higher-level government approvals. Foreign investors are not allowed to invest in industries of the prohibited category. Industries that are not listed are generally open to foreign investment unless they are expressly restricted by other PRC regulations. Our CPP subsidiaries are primarily engaged in the provision of investment and financing consultations and technical services, which fall into the encouraged or permitted category in the catalogue. Our CPP subsidiaries have obtained all the material approvals required for its business activities. industries such as value-added telecommunications services (excluding e-commerce), including Internet information services, are limited to foreign investment. We provide value-added telecommunications services that are in the category of Heng Cheng and Yi Ren Wealth Management. 67 Table of Content Foreign Investment in Value-Added Telecommunications Services Provisions relating to the administration of foreign-invested telecommunications companies promulgated by the State Council in December 2001 and amended subsequently in September 2008 prohibit a foreign investor from owning more than 50% of the total interest in any value-added telecommunications services business in China and require that the main foreign investor in any services activity Value-added telecommunications in China have good and profitable operating experience in this business. Industry. The Industry Orientation Catalogue for Foreign Investment amended in 2015 and Circular 196 promulgated by MIIT in June 2015 allow a foreign investor to hold more than 50% of the total interest in an online data processing and transaction (e-commerce) business. In July 2006, the Ministry of Information Industry, predecessor of MIIT, issued the circular on strengthening the administration of foreign investment in the operation of value-added telecommunications companies, under which a national PRC company licensed to operate value-added telecommunications companies, which we call the VATS licence, is prohibited from leasing , transfer or sale of the VATS licence to foreign investors in any form and provide any assistance. , including resources, sites or facilities, to foreign investors who illegally run a value-added telecommunications company in China. In addition, domain names and trademarks used by an operating company providing value-added telecommunications services must be legally owned by that company or its shareholders. In addition, the holder of the VATS licence must have the necessary facilities for its approved commercial operations and maintain the facilities in the areas covered by its VATS licence. In light of the above restrictions and requirements, we operate our online markets through Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities. Heng Cheng has received an ICP license, the VATS license for Internet information services, and Yi Ren Wealth Management is applying for an ICP license. CreditEase currently owns certain brands related to our value-added telecommunications business. CreditEase is in the process of transferring these trademarks to Heng Cheng in order to comply with the trademarks used by an operating company providing value-added telecommunications services must be legally owned by that company or its shareholders. Online Lending Information Regulations Due to the relatively brief history of the online lending information industry in China, the regulatory framework our industry has not developed comprehensively. Although few specific regulations on the intermediate services industry for online lending information have been published in the past two years, regulators have not yet issued detailed guidelines for interpretation and implementation. In addition, there are certain other general rules, laws and regulations that may be relevant or applicable to the online lending information industry, including the PRC Contracts Act, the general principles of civil law in the PRC, and related judicial interpretations promulgated by the Supreme People's Court. Personal Loan Regulations The CPP Contracts Act governs the training, validity, performance, performance, performance and awarding of contracts. The CPP Contracts Act confirms the validity of the personal loan agreement and provides that the loan agreement comes into effect when the individual lender grants the loan to the individual borrower. The CPP Contracts Act requires that the interest rates charged under the loan agreement should not violate the applicable provisions of the PRC laws and regulations. In accordance with the provisions on several issues relating to the laws applicable to private loan cases issued by the Supreme People's Court on 6 August 2015, or to the judicial interpretations of private loans, which came into force on 1 September 2015, private loans are defined as financing between individuals, corporations and other organisations. When private loans between individuals are paid by bank transfer, via online loan information intermediaries or other similar means, loan contracts between individuals are deemed to be validated when the funds are deposited into the borrower's account. In the event that loans are made through an online lending information intermediary, which provides only intermediate services, the courts will reject the parties' claims against the platform requiring the repayment of loans through the platform as guarantors. However, if the online lending information intermediary guarantees the repayment of loans, as evidenced by its web page, advertisements or other media, or if the court is provided with other evidence, the lender's claim that the online loan information intermediary assumes a guarantor's obligations will be upheld by the courts. Judicial interpretations of private loans also provide that agreements between the lender and the borrower on loans whose interest rates are 24% per year are valid and enforceable. For loans with annual interest rates between 24% and 36%, if interest on the loans has already been paid to the lender, and as long as such a payment has not adversely affected the interests of the state, the community and any third party, the courts will refuse the borrower's request to require the return of the Payment. If the annual interest rate on a private loan is more than 36%, the surplus will not be applied by the courts. LRAs for term loans on our market currently range from 16.9% to 39.5%, which includes a fixed interest rate and a transaction fee rate that we charge borrowers for our services. See — Our Products and Services — Loan Pricing Mechanism. The interest rate component, which is stipulated in the loan agreements, does not exceed and should not exceed the mandatory limit for loan interest rates. 68 Content Table In accordance with the CPP Contracts Act, a creditor may transfer his rights under an agreement to a third party, provided the debtor is notified. When the creditor's rights are regularly awarded, the transferee is entitled to the rights of the creditor and the debtor must fulfill the relevant obligations under the agreement for the benefit of the assignee. We operate a secondary lending market on our platform where investors can transfer the loans they hold to other investors before the loan matures. To facilitate the allocation of loans, the model loan agreement applicable to lenders and borrowers in our platform expressly provides that a lender has the right to assign its rights under the loan agreement to third parties and that the borrower accepts such a transfer. In addition, under the CPP Contracts Act, an intermediation contract is a contract whereby an intermediary offers the client the opportunity to enter into a contract or provides the client with other intermediate services as part of the contract, and the customer pays the intermediate service fee. Our investor-investor relationship with individual borrowers can be an intermediary service, and our service agreements with borrowers and investors can be considered intermediation contracts under the CPP Contracts Act. Under the CPP Contracts Act, an intermediary must provide real information about the proposed contract. If an intermediary intentionally conceals any material facts or provides false information regarding the conclusion of the proposed contract, which harms the client's interests, the intermediary cannot claim a service charge and is liable for the damage caused. Regulations on illegal fundraising by entities or individuals of the general public must be conducted in strict compliance with applicable PRC laws and regulations in order to avoid administrative and criminal responsibilities. Measures to ban illegal financial institutions and illegal financial trade transactions Council of State in July 1998 and amended in January 2011, as well as the opinion on relevant issues relating to the sanction for illegal fundraising issued by the General Office of the State Council in July 2007 explicitly prohibit fundraiser. The main features of illegal public fundraising include: (i) illegally soliciting and raising funds from the general public through shares, bonds, lotteries or other securities without obtaining the approval of the competent authorities, (ii) promising a return of interest or profits or returns from investments in cash, properties or other forms within a specified time frame, and (iii) using a legitimate form to conceal it. In order to further clarify criminal charges and penalties for illegal public fundraising, the Supreme People's Court has promulgated judicial interpretations of issues relating to requests for criminal cases of criminal cases on illegal fundraising, or illegal judicial interpretations of fundraising, which came into force in January 2011. Illegal judicial interpretations of fundraising provide that a public fundraiser will constitute a criminal offence related to the illegal solicitation of deposits from the public under the CPP's criminal law, if it meets the following four criteria: (i) the collection of funds has not been approved by the competent authorities or is concealed under the guise of legitimate acts; (ii) fundraising involves general solicitation or advertising such as social media, promotional meetings, leafleting and SMS advertising; (iii) fundraising promises to repay, after a specified period, capital and interest, or returns on cash investments, properties in kind and in other forms; (iv) fundraising goals for the general public rather than individuals. An illegal fundraising activity will be fined or prosecuted for a criminal offence. In accordance with illegal judicial interpretations of fundraising, an offender who is an entity will be subject to criminal liability if he illegally solicits deposits from the general public or illegally solicits deposits in disguise (i) with the amount of deposits involved exceeding RMB1,000,000 (US$144,030), (ii) with more than 150 fundraising targets involved , or (iii) with direct economic loss caused by fundraising targets exceeding RMB500 .000 (US$72,015) or (iv) illegal fundraising activities have caused adverse influences to the public or have resulted in other serious consequences. An offender is also subject to criminal responsibilities, but with lower thresholds. In addition, a person or entity that has contributed to the illegal fundraising of funds from the general public and charges fees, including, without agent fees, rewards, discounts and commission are complicit in the crime of illegal fundraising. In accordance with the opinions of the Supreme People's Court, the Supreme Attorney General and the Ministry of Public Security on several issues relating to the application of the law in the illegal fundraising of funds In cases, the administrative procedure for determining the nature of illegal fundraising activities is not a pre-trial procedure for the initiation of criminal proceedings concerning the crime of illegal fundraising, and the inability of administrative services to determine the nature of illegal fundraising activities does not affect the investigation, prosecution and trial of cases involving the crime of illegal fundraising. 69 Content Table We have taken steps to avoid prohibited activities under illegal financing laws and regulations. We act as a platform for borrowers and investors and are not part of the loans facilitated by our platform. In addition, we do not directly receive funds from investors in our own accounts because the funds lent by our platform are deposited and settled by a third-party custody account managed by china Guangfa Bank, one of the largest commercial banks in China. Online Lending Information Providers Regulations In July 2015, 10 CPP regulators, including PBOC, MIIT and CBRC, jointly published the Guidelines for promoting healthy development of the online financing industry, or guidelines. The Guidelines set out some fundamental principles for the intermediate lending industry in terms of information on online lending. Based on the core principles of the Guidelines, in August 2016, CBRC, MIIT, the CPP Ministry of Public Safety and the PRC State Internet Information Office issued interim measures on the administration of the business activities of online lending information intermediaries, or interim measures. Interim measures define online lending as direct loans between individuals (including individuals, corporations and other organizations) through Internet platforms, and online lending information intermediaries as legally established financial information intermediaries specialized in the intermediate online lending information sector, which provide , mainly via the Internet, services such as information gathering, disclosure, credit assessment, information exchange and loan matching to facilitate direct lending between borrowers and lenders. The interim measures require online lending information intermediaries and their branches that offer to provide intermediate online lending information services to file a file with the local financial regulatory service at where they are registered with the local government for industry and commerce within 10 business days of obtaining the business license. Local financial regulatory services have the authority to evaluate and classify online loan information intermediaries who have filed a file, and to publicize information on filing files and classification results on their official sites in a timely manner. However, specific rules and procedures regarding the filing, evaluation and classification of online lending information intermediaries, particularly those that exist prior to the enactment of the interim measures, have not yet been formulated and published. Institutions engaged in the field of online lending information must explicitly identify online lending information intermediaries in their field of activity. Online lending information intermediaries are prohibited from engaging in any of the following activities, including (i) direct financing or in disguise; (ii) accept, collect or raise funds from lenders directly or indirectly; (iii) ensure the safety of lenders or promise principals and competitive threshold interests directly or in disguise; (iv) advertising or promoting financing projects in other physical premises other than digital channels such as the Internet, landline or mobile phone on their own or when a third party is transferred or authorized; (v) provide loans, unless the laws and regulations otherwise stipulate it; (vi) split the duration of any funding project; (vii) raising funds by issuing financial products such as wealth management products or by selling bank wealth management products, securities dealer asset management products, funds, insurance, trust products or other financial products on a commission basis; (viii) carry out any activity similar to the securitization of assets or transfer the rights of creditors in the form of packaged assets, asset-backed securities, trust assets or units of funds, among others; (ix) engage in any form of mixing, bundling or agency with other companies such as institutional investment, commission selling and brokerage, unless authorized by relevant laws, regulations and regulations on online lending information intermediaries; x) misrepresentation, misrepresentation or failure to disclose important information about financial plans; xi) provide information intermediary services for high-risk financing projects to invest in the stock market, over-the-counter financing, futures, structured products and other derivatives; and (xii) engage in equity-based crowd funding. 70 Content Table Provisional measures do not allow (i) that the balance of money borrowed by the same person and the same legal person or any other organization on the same intermediary online lending information platform exceeds RMB200,000 (US$28,806) and RMB1,000,000 (US$144,030.0), respectively; or (ii) the total balance of money borrowed by the same natural person and the same legal person or any other organization on different platforms of online lending information intermediaries for RMB1,000,000 (US$144,030.0) and RMB5,000,000 (US$720,150), respectively. The fundraising period set by an online loan information intermediary for each financing project must not exceed 20 business days. In addition, the interim measures set out certain disclosure requirements for online loan information intermediaries, including (i) full disclosure on their respective official websites of basic borrower information, background information on financing projects, risk assessment, possible risk outcomes, use of funds by matched loan projects and other related information; (ii) publication on their respective official websites corresponded to loan projects and other information about their operation and management; (iii) maintain certain columns on their official websites for information on their operations and business management and to regularly disclose to the public their annual reports, laws and regulations, as well as relevant regulatory provisions on the online lending information industry; (iv) retain accounting firms to regularly verify the deposit and management of lenders' and borrowers' funds, disclosure of information, security of the information technology infrastructure, compliance with operations and other key processes, and the retention of institutions qualified as information security assessment and certification to assess and certify their information security on a regular basis. , borrowers and others with audit, evaluation and certification results. Anti-Money Laundering Regulations The CPP Anti-Money Laundering Act, which came into force in January 2007, sets out key anti-money laundering requirements for financial institutions and non-financial institutions with anti-money laundering obligations, including precautionary and supervisory measures , the implementation of various customer identification systems, the retention of customer identification information and transaction records, and reports on large and suspicious transactions. Under the CPP's Anti-Money Laundering Act, financial institutions subject to the CPP Anti-Money Laundering Act include banks, credit unions, trust investment companies, securities companies, futures brokerages, insurance companies and other financial institutions listed and published by the State Council, while the list of non-financial institutions with anti-money laundering obligations will be published by the State Council. The PBOC and other government authorities have issued a series of rules and by-laws to clarify the anti-money laundering obligations of financial institutions and certain non-financial institutions, such as payment institutions. However, the Council of State has not promulgated the list of non-financial institutions anti-money laundering. The Guidelines, jointly published by ten CPP regulators in July 2015, aim, among other things, to require Internet finance service providers, including online lending information intermediaries, to comply with certain anti-money laundering requirements, including the implementation of a customer identification program. , tracking and reporting suspicious transactions, retaining customer information and transaction records, and providing assistance to the public safety service and the judicial authority in investigations and procedures relating to money laundering issues. Interim measures taken jointly by four CPP regulators in August 2016 require, among other things, that online lending information intermediaries comply with certain anti-money laundering obligations, including verifying customer identification, reporting suspicious transactions, and preserving customer information and transaction records. The Custodian Guidelines published by the PBOC in February 2017 require online lending platforms to set up on-call accounts with commercial banks and comply with the anti-money laundering requirements of the commercial banks concerned. 71 Content Table In cooperation with our partner watchdogs and payment companies, we have adopted various policies and procedures, such as internal controls and your client's know-how procedures, for anti-money laundering purposes. Value-added Telecommunications Services Regulations The State Council's Telecommunications Regulations and related implementation rules, including miIT's Catalogue of Telecommunications Companies, classify the various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services , while Internet information services, or ICP services, data processing and transaction processing services, or eDI services, are classified as value-added telecommunications companies. In 2009, MIIT enacted administrative measures on the operating licences of telecommunications companies, which impose more specific provisions on the types of licences required to operate value-added telecommunications services, licensing qualifications and procedures, and the administration and supervision of these licences. Under these regulations, a commercial operator of value-added telecommunications services must first obtain a licence for value-added telecommunications companies, or VATS license, from MIIT or its provincial counterparts, which must identify the specific type of value-added telecommunications services it provides. An internet information service provider must obtain a VATS license for Internet information services, or an ICP license and a and the transaction processing service provider must obtain a VATS license for data processing and transaction processing services, or EDI license. In September 2000, the Council of State also published administrative measures on Internet information services, which were amended in January 2011. Under these measures, Internet information services refer to the provision of internet information to online users and are divided into commercial Internet information services and non-commercial internet information services. A commercial operator of Internet information services must obtain a VATS license for Internet information services, or ICP license, from the relevant government authorities before engaging in commercial operations of Internet information services in China. The ICP licence has a five-year term and can be renewed within 90 days of expiry. Heng Cheng, our consolidated variable interest entity operating our online marketplace, and Yi Ren Wealth Management, our consolidated, variable-interest entity operating our wealth management website and mobile application, may be deemed to provide commercial Internet information services as well as data processing and transaction processing services, which would require Heng Cheng and Yi Ren Wealth Management to obtain an ICP license and an EDI license. Heng Cheng holds an ICP license to provide commercial Internet information services issued by the Beijing Telecommunications Administration Office in April 2015, and Yi Ren Wealth Management is applying for an ICP license. The Guidelines, jointly published by ten CPP regulators in July 2015, aim to, among other things, requiring Internet financing service providers, including online lending information intermediaries, to complete registration with the relevant local counterparty of MIIT in accordance with implementation regulations that may be promulgated by MIIT and/or the Cyberspace Affairs Office in accordance with the Guidelines. Interim measures jointly published by four CPP regulators in August 2016 require, among other things, that online lending information intermediaries apply for an appropriate telecommunications company licence in accordance with the relevant requirements of telecommunications authorities after the filing of records with the local financial regulatory service has been completed. In accordance with the Guidelines and interim measures, the relevant authorities are in the process of providing rules detailed implementation with respect to file filing procedures, as well as procedures for applying for an appropriate telecommunications company licence through online lending information intermediaries. We plan to apply for any required telecommunications service license once detailed implementation rules are available. Internet information regulations Internet information in China is also regulated and restricted from a national security perspective. The National People's Congress, China's national legislative body, has adopted decisions on maintaining Internet security, which may subject violators to criminal sanctions in China for any effort to: (i) obtain inappropriate entry into a computer or system of strategic importance; (ii) disseminate politically disturbing information; (iii) state secrets of leaks; (iv) spreading false business information; or (v) violate intellectual property rights. The Ministry of Public Security has enacted measures that prohibit the use of the Internet in a way that, among other things, results in the leaking of state secrets or the spread of socially destabilizing content. If an Internet information service provider violates these measures, the Ministry of Public Safety and local security offices may revoke its operating license and close its websites. 72 Content Table In addition, the Guidelines, jointly published by ten CPP regulators in July 2015, aim, among other things, to require Internet finance service providers, including online lending information intermediaries, to improve technology security standards and protect customer information and transactions. Interim measures jointly published by four CPP regulators in August 2016 require online lending information intermediaries, among others, to (i) rank deposits and tests for their information systems, (ii) to implement in-depth cyberspace facilities and management measures, including firewall , intrusion detection, data encryption and disaster recovery, etc., (iii) establish information technology management, technology risk management. , technological audit and related systems, (iv) allocate sufficient resources and implement in-depth management and control measures and technological means to ensure the safe and regular operation of their information systems, v) protect the security of the information of lenders and borrowers, (vi) carry out a full security assessment at least once every two years , (vii) accept the inspection and audit of information security by the relevant authorities, and (viii) establish or adopt disaster recovery systems and facilities at the level of applications compatible with their business scales within two years of their establishment. Regulations Privacy In recent years, CPP government authorities have passed laws and regulations on the use of the Internet to protect personal information from unauthorized disclosure. Under the several regulations of the Order of the Internet Information Services Market, issued by MIIT in December 2011, a PKI service operator may not collect personal information about users or provide that information to third parties without a user's consent. A PIC PIC the operator must expressly inform users of the method, content and purpose of collecting and processing this personal information from users and may only collect the information necessary to provide its services. An ICP service operator is also required to properly maintain the user's personal information, and in the event of a leak or probable leak of the user's personal information, the PKI service operator must take immediate corrective action and, in serious circumstances, report immediately to the telecommunications regulator. In addition, in accordance with the decision on strengthening the protection of online information issued by the Standing Committee of the National People's Congress in December 2012 and the Order for the Protection of Privacy on Telecommunications and Internet Users issued by MIIT in July 2013, any collection and use of users' personal information must be subject to the consent of the user. , respect the principles of legality, rationality and necessity and be within specified purposes, methods and scopes. An ICP service operator must also keep this information strictly confidential, and it is also prohibited from disclosing, falsifying or destroying such information, or from selling or providing this information to other parties. An ICP service operator is required to take technical and other measures to prevent personal information collected from disclosure, unauthorized damage or loss. Violations of these laws and regulations may subject the ICP service operator to warnings, fines, forfeiture of illegal gains, revocation of licenses, cancellation of deposits, closure of websites or even criminal liability. The Guidelines, jointly published by ten CPP regulators in July 2015, also prohibit Internet finance service providers, including online lending information intermediaries, from illegally selling or disclosing customers' personal information. The PBOC and other relevant regulatory authorities will jointly adopt the implementation rules. Interim measures jointly published by four CPP regulators in August 2016 require, among other things, that online lending information intermediaries strengthen the management of lender and borrower information to ensure legitimacy and security in the collection, processing and use of lender and borrower information. , in order to keep confidential lenders and borrowers collected as part of their activities. , and not to use this information for other purposes, except for the services they provide without the approval of lenders or borrowers. The information of lenders and borrowers collected on Chinese territory must be stored, processed and analyzed on Chinese territory. Online lending information intermediaries should not provide lenders and lenders with information to any party outside Chinese territory, unless the laws and regulations otherwise required it. In accordance with the Ninth Amendment to Criminal Law published by the Standing Committee of the National People's Congress in August 2015 and which will come into force in November 2015, any Internet service provider that fails to meet the obligations of the administration of information security on the Internet, as required by applicable laws and refuses to rectify by order, is liable to criminal sanction because (i) of any large-scale dissemination of illegal information; (ii) any serious effect due to the leak of the customer's information; (iii) any serious loss of criminal evidence; (iv) any other serious situation, and any person or entity that (i) sells or provides personal information to others in a manner that violates applicable law, or (ii) illegally steals or obtains personal information, is subject to a serious criminal penalty. 73 Intellectual Property Rights Regulations Table The PRC has adopted comprehensive legislation governing intellectual property rights, including trademarks. The CPP Trademark Act and its implementing rules protect trademarks. The CPP Trademark Act adopted a first to file principle with respect to trademark registration. The Trademark Office of the

State Administration of Industry and Commerce is responsible for registering and administering trademarks throughout the PRC, and grants a term of 10 years to registered trademarks and 10 years if requested at the expiry of the initial or extended term. Trademark licensing agreements must be filed with the Trademark Office for registration. As of the date of this annual report, we have applied for two trademarks and for the transfer of five CreditEase trademarks to us, all of which are pending with the Trademark Office under the State Administration for Industry and Commerce. We have obtained a global, royalty-free and exclusive license from CreditEase to use certain brands related to our business, which CreditEase is in the process of transferring to us. As of the date of this annual report, a total of six trademarks have been transferred to us by CreditEase. We also obtained a worldwide license and no royalty from CreditEase to use some of its brands, including (Chinese equivalent for CreditEase). However, CreditEase's trademark licenses for us have not been filed with the Trademark Office under the State Administration for Industry and Commerce. Dividend withholding tax regulations to the Business Income Tax Act and its implementation rules, if a non-resident business has not created an organization or establishment in the CPP, or has created an organization or institution, but the income comes from no real connection to such an organization or institution, he will be subject to a withholding tax on his income from the CPP at a rate of 10%. In accordance with the Agreement between Mainland China and the Hong Kong Special Administrative Region to avoid double taxation and income tax evasion, the withholding tax rate for dividend payments by a cpp company to a Hong Kong company is reduced to 5%, against a standard rate of 10% if the Hong Kong company directly owns at least 25% of the CPP business. In accordance with the advice of the State Tax Administration on matters relating to the application of the tax treaty dividend clauses, or Circular 81, a Hong Kong resident company must meet the following conditions, among other things, in order to benefit from the reduced source deduction: (i) it must directly own the required percentage of participation and voting rights in the resident business of the CPP; and (ii) it must have directly owned this percentage in the CPP resident business in the 12 months prior to receipt of the dividends. There are also other conditions for taking advantage of the reduced withholding tax rate in accordance with other relevant tax rules and regulations. In August 2015, the State Tax Administration enacted administrative measures to ensure that non-resident taxpayers receive treatment under tax treaties, or Circular 60, which came into effect on November 1, 2015. Circular 60 provides that non-resident businesses are not required to obtain prior approval from the appropriate tax authority in order to benefit from the reduced withholding tax rate. Instead, non-resident companies and their agents may, by self-assessment and confirmation that the criteria for benefiting from the tax treaty are met, apply the reduced withholding tax rate directly, and file the necessary forms and supporting documents when executing tax returns, which will be subject to post-tax reviews by the relevant tax authorities. As a result, Yirendai HK, our Hong Kong subsidiary, could benefit from the 5% withholding tax rate for dividends it receives from Heng Ye and heng Yu Da, our CPP subsidiaries, if they meet the requirements of Circular 81 and other relevant tax rules and regulations. However, according to Circulars 81 and Circular 60, if the relevant tax authorities review the transactions or arrangements we have with the primary aim of receiving favourable tax treatment, the competent tax authorities may withholding tax favourable in the future. 74 Table of Content Regulations on the Foreign Exchange Regulations The main regulations governing foreign currencies in China are the Foreign Exchange Administration Regulations, recently amended in August 2008. Under the CPP, payments of current account items, such as profit distributions, interest payments and foreign exchange transactions related to trade and service, may be made in foreign currency without SAFE's prior approval in accordance with certain procedural requirements. On the other hand, approval or registration with the relevant government authorities is required when RMB is to be converted into foreign currency and returned from China to pay for capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside China. In November 2012, SAFE promulgated the Foreign Exchange Administration's Foreign Exchange Policy Improvement and Adjustment Circular on Foreign Direct Investment, which significantly changes and simplifies the current foreign exchange process. In accordance with this circular, the opening of various special-use foreign exchange accounts, such as pre-establishment expense accounts, foreign fund accounts and guarantee accounts, the reinvestment of RMB proceeds from foreign investors in the CPP, and the payment of foreign-owned profits and dividends by a foreign-owned company to its foreign shareholders no longer require the approval or verification of SAFE , and multiple capital accounts for the same entity can be opened in different provinces, which was not possible before. In addition, SAFE issued another circular in May 2013, which states that the administration of SAFE or its local branches on foreign investors' direct investment in the CPP must be carried out through registration and that banks must process foreign exchange transactions related to direct investment in the CPP on the basis of registration information provided by SAFE and its branches. On 28 February 2015, SAFE issued the notice on simplifying and improving the administration of foreign exchange for direct investment, or SAFE 13 opinion. After safe 13 notice comes into force on June 1, 2015, instead of seeking approval of safe foreign foreign direct investment and foreign direct investment registrations, entities and individuals may request these foreign exchange registrations from qualified banks. Qualified banks, under the supervision of SAFE, can directly review applications and proceed with registration. On March 30, 2015, SAFE issued Circular 19, which extends a pilot reform of the administration of foreign exchange capital settlements for foreign-owned enterprises at the national level. Circular 19 came in and replaced the previous circular 142 and circular 36 on 1 June 2015. On 9 June 2016, SAFE promulgated Circular 16 to further expand and strengthen this reform. Under Circulars 19 and Circular 16, foreign-owned enterprises in the PRC are allowed to foreign exchange funds under capital accounts and RMB funds from the settlement of transactions against current account expenses in connection with its scope of activity or expenditures under capital accounts authorized by laws and regulations, except that these funds should not be used to (i) expenses beyond the commercial scope of the business or expenses prohibited by statutes and regulations; (ii) investments in securities or investments other than products guaranteed by bank capital; (iii) lending to unaffiliated companies, except where they are expressly authorized in the commercial licence; (iv) the construction or purchase of real estate for purposes other than self-use (excluding real estate companies). The SAFE PRC Residents Registration Regulations published a SAFE circular on relevant issues related to investment and financing of national residents and round-trip investment through special-purpose vehicles, or SAFE 37 circular, which came into effect in July 2014, replacing the previous SAFE Circular 75. Safe Circular 37 regulates foreign exchange issues relating to the use of special vehicles, or SUVs, by residents or CPP entities to seek offshore investments and financing or make round-trip investments in China. Under SAFE 37, a VPS refers to an offshore entity established or controlled, directly or indirectly, by residents or ENTITIes of the PRC for the purpose of seeking offshore financing or making offshore investments, using legitimate onshore or offshore assets or interests, while return investment refers to direct investment in China by residents or CPP entities through VSS , i.e. the creation of foreign-owned enterprises to obtain ownership, control rights and management rights. The SAFE 37 circular provides that before making a contribution to an VPS, RESIDENTs or entities of the PRC are required to complete the currency registration with SAFE or its local branch. SAFE issued the opinion on the simplification and improvement of foreign exchange administration for direct investment in February 2015, which came into force on 1 June 2015. This notice amended circular SAFE 37 requiring residents or entities of the PRC to register with qualified banks rather than SAFE or its local branch in connection with the creation or control of an offshore entity established for the purpose of investing or abroad. 75 Content Table Residents or entities of the PRC who contributed to legitimate interests or assets on land or abroad to VSS, but who did not obtain the required registration prior to the implementation of SAFE 37, must register their interests or control in VPS with qualified banks. A change in registration is required if there is a significant change in the registered VPS, such as any basic change (including changes in CPP residents, name and operating life), increases or decreases in the amount of investment, transfers or exchanges of shares, as well as mergers or divisions. Failure to comply with the registration procedures set out in SAFE 37 and subsequent notice, or misrepresentation or failure to disclose the controllers of the foreign-invested company established by the round-trip investment, may result in restrictions on the foreign exchange activities of the foreign company concerned, including the payment of dividends and other distributions, such as the proceeds of any capital reduction, transfer or liquidation of shares, to its parent company or foreign affiliate, and the inflow of capital from the offshore parent, and may also subject relevant residents or entities of the PRC to sanctions under the CPP's foreign exchange administration regulations. We are aware that our resident owners who are resident with the CPP subject to these registration requirements have registered with the SAFE branch in Beijing and/or qualified banks to reflect recent changes to our business structure. Regulations on Stock Incentive Plans SAFE enacted the stock option rules in February 2012, replacing previous rules issued by SAFE in March 2007. Under the stock option rules and other relevant rules and regulations, CPP residents who participate in a stock incentive scheme for a foreign-listed company are required to register with SAFE or its local branches and complete certain other procedures. Members of an action incentive plan residing in the CPP must hire a qualified prc agent, who could be a subsidiary of the PRC of the foreign-traded company or another qualified institution selected by the CPP subsidiary, to complete safe registration and other procedures with respect to the action incentive scheme on behalf of the members. In addition, the CPP officer is required to change the SAFE registration with respect to the action incentive plan if there are significant changes to the stock incentive plan, the CPP officer or other significant changes. On behalf of CPP residents who have the right to exercise employee stock options, the PRC officer must ask SAFE or its local branches for an annual quota for the payment of foreign currency as part of the CPP residents' exercise of employee stock options. The foreign exchange proceeds received by CPP residents from the sale as part of the stock incentive plans granted and dividends distributed by foreign-listed companies must be returned to the CPP bank accounts opened by PRC agents before distribution to these CPP residents. We have adopted an action incentive plan, under which we have the discretion to award a wide range of equity-based scholarships to eligible participants. See Article 6. directors, senior managers and Compensation — Action Incentive Plan. We plan to notify scholarship recipients as part of our 2015 Equity Incentive Plan to address foreign exchange issues in accordance with stock option rules. However, we cannot assure you that they can successfully register with SAFE in full compliance with stock option rules. Failure to complete their registration in accordance with stock option rules and other foreign exchange requirements may result in fines and legal penalties for these CPP individuals, and may also limit our ability to pay additional capital to our CPP subsidiaries, limit the ability of our CPP subsidiaries to distribute dividends to us or , otherwise, to significantly harm our business. Dividend Distribution Regulations As part of our current corporate structure, our Cayman Islands holding company can count on dividend payments from Heng Ye, an all-foreign company incorporated in China, to finance any cash and financing needs we may have. Key regulations governing the distribution of dividends to foreign-owned enterprises include the Foreign-Owned Enterprises Act, amended in September 2016, and its implementation rules. Under these laws and regulations, wholly foreign companies in China can pay dividends only from their accumulated after-tax profits, if any, determined in accordance with the accounting standards and regulations of the PRC. In addition, wholly foreign firms in China are required to allocate at least 10% of their respective cumulative profits each year, if any, to finance certain reserve funds until these reserves have reached 50% of the registered capital of firms. Entirely foreign companies may, at their discretion, allocate a portion of their after-tax profits based on CPP accounting standards to the well-being of staff and bonus funds. These reserves are not distributed in the form of cash dividends. 76 Table of Employment Content Regulations The CPP Labour Act and the Employment Contracts Act require employers to perform written employment contracts with full-time employees. If an employer fails to enter into a written employment contract with an employee within one year of the date the employment relationship is established, the employer must rectify the situation by agreeing to a written employment contract with the employee and pay him double the wage of for the period following the one-month expiry period between the date of the employment relationship and the day before the execution of the written employment contract. All employers must compensate their employees with wages equal to at least local minimum wage standards. Violations of the CPP Labour Act and the Employment Contracts Act can result in fines and other administrative penalties, and serious violations may result in Liabilities. Chinese companies are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, i.e. a pension plan, health insurance, unemployment insurance, work-related injury insurance and maternity insurance, as well as a housing benefit fund, and to contribute to plans or funds in amounts equal to certain percentages of wages. , including bonuses and allowances, employees as specified by the local government from time to time at the locations where they operate or are located. Failure to adequately contribute to various employee benefit plans may be subject to fines and other administrative penalties. We do not adequately contribute to employee benefit plans, as required by applicable CPP laws and regulations. See Article 3. Key Information — Risk Factors D. — Business Risks in China — Failure to make adequate contributions to various employee benefit plans, as required by CPP regulations, may subject us to penalties. C. Organizational Structure The following diagram illustrates our corporate structure, including our subsidiaries and Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities as of the date of this Annual Report: 77 Content Table (1) Heng Cheng's shareholders are Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian, who owns 40%, 30% and 30% of Heng Cheng's interest respectively. Mr. Ning Tang is our Executive Chairman, Mr. Fanshun Kong is a non-executive employee of CPP creditease, and Ms. Yan Tian is a third party appointed by CreditEase. (2) The shareholders of Yi Ren Wealth Management are Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian, who owns 40%, 30% and 30% of Yi Ren Wealth Management's equity respectively. Contractual Agreements with Heng Cheng and Yi Ren Wealth Management Due to the legal restrictions imposed by the PRC on foreign ownership and investment in value-added telecommunications services, and Internet content services in particular, we are currently conducting these activities through Heng Cheng and Yi Ren Wealth Management, which we effectively control through a series of contractual arrangements. These contractual arrangements allow us to: exercise effective control over Heng Cheng and Yi Ren Wealth Management; receive almost all of the economic benefits of Heng Cheng and Yi Ren Wealth Management; and have an exclusive option to buy all or part of the stakes in Heng Cheng and Yi Ren Management when and to the extent permitted by the law of the PRC. As a result of these we have become the largest beneficiary of Heng Cheng and Yi Ren Wealth Management, and we treat Heng Cheng and Yi Ren Wealth Management as our variable interest entities under U.S. GAAP. We consolidated the financial results of Heng Cheng and Yi Ren Wealth Management in our consolidated financial statements in accordance with U.S. GAAP. 78 Table of Contractual Arrangements with Heng Cheng Here is a summary of the contractual arrangements currently in effect by and between our wholly owned subsidiary, Heng Ye, our consolidated variable interest entity, Heng Cheng, and Heng Cheng shareholders. Agreements that provide us with effective control over interest agreements on Heng Cheng's shares. In accordance with the share interest agreements, each shareholder of Heng Cheng has committed to pay the majority of its interest in Heng Cheng to ensure that the shareholder and Heng Cheng fulfill their obligations under the exclusive commercial cooperation agreement, the loan agreement, the exclusive option contract and the power of attorney. If Heng Cheng or any of its shareholders do not comply with their contractual obligations under these agreements, Heng Ye, as a token, will be entitled to certain rights to the promised holdings, including the receipt of the proceeds of the auction or the sale of all or part of Heng Cheng's promised holdings in accordance with the law. Each of Heng Cheng's shareholders agrees that during the duration of the interest agreements, it will not dispose of the promised holdings or create or allow any impediment to the promised holdings without Heng Ye's prior written consent. The equity interest agreements remain in effect until Heng Cheng and its shareholders meet all of their obligations under the contractual arrangements. We have registered the fairness commitment with the appropriate office of the Industry and Trade Administration in accordance with the CPP Property Rights Act. Proxies. In accordance with the proxies, each shareholder of Heng Cheng has irrevocably appointed Heng Ye as the exclusive lawyer of that shareholder to exercise all shareholder rights, including, but not limited to, voting on all Heng Cheng matters requiring shareholder approval, the sale of all or part of the shareholder's interest in Heng Cheng, and the appointment of directors and officers. Heng Ye has the right to appoint any person to act as the exclusive lawyer of that shareholder without notifying or approving that shareholder, and if required by THE law of the PRC, Heng Ye appoints a citizen of the CPP to exercise that right. Each will remain in effect as long as the shareholder remains a shareholder of Heng Cheng. Each shareholder has waived all rights that have been Heng Ye and will not exercise such rights. Agreement that allows us to benefit from the economic benefits of Heng Cheng's exclusive trade cooperation agreement. Under the exclusive trade cooperation agreement between Heng Ye and Heng Cheng, Heng Ye has the exclusive right to provide Heng Cheng with technical support, consulting and other services. Without Heng Ye's prior written consent, Heng Cheng agrees not to accept the same or similar services provided by a third party. Heng Ye may designate other parties to provide services to Heng Cheng. Heng Cheng agrees to pay the service fee on a monthly basis and at an amount determined by Heng Ye after taking into account multiple factors, such as the complexity and difficulty of the services provided, the time consumed, the content and commercial value of the services provided and the market price of comparable services. Heng Ye owns the intellectual property rights arising from the implementation of this agreement. In addition, Heng Cheng granted Heng Ye an irrevocable and exclusive option to purchase all or part of Heng Cheng's assets and activities at the lowest price allowed under PRC law. Unless the parties agree otherwise or unilaterally terminated by Heng Ye, this agreement will remain in permanent force. Agreements that offer us the opportunity to purchase the stake in Heng Cheng Exclusive Option Agreement. Under the exclusive option agreements, each Heng Cheng shareholder irrevocably granted Heng Ye an exclusive option to purchase or asked Heng Ye to purchase, at his discretion, to the extent permitted by PRC law, all or part of the shareholder's interest in Heng Cheng. The purchase price is equal to the higher amount of the loan granted by Heng Ye to each Heng Cheng shareholder under the respective loan agreement or the minimum price required by THE PRC law. If Heng Ye exercises the option to purchase a portion of the shareholding held by a shareholder, the purchase price is calculated proportionally. Heng Cheng and each of its shareholders have agreed to appoint all persons appointed by Heng Ye to act as directors of Heng Cheng. Without Heng Ye's prior written consent, Heng Cheng shall not change its by-law, increase or decrease registered capital, sell or otherwise dispose of its beneficial assets or interests, create or authorize any impediment to its assets or other beneficial interests, grant loans to third parties, enter into any important contract worth more than RMB10 .000 (14,403.0 $US) (excluding contracts entered into in the normal course of business) , merge with or acquire other people or make investments, or distribute shareholders. Heng Cheng's shareholders agreed that, without the they will not have their stakes in Heng Cheng and will not create or allow any impediment to their participation. In addition, without Heng Ye's prior written consent, no dividend will be distributed to Heng Cheng shareholders, and if one of the shareholders receives a profit, interest, dividend or share transfer or liquidation proceeds, the shareholder must pay that profit, interest, dividend and proceeds to Heng Ye. These agreements will remain in effect until all of Heng Cheng's shareholders' holdings have been transferred or attributed to Heng Ye or its designated person. 79 Table of Content Loan Agreements. In accordance with the loan agreements between Heng Ye and Heng Cheng shareholders, Heng Ye provided loans totalling RMB30.0 million (US$4.3 million) to Heng Cheng shareholders solely for the capitalization of Heng Cheng. Under the loan agreement, shareholders can only repay the loans by selling all of their interests in Heng Cheng to Heng Ye or its designated person under their respective exclusive option agreements. Shareholders must pay most of the proceeds from the sale of these holdings to Heng Ye. In the event that shareholders sell their holdings to Heng Ye or its designated person at a price equivalent to or less than the amount of capital, the loans will be interest-free. If the price is greater than the principal amount, the excess amount will be paid to Heng Ye as loan interest. The loan must be repaid immediately in certain circumstances, including, among other things, if a foreign investor is allowed to hold a majority or 100% interest in Heng Cheng and Heng Ye chooses to exercise its exclusive option to purchase shares. The term of the loans is ten years and can be extended by mutual written consent of the parties. Contractual Arrangements with Yi Ren Wealth Management The following is a summary of the contractual arrangements currently in effect by and among our wholly-owned subsidiary, Heng Yu Da, our consolidated variable interest entity, Yi Ren Wealth Management, and the shareholders of Yi Ren Wealth Management. Agreements that provide us with effective control over yi Ren Wealth Management Equity Interest Pledge Agreements. In accordance with the equity interest agreements, each Yi Ren Wealth Management shareholder has committed to paying most of its interests in Yi Ren Wealth Management to ensure that the shareholder and Yi Ren Wealth Management meet their obligations under the exclusive commercial cooperation agreement, the loan agreement, the exclusive option contract and the power of attorney. If Yi Ren Wealth Management or one its shareholders do not comply with its contractual obligations under these agreements, Heng Yu Da, as a pledgee, will be entitled to certain rights relating to including receipt of the proceeds of the auction or sale of all or part of Yi Ren Wealth Management's promised holdings in accordance with the law. Each of Yi Ren Wealth Management's shareholders agrees that during the duration of the equity interest agreements, it will not dispose of the promised holdings, create or allow any impediment to the promised holdings without the prior written consent of Heng Yu Da. The participation contracts remain in effect until Yi Ren Da and its shareholders fulfill all their obligations under the contractual arrangements. We have registered the fairness commitment with the appropriate office of the Industry and Trade Administration in accordance with the CPP Property Rights Act. Proxies. In accordance with the proxies, each shareholder of Yi Ren Wealth Management has irrevocably appointed Heng Yu Da as the exclusive lawyer of that shareholder to exercise all shareholder rights, including, but not limited to, voting on all Yi Ren Wealth Management matters requiring shareholder approval, the sale of all or part of the shareholder's interest in Yi Ren Wealth Management , and the appointment of directors and officers. Heng Yu Da has the right to appoint any person to act as the exclusive lawyer of that shareholder without notifying or approving such a shareholder, and if required by PRC law, Heng Yu Da appoints a citizen of the PRC to exercise that right. Each power of attorney will remain in effect as long as the shareholder remains a shareholder in Yi Ren Wealth Management. Each shareholder has waived all rights that have been authorized to Heng Yu Da and will not exercise those rights. 80 Table of Content Agreement which allows us to receive economic benefits from yi Ren Wealth Management Exclusive Trade Cooperation Agreement. Under the exclusive trade cooperation agreement between Heng Yu Da and Yi Ren Wealth Management, Heng Yu Da has the exclusive right to provide Yi Ren Wealth Management with technical support, consulting and other services. Without Heng Yu Da's prior written consent, Yi Ren Wealth Management agrees not to accept the same or similar services provided by a third party. Heng Yu Da may designate other parties to provide services to Yi Ren Wealth Management. Yi Ren Wealth Management agrees to pay the service fee on a monthly basis and at an amount determined by Heng Yu Da after taking into account multiple factors, such as the complexity and difficulty of the services provided, the time consumed, the content and commercial value of the services provided and the market price of comparable services. Heng Yu Da owns the property rights implementation of this agreement. In addition, Yi Ren Wealth Management granted Heng Yu Da a and an exclusive option to purchase all or part of Yi Ren Wealth Management's assets and activities at the lowest price permitted by prC law. Unless the parties agree otherwise or unilaterally terminated by Heng Yu Da, this agreement will remain effective permanently. Agreements that offer us the opportunity to purchase the stake in Yi Ren Wealth Management Exclusive Option Agreement. Under the exclusive option agreements, each shareholder of Yi Ren Wealth Management irrevocably granted Heng Yu Da an exclusive option to purchase, or asked Heng Yu Da to purchase, at his discretion, to the extent permitted by THE LAW of the PRC, all or part of the shareholder's interest in Yi Ren Wealth Management. The purchase price is equal to the higher amount of the loan amount granted by Heng Yu Da to each Yi Ren Wealth Management shareholder under the respective loan agreement or the minimum price required by the PRC Act. If Heng Yu Da exercises the option to purchase a portion of a shareholder's interest, the purchase price is calculated proportionally. Yi Ren Wealth Management and each of its shareholders have agreed to appoint any person appointed by Heng Yu Da to act as directors of Yi Ren Wealth Management. Without the prior written consent of Heng Yu Da, Yi Ren Wealth Management will not change its statutes, increase or decrease registered capital, sell or create or authorize any impediments to its beneficial assets or interests valued at more than RMB500,000 (72,015 $US), to lend to third parties, to enter into a significant contract worth more than RMB500. .000 (72,015 $US) (excluding contracts in the normal course of business), merge with or acquire others or make investments, or distribute dividends to shareholders. Yi Ren Wealth Management shareholders have agreed that, without Heng Yu Da's prior written consent, they will not have their stakes in Yi Ren Wealth Management or create or authorize any impediments to their holdings. In addition, without Heng Yu Da's prior written consent, no dividend will be distributed to Yi Ren Wealth Management shareholders, and if one of the shareholders receives a profit, interest, dividend or share transfer or liquidation proceeds, the shareholder must pay that profit, interest, dividend and proceeds to Heng Yu Da. These agreements will remain in effect until all of Yi Ren Wealth Management's shareholders' holdings have been transferred or attributed to Heng Yu Da or its designated person. Loan agreements. In accordance with the loan agreements between Heng Yu Da and the shareholders of Yi Ren Wealth Management, Heng Yu Da has RMB4.0 million (US$0.6 million), RMB3.0 million (US$0.4 million) RMB3.0 million ($0.4 million) to Ning Tang, Fanshun Kong and Yan Tian, respectively, who are the shareholders of Yi Ren Wealth Management, solely for the capitalization of Yi Ren Wealth Management. Under the loan agreement, shareholders can only repay the loans through the sale of all their interests in Yi Ren Wealth Management to Heng Yu Da or its designated person under their respective exclusive option agreements. Shareholders must pay most of the proceeds from the sale of these holdings to Heng Yu Da. In the event that shareholders sell their holdings to Heng Yu Da or its designated person at a price equivalent to or less than the amount of capital, the loans will be interest-free. If the price is greater than the principal amount, the excess amount will be paid to Heng Yu Da as loan interest. The loan must be repaid immediately in certain circumstances, including, among other things, if a foreign investor is allowed to hold a majority or 100% interest in Yi Ren Wealth Management and Heng Yu Da chooses to exercise his exclusive option to purchase shares. The term of the loans is ten years and can be extended by mutual written consent of the parties. 81 Content Table In the opinion of Han Kun Law Firms, our PRC Board: ownership structures of Heng Ye, Heng Cheng, Heng Yu Da and Yi Ren Wealth Management will not result in any violation of current PRC laws or regulations; and contractual arrangements between Heng Ye, Heng Cheng and Heng Cheng shareholders and contractual arrangements between Heng Yu Da, Yi Ren Wealth Management and Yi Ren Wealth Management shareholders under PRC are valid, binding and enforceable, and do not result in any violation of current PRC laws or regulations. However, there are significant uncertainties regarding the interpretation and enforcement of current and future PRC laws, regulations and rules. In particular, in January 2015, the MOC published a draft discussion on the Foreign Investment Bill for public review and comment. Among other things, the Foreign Investment Bill broadens the definition of foreign investment and introduces the principle of real control to determine whether a company is considered a foreign-invested enterprise or an ETA. Under the Foreign Investment Bill, variable interest entities would also be considered ET, if ultimately controlled by foreign investors, and would be subject to restrictions on foreign investment. However, the bill has not taken a position on the measures that will be taken existing companies with the structure of the variable interest entity, whether or not these companies are controlled by Chinese parties. Chinese. does not know when the project can be signed into law, if any, and whether a final version would have substantial changes to the project. As a result, THE CPP's regulatory authorities may in the future have an opinion contrary to the above opinion of our PRC counsel. If the CPP government finds that the agreements that establish the operating structure of our activities in the online consumer financing market do not comply with the restrictions imposed by the CPP government on foreign investment in value-added telecommunications services companies, such as Internet content services , we could be subject to severe penalties, including a ban on continuing our activities. See Article. 3 Key Information —D. Risk Factors—Risks to our Corporate Structure —If the CPP government believes that contractual agreements for Heng Cheng and Yi Ren Wealth Management, our consolidated variable interest entities, do not comply with the regulatory restrictions imposed by the CPP on foreign investment in the industries concerned, or if these regulations or interpretation of existing regulations change in the future. , we could be subject to severe sanctions or be forced to relinquish our interests in these transactions, Point. 3 Key Information — Risk Factors D. — Business Risks in China — We may be affected by the complexity, uncertainties and changes in CPP regulations for Internet-related businesses and businesses, and any lack of required approvals, licenses or permits for our business can have a significant negative impact on our business and results of operations. , Article. 3 Key Information — Risk Factors D. — Risks related to doing business in China — Uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protections available to us and Point. 3 Key Information — Risk Factors D. — Business Risks in China — There are significant uncertainties about the timing of the adoption, interpretation and implementation of the CPP Foreign Investment Bill and how it could affect the viability of our current business structure, corporate governance and business activities. D. Property, Factory and Equipment Our main executive offices are located in leased premises comprising 4,166.9 square meters in Beijing, China. We leased additional office space of 1,538.4 square meters in Beijing, China, and 1,122.6 meters Chongqing, China. We lease our premises to independent third parties under operating leases. The lease of our main executive offices will expire in January 2019. Our servers are mainly housed in Internet data centers owned by major national Internet data center providers. Accommodation service agreements generally have three-year terms. We're that we will be able to obtain adequate facilities, primarily through leasing, to meet our future expansion plans. 82 Content Table Point 4A. Unresolved comments from Staff None. Point 5. Review and Outlook for Operations and Financial The following discussion of our financial position and results of operations is based on our audited consolidated financial statements and related notes included in this Annual Report on Form 20-F and should be read in conjunction with our audited consolidated financial statements and related notes included in this Annual Report on Form 20-F. This report contains forward-looking statements. See Forward-Looking Information. When evaluating our business, you should carefully consider the information provided under the caption Point 3. Key Information — Risk Factors D. in this Annual Report on Form 20-F. We warn you that our business and financial performance are subject to significant risks and uncertainties. A. Overview of Operating Results We are a leading online consumer financing market in China connecting investors and individual borrowers, according to iResearch. We have facilitated more than RMB32.3 billion (US$4.7 billion) in loans from its inception in March 2012 to December 31, 2016. Our online platform automates key aspects of our operations and allows us to effectively match borrowers with investors and facilitate and execute loan transactions. Our borrowers and investors come from a variety of channels, including online sources, such as via the Internet and our mobile applications, as well as offline sources, such as CreditEase's on-site sales network references. We are currently targeting primary borrowers, including credit card holders with stable credit returns and salary income. We focus strategically on the primary borrowers because we believe that members of this group tend to be more creditworthy and more receptive to Internet financing solutions. Our online marketplace provides qualified borrowers with quick and convenient access to credit at competitive prices. Our online market offers investors attractive returns with investment thresholds as low as RMB100 (14.4 $US). Investors have the option to individually select specific loans to invest or use our automated investment tool that identifies and selects loans based on a targeted return. We also offer investors a quality assurance program to limit losses to investors due to borrowers' defaults. In addition, we offer investors access to a liquid secondary market, giving them the opportunity to exit their investments before the underlying loans become due. We generate revenue primarily from fees charged for our services by matching investors with individual borrowers and for other services we provide over the life of a loan. We charge borrowers a transaction fee for the services provided by our platform in loan transactions, and charge investors a service fee for the use of our automated investment tool or self-directed investment tool. Currently, we do not charge separate fees for the quality assurance program we offer. As an information intermediary, we do not use our own capital to invest in loans facilitated by our market. Key Factors Influence Our Operating Results The main factors influencing our operating results are: Economic Conditions in China The demand for online consumer financing services from borrowers and investors depends on the overall economic situation in China. General economic factors, including the interest rate environment and unemployment rates, can affect borrowers' willingness to apply for loans and the ability and desire of investors to invest in loans. For example, significant increases in interest rates could cause potential borrowers to defer lending until interest rates become stable or fall. In addition, a slowdown in the economy, for example due to an increase in the unemployment rate and a decrease in real income, may affect the level of disposable income of individuals. This can have a negative impact on borrowers' ability to repay, which can reduce their willingness to apply for loans and potentially lead to higher default rates. If actual or expected default rates generally increase in China or the consumer finance market, investors may delay or reduce their investments in loan products in general, including in our market. 83 Content Table Capacity to Acquire Borrowers and Investors Effectively Our ability to increase the volume of loans facilitated by our market depends in large part on our ability to attract borrowers and potential investors through sales and marketing efforts. Our sales and marketing efforts include those related to the acquisition and retention of borrowers and investors, as well as general marketing. We intend to continue to devote significant resources to our sales and marketing efforts and are constantly s looking to improve the effectiveness of these efforts, particularly with respect to the acquisition of borrowers and investors. We use online channels and offline channels, such as CreditEase's on-site sales network, to acquire borrowers. We are attracting an increasing number of our borrowers through various online channels. In addition, the CreditEase's on-site sales returns borrowers who are part of our target borrower group to our online marketplace. CreditEase charges us a fee for offline borrower acquisition services. For the three years from 2016, the fee rate will be 6% of loans made to borrowers referred by CreditEase. Subsequently, the fee rate can be adjusted on an annual basis based on commercial negotiation, and after taking into account the costs for CreditEase for the provision of such services and with reference reference market rates. Currently, CreditEase's field sales network references represent the majority of our borrowers and the volume of loans. In 2014, 2015 and 2016, 48.1%, 49.5% and 42.5% of our borrowers were acquired through CreditEase references, respectively, contributing 59.8%, 67.0% and 61.8% of the total amount of loans facilitated by our market. As we acquire more borrowers, the volume of loans facilitated in our market is expected to continue to increase. In addition, our fee collection schedules from borrowers differ depending on the channels in which borrowers are acquired. Borrowers acquired through online channels generally pay only a portion of the transaction fee in advance, the rest on a monthly basis during the term of the loan, while transaction fees are collected in advance from borrowers acquired through offline channels. Therefore, for each pricing category, the overall lifetime fees of a loan charged to a borrower acquired through online channels are generally higher than those charged to a borrower acquired through offline channels. Given that revenues are currently recognized at the time transaction fees are collected, the combination of channel-facilitated loans over a period of time may affect our revenues and results of operations. Similarly, we use both CreditEase's online channels and on-site sales network to acquire investors. A growing majority of our investors are acquired through online channels. Our investor acquisition efforts are focused on strengthening our brand name, building investor confidence and word of mouth. Risk Management Efficiency Our ability to effectively segment borrowers into appropriate risk profiles affects our ability to offer attractive pricing to borrowers and our ability to offer investors attractive returns, both of which are directly related to the level of user confidence in our market. Our proprietary risk management system is built on the data accumulated by our operations, and is also supported by a large database accumulated by CreditEase over the past nine years. Our risk management model uses big data capabilities to automatically assess a borrower's credit characteristics. At the same time, we use automated fraud verification and detection tools to ensure the quality of loans facilitated in our market, and to complement these technology-based tools with manual processes as needed. In addition ability to effectively assess a borrower's risk profile and likelihood of default can have a direct impact on our operating results. For some of the loans facilitated by our market, borrowers pay us some of the transaction fees in advance at the end of our loan facilitation services and the rest on a monthly basis on term of the applicable loan. If a borrower defaults, we may not be able to collect unpaid transaction fees from the borrower. 84 Content Table In addition, we began offering a quality assurance program as of January 1, 2015 and revised our quality assurance program funding policy in the fourth quarter of 2015. Funding and operation of the quality assurance program can have a significant impact on our financial situation. We have currently set aside enough cash in the quality assurance program to cover the expected net payments. A significant increase in our net payments under our quality assurance program will have a negative impact on our net revenues and net income. Our ability to assess the expected net payments of the quality assurance program depends on our ability to manage and predict the return, or deduction rates, of loans facilitated by our market. Since we only started our online consumer finance business in March 2012, we have little information on the charge rates on loans generated through online channels. If actual net payments are higher than expected, we may choose to set aside additional liquidity in our quality assurance program or recognize additional expenses and liabilities in our financial statements. This could result in working capital constraints, or a significant and negative impact on our financial position, results of operations and business activities. Product Mix and Price Our ability to maintain profitability depends in large part on our ability to continually optimize our product line and accurately evaluate the loans facilitated by our platform. As part of our efforts to introduce risk-based pricing, we have developed four different segments in our current tariff schedule, which we call Class A, B, Grade C and Grade D loans in this annual report. Of the four segments, Category A represents the lowest risks associated with borrowers, while Category D represents the highest risks. Due to the different level of effort required to facilitate Class A, B, C and D loans, the rate of transaction fees we charge borrowers varies depending on the price rating of the loan facility. Of the four price categories, Class A loans have the lowest average transaction fee rate of 5.6%, while Class D loans have the highest average transaction fee rate of 27.6%. In response to the market or other developments, we can devote more effort to promoting certain loan products, managing the volume growth of other lending products, introducing new products with new price categories or adjusting the price of our existing products. In addition, as we offer an investor protection service in the form of a quality assurance program to cover potential defaults, the product line also has a significant impact on our quality assurance program liabilities, given that different levels of default risk associated with different price categories. Any significant changes in the product line could have a significant impact on our profitability and net profit margin. Ability to innovate Our growth to date depended, and our future success will depend in part on the ability to successfully meet the demand of borrowers and investors with new and innovative lending and investment products. We have done and intend to continue to make efforts to develop lending and investment products for borrowers and investors. We constantly assess the popularity of our existing product offerings and develop new products and services that meet the evolving needs of our borrowers and investors. Over time, we will continue to expand our offering by introducing new products. From the borrowers' perspective, we will continue to develop customized credit products to meet the specific needs of our target borrowers. We plan to increase our ability to implement risk-based pricing by developing more price categories to optimize loans based on individual credit criteria, which will allow us to facilitate customized loans tailored to the specific credit profiles of individual borrowers. See — C. Research and Development. Failure to successfully develop and deliver innovative products and that these products gain broad customer acceptance could adversely affect our operating results and we may not recover the costs of launching and marketing new products. Ability to effectively compete Our operations and results depend on our ability to compete effectively in the markets in which we operate. The online consumer financing industry in China is extremely competitive, and we expect competition to persist and intensify in the future. In addition to competing with other consumer finance markets, we also compete with other types of financial products and businesses that attract borrowers, investors or both. As far as borrowers are concerned, we are primarily competing with traditional financial institutions, such as consumer finance business units in commercial banks, credit card issuers and other consumer finance companies. As far as investors are concerned, we are primarily competing with other investment products and categories such as equities, bonds, investment trust products, bank savings accounts, real estate and alternative asset classes. If we are not able to compete effectively, demand for our market could stagnate or decrease significantly, we may experience a reduction in revenues or our market may not maintain or gain more widespread market acceptance, which could adversely affect our business and operating results. 85 Table of the Content Regulatory Environment in China The regulatory environment of the intermediate services industry for information on online lending in China is growing and evolving, creating both challenges and opportunities could affect our financial performance. Due to the relatively short history of the online lending information industry in China, although the PRC government has published some guidelines, regulations and rules to regulate and support the development of the online lending information intermediate services industry in China, the PRC government has not yet established a comprehensive regulatory framework governing our industry. We will continue to make efforts to ensure that we comply with existing laws, regulations and government policies regarding our industry and to comply with new laws and regulations or amendments under existing laws and regulations that may occur in the future. While new laws and regulations or changes to existing laws and regulations could make loans more difficult for investors or borrowers to accept on terms that are favourable to us, or at all, these events could also offer new products and market opportunities. Delinquency Rates of Loan Performance Data We define delinquency rates as the balance of capital and interest for loans unpaid by borrowers aged 15 to 29, 30 to 59, 60 to 89, 90 to 179, 180 to 359, and 360 and more than 360 calendar days due at the end of the period as a percentage of the total outstanding balance of principal and interest for the relevant loan group. The following tables provide our delinquency rates for all loans per channel as of December 31, 2014, 2015 and 2016: Offender for 15-29 days 30-59 days 60-89 days 90-179 days (1) 180-35 9 days (1) 360 days or more(1) All loans December 31, 2014 0.3% 0.2% 0.2% 0.5% 0.5%, 8% 0.2% December 31, 2015 0.4% 0.5% 0.4% 0.9% 1.1% 0.4% December 31 31 December , 2016 0.4% 0.7% 0.6% 1.3% 1.7% 1.5% Online channels December 31, 2014 0.4% 0.3% 0.2% 0.4% 0.7% 0.2% December 31, 0.3% 0.2% 0.4% 2015 0.6% 0.8% 0.6% 1.4% 1.9% 0.6% December 31, 2016 0.6% 1.0% 0.8% 1.6% 2.1% 2.1% Offline Channels December 31, December 31, 2014 0.3% 0.2% 0.2% 0.6% 0.9% 0.2% December 31, 2015 0.3% 0.4% 0.3% 0.7% 0.7% 0 0.3% December 31, 2016 0.4% 0.6% 0.4% 1.1% 1.4% 1.2% (1) Loans overdue for more than 89 days are accounted for in M3 - Net load rate. See —M3-Net Charge-off Rates. We also track the time it takes to recover net payments made from the quality assurance program. As our collection efforts continue throughout and beyond the duration of the loans and our historical collection data are limited due to the relatively small number of defaults over the past based on CreditEase's limited operating history, we currently estimate, based on CreditEase's historical loan recovery data, which are similar to the loans facilitated on our platform, that the average recovery time for defaulted loans is approximately 10 months. This estimate of recovery time is calculated based on the weighted average of the default time of certain vintages, which we consider to have a sufficient recovery performance history (currently defined as two and a half years after the loan defaulted). 86 M3 Content Table Net Deduction Rate We currently define the net M3 charge rate, with respect to loans made over a specified period, which we call a vintage, such as the difference between (i) the total outstanding principal balance of loans that become over three months in arre with a specified period and (ii) the total amount of past payments recovered from capital and accrued interest over the course of the same period with regard to all loans in the same vintage that was never more than three months delinquent, divided by (iii) the total initial capital of the loans facilitated in this vintage. As this definition is different from that used in the past, we have applied the change retroactively to all historical periods. The following table and table show historical cumulative M3 charge rates up to December 31, 2016, by vintage, for lending products facilitated by our online market for each of the months indicated for all loans: Vintage Book Month 4th 7th 1 13th 16th 16th 19th 22nd 25th 28th 31st 34th 2013Q1 1.9% 3.2% 3.1% 2.3% 2.0% 0.9% 0.5% 0.5% 0.4% 0.4% 0.4% 2013T2 1.8% 3.6% 4.5% 5.9% 6.4% 7.4% 6.1% 7.0% 7.5% 7.5% 7.5% 7,8 % 2013 T3 0,5 % 2,8 % 4,2 % 5.5 % 6.1 % 6.5 % 7.1 % 7.1 % 7.0 % 6.9 % 6.9 % 2013Q4 0.7 % 3.4 % 4.8 % 6.2 % 6.8 % 7.5 % 8.3 % 8.3 % 8.2 % 8.5 % 8.3 % 2014Q1 1.0 % 4.2 % 6.1 % 7.0 % 8.4 % 9.3 % 9.8 % 9.7 % 9.9 % 9.8 % 9.5 % 2014Q2 0.5 % 1.8 % 2.6 % 3.8 % 4.3 % 4.6 % 4.6 % 4.7 % 4.7 % 4.8 % — 2014Q3 0.2 % 0.8 % 2.0 % 2.8 % 3.3 % 3.7 % 4.0 % 4.2 % 4.2 % — — 2014Q4 0.3 % 1.5 % 2.7 % 3.5 % 4.1 % 4.6 % 5.1 % 5.2 % — — — 2015Q1 0.6 % 2.7 % 4.4 % 5.8 % 7.1 % 8.2 % 9.0 % — — — — — 2015Q2 0.5 % 2.1 % 3.7 % 5.3% 6.6% 7.8% — 2015Q3 0.2% 1.6% 3.4% 4.9% 6.5% — 2015T4 0.2% 1.6% 3.2% 4.9% — 2016T1 2 0.2% 1.3% 2.8% — 2016T2 0.2% 1.7% — 2016T3 0.1% — 87 Content Table The following charts show historical cumulative M3 net load rates up to December 31, 2016, by vintage, vintage, vintage, for lending products facilitated by our online market for each month indicated for loans generated by our online and offline channels , respectively: We have developed four segments of our current tariff schedule, which we call Class A, Grade B, Grade C and Grade D loans in this annual report. The introduction of these price categories is part of our continued focus on primary borrowers and allows us to further segment this group of borrowers and with them more effectively. See Article 4. Business Information — Business Overview — Risk Management — Owner Credit Rating Model and Loan Qualification System. The following table provides the amount of loans generated by our platform during each of the periods presented and the corresponding data accumulated on the M3 net charge and the net M3 charge rate as of December 31, 2016 for loans facilitated during each of the periods presented by the price note. 88 Content Period Price Table Amount of loans facilitated during the accumulated period M3 -Net charge(1) as of December 31, 2016 Total net duty rate(2) as of December 31, 2016, 2016 (thousands of RMB) (thousands of RMB) (thousands of RMB) 2014 A 1,917 542 94 532 4.9% B 303,030 19.93 4 6.6% C — — — D 7,989,501 6.3% Total 2,228,561,114,968 5.2% 2015 A 8,73,995 44,754 5.1% B 419,630 27,665 6.6% C 557 414 45,727 8.8. 2% D 7,706,574,513,090 6.7% Total 9,557,613,631 236 6.6% 2016 A 1,111,974 2,684 0.2% B 755 132 4,686 686 4,686 0.6% C 1,417,430 14,465 1.0% D 16,993,391,159,457 0.9% Total 20,277,927 181,292 0.9% (1) We define M3- Net Charge, with respect to loans made up for a specified period of time , which we call vintage, such as the difference between (i) the total outstanding principal balance of loans that become more than three months delinquent over a specified period and (ii) the total amount of payments due to past recovered capital and accumulated in the same period with respect to all loans in the same vintage that have never become more than three months delinquent. (2) We define M3-Net Charge-off Rate, with respect to loans facilitated over a specified period, which we call a vintage, such as the M3 Net Charge-off divided by the total initial principal of the loans facilitated in this vintage. The net M3 expense rates presented do not represent our liabilities for the expected net payments of the Quality Assurance Program, as (i) we only pay unpaid capital and accrued interest at the time of default, rather than the unpaid principal over the life of the loan that are recorded in the M3 net expense rates. , and (ii) our recovery efforts continue and may be successful in collecting a certain amount spent after the initial term of the default loan a and would thereby reduce net payments from the quality assurance program, the factors of which are not taken into account in the M3 net expense rates. See Article 5. Review and Outlook for Operations and Financial —A. Operating Results — Critical Accounting Policies, Judgments and Estimates—Quality Assurance Fair Value Program. Our business and financial performance depends on our ability to manage and predict net expense rate. However, given our limited operating history, we have little information on and limited experience in operating the quality assurance program, and as a result, we may not be able to make accurate forecasts for our target group of borrowers. See Article 4. Company Information — B. Business Overview — Risk Management. Selected Operating Statements Net Revenues come from fees charged for service delivery, including transaction fees, service charges and others. We charge borrowers a transaction fee for services provided through our platform to facilitate loan transactions. We also charge investors a monthly management fee. In addition, we charge other fees conditional on future events, such as late payment penalty fees, un customized fees for transferring loans to our secondary loan market and other service charges. Our revenues are presented net of vat and related surcharges. Our net revenues are net expenses charged for loan-to-employment liabilities associated with the quality assurance program, deferred revenues associated with post-origin services and cash incentives, and are recognized as income from loan facilitation services, post-origin income and other revenues. 89 Table of Materials The following table reconciles our net revenues with the fees charged for the periods presented: For the year ended December 31, 2014 2015 2016 RMB RMB RMB US$ (thousands) Charges: Transaction fees charged to borrowers (1)(2) 204 553 2 179,611 4,830 566 695,746 Investor Service Charges(2) 2 647 97 816 399 311 57.51 3 Others(2) 1 116 8 489 21 639 3 117 VAT (11,791) (131,817) (340.2,95) (49,013) Total fees charged 196,525 2,154 09 4,911 221,707,363 Loan-to-employment liabilities associated with the Quality Assurance Program — (682,254) (1,598,238) (230) 194) Deferred income from post-origin services — (117,484) (71,322) (10,272) Cash incentives — (80,952) (98,173)) (14,140) VAT — 40,230 94,503 13,611 Net revenues 196,525 1,313,639 3,237,991 466,368 (1) In 2014, we recognized 100% of transaction fees as revenue, as all transaction fees related to loans facilitated prior to December 31, 2014 were guaranteed by Tian Da Xin An. From the first quarter of 2015, revenues are recognized at the end of services and cash collection. See Critical Accounting Policies, Judgments and Estimates — Revenue Accounting — Loan Facilitation Revenues. As a result, in 2014, the fees charged include both the portions collected and not charged fees, while in 2015 and 2016, the fees charged refer to the fees charged and collected. (2) Represent the amounts before tva. The following table provides a breakdown of our net revenues, both in absolute amount and as a percentage of our total net revenues, for the periods presented: 2014 2015 2016 RMB % RMB % RMB US$ % (thousands, excluding percentages) Net revenues: Loan Facilitation Services 192,975,98.2 1,278,539,97.3 3,133,423 451 307 96.8 Post-Origin Services 2,497 1.3 27,086 2.1 84.1 154 12,121 2.6 Other 1,053 0.5 8,014 0.6 20 414 2,940 0.6 Total net revenues 196 52 5 100.0 1,313,639 100.0 3,237,991 466 368 100.0 We consider loan facilitation, quality assurance program and post-origination services as a multiple deliverable income arrangement and investors are considered the only customers. All non-contingent fees, including primarily transaction fees charged to borrowers and service charges to investors, are divided between these three elements. Total non-contingent costs are first allocated to the ready-to-use liabilities associated with the quality assurance program, as discussed in the Critical Accounting Policies, Judgments and Estimates — Quality Assurance Liabilities, and then divided between loan facilitation and post-origin services based on their relative selling prices. See Critical Accounting Policies, Judgments and Estimates — Revenue Accounting. 90 Table of content transaction fees. Transaction fees are charged for the work we do through our platform to connect borrowers with investors and facilitate loan transactions. The amount of transaction fees charged is based on the price and amount of the underlying loan. We have developed four segments in our current tariff schedule. Since our inception, we have facilitated the decline of Class A loans. As part of our efforts to introduce risk-based pricing, we raised minimum qualification standards for Category A loans and began facilitating Class B and D loans in the fourth quarter of 2014 and Class C loans in the first quarter of 2015. The introduction of these new price categories is part of our ongoing focus on principal borrowers and allows us to further segment this group of borrowers and prices the risks associated with them more effectively. The transaction fee rate we charge borrowers varies depending on the price bill of the loan. For loans in the same price category, the transaction fee rate also varies depending on the length of the loan and repayment program. The transaction fee rate we charge borrowers is a component of the borrowers' total cost of borrowing that is presented as an RPA, the other component being the fixed interest rate for borrowers for each prize category. See Article 4. Company Information — B. Business Overview — Risk Management — Owner Credit Rating Model and Loan Qualification System. The following table shows the current average transaction fee rate for each price category: Average rate category transaction fee rate A 5.6% B 17.3% C 24.8% D 27.6 27.6 The transaction fee rate is calculated as the total amount of transaction fees we charge borrowers for the duration of the loan, divided by the total amount of capital. The average transaction fee rate for each price category shown in the table above is the simple average transaction fee rates for loans that fall under the same price category, but with different tenures and repayment schedules. Regarding cash collection, borrowers pay transaction fees mainly on a monthly basis over the term of the loan for loans from 2013 and through the nine months ended September 30, 2014. In the fourth quarter of 2014, we adopted a new fee collection schedule whereby we collect all transaction fees from borrowers as soon as our original loan services are terminated, i.e. we drill a portion of the transaction fee in advance and the rest on a monthly basis during the term of the loan. We made this change to improve our cash position prior to our withdrawal from CreditEase in anticipation that we would no longer be able to rely on CreditEase for our corporate cash management and ensure that we receiveed sufficient cash in advance to set aside funds for our new quality assurance program. The fee collection schedule is affected by the channels through which borrowers are acquired. Under this new system, we collect all transaction fees in advance from borrowers acquired through references through CreditEase's field sales network, which is similar to CreditEase's current business practice and also helps provide the cash flow necessary for our business activities. Borrowers acquired through online channels generally pay only a portion, up to 78%, of the transaction fee in advance and the rest on a monthly basis during the term of the loan, the initial portion being a sufficient amount to provide cash for the quality assurance program. 91 Table of Materials The amount of transaction fees charged is affected by the total amount of loans facilitated during the period. The following table shows the total amount of loans facilitated and the distribution of loans facilitated into those generated by online channels and those generated by offline channels, during the reported periods: For the year ended December 31, 2014 2015 2016 RMB RMB RMB US$ (thousands) Amount of loans facilitated Loans generated by online channels 896,003 3,152 272 7,745,724 1,115,616 Loans generated by non-channel loans Line 1,332.5 Total loans 2,228,562 9,513 2,513 2,513 201 20,277 927 927 2,920 629 We expect transaction fees to continue to rise for the foreseeable future, as our business grows and we develop and introduce new credit products and services to our market. Service charges. Service charges mainly include monthly management fees for the use of the automated investment tool and the self-dedicated investment tool. Monthly management fees for the use of the automated investment tool are the difference between interest rates on underlying loans ranging from 10.0% to 12.5%, and targeted returns offered to investors ranging from 5.0% to 10.5%. The monthly management fee for the use of the self-grating investment tool is equal to 10% of the interest investors receive, ranging from 10.0% to 12.5%. The service charges charged to investors for the automated investment tool or self-dedicated investment tool are collected on a monthly basis during the investment period. We expect service charges to increase for the foreseeable future as our business grows and we develop and introduce new investment services and tools to investors. Other. We also charge other fees subject to future events, such as a penalty fee for prepayment or late payment, one-time fees for the transfer of loans to our secondary loan market and other service charges. Borrowers are charged a late payment penalty fee because a certain percentage of the amount spent and a prepayment penalty fee is charged to borrowers as a percentage of interest relative to the amount of the prepaid principal loan. Operating costs and expenses Our operating and expenses include sales and marketing expenses, origin and maintenance expenses, and general and administrative expenses. The following table sets out our operating costs and expenses, both in absolute terms and as a percentage of our total operating costs and expenses, for the periods indicated: For the year ended December 31, RMB % RMB 2014 2014 2016 2016 RMB % RMB US$ % (thousands, excluding percentages) Operating costs and expenses: Sales and marketing 137,746 61.4 679 771 75.2 1 571 038 226 277 73.0 Origin and maintenance 21,820 9.7 86 360 9.6 180.0 76 25 936 8.4 General and Administrative 64,637 28.9 137 114 15.2 402 111 57 916 18.6 Total Operating Costs and Expenditures 2 24 203 100.0 903 245 100.0 2 153 225 310 129 100.0 Sales and marketing expenses. Sales and marketing expenses consist primarily of variable marketing expenses, including those related to the acquisition and retention of borrowers and investors, as well as the overall creation of brands and knowledge. Our user acquisition expenses include fees through third-party online channels for online marketing services such as engine marketing search and optimization of search engines, and the reference fees charged by CreditEase regarding the offline borrower and the acquisition of investors by CreditEase. Our user acquisition fees represent the main costs associated with our loan facilitation services. 92 Content Table The following table shows the breakdown of sales and marketing expenses into those associated with user acquisition through online and offline channels and the general promotion of brand, brand, absolute amount and as a percentage of total sales and marketing expenses, during the specified periods: For the year ended December 31, 2014 2015 2016 RMB % RMB % RMB US$ % (thousands, excluding percentages) Sales and marketing costs: Online user acquisition 61,777 44,1 8 312 181 45.9 818 077 117 828 52.1 Offline user acquisition (1) 75,969 55.2 353 853 52.1 722.9 78 104 131 46.0 General Brand Promotion — — — 13,737 2.0 29,983 4,318 1.9 Total Sales and Marketing Expenditures 137,746 100.0 679 771 100 .0 1.571.038 226.277 100.0 (1) The sales and marketing costs associated with acquiring users through offline channels consist only of a reference fee paid to CreditEase for referrals of borrowers and investors. We expect our overall sales and marketing expenses to continue to increase, and our brand promotion spending will also increase in absolute quantities for the foreseeable future as our business grows. In particular, in accordance with our contractual agreement with CreditEase, the fee rate for offline borrower acquisition services that CreditEase provides us has increased from 5% to 6% of loans referred to borrowers by CreditEase for the three years from 2016. Subsequently, the duty rate can be adjusted on an annual basis based on commercial negotiation, and after taking into account the costs to CreditEase for the provision of such services and according to market rates. Original and maintenance costs. Origin and service expenses primarily include variable and supplier expenses, including credit assessment, customer and system support, payment processing and collection services associated with facilitation and loan service. We expect our original and service costs to increase in absolute quantities for the foreseeable future as our business grows. General and administrative expenses. General and administrative expenses primarily include salaries and benefits related to technology, accounting and finance, business development, law, human resources and other staff. We expect our general and administrative expenses to continue to increase in absolute amounts for the foreseeable future as our business grows and we incur additional expenses related to improving our internal controls, complying with section 404 of the Sarbanes-Oxley Act and maintaining investor relations once we become a public company. Quality Assurance Prior to August 2013, we provided investors with investor protection in the form of a quality assurance program, under which we set aside some of the service charges we received under the Quality Assurance program. In the event that a loan defaults for more than a fortnight, we will use the quality assurance program money to pay off the principal of the loan and investor. Under our agreements with investors, our contractual obligation to repay defaulted loans is limited to the amount of money we have set aside in the quality assurance program. For this service, we charged investors a monthly service fee at a rate of 10% of the monthly interest on loans. 93 Content Table From August 2013 to December 2014, we replaced the above service with a guarantee arrangement to give investors the opportunity to purchase assurance that their principal and interest would be repaid in the event that the loans in which they invested in default. Under this arrangement, Tian Da Xin An, a security company, was responsible for repaying the principal and accrued interest on the defaulted loan. For this Tian Da Xin An guarantee service charged investors at a rate of 10% of the monthly interest on their loans as a service fee. Under the relevant loan facilitation agreements, we have no obligation to repay defaulted loans. Instead, we are allowed by investors to require Tian Da Xin An to fulfill its obligation to guarantee in the event of the borrower's default, and Tian Da Xin An as the guarantor of the corresponding borrower will repay the outstanding principal and interest to investors, as well as the transaction fees liability to our company. In practice, we repaid the principal of the loan and accrued interest to the investor in the event of default, and then collected this amount from the guarantee company. We collected the guarantee service fee charged to investors by the guarantee company on its behalf and then returned that amount to the guarantee company. We terminated this guarantee agreement in December 2014. The outstanding balance of the secured loan under the previous guarantee arrangement will continue to be covered by the guarantee arrangement until these loans reach maturity. Starting in January 2015, we began offering our current quality assurance program. For a very short period of time during the first quarter of 2015, we charged investors a quality assurance program management fee at a rate of 10% of the monthly interest rate paid by borrowers for providing this quality assurance program as a trial, and recognized the fees as income. Currently, we incorporate these fees into other service charges that we charge investors and no longer charge investors separate fees to provide the quality assurance program. At this time, we do not offer investors the opportunity to opt out of our program quality and we have mandated participation in the quality assurance program for all new investors using our platform. As of December 31, 2016, the main loans covered by the Quality Assurance Program were RMB20,103.0 million (US$2,895.4 million). See Article 4. Company Information — B. Business Overview — Risk Management — Investor Protection. Au Au of each loan, we recognize a quality assurance program liability at the fair value of the quality assurance program, which is the current value of the expected net payments of the quality assurance program incorporating a service mark-up margin. Our net revenues for a given period will be net of the amount allocated to the quality assurance program liabilities and other items. When we make actual net payments to the quality assurance program in the event of loan default, these net payments are recorded as a reduction in the quality assurance program liabilities. When our potential liabilities exceed our ready-to-use liabilities, the difference is accounted for as additional liability for the quality assurance program and recorded in our financial statements. As a result, a significant increase in net payments under our quality assurance program could have a negative impact on our bottom line. Taxation Cayman Islands We are incorporated in the Cayman Islands. Currently, the Cayman Islands

have no income, corporate or capital gains tax and no estate tax, no inheritance tax or no tax on donations. The Cayman Islands does not impose withholding tax on dividend payments to shareholders. Hong Kong Our Hong Kong subsidiary is subject to Hong Kong income tax at a rate of 16.5%. No tax on Hong Kong profits was levied as we did not have a profit if it was realized or derived from the Hong Kong subsidiary during the reporting periods. Hong Kong does not impose withholding tax on dividends. 94 China Content Table In general, our subsidiaries and consolidated variable interest entities, Heng Cheng and Yi Ren Wealth Management, in China, are subject to corporate income tax on their taxable income in China at a rate of 25%. Business income tax is calculated based on the entity's global income as determined under the CPP's tax laws and accounting standards. We are subject to VAT at a rate of 6% on the services we provide to borrowers and investors, minus any deductible VAT we have already paid or supported. We are also subject to surcharges on VAT payments in accordance with the LAW of the PRC. During the periods presented, we were not subject to the business tax on the services we provide. Dividends paid by our wholly foreign subsidiaries in China to our mid-sized holding company in Hong Kong will be subject to a 10% source tax rate, unless the entity Hong Kong does not meet all the requirements of the Arrangement between the PRC and the Hong Kong Special Administrative Region on the avoidance of double taxation and the prevention of tax evasion with respect to income and capital taxes and does not receive approval from the relevant tax authorities. If our Hong Kong subsidiary meets all the requirements of the tax regime, dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5% by depositing forms and supporting documents when executing tax returns, which will be subject to post-tax reviews by the relevant tax authorities. See Article 3. Key Information — Risk Factors D. — Business Risks in China — We rely on dividends and other equity distributions paid by our CPP subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our CPP subsidiaries to make payments could have a significant negative impact on our ability to conduct our business. If our holding company in the Cayman Islands or one of our subsidiaries outside China were considered a resident business under the CPP Business Income Tax Act, it would be subject to corporate income tax on its global income at a rate of 25%. See Article 3. Key Information —D. Risk Factors—Risks to Doing Business in China —If we are classified as a CPP resident business for CPP income tax purposes, such a classification could have adverse tax consequences for us and our non-CPP shareholders or ADS holders. Operating Results The following table provides a summary of our consolidated operating results for the specified periods, both in absolute amount and as a percentage of our net revenues. This information should be read at the same time as our consolidated financial statements and related notes included elsewhere in this annual report. We did not start our business until March 2012, and 2013 was the first year in which we generated revenue for the full year. Due to our limited operating history and the fact that we did not complete our CreditEase cut until the first quarter of 2015, the period-to-period comparisons reviewed below may not make sense and are not indicative of our future trends. See Article 3. Key Information — Risk Factors D. — Business Risks — We have a limited operating history in a new and evolving market, making it difficult to assess our future prospects. For the year ended December 31, 2015 2015 RMB % RMB % RMB US$% (thousands, excluding percentages) Net income(1) 196,525,100.0 1,313,639,100.0 3,237,991 466 368 100.0 Operating expenses and expenses: Sales and marketing 1 37,746 70.1,679,771 51.7 1 571 038 226 277 48.5 Origin and maintenance 21,820 11.1 86 360 6 6 180 0 76 25,936 5.6 Generals and Administratives 64,637 32.9 137 114 10.4 402 111 57,916 12.4 Operating costs expenditure (224,203) (114.1) (903,245) (68.7) (2,153,225) (310 129) (66.5) 95 Content Table for the Year Ended December 31, 2014 2015 RMB % RMB % RMB US$ % (thousands, excluding percentages) Interest income — — — 4,799 0.4 36,843 5,306 1.1 Consolidated ABFE fair value adjustments(2) — — (11,333) (0.9) (19,735) (2,842) (0.6) non-operational profit , net — — 83 — (Loss)/income before provision for income taxes (27,678) (14.1) 403,860 30.8 1,102,449 158,786 34.0 Income tax expense (30) (0.0) (128,521) (9.8) 13,949 2,009 0.4 Net (loss)/income (27,708) (14.1) 275,339 21.0 1,116,398 160,795 34.4 (1) Net revenues are broken down as follows: For the Year Ended December 31, 2014 2015 2016 RMB % RMB % RMB US$ % (in thousands, except for percentages) Loan facilitation services 192,975 98.2 1,278,539 97.3 3,133,423 451,307 96.8 Post-origination services 2,497 1.3 27,086 2.1 84,154 12,121 2.6 Others 1,053 0.5 8,014 0.6 20,414 2,940 0.6 (2) We consolidated Trust No. 1, Yiren Elite Loan Trust Beneficial Right Asset Backed Special Plan, CreditEase Wealth Consumer Credit Investment Fund and Trust No. 2 as a whole, which we refer to in this annual report collectively as Consolidated Assets Backed Financing Entities or the Consolidated ABFE. For more information on the Consolidated ABFE, please see Critical Accounting Policies, Judgments and Estimates — Presentation, Combination and Consolidation Base. Year ended December 31, 2016 Compared to net revenues for the year ended December 31, 2015. Our net sales increased from RMB1,313.6 million in 2015 to RMB3,238.0 million (US$466.4 million) in 2016, mainly due to the substantial increase in the volume of loans facilitated by our market, from approximately RMB 9,557.6 million in 2015 to RMB20,277.9 million (US$2,920.6 million) in 2016. The increase in the volume of loans facilitated by our market was driven by a substantial increase in the number of borrowers, from 146,390 in 2015 to 321,019 in 2016. The increase in net sales was also, to a lesser extent, attributable to (i) the change in mix produced on our platform, resulting in an increase in the weighted average transaction fee rate in 2016 and (ii) a significant year-over-year increase in net revenue of post-origin services due to the increase in the remaining capital of high-performing loans, increased from approximately RMB 8,969.9 million in 2015 to RMB20,780.6 million (US$2,993.0 million) in 2016. Operating expenses and expenses. Our total operating costs and expenses increased from RMB903.2 million in 2015 to RMB2,153.2 million (US$310.1 million) in 2016, mainly due to higher sales and marketing costs. · Sales and marketing costs. Our sales and marketing expenses increased from RMB679.8 million in 2015 to RMB1,571.0 million ($US 226.3 million) in 2016. The increase was mainly due to increased expenses associated with our ongoing user acquisition efforts. Our selling and selling costs as a percentage of our total revenues increased from 51.7% to 48.5% over the same period, mainly due to improved efficiency in our user acquisition. users. and in particular, the acquisition of users through online channels. · Original and maintenance costs. Our origin and service expenses increased from RMB86.4 million in 2015 to RMB180.1 million (US$25.9 million) in 2016, in line with the substantial increase in the volume of loans facilitated by our market. Our origin and service expenses as a percentage of our total revenues increased from 6.6% to 5.6% over the same period, mainly due to our improved operational efficiency. · General and administrative expenses. Our general and administrative expenses increased by 193.3%, from RMB137.1 million in 2015 to RMB402.1 million (US$57.9 million) in 2016, mainly due to higher salaries and benefits paid to our general and administrative staff and a provision of RMB81.3 million (US$11.7 million) in connection with a fraud incident detected by us in July 2016. Our general and administrative expenses as a percentage of our total revenues increased from 10.4% to 12.4% over the same period, mainly due to the provision for the fraud incident mentioned above. 96 Content interest income table. Our interest income increased from RMB4.8 million in 2015 to RMB36.8 million (US$5.3 million) in 2016, mainly due to an increase in the purchase of available-for-sale and maturing investments. Fair value adjustments related to the consolidated ABFE. Our fair value adjustments increased from RMB11.3 million in 2015 to RMB19.7 million (US$2.8 million) in 2016, mainly due to the creation of Trust No. 2 in July 2016. Tax expenses. Our income tax credit was RMB13.9 million (2.0 million $US) in 2016, compared to RMB128.5 million in 2015, mainly because Heng Ye became referred to as a software company, making it eligible for a business income tax exemption for 2015 and 2016 and a favorable corporate income tax rate of 12.5% from 2017 to 2019. The effect of the tax exemption for 2015 was received and recorded as a tax credit for 2016. Net income/ (net loss). As a result of the above, our net income increased from RMB275.3 million in 2015 to RMB1,116.4 million (US$160.8 million) in 2016. Year ended December 31, 2015 Compared to net revenues for the year ended December 31, 2014. Our net sales increased from RMB196.5 million in 2014 to RMB1,313.6 million in 2015, mainly due to the substantial increase in the volume of loans facilitated by our market, which from approximately RMB2,228.6 million in 2014 to RMB9,557.6 million in 2015. The increase in the volume of loans facilitated by our market was driven by a substantial increase in the number of borrowers, from 39,344 in 2014 to 146,390 in 2015. The increase in the net number of was also due to the launch of new loan products with higher transaction fee rates in the fourth quarter of 2014 and the first quarter of 2015. the monthly management fees we started charging investors using our automated investment tool in the second quarter of 2014, and the monthly management fees we began charging investors using our self-managed investment tool in the first quarter of 2015. For more information on our new loan products, please see item 4. Company Information — B. Business Overview — Our Products and Services — Products available to Borrowers. Operating expenses and expenses. Our total operating costs and expenses increased from RMB224.2 million in 2014 to RMB903.2 million in 2015, mainly due to higher sales and marketing expenses. · Sales and marketing costs. Our sales and marketing expenses increased from RMB137.7 million in 2014 to RMB679.8 million in 2015. The increase was mainly due to increased expenses associated with our ongoing user acquisition efforts. Our sales and marketing expenses as a percentage of our total revenues increased from 70.1% to 51.7% over the same period, mainly due to improved efficiency in our user acquisition efforts and, in particular, the acquisition of users through online channels. · Original and maintenance costs. Our original and service expenses increased from RMB21.8 million in 2014 to RMB86.4 million in 2015, in line with the substantial increase in the volume of loans facilitated by our market. Our origin and service expenses as a percentage of our total revenues increased from 11.1% to 6.6% over the same period, mainly due to our improved operational efficiency. · General and administrative expenses. Our general and administrative expenses increased by 112.1%, from RMB64.6 million in 2014 to RMB137.1 million in 2015, primarily due to higher salaries and benefits paid to our general and administrative staff and the increase in professional service fees we paid to third-party service providers in preparation for our initial public offering. Our general and administrative expenditures as a percentage of our total revenues decreased from 32.9% to 10.4% over the same period, mainly because our greater operational efficiency allowed us to achieve rapid revenue growth with relatively slower growth in general and administrative expenses. 97 Content Table Tax Charges. Our tax burden on amounted to RMB128.5 million in 2015, compared to RMB30,065 in 2014, mainly as a result of the net pre-provision income for taxes we generated in 2015, compared to a pre-provision loss for income taxes in 2014. Net income/ (net loss). Because of the above, we are RMB275.3 million in 2015, compared to a net loss of RMB2775.3 million in 2014, compared to a net loss of RMB 27.7 million in 2014. Critical Accounting Policies, Judgments and Estimates An accounting policy is considered essential if it requires that an accounting estimate be made based on assumptions on very uncertain issues at the time such an estimate is made, and if different accounting estimates that could reasonably have been used, or changes in accounting estimates that are reasonably likely to occur periodically. , could have a significant impact on consolidated financial statements. We prepare our financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recent information available, our own historical experiences, and various other assumptions that we believe are reasonable in the circumstances. Because the use of estimates is an integral part of the financial reporting process, actual results may differ from our expectations due to changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates. The following descriptions of accounting policies, judgments and critical estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this annual report. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) judgments and other uncertainties affecting the application of these policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. Yirendai Ltd. was founded by our parent company, CreditEase, in September 2014. Prior to the creation of Yirendai Ltd., our online consumer finance market activities were carried out by various subsidiaries and variable interest entities of CreditEase as a business unit under CreditEase. We completed our CreditEase cutout in the first quarter of 2015, and all of our online consumer finance business activities are now carried out by our own subsidiaries and consolidated variable interest entities. Our consolidated financial statements include assets, liabilities, revenues, expenses and cash flow directly attributable to our business for all periods presented. Given that we and CreditEase's subsidiaries and variable interest entities that operated Online market activities are under the joint control of CreditEase, assets and liabilities have been reported at historic transportation amounts. In addition, our consolidated financial statements were prepared as if the current structure of the business existed during the periods 98 Content Table Only assets and liabilities expressly identifiable to our company have been included in our consolidated balance sheets. For the liabilities related to us for which CreditEase advanced the financing, these amounts were recorded as amounts earned from CreditEase. Our Consolidated Operating Statements include all related costs and expenses, including related costs and expenses allocated by CreditEase. CreditEase's allocations, including sales and marketing expenses, origin and service expenses, and general and administrative expenses, were made using a proportionate method of allocating costs and based on the size or volume of transactions for the provision of services attributable to us. The tax payable was calculated as if we had filed separate tax returns for all periods presented. We conduct our online consumer finance market activities in China through our PRC subsidiaries, Heng Ye and Heng Yu Da, and our consolidated variable interest entities, Heng Cheng and Yi Ren Wealth Management. Due to the legal restrictions imposed by the PRC on foreign ownership and investment in value-added telecommunications services, and Internet content services in particular, we conduct our online business in China through a series of contractual agreements between Heng Ye and Heng Cheng and its shareholders and a series of contractual agreements between Heng Yu Da , Yi Ren Wealth Management and its shareholders. Heng Cheng operates our website www.yirendai.com ICP license as an internet information provider. Yi Ren Wealth Management operates our mobile wealth management app, which serves as an online portal for investment products, including loan products offered by us as well as other investment products offered by third-party suppliers. Most of our revenues, costs and expenses directly related to facilitation and lending service in China are generated by Heng Cheng and Yi Ren Wealth Management. Through contractual arrangements, we have the ability to manage the Heng Cheng and Yi Ren Wealth Management businesses that have the greatest impact on their economic performance, and to obtain the majority of the residual returns from Heng Cheng and Yi Ren Wealth Management. We are considered the principal beneficiary of Heng Cheng and Yi Ren Wealth Management, and therefore the entities are our variable interest entities under U.S. GAAP and we consolidate their results in our consolidated financial statements. Any changes to the laws and regulations of the PRC that our ability to control Heng Cheng and Yi Ren Wealth Management could prevent us from consolidating entities in the future. As part of our strategy to expand the investor base from individual investors to institutional investors, we have relationship with a trust, or trust No. 1, under which Trust No. 1 invested in loans through our online marketplace using funds received from its investors. Trust No. 1 is administered by a third-party Crown trust corporation, or the trust company, which acts as a trustee, with the aim of providing returns to its sole beneficiary by extending the loans to a total capital amount of RMB250.0 million to borrowers recommended by us. The settlor and the sole beneficiary of Trust No.1 is Fengsheng Private Investment Fund No. 1, or Fund No. 1, managed by Zhe Hao Shanghai Asset Management Company, or Zhe Hao, a subsidiary of CreditEase. In April 2016, Zhe Hao, on behalf of Fund No. 1, transferred all of Fund No. 1's beneficial rights into Trust No. 1, or beneficial right assets, to China International Capital Corporation Limited, or the SPV manager, who created a special plan backed by assets backed by assets backed by assets backed by beneficial assets of Yiren Elite Loan Trust , or the ABS plan, to accommodate the beneficial asset. The securities were issued and listed on the Shenzhen Stock Exchange in April 2016 as part of the ABS plan. We purchased senior A securities of RMB47.5 million (US$6.8 million), representing 19% of the total shares issued by the ABS plan. Puxin Hengye Technology Development (Beijing) Co., Ltd., subsidiary of CreditEase, purchased all subordinated securities for RMB25.0 million (US$3.6 million) and two funds set up and managed by Zhe Hao purchased various tranches of securities amounting to RMB67.5 million (US$9.7 million), representing 10% and 27% of the total price of the issued securities, respectively. In July 2016, we established a business relationship with another trust, or Trust No. 2, which is of the structure similar to trust No. 1 described above. Trust 2 is administered by the same trust company. CreditEase Wealth Consumer Credit Investment Fund, or Fund No. 2, managed by Zhe Hao is the settlor and sole beneficiary of Trust No. 2. Trust No. 2 invested a total of RMB30.0 million (US$43.2 million) in loans through our online marketplace using funds raised by its sole beneficiary from ultimate investors, including RMB30.0 million (US$4.3 million) invested by Heng Cheng, one of our variable interest entities , and RMB33.4 million (US$4.8 million) invested by Shenzhen CreditEase Commercial Factoring Co., Ltd., a subsidiary of CreditEase. 99 Content Table As part of the above arrangements, we provide loan facilitation and post-origin services to trusts. In order to protect trusts potential losses due to default, we also offer a certain level of collateral in the form of a guarantee fund set up for trusts, under which we make a security deposit to each of these guarantee funds of an amount equal to 6% and 7% of the total loan capital invested by Trust No. 1 and Trust No. 2. Respectively. Our Our is capped at the money set aside in each security fund. In the event of default, the trusts will use the money from the relevant security fund to cover the amount in default. When the trusts are dissolved, if the payments are less than 20% of the money set aside in the security fund, the rest of the security fund will be refunded to us. Otherwise, the rest of the guarantee fund will be part of the assets of the trusts being distributed. We hold significant variable interests in Trust 1 and Trust No. 2 through the transaction fees charged and the security guarantee provided in the form of a security deposit. We also have significant variable interests in the ABS plan and Fund No. 2 through direct investments. Through transaction fees, deposit and direct investment, we are entitled to receive benefits from the consolidated ABFE that could potentially be significant to the consolidated ABFE. We also have the power to direct activities that may have the greatest impact on the economic performance of the consolidated ABFE by providing loan and default loan collection services to both trusts. As a result, we are considered the principal beneficiary of the consolidated ABFE and have consolidated the consolidated ABFE's consolidated assets, liabilities, operating results and cash flow in our consolidated financial statements. The assets of the consolidated ABFE are not available to our creditors. In addition, the investors of the consolidated ABFE have no recourse against our assets. Our consolidated financial statements may not reflect our operating results, financial position and cash flow if we had been a stand-alone company in the periods leading up to the end of our cut in the first quarter of 2015. Our historical results for any period presented are not necessarily indicative of the results to be expected for a future period. While we believe that the assumptions underlying our consolidated financial statements and allocations are reasonable, our database and allocation methodologies required important assumptions, estimates and judgments. The use of a different set of assumptions, estimates and judgments would have had a significant impact on our financial position and results of operations. Income Recognition We provide services by connecting investors with individual borrowers and facilitating lending transactions through our online consumer finance market. The three main deliverables provided are facilitation of loans, the quality assurance program and post-origination services. We charge borrowers a transaction fee to facilitate loan transactions, and we charge investors a monthly management fee for the use of the automated investment tool and the self-managed investment tool. These fees are collectively referred to as non-conditional fees. We also receive conditional conditional fees future events, such as penalty fees for prepayment of the loan or late payment, fees for the transfer of loans to the secondary market of loans and other service charges. In October 2016, we launched a new program called the Recharging Program where we facilitate a new loan for a qualified borrower to replace their existing loan. This arrangement is counted as an extinguishment of the existing loan with simultaneous facilitation of a new loan. The reloading program is a service offered to qualified borrowers to improve the customer experience and meet their lifetime credit needs. The loan rights structure facilitated under the Recharging Program is the same as that of other loan products, except that we offer an upfront fee credit for the existing loan to encourage acceptance of the new loan, which is considered a cash incentive to the borrower and recorded as a reduction in income. 100 Content Table Multi-Item Income Recognition We view loan facilitation services, the quality assurance program and post-origination services as a multi-deliverable income arrangement and investors are considered the only customers. We concluded that while we do not sell these services independently, the three deliverables have stand-alone value, as others sell them independently and have value to customers independently. All non-contingent costs are divided between these three deliverables. We allocate the fees to be received in accordance with the guidelines of nc 605-25. We first determine the amount equal to the fair value of the quality assurance program and deduct it from the total non-contingent costs. Second, the remaining non-contingent fees are allocated to loan facilitation services and post-origination services using their relative estimated selling prices. We do not have vendor-specific objective evidence, or VSOE, of the sale price of loan facilitation and post-origination services because we do not provide loan facilitation or post-origination services separately. For cash processing services, collection services and sms services, all of which are part of post-origination services, we use third-party proof of the sale price, or TPE, which is the price charged when sold separately by its service providers, as the basis for the income allocation. Although other providers may sell these services separately, TPE of the sale price of loan facilitation and service services investment tools (which is part of the post-origination services) do not exist, as there is no public information on the amount of fees our competitors may charge for these services. As a result, we generally use our best estimate of the selling prices of loan facilitation services and the automated investment tool service as the basis for income allocation. By estimating the sale price of loan facilitation services and and Investment tool service, we consider the cost incurred to provide such services, the profit margin for similar arrangements, customer demand, the effect of competition on our services, and other market factors. For each type of service, we recognize revenues when the following four criteria for revenue recognition are met: (i) convincing evidence of an agreement exists, (ii) delivery has taken place or services have been rendered, (iii) the sale price is fixed or determinable, and (iv) collection is reasonably assured. Historically, we have collected transaction fees primarily on a monthly basis over the life of the loan. Since the fourth quarter of 2014, we have adopted a new fee collection schedule under which we collect the full amount in advance, either we drill a portion of the transaction fees in advance and the rest on a monthly basis during the term of the loan. The service charges charged to investors for the automated investment tool or self-dedicated investment tool are collected on a monthly basis during the loan period. All transaction and service fees charged prior to December 31, 2014 were guaranteed by Tian Da Xin An, a warranty company. From January 2015, the collection of fees is no longer guaranteed by Tian Da Xin An. We assessed factors relevant to the uncertainty of collectability, including (i) portfolio credit risk, (ii) early repayment risk, (iii) change in risk profile resulting from new product launches, and (iv) the macroeconomic cycle, and concluded that collection could not be reasonably assured. Revenues from loan facilitation services Before the end of 2014, the four revenue recognition criteria mentioned above were met at the end of loan facilitation services. We recognized 100% of transaction fees as revenue and recorded no provision for non-recollectable accounts, as all transaction fees for loans facilitated prior to December 31, 2014 were guaranteed by Tian Da Xin An. As of the first quarter of 2015, revenues are recorded at the end of services. Cash received in the form of upfront fees is first allocated to the loan-to-use liabilities associated with the quality assurance program, and then based on the relative selling prices of loan facilitation and post-origination services. For partially refundable fees for borrowers, revenues are not recognized until the fees are refundable. 101 Table of post-origin revenue Fees pre-origination services are carried forward and recognized over the straight line lending period. Other income Other income includes the late payment or prepayment penalty fee, the one-time fee for transferring loans to the secondary market for loans, and other service charges for the borrower's acquisition and reference fees. Lla Lla the fees, which are the fees paid to investors and which were awarded to us by investors, will be received as a percentage of the amounts due in the event of a late payment or a certain percentage of interest in relation to the amount of the prepaid principal loan in the event of a prepayment. Cash incentives and reward program if they want to increase market presence in order to increase market presence, we offer cash incentives to investors whose one-time investment exceeds a certain amount at the time of their investment. The cash incentives offered are counted as a reduction in revenue in accordance with NC's 605-50 sub-utopian. We have also implemented a member reward program in which investors can earn Yiren coins when purchases made on our platforms reach a certain amount. Existing investors/borrowers may also receive Yiren coins at the time of the first purchase made by new investors targeted by them. Yiren coins can be used for future purchases. The valid periods of these Yiren coins vary from one individual promotional program to another, ranging from three months to two years. Given that at present, we do not have sufficient historical data to reasonably estimate the rate of use of Yiren coins, liabilities for the estimated value of Yiren coins that should be used are accumulated based on the total number of yiren coins in circulation related to purchases prior to the end of each reporting period. These liabilities reflect our management's best estimate of the cost of future uses. As of December 31, 2014, 2015 and 2016, we had recorded accumulated expenses related to Yiren coins earned from previous purchases of nil, RMB29.5 million and RMB39.3 million, respectively. Quality Assurance Program Liabilities As of January 1, 2015, we have launched our new quality assurance program. Under this quality assurance program, if a loan came from a default or after January 1, 2015, we would cover on a portfolio basis the repayment of the principal and accrued interest on the defaulted loan using the cash set aside in our quality assurance program until the rest of the quality assurance program. We have set aside in the quality assurance program an amount equal to 6% - 7% of loans facilitated by our market during the period. We reserve the right to revise this percentage upwards or downwards from time to time as a result of our ongoing assessment of factors such as market dynamics as well as our ranges of profitability and cash position. At the beginning of each loan, we recognize that a ready-to-use liability is the fair value of the quality assurance program under NC 460. See — Fair Value of Quality Assurance Program. According to NSC 460, the initially recognized loan-to-use liability would generally be reduced by a earnings credit because we are free of risk under the guarantee, either by expiry or by return. We also recognize the potential liability asc 450 on a portfolio basis, which translates into recognition of profit expenditure. We follow the responsibility ready to be on a ready-to-loan basis to monitor the expiration. When we release the ready-to-use liability through the execution of the guarantee (by making payments on defaulted loans), we recognize the income as well as the loss on the defaulted loans. Revenues from the release of liability and ready-to-use expenses from the recognition of potential liability related to the quality assurance program are presented on a clear basis in the Statement of Results. On a portfolio basis, when the overall conditional liability required to be recognized under NAC 450 exceeds the balance of the quality assurance program liabilities, we will record the surplus as an expense. 102 Content Table The fair value of the ready-to-use liabilities associated with the quality assurance program at the beginning of the loan was estimated using an updated cash flow model based on our expected net quality assurance program payments, as well as by incorporating a margin of increase. We estimate our projected future net payments based on our current product line as well as our estimates of expected net expense rates and expected recovery rates and a discount rate. The expected future net cash payment is capped at the restricted cash balance of the quality assurance program. In order to continue to attract new existing investors and remain consistent with current industry practice in China, we have begun to set aside more liquidity in the quality assurance program from the fourth quarter of 2015, based on our business intent, but not our legal obligation, so that the balance of the quality assurance program is sufficient to cover the expected net payments. In the years ended December 31, 2015 and 2016, we have made arrangements for the quality assurance program amounting to RMB682.2 million and RMB1,679.5 million (US$241.9 million) (including including RMB81.3 million (US$11.7 million) of estimated net payments above our employment loan obligation related to the fraud incident we detected in July 2016 , which increases liability, respectively, and made net payments totalling RMB135.9 million and RMB754.8 million (US$108.7 million) from the quality assurance program, respectively, reducing the loan-to-work liabilities. As of December 31, 2015 and 2016, we had AMB 546.3 million loan liabilities and RMB 1,471.0 million (US$211.9 million) associated with our quality assurance program, respectively. Quality Fair Value Assurance Program The fair value of the quality assurance program is estimated by applying an updated cash flow model to our expected net quality assurance program payments, as well as by incorporating a margin of service increase. We estimate the expected net payments from our quality assurance program based on the we implement in accordance with our investor agreements, recovery rates and the rest of the quality assurance program. Expected net payments are not equal to the net deductions provided because (i) we only pay unpaid principal and interest accrued at the time of default, instead of unpaid principal and unpaid interest for the term of the loan that are recorded in net expenses, and (ii) our recovery efforts continue and may be successful in collecting a certain amount due after the expiry of the default loan term. , thereby reducing net payments from the quality assurance program, the factor of which is not reflected in net deductions. Expected charge rate. We estimated future overall charge rates for facilitated loans using the weighted average of projected expense rates for Class A, B, C and D loans. For each loan category, the expected repayment rate is estimated using historical data on the performance of our products. Class B and C loans have higher credit risks than Class A, but lower than Class D loans. To obtain the historical repayment rates for our loans, please see the charts under Loan Performance Data. Expected recovery rate. The expected recovery rate for defaulted loans is based on the average historical recovery rate of our products and similar products from CreditEase. Discount rate. The expected cash flow discount rates for net quality assurance program payments are our estimates of return on equity rates. Since we have never had debt or equity financing, the discount rate used is estimated based on public information on the cost of equity of comparable companies in the United States, adjusted upwards as we operate in the CPP. Key assumptions include that there are no significant short-term changes in macroeconomic factors that will have a significant impact on the load rates of a particular loan class, such as the CPP unemployment rate and wage levels. Service mark-up margin. NC 460 establishes the concept of non-contingent and unconditional obligation in a financial guarantee, namely the responsibility to be prepared to execute over the term of the guarantee, and stipulates that this should be recognized at their fair value at the beginning of the guarantee. When a guarantee is issued in a stand-alone transaction at arm's length from an unrelated party, the fair value of the guarantee (and therefore the amount to be recognized as a ready-to-use liability) is the received by the guarantor. By integrating a margin, we have effectively estimated the price to pay if we sell this quality assurance program independently. 103 Content Table Given the uniqueness of our business model of quality assurance program and the risk profile of borrowers on our platform, it is difficult to find relevant data on providers offering the same warranty services. In order to achieve the service margin, we examined several comparable business models and determined the margin of service increase for our ready-to-use liabilities. Fair value of loans and payable to investors at fair value We have chosen the fair book value of loans and related payable to investors. Changes in the fair value of loans for the period are recorded as fair value adjustments. We estimate the fair value of loans using an updated cash flow assessment method. The fair valuation method takes into account expected prepayments and the net deduction to project future losses and net cash flows on loans. We have adopted the measure alternative included in the 2014-2013 ASU, the secured financing entity (CFE) under which we measure both the financial assets and financial liabilities of the consolidated ABFE in our consolidated financial statements using the most observable of the fair value of financial assets and the fair value of financial liabilities. We believe that the fair value of the consolidated ABFE is more observable than the fair value of the consolidated ABFE's financial liability. As a result, consolidated ABFE loans are measured at fair value and investor credit is measured in consolidation such as: (i) the sum of fair value of loans and the book value of any non-financial assets that are incidental to the operations of the Consolidated ABFE minus (ii) the sum of the fair value of the loan default loss borne by us by the security deposit. The resulting amount is allocated to individual financial liabilities (other than the beneficial interests retained by us) using a reasonable and consistent methodology. According to the measurement alternative, our consolidated net income reflects our own economic interests in the consolidated ABFE, including changes in the fair value of our beneficial interests. Because our loans and related investor-payable inputs are not traded in an active market with easily observable prices, we use large, unobservable inputs to measure the fair value of these assets and liabilities. Financial instruments are ranked in the Tier 3 rating hierarchy based on the importance of non-compliance factors in the overall fair value measure. As of December 31, 2015 and 2016, significant non-compliance inputs used to measure the fair value of consolidated ABFE loans include the discount rate applied in valuation models, default and recovery rates applied in valuation models, and repayment rates These isolated inputs can result in significant increases or decreases in fair value. Specifically, when an updated cash flow model is used to determine fair value, the significant contribution used in the valuation model is the discount rate applied to the discounted value Flow. Increasing the discount rate can significantly reduce the fair value of loans and the decrease in the discount rate can significantly increase the fair value of loans. The discount rate is determined by market rates. Significant Unobservable Inputs Financial Instrument Unobservable Input December 31, 2015 Weighted Input Range - Average December 31, 2016 Weighted Input Range - Average Loans payable to Investors Discount Rates 12.0% 12 .0% Expected Net Cumulative Loss Rate (1) 7.9% 7.6% - 7.9% Cumulative Prepayment Rates(2) 7.4% 13.2% 104 Content Table (1) Expressed as a percentage of loan volume. (2) Expressed as a percentage of the remaining principal of the loans. Income Tax In the preparation of our consolidated financial statements, we must estimate our income taxes in each of the jurisdictions in which we operate. We estimate our actual tax exposure and assess the temporary differences resulting from different treatment of the elements for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we include in our consolidated balance sheet. We must then assess the likelihood that we will recover our deferred tax assets from future taxable income. If we believe that recovery is not likely, we need to establish an evaluation allocation. To the extent that we establish or increase an assessment allowance, we must include an expense in the tax provision in our consolidated statement of operations. Management must exercise significant judgment in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation provision recorded on our net deferred tax assets. We base the valuation allowance on our estimates of taxable income in each jurisdiction in which we operate and on the period during which our deferred tax assets will be recoverable. If actual results differ from these estimates or adjust these estimates in future periods, we may need to establish an additional valuation allocation, which could have a material impact on our financial position and results of operations. U.S. GAAP requires an entity to recognize the impact of an uncertain income tax situation on the tax return at the highest amount more likely than not to be maintained during the audit by the appropriate tax authority. If we ultimately determine that these liabilities will not be required, we will cancel the obligation and recognize a tax benefit during that period. Conversely, we record a fee during a period in which we determine that a registered tax payable is less than the expected final valuation. We did not recognize any significant unrecognized tax benefits during the periods presented in this annual report. There are uncertainties about the application of the CPP Business Income Tax Act to our specifically with regard to our status as a tax resident. The CPP Business Income Tax Act specifies that legal entities organized outside the CPP will be considered residents for CPP income tax purposes if their de facto management agencies are located within the CPP. The rules for the implementation of the CPP Business Income Tax Act define the term de facto management organizations as institutions that carry out substantial and comprehensive management and control over the manufacture and commercial operations, personnel, accounting, properties, etc. of a business. Due to the uncertainties arising from the CPP's limited tax orientation on this issue, it is not clear that our legal entities organized outside the CPP are residents under the CPP Business Income Tax Act. If one or more of our legal entities organized outside the CPP were classified as CPP tax residents, the impact would adversely affect our operating results. See Article 3. Key Information — Risk Factors D. — Risks related to doing business in China. Recent Accounting Statements Recent accounting statements that are relevant to us are included in Note 2 of our audited consolidated financial statements, which are included in this annual report. Inflation Since our inception, inflation in China has not had a significant impact on our operating results. According to China's National Bureau of Statistics, year-over-year changes in the consumer price index for December 2014, 2015 and 2016 were increases of 1.5%, 1.6% and 2.1%, respectively. Although we have not been significantly affected by inflation in the past, we could be affected if China experiences higher inflation rates in the future. 105 Content Table B. Cash flow and working capital resources Prior to the creation of Yirendai Ltd., our online consumer finance market activities were carried out by various subsidiaries and variable interest entities of CreditEase as a business unit under CreditEase. We completed our CreditEase cutout in the first quarter of 2015. In 2014, our main sources of liquidity were advances from our parent company, CreditEase, representing operating expenses and expenses paid or incurred by the various CreditEase affiliates on our behalf. We will not have such advances from CreditEase in the future. In 2015 and 2016, our main sources of liquidity were the cash generated from the operating activities and the proceeds from the issuance and sale of Actions. We generated positive cash flows from the operating activities of RMB861.3 million and RMB 2,113.4 million (US$304.4 million) in 2015 and 2016, respectively. In December 2015, we completed our initial public offering in which we issued and sold a total of 7,500,000 ADS, ADS, 15,000,000 common shares, resulting in net proceeds of approximately US$64.9 million. In addition to our initial public offering, we sold 2,000,000 common shares to Baidu Hong Kong in a private placement, resulting in net proceeds of approximately US$9.0 million. As of December 31, 2016, we had cash and cash equivalents of approximately RMB968.2 million (US$139.4 million), compared to cash and cash equivalents of approximately RMB846.1 million at December 31, 2015. As of December 31, 2016, we had limited liquidity by approximately RMB1,218.3 million (US$175.5 million), compared to RMB484.0 million at December 31, 2015. Restricted liquidity was the amount of money we set aside under the quality assurance program launched on January 1, 2015 and the cash held by the consolidated ABFE. When we make payments from the quality assurance program in the event of default, these payments will reduce the balance of our restricted cash flow. We monitor the rest of the quality assurance program on a monthly basis and adjust on a quarterly basis by putting an appropriate additional amount of money into the quality assurance program as required to ensure that we can adequately cover the expected net payments. We expect our limited cash balance to continue to increase in the near future. Unlike financial institutions, we are not subject to any capital adequacy requirements for financial institutions in China. We believe that our projected cash flow from operating activities will be sufficient to meet our working capital requirements and projected capital expenditures during regular operations over the next 12 months. However, we may need additional monetary resources in the future if we see changes in business conditions or other developments, or if we find and want to seize opportunities for investment, acquisition, capital expenditures or similar actions. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand at the time, we may seek to issue equity or debt or obtain credit facilities. The issuance and sale of additional equity would result in additional dilution for our shareholders. Indebtedness would lead to an increase in fixed bonds and could result in clauses which would restrict our operations. We cannot assure you that funding will be available in amounts or on terms acceptable to us, the last case. See Article 3. Key Information —D. Risk Factors — Risks to our Business — We may need additional capital, and funding may not be available on terms that are acceptable to us, or not at all. Our ability to manage our working capital, including accounts receivable, prepaid and other assets, as well as accumulated expenses and other liabilities, can have a significant impact on our financial position and and Operations. See Article 3. Key Information — Risk Factors D. — Failure to manage our cash and cash flow can have a significant and unfavorable impact on our financial position and results of operations. 106 Content Table Our accounts receivable primarily include transaction fees receivable from borrowers. As of December 31, 2014, 2015 and 2016, we had accounts receivable of RMB161.1 million, RMB 83.0 million and RMB28.6 million (US$4.1 million), respectively. In 2014, we recorded transaction fee revenues as soon as loan facilitation services were terminated, and no provision for non-recollectable accounts receivable was recorded as of December 31, 2014, as all accounts receivable were guaranteed by Tian Da Xin An. During the nine-month period ended September 30, 2014, borrowers paid the transaction fees primarily on a monthly basis during the term of the loan. In the fourth quarter of 2014, we adopted a new fee collection schedule whereby we collect all transaction fees in advance at the end of our loan facilitation services, either we collect a portion of the transaction fees in advance and the rest on a monthly basis during the term of the loan. As a result of our transition from the third-party guarantee agreement to the quality assurance program model, beginning in the first quarter of 2015, we have adopted a new revenue recognition policy — for fees collected in advance, we recognize revenues at the end of loan facilitation services, while for fees collected on a monthly basis during the term of a loan , we recognize revenue when fees are collected. As a result, we did not record any additional accounts receivable in 2015 and 2016 and no provision for non-recollectable accounts receivable was recorded as of December 31, 2015 and 2016. As a result, our accounts receivable have declined over the past three years, and we expect our accounts receivable to continue to decline in the future. Our prepaid expenses and other assets primarily include receivable funds from external payment networks, and our accumulated expenses and other liabilities primarily include funds payable to investors or borrowers. The funds receivable from external payment networks and funds payable are the result of our use of master custody accounts with various external payment networks. Borrower and investor funds are deposited in custody accounts managed by one of the external payment networks we use. We use these accounts collect and transfer loan funds to borrowers and collect and repay principal and interest from loans to investors. We also use these accounts to collect the transaction and service charges we charge, and to repay and collect the principal and interest on the default loan. Funds receivable from these external payment networks include funds received from investors but have not yet been transferred to borrowers, repayments of and interest received from borrowers, but not yet transferred to investors, and transaction fees and service charges received but not yet transferred to us, through external payment networks due to a settlement delay. Similarly, we also have funds payable to investors or borrowers due to a delay in settlement with these external payment networks. In August 2015, we fully migrated to a new system whereby China Guangfa Bank not only maintains an account for us, but also separately maintains trusts for, or ITF, accounts for borrowers and investors. With this arrangement, we may have less funds to receive external payment networks and funds payable on our balance sheet. While we are consolidating the operating results of Heng Cheng and Yi Ren Wealth Management, our variable-interest entities, we have access only to the cash balances and future earnings of Heng Cheng and Yi Ren Wealth Management through our contractual agreements with them. See Article 4. Company Information — A. History and Development of our Society. In addition, while we are consolidating the consolidated ABFE's cash flow into our cash flow, the consolidated ABFE cash balance is not available to finance our overall liquidity requirements. For more information on the Consolidated ABFE, please see Critical Accounting Policies, Judgments and Estimates — Presentation, Combination and Consolidation Base. In terms of restrictions and restrictions on liquidity and capital resources because of our corporate structure, see Holding Company Structure. By using the liquidity we hold abroad, we may (i) make additional capital contributions to our CPP subsidiaries, (ii) establish new CPP subsidiaries and make capital contributions to these new CPP subsidiaries, (iii) lend to our CPP subsidiaries, or (iv) acquire offshore entities with commercial activities in China through offshore transactions. However, most of these uses are subject to CPP regulations and approvals. For example: Capital contributions to our CPP subsidiaries, whether existing or newly established, must be approved by the MOC or its local counterparts; and loans made by us to our PRC subsidiaries, which are foreign-owned enterprises, to finance their activities cannot exceed legal limits and must be registered with SAFE or its local branches. See Article 3. Key Information —D. Risk Factors—Risks Related to Achievement in China—The regulation of loans and direct investments in CPP entities by offshore holding companies and government control of currency conversion may delay or prevent us from using the proceeds of our initial public offering and simultaneous private placement to make loans or make additional capital contributions to our CPP subsidiaries. , which could materially and liquidity and our ability to finance and expand our business. 107 Table of Materials Almost all of our future revenues are likely to continue to be in the form of RMB. Under the CPP's current exchange regulations, payments of current account items, including profit distributions, interest payments and trade- and service-related foreign exchange transactions, may be made in foreign currency without prior safe approval as long as certain current procedural requirements are met. As a result, our CPP subsidiaries are authorized to pay us dividends in foreign currency without SAFE's prior approval by following certain routine procedural requirements. However, current CPP regulations allow our CPP subsidiaries to pay us dividends only on their accumulated earnings, if any, determined in accordance with Chinese accounting standards and regulations. Our CPP subsidiaries are required to set aside at least 10% of its after-tax profits after accumulating losses accumulated in previous years each year, if any, to finance certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves are not distributed in the form of cash dividends. In addition, capital account transactions, which include foreign direct investment and loans, must be approved and/or registered with SAFE and its local branches. See Article 3. Key Information —D. Risk Factors—Risks of Doing Business in China —Government control of currency conversion can limit our ability to effectively use our net revenues and affect the value of your investment. The following table sets forth a summary of our cash flows for the periods indicated: Year Ended December 31, 2014 2015 2016 RMB RMB RMB US$ (in thousands) Summary Consolidated Cash Flow Data: Net cash (used in)/generated from operating activities (1) (227,041) 861,277 2,113,435 304,398 Net cash used in investing activities (3,577) (282,589) (1,421,663) (204,762) Net cash provided by financing activities 231,996 749,918 135,298 19,487 Effect of foreign exchange rate changes — 101 29,356 4,228 Net increase in cash, cash equivalents and restricted cash 1,378 1,328,707 856,426 123,351 Cash, cash equivalents and restricted cash, beginning of year — 1,378 1,330,085 191,572 Cash, cash equivalents and restricted cash, end of year 1,378 1,330,085 2,186,511 314,923 (1) In the fourth quarter of 2016, we elected to early adopt ASU 2016-18 , which requires the inclusion of limited liquidity in cash balances and cash equivalents in the cash flow statement, on a retrospective basis and which have applied changes to our consolidated statements of cash flow for the years ended December 31, 2014, 2015 and 2016, respectively. Operating Activities Net cash generated from operating activities was RMB2,113.4 million ($US 304.4 million) in 2016. In 2016, the the difference between our net cash flow from operating activities and our net income of RMB1,116.4 million (US$160.8 million) were changes in certain working capital accounts, primarily an increase in quality assurance program liabilities of RMB924.7 million (US$133.2 million) and an increase in accrued expenses and other liabilities of RMB297 .8 million (US$42.9 million), partially offset by an increase in deferred tax assets of RMB260.5 million (US$37.5 million) and an increase in prepaid tax assets of other RMB220.0 million (US$31.7 million). The quality assurance program's liabilities increased mainly due to an increase in the volume of loans facilitated by us. The increase in accrued expenses and other liabilities was mainly due to an increase of RMB216.3 million (US$31.2 million) in tax payable, mainly due to an increase in non-deductible expenses during the current period. The increase in deferred tax assets was mainly due to an increase of RMB231.2 million (US$33.3 million) in the quality assurance liabilities. The increase in prepaid expenses and other assets was mainly due to an increase of RMB108.9 million (US$15.7 million) in receivable funds from third-party online payment platforms. 108 Content Table Net cash generated from operating activities was RMB861.3 million in 2015. In 2015, the main factors representing the difference between our net cash generated from operating activities and our net income from RMB275.3 million were changes in certain working capital accounts, primarily an increase in the liabilities of the RMB546.3 million quality assurance program and a decrease in accounts receivable of RMB 78.1 million , partially offset by an increase in deferred tax assets of RMB175.9 million. The quality assurance program's liabilities increased mainly because we launched our new quality assurance program as of January 1, 2015, under which, if a loan came from a default or after January 1, 2015, we would cover on a portfolio basis the repayment of the principal and accrued interest of the defaulted loan using the cash set aside in our quality assurance program until remains of the quality assurance program. For the first three quarters of 2015, we set aside in the quality assurance program an amount equal to 6% of loans our market over the period. This amount is not sufficient to cover all net payments for loans facilitated during this period. Beginning in the fourth quarter of 2015, we set aside sufficient liquidity in the Quality Assurance Program to cover expected net payments by putting an appropriate additional amount of money from other sources into the quality assurance program on a quarterly basis, if necessary. The decrease in accounts receivable is due to a change in our revenue recognition policy in the first quarter of 2015. See view flow and working capital. The increase in restricted liquidity is due to the liquidity we have set aside in the quality assurance program, which has been partially offset by net payments from the default quality assurance program. We recognized deferred tax assets in 2015 primarily because of the liabilities of our quality assurance program. Net cash used in operating activities was RMB227.0 million in 2014. In 2014, the main items representing the difference between our net cash used in operating activities and our net loss of RMB27.7 million were changes in certain working capital accounts, primarily an increase in prepaid and other assets of RMB191.9 million, partially offset by an increase in accrued expenses and other liabilities of RMB169 .6 million, and an increase in accounts receivable from RMB142.5 million. The increase in prepaid expenses and other assets is (i) primarily due to the increase in funds receivable from external payment networks, which include funds received from investors but not yet transferred to borrowers, loan and interest repayments received from borrowers but not yet transferred to investors, and transaction and service fees received but have not yet been transferred to us. , through external payment networks due to a settlement delay, and (ii) to a lesser extent, due to an increase in deposits we paid to third parties for online marketing and user acquisition services. The increase in accumulated expenses and other liabilities is mainly due to the increase in funds payable to investors or borrowers due to a delay in settlement with the external payment networks used to collect and transfer loan funds to borrowers and collect and repay the principal and interest of loans to investors. The increase in our accounts receivable is due to the significant growth in the volume of loans in our market in 2014. Investment Activities Net cash used in investment activities amounted to RMB1,421.7 million (US$204.8 million) in 2016, which is attributable to our purchases of mature investments, available investments for sale, investments in fair value loans and purchases of property, equipment and software. Net cash used in investment activities amounted to RMB282.6 million in 2015, which is attributable to our purchases of investments held at maturity, fair-value loans and to goods, equipment and software. Net cash used in investment activities was RMB3.6 million in 2014, due to our purchases of goods and equipment. Financing Activities Net cash flow from financing activities amounted to RMB135.3 million (US$19.5 million) in 2016, mainly attributable to RMB270.0 million (US$38.9 million) received by Turst No. 2 from its settlor and its sole beneficiary and to RMB202.5 million (US$29.2 million) proceeds from the issuance of assets-backed securities on the Trade in China with the loans invested by Trust No. 1 via our platform as underlying assets, partially offset by RMB250.0 million (US$36.0 million) in capital payments made by Trust No. 1 to its sole beneficiary and RMB65.4 million (US$9.4 million) in capital payments compared to asset-backed securities. Consolidated ABFE's cash flows are consolidated in our cash flows. However, the consolidated ABFE cash balance is not available to finance our overall liquidity needs. For more information on the Consolidated ABFE, please see Critical Accounting Policies, Judgments and Estimates — Presentation, Combination and Consolidation Base. 109 Content Table Net cash provided from the financing activities amounted to RMB749.9 million in 2015, primarily attributable to the net proceeds of our initial public offering and simultaneous private placement, the initial contribution received by the trusts and the cash contribution of our parent company, CreditEase. Net cash from the financing activities was RMB232.0 million in 2014, primarily attributable to the cash contribution of our parent company, CreditEase. Capital Expenditures We made capital expenditures of RMB 3.6 million, RMB16.4 million and RMB30.0 million (US$4.3 million) in 2014, 2015 and 2016, respectively. During these periods, our capital expenditures were primarily used for the purchase of goods, equipment and software. We will continue to make capital expenditures to meet the expected growth of our business. Holding Company Structure Yirendai Ltd. is a holding company that does not have its own material activities. We conduct our operations primarily through our subsidiaries and consolidated entities with variable interest in China. As a result, Yirendai Ltd.'s ability to pay dividends depends on dividends paid by Heng Ye and Heng Yu Da, our CPP subsidiaries, and Heng Cheng and Yi Ren Wealth Management, our combined variable interest entities. If our existing subsidiaries or any newly formed subsidiary go into debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay us dividends. In addition, each of our wholly foreign subsidiaries in China is only allowed to pay us dividends from its retained earnings, if applicable, as determined in accordance with the accounting standards and regulations of the PRC. Under the PRC Act, each of our subsidiaries and consolidated variable interest entities in China are required to set aside at the 10% of its after-tax profits each year, if any, to finance certain statutory reserve funds until these reserve funds reach 50% of its registered capital. In addition, each of our wholly foreign subsidiaries in China may allocate a portion of its after-tax profits according to THE CPP's accounting standards to the company's expansion funds and staff bonus and welfare funds to its own and each of our consolidated variable interest entities may allocate a portion of its after-tax profits based on CPP accounting standards to a discretionary surplus fund at its discretion. Statutory reserve funds and discretionary funds are not distributed in the form of cash dividends. Dividend payments by an all-foreign company outside China are subject to review by safe-designated banks. Our CPP subsidiaries have not paid dividends and will not be able to pay dividends until they have generated accumulated profits and meet the statutory reserve fund requirements. C. Research and Development We had a dedicated product development team of 99 full-time employees as of December 31, 2016. This team is responsible for the development and implementation of new consumer finance products that will be introduced to our market. We constantly evaluate the popularity of our existing product offerings and develop new products and services that can meet the evolving needs of our borrowers and investors. From the borrower's perspective, we will continue to develop customized credit products to meet the specific needs of our key target borrowers. As our market continues to grow, we expect to increase our ability to offer risk-based lending prices. For example, we plan to improve our risk-based pricing capability that optimizes loans based on individual credit criteria so borrowers can receive customized loans tailored to their credit profile. In addition, we intend to introduce market-based lending prices based on macroeconomic factors and believe that such an ability to continually adjust the price of loans in our market will allow us to better meet the needs of our borrowers. 110 Content Table From an investor perspective, we continue to develop new investment products, such as diversified futures and products with lower investment thresholds, that appeal to different investor appetites and demands. In the future, we plan to segment our lending products into more accurate and accurate performance categories, and will seek to provide investors with a more diversified range of investment products that better meet their risk-adjusted performance targets. We also intend to provide investors with improved tools and provide more valuable services, such as portfolio services, enable them to better monitor and manage their investments in our online marketplace. D. Trends Information Other than those disclosed elsewhere in this Annual Report, we are not aware of trends, uncertainties, requests, commitments or events for the year ended December 31, 2016 that are reasonably likely to have a significant and negative impact on our net revenues, earnings, profitability, liquidity or or or that would ensure that the financial information disclosed is not necessarily indicative of future operating results or financial circumstances. E. Off-balance sheet arrangements In January 2015, we launched our new quality assurance program to provide a level of assurance to investors who invest in loans through our market. See — A. Operating Results — Critical Accounting Policies, Judgments and Estimates — Quality Assurance Program Liabilities and Point 4. Company Information — B. Business Overview — Risk Management — Investor Protection. Apart from this quality assurance arrangement, we have not entered into any financial guarantees or other commitments to guarantee third-party payment obligations. We have not entered into any derivative contracts indexed to our shares and classified as shareholder shares or that are not reflected in our consolidated financial statements. In addition, we have no withheld or conditional interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to that entity. We have no variable interest in an unconsolidated entity that provides financing, liquidity, market or credit risk or engages with us in leasing, hedging or product development services. F. Contractual Obligations The following table sets out our contractual obligations as of December 31, 2016: Total Less than one year 1-3 years 3-5 years More than 5 years (thousands of RMB) Operating lease obligation 41,797 22 104 19,693 — — Our operating lease obligations relate to our office leases. We lease our office space under a non-cancellable operating lease with an expiry date in January 2019. Rental expenses related to operating leases for 2014, 2015 and 2016 were RMB6.5 million, RMB9.9 million and RMB22.8 million (US$3.3 million), respectively. Payments to investors related to the consolidated ABFE were excluded from the table above. We will make such payments to investors related to the consolidated ABFE if and when we receive related loan payments from borrowers. We have no contractual obligation to make such payments from our own liquidity resources. We have currently set aside enough liquidity in the quality assurance program to allow investors to recover their capital and accrued interest, if and when the loan defaults. As of December 31, 2016, we had a liability of RMB1,471.0 million (US$211.9 million) over the quality assurance program. The maximum future potentials that we are required to derive from the quality assurance program were RMB1,114.8 million (US$160.6 million), US), the amount set aside in the quality assurance program. As of December 31, 2014 and 2015, we had recorded liabilities of zero and RMB546.3 million compared to the quality assurance program, respectively. See — A. Operating Results — Critical Accounting Policies, Judgments and Estimates — Quality Assurance Program Liabilities. 111 Table of content Other than those listed above, we did not have significant capital commitments and other commitments, long-term obligations or guarantees as of December 31, 2016. G. Safe Harbor See Forward-Looking Information. Point 6. Directors, Executives and Employees A. Directors and Senior Management The following table provides information about our directors and officers as of the date of this annual report. Directors and Officers - Age Post/Title Ning Tang 43 Executive Chairman Huan Chen 42 Director Quan Zhou 59 Director Tina Ju 52 Director Qing Li 40 Director Sam Hanhui Sun 44 Independent Director Jingsheng Huang 58 Independent Director Chaomei Chen 58 Independent Director Y 44 Chief Executive Officer Yu Cong 48 Chief Financial Officer Yiting Pan 43 Chief Risk Officer Yang Cao 46 Chief Operating Officer and Chief Technology Officer Yichuan Pei 54 Chief Credit Officer - We also have a non-voting observer on the Board of Directors, Mr. Kwok King Kingsley Chan, Managing Director of Morgan Stanley Private Equity Asia. Mr. Ning Tang is our founder and has been our Executive Chairman of the Board since our inception. He is also the founder of our parent company, CreditEase, and has been Chairman and Chief Executive Officer of CreditEase since its inception in 2006. In December 2014, Mr. Tang was elected President of the Beijing P2P Association, founded by CreditEase with some 30 member companies and the first industry association in China officially registered and supervised by regulators. In July 2011, Mr. Tang was named Leader of the Year at the 2011 Global Microfinance Achievement Awards, initiated by the London-based C5 Group to recognize the efforts, innovations and services that ensure maximum business and social performance in the microfinance sector. Mr. Tang is also a member of the Advisory Board of the Ministry of Industry and Information Technology on Small and Medium-sized Business Policy, and a director of the China Microfinance Institution Association. Prior to founding CreditEase, Mr. Tang was Director of Strategic Investments and Acquisitions at AsiaInfo-Linkage, Inc., a leading supplier telecommunications software solutions and services in China, and then listed on the NASDAQ, since July 2000. Prior to that, Mr. Tang was an investment banker at Donaldson, Lufkin and Jenrette, a U.S. investment bank now owned by Credit Suisse, since July 1998. Mr. Tang is an active angel investor and has made several successful investments in education and training, financial services, human resources, Internet, technology and media. Mr. Tang studied mathematics at Peking University and earned his bachelor's degree in economics, summa cum laude, from the University of the South in Sewanee, Tennessee. He is also a member of the Phi Beta Kappa Society. Mr. Huan Chen has been our director since January 2015 and has been Director of Strategy for our parent company CreditEase since November 2007. Prior to joining CreditEase, Mr. Chen served as Product Manager at Qihoo 360 Technology Co., Ltd., a leading Internet company in China, from July 2006 to November 2007. From March 2003 to July 2006, Mr. Chen served as an investment manager at 21cn.com, an online portal owned by China Telecom. Previously, Mr. Chen worked at Guangzhou Securities Co. Ltd., a securities brokerage services company, and co-founded Find2Fine Consulting Ltd., an online project outsourcing contract, from July 1998 to March 2003. Mr. Chen holds a bachelor's degree in international commerce and a master's degree in econometrics from Sun Yat-sen University in China. 112 Table of Materials Mr. Quan Zhou has been our Director since January 2015. Mr. Zhou is currently a Managing Partner member of IDG Technology Venture Investments, L.P. and its successor funds. Mr. Zhou is a director of the general partner of each of the growth funds IDG-Accel China L.P. and IDG-Accel China Capital Fund L.P., as well as their respective successor funds. He is also a director of the general partner of each of the venture capital funds IDG China IV L.P. and IDG China Capital Fund III L.P.M. Zhou has been Chairman and Board Member of IDG VC Management Ltd. since 2012. Mr. Zhou currently serves on the Board of Directors of Fang Holdings Ltd., a nysely traded company, Xunlei Limited, a NASDAQ-listed company, and casi Pharmaceuticals, Inc., a company listed on NASDQA. Mr. Zhou is also a director of various private companies. Mr. Zhou holds a bachelor's degree in chemistry from the Chinese University of Science and Technology, a master's degree in chemical physics from the Chinese Academy of Sciences and a doctorate in fiber optics from Rutgers University. Tina Ju has been our Director since January 2015. Mme Ju one of the founding partners and directors of KPCB China and TDF Capital, and is currently a managing partner of the two funds. She has more than 25 years of venture capital, investment banking and operations. Ms. Ju began her career in venture capital in 1999. She co-founded VTDF China in 2000 and KPCB China in 2007. Earlier in her career, Ms. Ju spent 11 years in investment banking at Deutsche Bank with her last

position at the helm of TMT and Transport Asia, Merrill Lynch with her last position at the helm of Asia Technology and Corporate Finance Team, and Goldman Sachs. Ms. Ju currently serves on the boards of various private companies. Ms. Ju holds a bachelor's degree in industrial engineering and operational research from the University of California, Berkeley and an MBA from Harvard Business School. Mr. Qing Li has been our Director since December 17, 2015. Mr. Li is the founder and CEO of Sciencast Management L.P., a Delaware-based limited partnership. Prior to founding Sciencast, Mr. Li was a portfolio manager at SAC Capital Advisors from April 2009 to February 2014, a quantitative researcher at Tykhe Capital LLC from October 2005 to April 2009, vice president at Fortress Investment Group from September 2004 to October 2005 and partner from August 2002 to September 2004 at Lehman Brothers. Mr. Li holds a Ph.D. in Finance from Columbia University and a B.S. in Mathematics from Peking University. Mr. Sam Hanhui Sun has been our Director since December 17, 2015. From January 2010 to September 2015, Mr. Sun held a number of positions at Qunar Cayman Islands Limited, a mobile and online travel platform that was subsequently listed on the NASDAQ, including as President of Qunar from May 2015 to September 2015 and CFO from January 2010 to April 2015. Prior to joining Qunar, Mr. Sun was CFO of KongZhong Corporation, an online game developer and operator that was subsequently listed on the NASDAQ-listed company from 2007 to 2009. Mr. Sun was also an independent director and a member of The Audit Committee of KongZhong Corporation from July 2005 to January 2007. From 2004 to 2007, Mr. Sun held several positions as Financial Controller at Microsoft China Research and Development Group, Maersk China Co. Ltd. and SouFun.com. From 1995 to 2004, Mr. Sun worked in KPMG's audit practice group, including eight years in KPMG's Beijing office, where he was a senior audit executive, and two years at KPMG in Los Angeles, California. Mr. Sun is currently an independent director and chairman of the audit committee of SouFun Holdings Limited, a NYSE-listed company, and an independent director and chairman of the audit committee of CAR Inc., a company listed on the Hong Kong Stock Exchange. Mr. Sun received a B.E. in Business Administration from the Beijing Institute of Technology in 1993. He is a certified accountant in China. Mr. Jingsheng Huang is our December 17, 2015. Mr. Huang is the Director Director at the Harvard Center in Shanghai. Previously, he was a partner at TPG Growth and RMB Funds based in Shanghai, China. Prior to joining TPG, he was Managing Director of Bain Capital LLC, where he created and managed its Operations in Shanghai. Previously, Mr. Huang held a number of investment positions, including Managing Director in China at SOFTBANK Asia Infrastructure Fund, Partner at SUNeVision Ventures and Senior Director of Strategic Investment at Intel Capital. Prior to starting his investment career, Mr. Huang was Director of Research Operations at GartnerGroup, Co-Founder and Vice President of Marketing at Mtone Wireless and Lecturer in English at the Chinese University of Communication. Prior to joining Harvard, Mr. Huang was a board member of the China Venture Capital Association and vice-president of the Shanghai Private Equity Association. Mr. Huang is currently an independent director of Besunyen Holdings Company Limited, a company listed on the Hong Kong Stock Exchange. Mr. Huang holds a master's degree. B from Harvard Business School, a master's degree from Stanford University and a bachelor's degree from beijing University of Foreign Studies. 113 Table of Materials Ms. Chaomei Chen has been our Director since December 18, 2016. Ms. Chen 2016 and December 2016 advisory committee. Previously, Ms. Chen was Chief Risk Officer of LendingClub from June 2011 to December 2015. Prior to LendingClub, she served as Chief Risk Officer of WaMu Card Services at JP Morgan Chase from October 2005 to August 2009. Prior to JP Morgan Chase, Ms. Chen was Vice President and Chief Credit Officer at Providian Financial Services from August 2002 to September 2005. Ms. Chen holds a bachelor's degree in mathematics from Southwest Jiaotong University in China and a master's degree in mathematics from the Whiting School of Engineering at Johns Hopkins University. Ms. Yihan Fang has been our Chief Executive Officer and Managing Director of CreditEase's online lending unit since March 2012. Ms. Fang has 15 years of experience in Internet and financial services products, technology and marketing. Prior to joining CreditEase, Ms. Fang was Director of Marketing Products at Nelnet/CUNet in 2011, a leading provider of digital registration marketing solutions. Previously, Ms. Fang worked at IAC/Ask.com where she held several positions from February 2002 to February 2010, including Vice President of Global Search and Answers overseeing the strategy and product development of various key research and question-and-answer products, Senior Director of Product Management for Research Products and and Director of Search Operations responsible for search engine operations. Ms. Fang received a master's degree in philosophy and a master's degree in an engineer and a master's degree in astronomy from Columbia University. She completed her undergraduate studies as part of the Gifted Youth Program at the University of Science and Technology of China. Mr. Yu Cong has been our CFO since September 2014. Prior to joining us, Mr. Cong was The Chief Representative of Deutsche Bank AG's Representative Office in Beijing, a director and director of China Technology, Media and Telecommunications (TMT), from October 2010 to August 2014, and vice-president and successive director of Asia Technology and Media Banking from May 2008 to October 2010. Previously, Mr. Cong worked with a few other companies in the United States, including Needham and Co. as Vice President of Investment Banking from 2006 to 2008, Piper Jaffray and Co. as an equity research analyst covering technology companies from 2004 to 2006, and Applied Materials, a semiconductor equipment manufacturer, as marketing director from 1996 to 2003. Mr. Cong holds a bachelor's degree from the University of Science and Technology of China, a doctorate from the University of Illinois at Urbana-Champaign and a master's degree. B in Science and Technology at the Walter Haas School of Business at the University of California, Berkeley. Ms. Yiting Pan has been our Chief Risk Officer since October 2014. Prior to joining us, Ms. Pan was Director of Economic Capital at Capital One, which oversaw the credit capital requirements of Capital One's asset portfolio from July 2012 to June 2014, and was Vice President of Portfolio Risk Analysis at Union Bank from March 2010 to July 2012. Previously, Ms. Pan worked with several other institutions in the United States, including: Head of Quantitative Analysis at Aurora Investment Management, a Chicago-based investment management firm, from October 2007 to September 2008, and As Assistant Vice President at LaSalle Bank, a division of ABN AMRO at the time, from October 2004 to October 2007. , among other things. Ms. Pan received her bachelor's degree in computer science and her master's degree in artificial intelligence from Nanjing University of Science and Technology, a master's degree in mathematics and computer applications from the University of Illinois at Chicago, and a master's degree. B in technology at the Booth School of Business at the University of Chicago. Mr. Yang Cao has been our Chief Operating Officer and Chief Technology Officer since June 2016. Prior to joining Yirendai, Mr. Cao was General Manager of Asia Pacific Operations at xAd, a leading mobile location advertising technology platform, from April 2014 to June 2016, where he led efforts to start, and develop xAd's technology and business in the region. From September 2012 to August 2013, Mr. Cao served as Chief Technology Officer of Zhubajie Zhubajie where he joined the acquisition of Julu Mobile, a mobile technology company co-founded by Mr. Cao. From September 2011 to September 2012, Mr. Cao also served as Chief Technology Officer of WhitePages and held senior technology positions at TokBox and StarCite. Mr. Cao holds a master's degree in electrical engineering from Stanford University and a bachelor of science degree in physics from Peking University. Dr. Yichuan Pei has been our Chief Credit Officer since March 2017. Prior to joining us, Mr. Pei served as Deputy Managing Director of Ping An Bank in Shanghai, China, from October 2016 to February 2017 and as Director of Knowledge Decision Science Risk in San Jose, California, from September 2013 to September 2016. Previously, Mr. Pei served as Senior Vice President or Executive Chairman of various banks in the United States, including Bank of America, JP Morgan Chase, Washington Mutual Bank, Providian Financial Services and Fleet Boston Bank. Mr. Pei holds a Bachelor of Science degree from the University of Science and Technology of China, received a Ph.D. from Johns Hopkins University in Baltimore, Maryland, and received a postdoctoral fellowship from Princeton University in Princeton, New Jersey. 114 Content Table B. Compensation For the year ended December 31, 2016, we paid a total of approximately RMB6.9 million (US$1.0 million) in cash to our directors and officers. We have not set aside or accumulated any money to provide pension, pension or other benefits similar to our officers and directors. Our CPP subsidiaries and our consolidated variable interest entity are required by law to provide contributions equal to certain percentages of each employee's salary for retirement, health, unemployment insurance and other legal benefits, as well as a housing guarantee fund. For information on incentive awards based on the actions we have given to our officers and directors, please see the Action Incentive Plan. Employment Agreements and Compensation Agreements We have employment agreements with each of our senior managers. Under these agreements, each of our executives is employed for a specified period of time. We may terminate employment for good cause, at any time, without notice or remuneration, for certain acts of the officer, such as the conviction or guilty plea for a crime or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or failure to perform the agreed duties. We may also terminate the employment of a senior executive without cause on three months' notice. in this case of termination by us, we will award severance pay to the applicable law of the jurisdiction in which the officer is based. The leader may resign at any time with three months' notice. Each officer has agreed to hold, during and after the termination or expiry of his employment contract, confidentially and not to use, unless necessary in the performance of his duties in connection with the employment or in accordance with applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our customers or potential customers. , or confidential or exclusive information from any third party we have received and for which we have confidential obligations. The executives have also agreed to confidently communicate to us all inventions, designs and trade secrets that they design, develop or reduce to practice during the officer's employment with us and to assign us any rights, title and interest, and to help us obtain and enforce patents, copyrights and other legal rights for these inventions. , drawings and trade secrets. In addition, each officer agreed to be bound by non-competition and non-solicitation restrictions during the duration of his employment and generally for one year after the last date of employment. Specifically, each executive has agreed not to (i) contact our suppliers, customers, customers or contacts or other persons or entities presented to the officer as a representative of us for the purpose of dealing with those individuals or entities that will harm our business relationships with these persons or entities; (ii) assume a job or provide services to any of our competitors, or hire, whether as a director, partner, licensee or other, any of our competitors, without our express consent; or (iii) seek directly or indirectly to seek the services of one of our employees who is employed by us on the date of the officer's dismissal or after the termination of the officer's employment, or in the year prior to that termination of employment, without our express consent. We have indemnification agreements with each of our directors and officers. Under these agreements, we agree to compensate our directors and officers for certain responsibilities and expenses incurred by these individuals in relation to claims made because they are directors or officers of our company. 115 Table of Matters We have boarded director agreements with each of our independent directors. These agreements set out the services to be provided and the remuneration to be received by our independent directors, as well as independent directors on confidentiality, non-competition and non-solicitation. Under these agreements, the management of our Directors will last until the earliest (i) the date the director ceases to be a member of our Board of Directors for any reason or (ii) the date of termination of these agreements. Each party to a director's agreement can terminate the agreement with 30 days' notice or as short a period as the parties can agree. Action Incentive Plan In September 2015, we adopted an Action Incentive Plan, or 2015 Plan, which allows us to offer a variety of stock-based incentives to employees, officers, directors and individual consultants who provide services to us. The plan allows for three types of grants: options, restricted shares and restricted share shares. The maximum number of shares that can be issued under all 2015 Plan awards is 10,000,000 common shares. As of March 31, 2017, 3,939,100 restricted units were outstanding under the 2015 Plan. The following table summarizes: as of March 31, 2017, the outstanding restricted share units we have granted to our current directors and officers and others as a group as part of our 2015 plan: Name of the common shares underlying the grant date of the Huan Chen restricted shares - July 1, 2016 Sam Hanhui Sun - July 1, 2016 Jingsheng Huang - July 1, 2016 Yihan Fang - July 1, 2016 , 2016 Yu Cong - July 1, 2016 Yiting Pan - July 1, 2016 Other individuals as a group 3,479,100 July 1, 2016 - Less than 1% of our total outstanding common shares. The following paragraphs summarize the terms of Plan 2015: Plan Administration. Our board of directors, or a committee appointed by our board of directors, will administer the plan. The committee or the entire board of directors, if any, will determine the terms and conditions of each option grant. Attribution agreements. Options and other benefits granted under the plan are demonstrated by an award agreement that sets out the terms, conditions and limits of each grant, which may include the duration of the award and the applicable provisions in the event of termination of the recipient's employment or service. The exercise price of the options granted may be modified or adjusted at the absolute discretion of our Board of Directors or a committee appointed by our Board of Directors, without the approval of our shareholders or options beneficiaries. Eligibility. We may grant scholarships to employees, directors and consultants of our company or to one of our affiliates, including our parent company, our subsidiaries and all entities in our parent company or a subsidiary of our company holds a significant stake. Acquisition schedule. In general, the plan administrator determines the timing of the acquisition, which is specified in the relevant allocation agreement. 116 Table of the acceleration of price content during the change of control. If a change-of-control business transaction occurs, the administrator may, at his sole discretion, provide (i) that all outstanding benefits end at a specific time in the future and give each member the right to exercise the acquired portion of those benefits over a specified period of time, or (ii) the purchase of compensation for an amount of money equal to the amount that could have been reached during the exercise of that award. , or (iii) the replacement of this award with other rights or property chosen by the plan administrator at his sole discretion, or (iv) the payment of a cash award based on the value of the common shares on the date of the change of control transaction of the company plus reasonable interest. Options duration. The duration of each option grant is indicated in the award agreement, provided that the duration does not exceed ten years from the date of the grant. Transfer restrictions. Scholarships may not be transferred in any way by the beneficiary other than by will or by the laws of succession, unless the plan administrator otherwise provides for them. Cancellation of the Plan. Unless terminated earlier, the plan will automatically end in 2025. Our Board of Directors has the power to amend or terminate the plan subject to shareholder approval to the extent necessary to comply with applicable law. However, no such measure can infringe the rights of a scholarship recipient unless the recipient accepts it. C. Board of Directors Practices Board of Directors Our Board of Directors is made up of eight directors. A director is not required to hold shares in our company to qualify as a director. A director who is in any way, directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our company must declare the nature of his interest at a meeting of directors. Subject to the rules of the New York Stock Exchange and disqualification by the chairman of the relevant board meeting, a director may vote on any proposed contract or transaction or contract, even if he may be interested in it and, if he does, his vote is counted and can be counted in the quorum at the relevant board meeting at which that contract or transaction or contract or transaction proposed is considered. Directors may exercise all the powers of the corporation to borrow money, mortgage or charge its business, property and unseated capital, and issue debentures or other securities whenever money is borrowed or as collateral for any debt, liability or of the company or any third party. None of our non-executive directors have a service contract with us that provides for termination benefits. Board Committees We have set up three committees on the Board of Directors: an audit committee, a compensation committee and a Corporate Governance Committee. We have adopted a charter for each of the three committees. The members and functions of each committee are described below. Audit Committee. Our audit committee is composed of Sam Hanhui Sun, Jingsheng Huang and Chaomei Chen. Sam Hanhui Sun is the chair of our audit committee. We determined that Sam Hanhui Sun, Jingsheng Huang and Chaomei Chen meet the independence requirements of Section 303A of the New York Stock Exchange Corporate Governance Rules and Rule 10A-3 under the Securities Exchange Act of 1934. The audit committee oversees our accounting and financial reporting processes as well as audits of our company's financial statements. The audit committee is responsible, among other things: Appoint independent auditors and pre-approve all audit and non-audit services authorized by independent auditors; review with independent auditors any audit problems or difficulties and management's response; Discuss audited annual financial statements with management and independent auditors review the adequacy and effectiveness of our accounting and internal control policies and procedures, as well as all measures taken to monitor and control major exposures to financial risks; Reviewing and approving all proposed related party transactions, including transactions between us and CreditEase; meet separately and periodically with management and independent auditors; and monitor compliance with our code of conduct and business ethics, including reviewing the adequacy and effectiveness of our procedures to ensure adequate compliance. 117 Content Table Compensation Committee. Our compensation committee is composed of Sam Hanhui Sun, Jingsheng Huang and Chaomei Chen. Sam Hanhui Sun is the chairman of our compensation committee. We have determined that Sam Hanhui Sun, Jingsheng Huang and Chaomei Chen meet the independence requirements of Section 303A of the New York Stock Exchange Corporate Governance Rules. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, for our directors and officers. Our CEO may not be present at a committee meeting where his remuneration is deliberate. The remuneration committee is responsible, among other things: Review and approval, or recommendation to the Board of Directors for approval, compensation for our CEO and other executives; review and to the board of directors to determine the remuneration of our non-salaried directors; periodically review and approve any compensation or equity incentive plan, program or similar arrangement; and choose a compensation advisor, legal counsel or other advisor only after considering all factors relevant to that person's independence from management. Nomination and Corporate Governance Committee. Our Corporate Governance and Appointment Committee is comprised of Jingsheng Huang, Sam Hanhui Sun and Chaomei Chen. Jingsheng Huang is the Chairman of our Corporate Governance and Appointment Committee. Jingsheng Huang, Sam Hanhui Sun and Chaomei Chen meet the independence requirements of Section 303A of the New York Stock Exchange Corporate Governance Rules. The Nominating and Corporate Governance Committee assists the Board of Directors in selecting qualified individuals to become our directors and determining the composition of the Board of Directors and its committees. The nominating and corporate governance committee is responsible, among other things: Select and recommend that candidates on the Board of Directors be selected by shareholders or appointed by the Board of Directors; Review the board's current composition of the board each year with respect to characteristics such as independence, knowledge, skills, experience and diversity; Make recommendations on the frequency and structure of board meetings and monitor the functioning of board committees; and periodically advise the Board of Directors on significant changes in corporate governance law and practice, as well as our compliance with applicable laws and regulations, and make recommendations to the Board on all corporate governance issues and corrective action. Directors' Obligations Under Cayman Islands Law, our directors have fiduciary duties to our company, including a duty of loyalty, an obligation to act honestly and an obligation to act in what they consider in good faith to be in our best interest. Our directors also have an obligation to exercise the skills they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and statutes, as amended and reaffirmed from time to time, and collective rights. are conferred on the holders of the shares. Our company has the right to seek damages if an obligation to our directors is violated. A shareholder may, in limited exceptional circumstances, have the right to seek damages on our behalf if an obligation is being raped. 118 Content Table Our Board of Directors has all the necessary powers to manage and manage and oversee our business. The functions and powers of our Board of Directors include, among other things: convene annual and extraordinary general meetings of shareholders; Declare dividends and distributions; Appointing officers and determining the mandate of officers exercise the borrowing powers of our company and mortgage ownership of our company; and approve the transfer of shares of our company, including the registration of these shares in our share register. Directors and Officers' Mandates Our directors may be elected by a resolution of our Board of Directors or by an ordinary resolution of our shareholders. Each of our directors will serve until the expiry of their terms of office, as provided for by the written agreement with our company, if any, and until their successor has been elected or appointed. A director will cease to be a director if, among other things, the director (i) goes bankrupt or makes any agreement or composition with his creditors; (ii) dies or is found by our company to be or becomes of unhealthy mind, (iii) resigns from its office by notice in writing to the company, or (iv) without special leave from our board of directors, is absent from three consecutive board meetings and our directors resolve to have his office released. Our leaders are elected and serve at the discretion of the board of directors. D. Employees As of December 31, 2014, 2015 and 2016, we had a total of 338, 608 and 911 employees, respectively. The following table establishes the distribution of our employees as of December 31, 2016 by position: Number of employees % of total function technology 314 34.5 Risk Management 72 7.9 Operations 336 36.8 Product development 99 10.9 Sales and marketing 16 1.8 General and Administrative 74 8.1 Total 911 100.0 As of December 31, 2016, 781 employees were based in Beijing , where our main management offices are located, and 130 employees were based in Chongqing. 119 Content Table Employee numbers for periods up to December 31, 2014 in this Employees section include CreditEase employees who worked for our company prior to our CreditEase cutout. We believe we offer our employees competitive compensation plans and a work environment that encourages initiative and is based on merit, and as a result, we have generally been able to attract and retain qualified staff and maintain a stable core management team. We plan to hire more employees as we move forward Company. As required by the CPP regulations, we participate in various statutory benefit plans provided by the government, including social insurance funds, such as a pension contribution plan, a health insurance plan, an unemployment insurance plan, a work-related damage insurance plan and a maternity plan, as well as a housing benefit fund. Under CPP law, we are required to make contributions to employee benefit plans at specific percentages of our employees' salaries, bonuses and certain allowances, up to a maximum amount specified by the local government from time to time. We have not paid enough benefits to employees and we may be required to pay contributions to these plans as well as late fees and fines. See Article 3. Key Information — Risk Factors D. — Business Risks in China — Failure to make adequate contributions to various employee benefit plans, as required by CPP regulations, may subject us to penalties. We enter into standard work, confidentiality and non-compete agreements with our employees. The restricted period of non-competition usually expires one year after termination, and we agree to compensate the employee with a certain percentage of his or her salary before departure during the restricted period. We believe that we have a good working relationship with our employees and that we have not experienced any major labour disputes. E. Ownership of the shares Except, as we specifically mentioned, the following table provides information on the actual ownership of our common shares as of March 31, 2017 by: Each of our directors and officers; and each person we know to own more than 5% of our total outstanding common shares. The calculations in the table below are based on 119,596,100 common shares outstanding as of March 31, 2017. Effective ownership is determined in accordance with SEC rules and regulations. By calculating the number of shares held advantageously by an individual and the percentage of ownership of that person, we have included shares that the person is entitled to acquire within 60 days, including by exercising any option, mandate or other right or converting any other security. These shares, however, are not included in the calculation of another person's percentage property. Common shares held advantageously as of March 31, Number 2017%† directors and officers: Ning Tang(1) 43,430,000 36.3 Huan Chen - Quan Zhou (2) - Tina Ju (3) — — — Li — — Jingsheng Huang - Sam Hanhui Sun - Chaomei Chen — — Yihan Fang - Yu Cong - Yiting Pan - Yang Cao — — Yichuan Pei — — All directors and officers as 43,690,000 36.5 major shareholders: CreditEase Holdings (Cayman) Limited(4) 100,000,000 83.6,120 Content table - less than 1% of our total outstanding shares. With the exception of Mr. Quan Zhou, Mr. Qing Li, Mr. Sam Hanhui Sun, Mr. Jingsheng Huang and Ms. Chaomei Chen, the business address of our directors and officers is 10/F, Building 9, 91 Jianguo Road, Chaoyang District, Beijing, People's Republic of China. Mr. Quan Zhou's business address is 6th Floor, Tower A, COFCO Plaza, 8 Jianguomennei Avenue, Beijing, People's Republic of China. Mr. Qing Li's business address is 15 Revere Ct, Princeton Junction, NJ 08550. Mr. Sam Hanhui Sun's business address is 17 Fen-si-ting Avenue, Apt 3-3-802, Dongcheng District, Beijing 100009, China. Mr. Jingsheng Huang's business address is Harvard Center Shanghai, 5/F Shanghai IFC-HSBC Building, No. 8 Century Avenue, Shanghai 200120, People's Republic of China. Ms. Chaomei Chen's business address is 338 Spear Street, 31-D, San Francisco, CA 94105, United States. † For every person and group included in this column, Percentage ownership is calculated by dividing the number of shares held advantageously by that person or group by the sum of the total number of shares outstanding and the number of shares that that person or group is entitled to acquire during the exercise of an option, warrant or other right within 60 days of March 31, 2017. The total number of common shares outstanding as of March 31, 2017 is 119,596,100. (1) Mr. Ning Tang held no ordinary share of our company directly. Mr. Tang, through a wholly owned company in the British Virgin Islands, owns 43.4% of the total outstanding shares of CreditEase, our parent company, on a converted basis. (2) Mr. Quan Zhou held no ordinary share of our company directly. Mr. Zhou indirectly owns these shares through IDG-Accel China Investors II L.P., a shareholder of CreditEase. (3) Tina Ju is a founding partner and managing director of KPCB China, which holds certain interests in CreditEase through its affiliated funds. (4) CreditEase Holdings (Cayman) Limited is our parent company and is incorporated in the Cayman Islands, and its commercial address is 16/F, Tour C, SOHO New Town, 88 Jianguo Road, Chaoyang District, Beijing, People's Republic of China. CreditEase is owned by Mr. Ning Tang, our Executive Chairman, and a few investors, including IDG, KPCB China and Morgan Stanley Private Equity Asia, through their respective investment vehicles. As of March 31, 2017, 18,985,100 of our outstanding common shares were held by a record holder in the United States, which is the custodian of our ADS program, representing and common shares outstanding on that date. None of our current shareholders have voting rights different from other shareholders. We are not aware of any arrangements that could, at a later date, result in a change of control of our business. Point 7. Major Shareholders and Related Party Transactions A. Major Shareholders Please refer to Point 6. Directors, executives and employees — E. Shareholder. 121 Content Table B. Related Party Transactions Cutting Agreements with CreditEase We are a majority subsidiary of CreditEase. We have a series of agreements with CreditEase in relation to various ongoing relationships between us. These agreements include a framework transaction agreement, a transitional service agreement, a non-compete agreement, a framework cooperation agreement and an intellectual property licensing agreement. Here are summaries of these agreements. Main Transaction Agreement The main transaction agreement contains provisions relating to our cutting of CreditEase. Under this agreement, we are responsible for all financial liabilities associated with the current and historical activities and operations of the online consumer financing market that were conducted or transferred by us, and CreditEase is responsible for the financial liabilities associated with all of CreditEase's current and historical activities and operations, in each case. , no matter when these liabilities occur. The main transaction agreement also contains compensation provisions under which we and CreditEase agree to compensate each other for violations of the main transaction agreement or any related inter-union agreement. In addition, we agree to compensate CreditEase against liabilities arising from inaccuracies or omissions in the prospectus of our initial public offering or the registration status of which it is a part, with the exception of inaccuracies or omissions relating to the information that CreditEase has provided to us specifically for inclusion in the prospectus of our initial public offering or the status of which it is a member. We also agree to compensate CreditEase against liabilities arising from any inaccuracies or omissions in our subsequent filings with the SEC and information we provide to CreditEase specifically for inclusion in CreditEase's reports and filings, if any, following the initial filing of the registration statement with the SEC of which the prospectus for our initial public offering is a part of the , but only to the extent that the information concerns us, our company or to the extent that CreditEase previous written notice as information will be included in its reports other subsequent filings, if any, and liability is not the result of CreditEase's action or inaction. Similarly, CreditEase will compensate us for liabilities arising from inaccuracies or omissions in its subsequent filings, any information that CreditEase provided to us specifically for inclusion in the prospectus of our initial public offering, which includes the prospectus of our initial public offering, or our annual reports or other SEC filings following the initial filing of the registration statement with the SEC. prospectus for our initial public offering is part of, or our annual reports or other SEC filings following the initial filing of the sec registration statement, including the prospectus for our initial public offering. the public offering is a part of it, but only to the extent that the information relates to the activities of CreditEase or CreditEase or to the extent that we provide CreditEase with prior written notice that the information will be included in our annual reports or other SEC filings, and that the liability is not the result of our action or inaction. The main transaction agreement also contains a general press release, under which the parties will free each other from any liabilities arising from events that occurred on the original filing date of the registration statement of which the prospectus for our initial public offering is part, including as part of the implementation activities of our initial advertising offer. The general release does not apply to liabilities awarded between the parties under the main transaction agreement or other inter-regional agreements. In addition, under the main transaction agreement, we agree to do our best to hire the same certified independent accounting firm selected by CreditEase and to maintain the same exercise as CreditEase until the end of CreditEase's first fiscal year following the beginning of (i) the first date on which CreditEase no longer holds at least 20% of the voting power of our securities then in circulation or (ii) the first date when CreditEase ceases to be the largest advantageous owner. of our voting securities in circulation (regardless of the assets of some institutional investors). We call this earlier date the check deadline. We also agree to do our best to complete our audit and provide CreditEase with all financial and other information in a timely manner so that CreditEase can meet its deadlines for filing its annual and quarterly financial statements, if any. The contract transaction will automatically end five years after the end date of the control. This agreement may be terminated early or extended by mutual written consent of the parties. The termination of this agreement will not affect the validity and effectiveness of the Services Transition Agreement, the Non-Competition Agreement, the Framework Cooperation Agreement and the Intellectual Property Licensing Agreement. 122 Table of Transitional Services Agreement Under the Transitional Services Agreement, CreditEase agrees that, during the service period described below, CreditEase will provide us with a variety of business support services, including, but not limited to,: Supporting operational management Administrative support Legal support Supporting human resources and accounting, internal control and internal audit support. CreditEase can also provide us with additional services that we and CreditEase can identify from time to time in the future. The price to be paid for services provided under the transitional service agreement will be the actual direct and indirect costs of providing these services. Direct costs include compensation and travel expenses attributable to employees, temporary workers and contractors directly engaged in the delivery of services, as well as materials and supplies consumed and agency costs resulting from the performance of services. Indirect costs include occupancy, support for information technology and other departmental overhead costs that incur the direct costs of providing services. The transitional service agreement provides that the performance of a service pursuant to the agreement will not subject the service provider to any liability, except directly caused by the gross negligence or wilful misconduct of the service provider. Liability for gross negligence or wilful misconduct is limited to the decrease in the price paid for the particular service or to the cost of the service recipient performing the service itself or hiring a third party to perform the service. Under the Transitional Services Agreement, the service provider of each service is compensated by the recipient against all third-party claims relating to the provision of services or the significant breach by the recipient of an agreement with a third party, except where the claim is directly caused by gross negligence or wilful misconduct by the service provider. The term of service under the Transitional Services Agreement began on the signing date and will end on december 23, 2020, the fifth anniversary of the completion of our initial public offering, or one year after the control deadline. We may terminate the transitional services agreement for all or part of the services by giving CreditEase 90 days in advance written notice and paying all costs accrued by the termination and the costs actually incurred by CreditEase resulting from the early termination. At the control deadline, CreditEase may terminate this agreement in respect of all or one party services by giving us an earlier written notice of 90 days. Non-competition Non-competition Our non-compete agreement with CreditEase provides for a non-competition period effective December 23, 2015, the completion of our initial public offering and the earlier termination of (i) one year after the end of the audit or (ii) December 23, 2020, the fifteenth anniversary of the completion of our initial public offering. This agreement may be terminated early by mutual written consent of the parties. CreditEase agrees not to compete with us during the non-competition period in any business of the same nature as (i) the online consumer finance market activities conducted or contemplated by us on the date of the agreement and (ii) other companies that we and CreditEase may mutually accept from time to time, except to own an unchecked interest in any company competing with us. We agree not to compete with CreditEase during the non-competition period in the companies conducted by CreditEase, with the exception (i) of the online consumer finance market activity currently conducted or contemplated by us on the date of the agreement and (ii) other companies that we and CreditEase may mutually accept from time to time, except for owning unchecked interests in any company in competition with CreditEase. 123 Content Table The non-competition agreement also provides for a mutual non-solicitation obligation that neither CreditEase nor we may, during the non-competition period, hire or solicit for hiring, active employees or persons who provide consulting services to the other party, or former employees or persons who provide consulting services to the other party within six months of the termination of their employment or services. , without the consent of the other party, with the exception of solicitation activities through generalized non-targeted advertising that is not directed at those employees or persons who do not hire during the non-competition period. Framework Cooperation Agreement As part of the Framework Cooperation Agreement, CreditEase agrees to provide us with long-term services and support in terms of offline acquisition, collection and technical support from users. With respect to the acquisition of the borrower, we will submit our borrower application to CreditEase on a monthly basis and CreditEase will direct borrowers within our target group of borrowers to our online marketplace. With regard to the acquisition of investors, CreditEase, at its discretion, will direct us or share information about investors it learns may be interested in our online marketplace. The fee rate, if any, by one party to the other party under the cooperation envisaged by this agreement must not be higher than the rate of fees charged by or to an unrelated third party. The current fee charged to us by CreditEase for offline borrower acquisition services is 5% loans to borrowers referred by CreditEase. Following our discussion with CreditEase, this fee rate increases to 6% for the three years beginning 2016. Subsequently, the duty rate can be adjusted on an annual basis based on commercial negotiation, and after taking into account the costs to CreditEase for the provision of such services and according to market rates. This agreement came into effect on December 23, 2015, the completion date of our initial public offering, and will expire as early as (i) the fifteenth anniversary of the start of the cooperation period or (ii) one year after the control deadline. Intellectual Property Licensing Agreement Under the Intellectual Property Licensing Agreement, CreditEase and we grant each other and the respective subsidiaries of each party and variable interest entities a global license, royalty-free, fully paid, non-transferable, non-transferable, limited, non-exclusive intellectual property held by the licensed party to use, reproduce, modify, prepare works derived from , perform, display or exploit otherwise, with the exception of certain trademarks for which CreditEase agrees to grant us a royalty-free, fully paid, sublicensing, transferable, unlimited and exclusive license to use, reproduce, modify, prepare works derived from, perform, display, sublicensible, transfer or otherwise operate, until these trademarks are transferred to our company or to one of our subsidiaries or entities. As of the date of this annual report, a total of six trademarks have been transferred to us by CreditEase. CreditEase and we also agree, to the extent permitted by applicable laws and regulations, to cooperate in the exchange of information and data collected from each party's commercial operation, including without limitation information about the borrower and investors as well as credit and loan data, as reasonably requested by the party. This sharing of information is free of charge, unless mutual agreement is agreed in writing. This agreement came into force on December 23, 2015, the completion date of our initial offer, and will expire as early as (i) the fifteenth anniversary of the start of the cooperation period or (ii) one year after the control deadline. 124 Table of content transactions with CreditEase-affiliated entities Prior to the creation of Yirendai Ltd., our online consumer finance business was conducted by various CreditEase subsidiaries and variable interest entities, providing us with origin and service services, sales and marketing, and general and administrative services. Since we've been our CreditEase cutting and became a standalone company in March 2015, CreditEase subsidiaries continued to provide some support services for us. Spending on provided by CreditEase affiliates were recorded as allocation costs in 2014 and recorded as service charges by related parties in 2015 and 2016 based on various agreements we entered into with relevant CreditEase subsidiaries. CreditEase's total cost and expenses for these services were approximately RMB99.0 million, RMB441.9 million and RMB911.7 million (US$131.3 million) for 2014, 2015 and 2016, respectively. Among these, the allocation for the provision of acquisition and reference services for borrowers and investors was RMB76.0 million, RMB405.1 million and RMB818.7 million (US$117.9 million), for system support were RMB10.4 million, RMB26.1 million and RMB72.0 million (US$10.4 million) and for collection services were RMB0 RMB3.4 million and RMB11.9 million (US$1.7 million) for 2014, 2015 and 2016, respectively. As of December 31, 2016, the total amount owed to CreditEase subsidiaries for these services was RMB11.6 million (US$1.7 million). CreditEase Huimin Investment Management (Beijing) Co., Ltd., or CreditEase Huimin, is a subsidiary of CreditEase. CreditEase Huimin received transaction and service charges on behalf of us through external payment networks and China Guangfa Bank as of June 2015. As of December 31, 2015, we had RMB65.8 million owed to CreditEase Huimin, and we have released CreditEase Huimin's outstanding balance as of December 31, 2016. Guarantee Arrangement with Tian Da Xin An Tian Da Xin An (Beijing) Guarantee Co., Ltd., or Tian Da Xin An, is a creditEase affiliate. From August 2013 to December 2014, we entered into a guarantee agreement with Tian Da Xin An to give investors the opportunity to purchase the assurance that their principal and interest would be repaid in the event of default on their loans. Tian Da Xin An was responsible for repaying the principal and accrued interest on the default loan and charged the investor 10% of the monthly interest on the loan for the guarantee service. In practice, we repaid the principal of the loan and accrued interest to the investor in the event of default, then collected the amount of Tian Da Xin An, and collected from the investor the guarantee service charges charged by Tian Da Xin An on his behalf, and then handed the amount to Tian Da Xin An. The amount owed to Tian Da Xin An at December 31, 2014, 2015 and 2016 is RMB34.0 million, RMB20.8 million and RMB1.7 million, respectively, representing the net amount of service receivable costs arising from security fees, default loan capital and accrued interest non-negotiable transaction fees. The warranty agreement has been replaced by our new quality assurance program since January 2015. All loans from January 1, 2015 or later are covered by the Quality Assurance Program and the outstanding outstanding balance loans secured under the previous guarantee arrangement will continue to be covered by the guarantee arrangement until the loans reach maturity. Business Relationships in Trusts As part of our strategy to expand our investor base from individual investors to institutional investors, we established a business relationship with Trust No. 1 in October 2015, under which Trust No. 1 invested in loans totalling RMB$250.0 million through our platform using funds received from its investor. Trust No. 1 is administered by an independent, Crown-owned trust company, which acts as a trustee. The Settlor and the sole beneficiary of Trust 1 is a fund managed by a fund managed by Zhe Hao, a subsidiary of CreditEase. Investors in Fund No. 1 are CPP individuals who are not affiliated with our company. In April 2016, Zhe Hao, on behalf of Fund No. 1, transferred all of the beneficiary rights of Fund No. 1 in Trust No. 1 to China International Capital Corporation Limited, a special purpose vehicle, which subsequently issued and listed RMB250 million RMB250 million (US$36.0 million) of asset-backed securities on the Shenzhen Stock Exchange in China , loans being invested by Trust No. 1 through our platform as underlying assets. Heng Ye, one of our CPP subsidiaries, purchased assets backed by RMB47.5 million (US$6.8 million) through the Shenzhen Stock Exchange. Puxin Hengye Technology Development (Beijing) Co., Ltd., a subsidiary of CreditEase, and two funds managed by Zhe Hao purchased assets backed by RMB25.0 million (US$3.6 million) and RMB67.5 million (US$9.7 million), respectively. 125 Content Table In June 2016, we established a business relationship with another trust, or Trust No. 2, which is of the structure similar to Trust No. 1 described above — Trust No. 2 is administered by an independent third-party trust company and has a fund managed by Zhe Hao as its settlor and its sole beneficiary. Trust 2 invested a total of RMB30 million (US$43.2 million) in loans through our online marketplace using funds raised by its sole beneficiary from end investors, including RMB30 million (US$4.3 million) invested by Heng Cheng, one of our variable interest entities in the CPP. In April 2017, Zhe Hao transferred its beneficiary rights in Trust No. 2 to Bohai International Trust Co., Ltd., an independent third party, which subsequently completed an asset-backed issue of RMB300 million (RMB33.2 million) US dollars) through private placements. We purchased a total of RMB102.3 million (US$14.7 million) of asset-backed securities when they were issued. We treat Trust No. 1, the asset-backed securities plan, Trust No. 2 and its initial beneficiary fund as our variable-interest entities under U.S. GAAP for reasons detailed in point 5. How it works and financial finances and Outlook — A. Operating Results — Critical Accounting Policies, Judgments and Estimates — Presentation Base, Combination and Consolidation and consolidating THE consolidated ABFE financial results in our consolidated U.S. GAAP financial statements. Contractual agreements with Heng Cheng, Yi Ren Wealth Management and their respective shareholders, the laws and regulations of the PRC, currently restrict foreign ownership and investment in value-added telecommunications services in China. As a result, we operate our relevant activities through contractual agreements between Heng Ye and Heng Yu Da, our subsidiaries PRC, Heng Cheng and Yi Ren Wealth Management, our variable interest entities and the shareholders of Heng Cheng and Yi Ren Wealth Management. For a description of these contractual arrangements, see Point 4. Company Information — C. Organizational Structure — Contractual Agreements with Heng Cheng and Yi Ren Wealth Management. Employment agreements and compensation agreements see Point 6. Directors, executives and employees — B. Compensation — Employment agreements and compensation agreements. C. Interests of experts and lawyers Not applicable. Point 8. Financial Information A. Consolidated Statements and Other Financial Information We have attached the consolidated financial statements filed as part of this Annual Report. Court proceedings We may from time to time be the subject of various legal or administrative claims and procedures incidental to the conduct of our company. We and some of our officers have been named defendants in two putative securities class actions filed in U.S. District Court for the Central District of California: Lefter v. Yirendai Ltd. et al., Civil Action No. 2:16-cv-06437-MFW-AGR (C.D. Cal.) and Roh v. Yirendai Ltd. et al., Civil Action No. 2:16-cv-06506-MFW-AGR (C.D. Cal.). The action—allegedly brought on behalf of a class of persons who allegedly suffered damages as a result of their negotiation in our ADSs between May 11, August 24, 2016 — alleges that our public press releases dated May 11, 2016 and August 9, 2016 contained inaccuracies or omissions related to our growing fraud related to customer loan demand and the potential negative impact that the implementation of The Chinese government's new anti-fraud regulations might have have on our business. 126 Content Table On November 29, 2016, the Court entered an order consolidating the cases and appointing the lead plaintiffs and the principal counsel in the consolidated case. On January 27, 2017, the principal applicants filed their first amended complaint. On March 28, 2017, we filed a motion to dismiss the first amended complaint. The action is still in its early stages. We believe that the case is without merit and intend to vigorously defend the actions. For risks and uncertainties related to the cases against us, please refer to item 3. Key Information — Risk Factors D. — Risks to our ADS — We have been named as defendants in two putative shareholder class actions that could have a significant negative impact on our business, financial position, results of operations, cash flow and reputation. Dividend Policy Our Board of Directors has the discretion to distribute dividends or not, subject to our memorandum and our statutes and certain restrictions under the Cayman Islands Act, namely that our company may pay dividends only on profits or stock premiums, and provided that under no circumstances is a dividend paid if it does not render our company unable to pay its debts as it goes they fall due to the normal course of business. In addition, our shareholders may, by ordinary resolution, declare a dividend, but no dividend may exceed the amount recommended by our Board of Directors. Even if our Board of Directors decides to pay dividends, the form, frequency and amount will depend on our future activities and profits, capital requirements and surplus, general financial position, contractual restrictions and other factors that the Board of Directors may deem relevant. We do not currently intend to pay cash dividends on our common shares for the foreseeable future. We currently intend to retain most, if not all, of our available funds and all future profits to operate and grow our business. We are a holding company incorporated in the Cayman Islands. We can count on dividends from our subsidiaries in China for our cash requirements, including any dividend payments to our shareholders. CPP regulations may restrict the ability of our CPP subsidiaries to pay us dividends. See Article 4. Company Information — B. Business Overview — Regulation — Dividend Distribution Regulations and Point 10. Additional information — E. Taxation — Taxation of the People's Republic of China. If we pay dividends, we will pay our ADS holders to the same extent as the holders of our common shares, subject to the terms of the deposit agreement, including the fees and expenses payable there. See Article 12. Value Description non-share securities — D. American Depositary Shares. Cash dividends on our common shares, if any, will be paid in U.S. dollars. B. Significant Changes Unless we have disclosed this elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report. Point 9. Offer and registration registration Offer and Listing Details Our ADS, which each represent two of our common shares, have been listed on the New York Stock Exchange since December 18, 2015. Our ADSs trade under the symbol YRD. The following table provides the high and low trading prices of our ADSs on the New York Stock Exchange since the date of our initial public offering. 127 High Low Annual Highs and Lows 2015 Content Trading Price Table (Since December 18, 2015) 10.39 8.35 2016 42.34 3.35 Quarterly Highs and Lows Fourth Quarter 2015 (December Since 18, 2015) 10.39 8.35 First quarter 2016 11.98 3.35 Second quarter 2016 17.40 10.02 Third quarter 2016 42.34 13.73 Fourth quarter 2016 33.62 20.5 Monthly Highs and Lows September 2016 26.99 18.80 October 2016 32.00 23.43 November 2016 33.62 25.00 December 2016 29.5 20.5 January 2017 23.19 19.85 February 2017 25.80 21.14 March 2017 31.64 23.15 April 2017 (until 21 April 2017) 26.16 23.18 B. Distribution plan Not applicable. C. Markets Our ADS have been listed on the New York Stock Exchange since December 18, 2015 under the symbol YRD. D. The sale of shareholders is not applicable. E. Dilution Not applicable. F. Expenses of the non-applicable question. Article 10. Additional information A. Equity not applicable. B. Memorandum and Statutes We are a company exempt from the Cayman Islands with limited liability and our affairs are governed by our memorandum and statutes, as amended and reaffirmed from time to time, and by the Cayman Islands Corporations Act (Revision 2016), which is called the Cayman Islands Corporations Act, and the Cayman Islands Common Law. 128 Content Table The following are summaries of the important provisions of our current memorandum and association articles, as they relate to the important terms of our common shares. Objects of our society. Under our current memorandum and association articles, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the law of the Cayman Islands. Shares. Our common shares are issued in registered form and are issued when registered in our membership register. Our non-Cayman Island shareholders can freely own and vote on their shares. Dividends. Holders of our common shares are entitled to dividends that can be declared by our Board of Directors. in addition, our shareholders may, by ordinary resolution, declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, dividends can only be declared and paid from the funds legally available for this purpose, i.e. on profit or our share premium account, provided that a dividend cannot be paid if it does not render our company unable to pay its debts as they fall due in the normal course of business. Voting rights. On all matters put to the shareholder vote, each common share is entitled to one vote. Voting at any shareholder meeting is by show of hands unless a poll is required. A survey may be required by the Chairman of this meeting or any or more shareholders who together hold no less than 10% of the votes for the total common shares present in person or by proxy. Each shareholder is entitled to one vote for each common share listed in their name on our membership register. A quorum required for a shareholder meeting consists of one or more shareholders present and holding shares that represent, in total, no less than one third of the votes attached to all the shares issued and outstanding of our company entitled to vote at the shareholders' meeting. Shareholders may be present in person or by proxy or, if the shareholder is a legal entity, by its duly authorized representative. Shareholder meetings may be convened by our Board of Directors on its own initiative or by the Chairman of our Board of Directors or at the request of the directors by shareholders holding shares that represent, in total, no less than one third of the votes attached to our voting capital. At least seven days' notice is required for the convening of our annual general meeting of shareholders and any other general meeting of shareholders. An ordinary resolution to be adopted at a general meeting by shareholders requires an affirmative vote of a simple majority of votes cast by voting shareholders who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attached to the common shares cast by shareholders with the right to vote who are present in person or by person power of attorney at a general meeting. Ordinary resolutions and special resolutions can also be adopted by a unanimous written resolution signed by all shareholders of our company, such as the The Corporations Act and our memorandum and association articles. A special resolution will be required for important issues such as a name change or changes to our memorandum or association articles. Holders of common shares may, among other things, divide or consolidate their shares by ordinary resolution. Transfer of common shares. Ordinary. under the restrictions set out below, one of our shareholders may transfer most or one of its common shares through a transfer instrument in the usual or common form or any other form approved by our Board of Directors. Our Board of Directors may, at its absolute discretion, refuse to register any transfer of a common share that is not fully paid for or on which we have a privilege. Our Board of Directors may also refuse to register any transfer of common shares unless: 129 Content Table the transfer instrument is filed with us, along with the certificate for the common shares to which it relates and other evidence that our Board of Directors may reasonably require to demonstrate the transferor's right to make the transfer; The transfer instrument covers only one class of shares; The transfer instrument is properly stamped, if necessary. In the case of a transfer to joint holders, the number of co-owners to whom the common share is to be transferred does not exceed four; and a fee of a maximum amount such as the New York Stock Exchange may determine that they are payable or as much as our directors may require from time to time is paid to us in this regard. If our administrators refuse to register a transfer, within three months of the date the transfer instrument was filed, they must send to each of the transferor and to the transfer notice of that refusal. The registration of transfers may, after complying with the notice requirements of the New York Stock Exchange, be suspended and the register closed at these times and for periods such as our Board of Directors may from time to time determine, provided, however, that the registration of transfers is not suspended or that the register is not closed for more than 30 days per year. Liquidation. When our company is liquidated, if the assets available for distribution among our shareholders are more than sufficient to repay most of the equity at the beginning of the liquidation, the surplus will be distributed among our shareholders as a proportion of the face value of the shares they held at the beginning of the liquidation. , subject to a deduction of these actions for which there are amounts earned, of all amounts payable to our company for unpaid calls or otherwise. If our available distribution assets are insufficient to repay all paid-up capital, the assets will be distributed so that losses are borne by our shareholders in proportion to the face value of the shares they held. We are a limited liability company incorporated under the The Corporations Act, and under the Corporations Act, the liability of our members is limited to the amount, if any, unpaid unpaid shares held by them respectively. Our association protocol contains a statement that the responsibility of our members is so limited. Calls for action and forfeiture of shares. Our Board of Directors may from time to time appeal to shareholders for any unpaid amount on their shares in a notice served to these shareholders at least 14 days before the specified time and place of payment. Actions that have been solicited and are still unpaid are subject to forfeiture. Repurchase, repurchase and sale of common shares. We may issue shares on conditions that these shares are subject to redemption, our option or the option of the holders of the shares, on such terms and so that they can be determined, prior to the issuance of these shares, by our Board of Directors or by a special resolution of our shareholders. Our company may also repurchase any of our shares provided that the manner and terms of this purchase have been approved by our Board of Directors or by ordinary resolution of our shareholders, or are otherwise authorized by our current memorandum and association articles. Under the Companies Act, the repurchase or repurchase of a share may be paid out of the profits of our company or on the proceeds of a new share issue for redemption or repurchase,,or non-capital (including the stock premium account and the capital repurchase reserve) if the company can , immediately after this payment, pay off its debts as they fall due in the normal course of business. Moreover, under the Companies Act, no such share may be repurchased or repurchased (a) unless it is fully paid, b) if such a repurchase or repurchase would not result in stock outstandings, or (c) if the company has commenced liquidation. In addition, our company may accept the sale of any fully paid share without consideration. Changes in share rights. Rights attached to a class or series of shares (unless otherwise stated as contrary to the terms of issuance of shares in that class or series) may be changed with the written consent of the holders of the majority of the shares issued in that class or series or with the sanction of a special resolution adopted at a separate meeting of the holders of the shares of that class or series. The rights conferred on the holders of the shares of any class issued must not, unless expressly stated by the terms of issuance of the shares of this class, be considered varied by the creation or issuance of other pari passu classification shares with this existing class of shares. 130 Content Table Issue Additional. Our memo and current by-law authorize our Board of Directors to issue other common shares from time to time as our Board of Directors determines, as long as authorized but unreased shares are available. Our Our and the statutes also authorize our Board of Directors to establish from time to time one or more sets of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of this series, including: The designation of the series; The number of shares in the series; dividends, dividend rates, conversion rights, voting rights; and rights and conditions for redemption and liquidation. Our Board of Directors may issue preferred shares without our shareholders acting as long as authorized but unreased shares are available. The issuance of these shares may dilute the voting power of common shareholders. Inspection of books and records. Holders of our common shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or corporate records. However, we will provide our shareholders with audited annual financial statements. anti-takeover provisions. Certain provisions of our memorandum and current statutes may discourage, delay or prevent a change of control of our company or management that shareholders may consider favourable, including provisions that: authorize our Board of Directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of those preferred shares without further voting or share of our shareholders; and limit the ability of shareholders to requisition and convene general shareholder meetings. However, under Cayman Islands law, our directors may exercise the rights and powers granted to them under our current memorandum and statutes only for appropriate purposes and for what they believe in good faith to be in the best interests of our company. General meetings of shareholders and shareholder proposals. The general meetings of our shareholders may take place in such a location inside or outside the Cayman Islands, as our Board of Directors deems appropriate. As a company exempt from the Cayman Islands, we are not required by the Companies Act to convene annual general meetings of shareholders. Our memo and current statutes provide that we may (but are not obliged to do so) each year to hold a general meeting as an annual general meeting. Annual general meetings of shareholders and all other general meetings of our shareholders may be convened by the majority of our board or our president. Our Board of Directors must give at least seven days' written notice of a shareholder meeting to individuals whose name appears as a member of our membership register as of the date (or at any other date determined by our directors as the record date of this meeting) and who have the right to vote at the meeting. 131 The Cayman Islands Content Table Act gives shareholders only limited rights to requisition a general meeting and gives shareholders no right to make a proposal before a general meeting. However, these rights may be included in a company's statutes. Our memorandum and current statutes allow our shareholders holding shares representing a total of no less than one third of our voting share capital, to requisition an extraordinary general meeting of our shareholders, in which case our directors are required to convene such a meeting and put the resolutions thus requisitioned to a vote at this meeting; however, our memorandum and current by-law do not give our shareholders any right to make proposals before annual general meetings or extraordinary general meetings that are not convened by those shareholders. Election and removal of directors Unless our company decides otherwise at a general meeting, our memo and current by-laws provide that our board of directors will be composed of at least three directors. There is no provision for directors to retire when they reach an age limit. Directors have the power to appoint any person as a director, either to fill a casual vacancy on the board of directors or as an addition to the current board of directors. Our shareholders can also appoint any person as a director by ordinary resolution. An administrator may be removed with or without cause by ordinary resolution. In addition, the office of any director is discharged if the director (i) goes bankrupt or makes any agreement or composition with his creditors, (ii) dies or is deemed to be or becomes unhealthy, (iii) resigns from his position by written notice to our company, or (iv) without special leave from our board of directors, is absent from three consecutive board meetings and our board decides that his office be discharged. Board Procedures Our current submission and our statutes stipulate that our company must be managed and conducted by our Board of Directors. The quorum required for board meetings may be set by the Board of Directors and, unless set to another number, it will have a majority of directors. Our memo and current statutes provide that the Board may, at its discretion, exercise all the powers of our to raise or borrow money, mortgage or charge all or part of the business, property and assets and unjustified capital of our company and issue debentures and other securities of our company, either in outright security or as collateral for any debt. , the responsibility or obligation of our company or any third party. Changes in capital shareholders can, from time to time, by ordinary resolution: increase our share capital by such a sum, to be divided into shares of these classes and amounts, as required by the resolution; consolidate and divide all or one of our shares into shares in a higher amount than our existing shares; subdivide our existing shares, or one of them into shares of a lesser amount, provided that, in the subdivision, the proportion between the amount paid and the amount, if any, unpaid on each reduced share is the same as it was in the case of the action from which the reduced share originates; or cancel actions which, on the date of the adoption of the resolution, were not taken or agreed to be taken by a person and to decrease the amount of our share capital by the amount of the shares thus cancelled. 132 Content Table Our shareholders may, by special resolution, be confirmed by the Grand Court of the Cayman Islands of a request from our company confirming this reduction, to reduce our share capital or any capital repurchase reserve in any way permitted by law. Exempted company. We are an exempt company whose liability is limited under the Corporations Act. The Corporations Act distinguishes between ordinary resident and exempt corporations. Any company registered in the Cayman Islands but doing business primarily outside the Cayman Islands may apply to be registered as an exempt company. The requirements of an exempt company are essentially the same as for an ordinary corporation, except that an exempt company: does not have to file an annual shareholder return with the Registrar of Companies; is not required to open its membership register for inspection; does not have to hold an annual general meeting; issue, if two years ago, shares or shares that are tradable or bearer without face value; may obtain a commitment against the imposition of any future taxation (such companies are usually granted for 20 years in the first place); may be registered by continuation in another jurisdiction and be struck off in the Cayman Islands; Register as a limited-time company and two years ago as a separate holding company. Limited liability means that each shareholder's liability is limited to the amount unpaid by the shareholder on the company's shares (except in exceptional circumstances, such as fraud, the establishment of an agency relationship an illegal or inappropriate purpose or other circumstances in which a court may be willing to break through or lift the corporate veil). Register of members. Under the cayman islands law, we must keep a register of members and it should be entered there: The names and addresses of members, a declaration of the shares held by each member, and the amount paid or agreed to be paid, on the shares of each member; The date a person's name was entered on the register as a member; and the date on which anyone ceased to be a member. Under the Cayman Islands Act, the register of members of our society is prima facie evidence of the issues set out in it (i.e., the membership registry will raise a presumption of fact on the above issues unless disretised) and a member registered in the membership register is considered a matter of Cayman Islands law as the legal title of the shares as established against his or her name. Members. If a person's name is incorrectly entered or omitted from our membership registry, or if there is an unnecessary defect or delay in registering, the fact that a person has ceased to be a member of our company, the aggrieved person or member (or any member of our company or society itself) may apply to the Grand Court of the Cayman Islands for an order to correct the registry. , and the Court may either refuse such an application or, if it is satisfied by the judge of the case, make an order to rectify the registry. 133 Content Table C. Important Contracts We have not entered into any major contracts other than in the normal course of business and other than those described in point 4. Information about the Company, Point 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions, or elsewhere in this Annual Report on Form 20-F.D. Foreign Exchange Controls See Article 4. Company Information — B.

Business Overview — Regulations — Foreign Exchange Regulations. E. Taxation The following summary of the key consequences of the Cayman Islands, the CPP and the U.S. federal income tax on an investment in our ADSs or common shares is based on relevant laws and interpretations that are in effect as of the date of this annual report, all of which are subject to change. This summary does not address all possible tax consequences associated with investing in our ADSs or common shares, such as tax consequences under U.S. and local tax laws or under jurisdictional tax laws. Cayman Islands, the People's Republic of China and the United States. Cayman Islands Tax The Cayman Islands currently levy no personal or corporate taxes on the basis of profits, income, earnings or appreciation, and there is no taxation in the nature of inheritance tax or inheritance tax. There are no other taxes likely to be significant to us levied by the Cayman Islands government, with the exception of stamp duty which may be applicable on instruments performed in, or after the execution brought in the jurisdiction of the Cayman Islands. The Cayman Islands are not parties to any double tax that applies to payments made to or by our company. There are no regulations for exchange controls or monetary restrictions in the Cayman Islands. Dividend and capital payments for the shares will not be subject to tax in the Cayman Islands and no deductions will be required on the payment of a dividend or capital to any holder of the shares, and gains from the sale of the shares will not be subject to income or corporate tax in the Cayman Islands. No stamp duty is payable in relation to the issuance of shares or a transfer instrument for an action. Taxation of the People's Republic of China Under the CPP Business Income Tax Act and its implementation rules, a business established outside the PRC with a de facto management body within the PRC is considered a resident business and will be subject to corporate income tax at a rate of 25% on its global income. Implementation rules define the term de facto management body as the body that exercises total and substantial control over the overall and overall management of a company's business, productions, personnel, accounts and properties. In April 2009, the State Tax Administration issued a circular, known as Circular 82, which provides specific criteria for determining whether the de facto management body of a PRC-controlled company incorporated abroad is located in China. Although this circular applies only to offshore companies controlled by CPP companies or PRC groups, and not to those controlled by individuals or foreigners in the PRC, the criteria set out in the circular may reflect the general position of the State Tax Administration on how the fact management body test should be applied to determine the status of tax residents of all offshore companies. According to Circular 82, a company incorporated in offshore controlled by a CPP company or a group of CPP companies will only be considered a tax resident of the PRC because of its de facto management body in China if all the following conditions are met: (i) the primary location of day-to-day operational management is in the CPP; (ii) decisions regarding the company's financial and human decisions Questions are taken or submitted for approval by CPP organizations or staff; (iii) the company's principal assets, books and records, corporate seals and board and shareholder resolutions are located or maintained in the CPP; (iv) at least 50% of the voting board members or senior executives usually reside in the CPP. 134 Content Table The State Tax Administration issued a public notice, or public notice 16, on March 18, 2015, to further regulate and strengthen the administration of transfer pricing on outgoing payments made by a prC company to its foreign-related parties. In addition to emphasizing that foreign payments made by a CPP company to its foreign-related parties must be consistent with the principles of full dependence, the Public Notice 16 specifies certain circumstances in which such payments are not deductible for the purposes of the CPP business income tax, including payments to a foreign-bound party that assumes no function. , does not bear any risk or has no substantial operations or activities. , payments for services that do not allow the pay company to obtain direct or indirect economic benefits, or for services that are not related to the functions and risks borne by the CPP business, or that relate to the protection of the investment interests of the direct or indirect investor of the cpp business, or for services that have already been purchased from a third party or undertaken by the cpp company itself. , and royalties paid to a foreign-bound party that holds only the legal rights to intangible assets but has no contribution to the creation of these intangible assets. While we believe that all of our related party transactions, including all payments made by our CPP subsidiaries and our consolidated affiliates of our non-PRC entities, are arm's length and that our estimates are reasonable, the final decisions of the relevant tax authorities may differ from the amounts recorded in our financial statements and have a material impact on our financial results during the period or periods for which such determination is made. We believe that none of our entities outside of China are a CPP resident business for CPP tax purposes. We do not believe that Yirendai Ltd. meets all of the above conditions. Yirendai Ltd. is a company incorporated outside the PRC. As a holding company, its main assets are its holdings in its subsidiaries, and assets are located, and its records (including board resolutions and shareholder resolutions) are retained outside the CPP. For the same reasons, we believe that our other entities outside China are not resident companies of the PRC either. However, a company's status as a tax resident is subject to the determination of the PRC tax authorities and uncertainties remain as to the interpretation of the de facto management body. There is no guarantee that the CPP government will eventually have a view that is consistent with us. However, if the CPP tax authorities determine that Yirendai Ltd. is a resident business of the CPP for business income tax purposes, we may be required to withhold a 10% withholding tax on dividends we pay to our shareholders who are non-resident companies, including the holders of our ADS. In addition, non-resident corporate shareholders (including our ADS holders) may be subject to a 10% tax on gains made on the sale or other disposition of SAA or common shares, if these revenues come from the CPP. It is not clear whether our individual non-PRC shareholders (including our ADA holders) would be subject to any CPP tax on dividends or gains earned by these individual non-CPP shareholders in the event that we are determined to be a resident CPP company. If a CPP tax applied to these dividends or gains, it would generally apply at a rate of 20%, unless a reduced rate was available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of Yirendai Ltd. would be able to claim the benefits of any tax treaty between their country of tax residence and the CPP in the event that Yirendai Ltd. is treated as a resident cppib. Provided that our Cayman Islands holding company, Yirendai Ltd., is not considered a resident business of the PRC, holders of our ADSs and common shares who are not residents of the CPP will not be subject to CPP income tax on dividends distributed by us or gains made as a result of the sale or other provision of our shares or AED. However, under Circular 698 and Sat Circular 7, when a non-resident business makes an indirect transfer by transferring taxable assets, including, in particular, interests in a CPP resident business, indirectly by divesting the interests of a foreign holding company, the non-resident business, being the assignee, or the assignee or entity of the CPP who directly owned those taxable assets. , it may report this indirect transfer to the relevant tax authorities. By using a substance-on-form principle, the CPP Tax Authority may disable the holding company's existence abroad if it does not have a reasonable business objective and has been established with the aim of reducing, avoiding, to defer the CPP tax. As a result, gains from this indirect transfer may be subject to CPP business income tax, and the transferee or any other person who is required to pay the transfer is required to withhold applicable taxes, currently at a rate of 10% for the transfer of interests in a CPP resident business. We and our non-PRC resident investors may be required to file a return and be taxed under Sat Circular 698 and Circular 7, and we be required to spend valuable resources to comply with SAT Circulars 698 and Circular 7, or to establish that we should not be taxed under these circulars. See 3. Key Information — Risk Factors D. — Business Fact Risks in China — A closer look at the acquisition transactions by THE CPP tax authorities could have a negative impact on potential acquisitions that we may pursue in the future. 135 Content Table U.S. Federal Tax Considerations The following discussion is a summary of U.S. federal income tax considerations relating to the ownership and disposition of our ADSs or common shares by a U.S. holder (as defined below) who holds our ADSs or common shares as capital (generally, property held for investment purposes) under the 1986 U.S. Internal Income Code , as amended (the Code). This discussion is based on the current federal U.S. Income Tax Act, which is subject to different interpretations and can be amended, perhaps retroactively. No decision has been sought from the Internal Revenue Service (IRS) regarding the federal income tax consequences described below, and there is no assurance that the IRS or a court will not take a contrary position. This discussion does not address all aspects of U.S. federal income tax that may be important to individual investors given their individual circumstances, including investors subject to special tax rules (e.g., banks or other financial institutions, insurance companies, broker brokers, pension plans, cooperatives , securities dealers who have chosen the method of accounting for their securities, partnerships and partners). , regulated investment companies, real estate investment trusts and tax-exempt organizations (including private foundations), holders who do not hold U.S. securities, holders who hold (directly, indirectly or constructively) 10% or more of our voting shares, holders who hold their ADSs or common shares in a horse-straddable transaction , hedging, conversion, constructive sales or other integrated transactions for U.S. federal income tax purposes. , or investors who have a functional currency other than the U.S. dollar, all of which may be subject to tax rules that differ significantly from those summarized below. In addition, discussion does not focus on the non-U.S., other minimum tax considerations, state or local, or the Health Insurance Tax on net investment income. Each U.S. licensee is invited to consult with their tax advisors about U.S. federal, state, local and non-U.S. revenues and other tax considerations regarding the ownership and disposition of our ADSs or common shares. General For the purpose of this discussion, a U.S. owner is an owner-owner common shares that are, for the purposes of U.S. federal income tax, (i) a person who is a U.S. citizen or resident, (ii) a corporation (or other entity treated as a corporation for the purposes of U.S. federal income tax) created or organized under U.S. or any state of the United States or the District of Columbia , (iii) an estate whose income is subject to U.S. federal income tax regardless of its source, or (iv) a trust (A) whose administration is subject to the principal supervision of a U.S. court and which has one or more persons from the United States who have the power to review all substantive decisions of the trust or (B) who has otherwise chosen to be treated as a U.S. person under the applicable regulations of the U.S. Treasury. If a partnership (or another entity treated as a partnership for U.S. federal income tax purposes) is an advantageous owner of our ADSs or common shares, the tax treatment of a partner of the company will generally depend on the status of the partner and the company's activities. Partnerships holding our ADSs or common shares and partners in such partnerships are encouraged to consult with their tax advisors about the specific federal tax consequences of investing in our ADSs or common shares. For U.S. federal income tax purposes, a U.S. SAA holder is generally expected to be treated as the beneficial owner of the underlying shares represented by the ADSs. The rest of this discussion assumes that an American holder of our ADSs will be treated in this way. As a result, filings or withdrawals of common shares for ADSs will generally not be subject to U.S. federal income tax. 136 Table of Content Passive Foreign Investment Company Considerations A non-United States corporation, like our company, will be a passive foreign investment corporation, or PFIC, for U.S. federal income tax purposes, if, in a particular taxable year, either (i) 75% or more of its gross income for that year consists of certain types of passive income or (ii) 50% or more of the average quarterly value of its assets (as determined on the basis of the fair market value) in that year produce or are held for the production of passive income. To this end, cash is classified as a liability asset and the company's unclassified intangible assets associated with active business activities can generally be classified as assets. Passive income generally includes, among other things, dividends, interest, rents, royalties and gains from the disposal of passive assets. We will be treated as owning a proportionate share of assets and earning a proportionate share of the income of any other company in which we own, directly or indirectly, at least less (by value) of the security. While the law in this regard is not clear, we intend to treat Heng Cheng and Yi Ren Wealth Management as the property of us for the purposes of U.S. federal income tax, and we treat it that way, not only because we have effective control over the operation of these entities. , but also because we are entitled to the near totality of their economic benefits. and, as a result, we consolidate their operating results in our consolidated financial statements. Assuming that we are the owner of Heng Cheng and Yi Ren Wealth Management for U.S. federal income tax purposes, and based on our revenues and assets and the value of our ADS and common shares, we do not believe that we were a PFIC for the fiscal year ended December 31, 2016 and do not expect to become a CIFP in the foreseeable future. Assuming we are the owner of Heng Cheng and Yi Ren Wealth Management for the purposes of U.S. federal income tax, although we do not believe that we were a PFIC for the taxable year ended December 31, 2016 and that we do not expect to become a PFIC in the foreseeable future, the determination of our status or not will depend in part on the value of our goodwill and other unrelated intangible assets (which will depend on the market value of our ADSs or common shares from time to time, which may be volatile). In estimating the value of our goodwill and other unrebooked intangible assets, we took into account our market capitalization. Among other things, if our market capitalization is lower than expected or subsequently decreases, we may be or become a PFIC for current or future taxable years. It is also possible that the IRS will challenge our classification or assessment of our goodwill and other unrebooked intangible assets, which may result in our company being or becoming a PFIC for current or future taxable years. Determining whether or become a PFIC will also depend, in part, on the composition of our revenues and assets, which may be affected by how and how quickly we use our liquid assets and the cash raised in our initial public offering. If we determine not to deploy large amounts of money for active purposes or if we have been treated as not owning Heng Cheng and Yi Ren Wealth Management for U.S. federal income tax purposes, our risk of being classified as a PFIC can increase significantly. Given that our status for a taxable year is a determination which can only be taken after the end of a taxable year, there is no guarantee that we will not be a PFIC for the current taxable year or any future taxable year. If we are a PFIC for any year in which a U.S. holder held our ADS or common shares, we will generally continue to be treated as a PFIC for all subsequent years in which that U.S. holder held our regular ADS or common stock. The discussion below under Dividends and Sale or other provision of ADS or common shares is written on the grounds that we will not or will not become a PFIC for the purposes of U.S. federal income tax. The federal U.S. income tax rules that apply if we are a PFIC for the current taxable year or any subsequent taxable year are generally discussed below under the passive rules on foreign investment companies. Dividends Subject to the rules discussed below, any cash distribution (including the amount of any tax withheld) paid on our ADSs or common shares on our current or accrued earnings and earnings, as determined by the federal principles of U.S. income tax, will generally be included in the gross income of a U.S. holder as a day-to-day dividend income actually or constructively received by the U.S. holder. , in the case of common shares, or by the custodian, in the case of ADSs. Since we do not intend to determine our profits and profits on the basis of federal U.S. income tax principles, any distribution paid will generally be declared as a dividend for U.S. federal income tax purposes. A non-corporate beneficiary of dividend income will generally be subject to the dividend income tax of a qualified foreign company at a reduced federal tax rate in the United States rather than the marginal tax rates generally applicable to ordinary income provided certain holding period requirements are met. 137 Content Table A non-U.S. corporation (other than a corporation that is paid for the taxable year in which the dividend is paid or the previous taxable year) will generally be considered a qualified foreign company (a) if it qualifies for the benefits of a comprehensive tax treaty with the United States that the U.S. Secretary of the Treasury deems satisfactory for the purposes of this provision and which includes an exchange of information , or b) with respect to any dividend it pays in shares (or ADSs for those shares) that is easily tradable in a U.S.-based securities market. Our ADSs are listed on the New York Stock Exchange and we are a qualified foreign company with respect to dividends paid on ADS. As we do not expect our common shares to be listed on established securities markets, we do not believe that the dividends we pay on our non-ADS-backed common shares currently meet the required for the reduced tax rate. There can be no assurance that our IDAs will continue to be considered easily tradable in a securities market established in recent years. In the event that we are considered a resident business under the CPP Business Income Tax Act, we may be eligible for benefits of the U.S.-U.S. Treasury Department satisfactory for this purpose) and, in this case, we would be treated as a qualified foreign company with respect to dividends paid on our common shares or ADSs. Each non-corporate holder in the United States is advised to consult with their tax advisors regarding the availability of the reduced tax rate applicable to eligible dividend income for all dividends we pay for our ADSs or common shares. Dividends received on ADSs or common shares will not be eligible for dividends received deduction allowed to companies. Dividends will generally be treated as income from foreign sources for the purposes of the U.S. Foreign Tax Credit and will generally be passive class income. In the event that we are considered a resident business of the CPP under the Corporate Income Tax Act, a U.S. holder may be subject to CPP withholding tax on dividends paid on our ADSs or common shares. (See — Taxation of the People's Republic of China) In this case, a U.S. holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit for any foreign withholding tax imposed on dividends received on ADSs or common shares. A U.S. holder who does not choose to claim a foreign tax credit for withheld foreign tax may instead claim a deduction, for U.S. federal income tax purposes, for those deductions, but only for a year in which that U.S. holder chooses to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. holders are advised to consult with their tax advisors about the availability of the foreign tax credit in their particular situation. Sale or other provision of ADS or common shares Subject to the rules discussed below, a U.S. holder will generally recognize the capital gain or loss on the sale or other disposition of ADS or common shares in an amount equal to the difference between the amount realized at the time of the assignment and the adjusted tax base of the U.S. holder in these ADSs or common shares. Any capital gain or loss will be long-term if ADSs or common shares have been held for more than a year and will generally be gains or losses of source in the United States for the purposes of the U.S. Foreign Tax Credit. The long-term capital gain of holders of non-corporate corporations in the United States is generally eligible for a reduced tax rate. The deductibility of a capital may be subject to limitations. In the event that we are treated as a resident business of the CPP under the Corporate Income Tax Act and we earn from the provision of ADSs or common shares is subject to CPP tax, a U.S. holder who is eligible for the benefits of the U.S.-CPP tax treaty may choose to treat the gain as a source income cpp. U.S. holders are advised to consult with their tax advisors about the if a foreign tax is imposed on a provision of our ADSs or common shares, including the availability of the foreign tax credit in their particular circumstances and the choice to treat any gain as a prc source. Passive Foreign Investment Company Rules If we are a PFIC for any taxable year in which a U.S. holder holds our ADSs or common shares, and unless the U.S. holder makes a trademark election in the market (as described below), the U.S. holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, for subsequent taxable years, on (i) any excess distribution we make to the U.S. holder (which generally means any distribution made in a taxable year to a U.S. holder that is greater than 125% of the average annual distributions paid in the previous three taxable years or , if it is shorter, the holding period of the U.S. holder for ADSs or common shares) , and (ii) any gain made on the sale or other provision, including, in certain circumstances, a commitment, ADS or common shares. Under the rules of the PFIC: 138 Content Table such distribution and/or excess gain will be distributed profitably over the U.S. holding period for ADSs or common shares; this amount allocated to the current taxable year and any taxable year during the U.S. holder's holding period prior to the first taxable year in which we are a CIFP, or year prior to the PFIC, will be taxable as regular income; This amount allocated for each previous taxable year, other than a year prior to the CIFP, will be subject to tax at the highest tax rate in effect for that year; and interest charges generally applicable to tax subpayments will be taxed on tax attributable to each previous taxable year, other than a year prior to the CSIF. If we are a PFIC for any taxable year in which a U.S. holder holds our ADS or common shares and one of our non-U.S. subsidiaries is also a PFIC, that U.S. holder would be treated as holding a proportional amount (by value) of the lower-tier PFIC shares for the purposes of enforcing these rules. U.S. holders are advised to consult with their tax advisors about the application of the pfic rules to one of our subsidiaries. As an alternative to the rules opposite, a U.S. holder of marketable shares in a PFIC may make a trademark election on market for our ADSs, provided that ADSs are regularly traded on the New York Stock Exchange. If a trademark election is made in the market, the U.S. holder will generally include (i) as regular income for each taxable year that we are a PFIC surplus, if any, of the fair market value of the ADSs held at the end of the taxable year on the tax-adjusted basis of these ADS and (ii) deduct as a lose the surplus, if any, from the adjusted tax base of ADSs relative to the fair market value of these ADSs held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the election of the brand to the market. The U.S. holder's adjusted tax base in the MAD would be adjusted to reflect any income or loss resulting from the election of the mark to the market. If a U.S. licensee makes an effective trademark election to the market, every year we are a PFIC any gain recognized from the sale or other provision of the ADS will be treated as ordinary income and the loss will be treated as an ordinary loss, but only to the extent of the net amount previously included in the income as a result of the trademark election in the market. If a U.S. licensee makes a trademark election in the market, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service agrees to the revocation of the election. It should also be noted that it is expected that only ADSs and not common shares will be listed on the New York Stock Exchange. Therefore, if a U.S. holder holds common shares that are not represented by ADSs, that holder will generally not be eligible to make a trademark election in the market if we are or were to become a PFIC. If a U.S. licensee makes a trademark election in the market for a PFIC and such a company ceases to be a PFIC, the U.S. holder will not be required to take into account the gain or loss of market mark described above during a period when that company is not a PFIC. Since a market-based election cannot be made for lower-tier PFICs that a PFIC may own, a U.S. licensee who makes a market election for our ADS may continue to be subject to the general rules of the PFIC regarding the indirect interest of that U.S. holder in one of our non-U.S. subsidiaries if one of them is a PFIC. We do not intend to provide the information necessary for U.S. holders to qualify for election in election funds, which, if available, would result in a different tax treatment from the general tax treatment for CIFAs described above. 139 Content Table As mentioned above in the dividends, the dividends we pay on our ADSs or common shares will not be eligible for the reduced tax rate that applies to eligible dividend income if we are a for the taxable year in which the dividend is paid or the previous taxable year. In addition, if a U.S. holder owns our ADSs or common shares in a taxable year that we are a PFIC, that holder would generally be required to file an IRS Annual Form 8621. It is advisable for each U.S. licensee to consult with their tax advisors about the potential tax implications for this holder if we are or become a PFIC, including the possibility of making a Election. Information Report Some U.S. holders may be required to disclose information to the IRS regarding an interest in determined foreign financial assets, including shares issued by a non-U.S. company, for any year in which the total value of all specified foreign financial assets exceeds US$50,000 (or a higher amount prescribed by the IRS) , subject to certain exceptions (including an exception for shares held in custody accounts held with a U.S. financial institution). These rules also impose penalties if a U.S. licensee is required and does not submit this information to the IRS. In addition, U.S. holders may be subject to information reporting to the IRS regarding dividends and proceeds from the sale or other provision of our ADSs or common shares. Each U.S. licensee is advised to consult with their tax advisor about applying U.S. information reporting rules to their particular circumstances. F. Dividends and paying agents Not applicable. G. Expert statement not applicable. H. Exposed Documents We have already filed with the SEC our registration statement on Form F-1 (registration 333-208056), as amended, including the annual report contained in it, to record the issuance and sale of our common shares represented by the ABS in connection with our initial public offering. We have also filed with the SEC the registration statement on Form F-6 (registration 333-208437) to register our ADSs. We are subject to periodic reports and other foreign exchange information requirements applicable to foreign private issuers, and we are required to file reports and other information with the SEC. Specifically, we are required to produce an annual annual report on Form 20-F within four months of the end of each fiscal year, December 31. All information filed with the SEC can be obtained on the Internet from the SEC's website at www.sec.gov or inspected and copied at the SEC's public reference facility at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of documents, for payment of a duplication fee, by writing to the SEC. As a foreign private issuer, we are exempt from the foreign exchange act rules that prescribe the provision and content of quarterly reports and proxies, and executives, directors and principal shareholders are exempt from the provisions reporting and recovering short-term earnings under section 16 of the Foreign Exchange Act. We will provide Deutsche Bank Trust Company Americas, the custodian of our ADSs, with our annual reports, which will include a review Annual audited consolidated financial transactions and statements prepared in accordance with U.S. GAAP, as well as all notices of shareholder meetings and other reports and communications that are generally made available to our shareholders. The custodian will make these notices, reports and communications available to ADS holders and, at our request, will send to all ADS registry holders the information contained in any notice of shareholder meeting received by the custodian from us. 140 Table of Matters I. Non-applicable subsidiary information. Point 11. Quantitative and qualitative disclosures on market risk Foreign exchange risk All of our revenues and almost total expenses are denominated in RMB. Our reporting currency was the U.S. dollar prior to April 1, 2016. In our consolidated financial statements prepared prior to April 1, 2016, our financial information using the RMB as a functional currency was translated into U.S. dollars. As of April 1, 2016, we have changed our U.S. dollar reporting currency to RMB. As a result of foreign currency conversion adjustments, we had a currency conversion adjustment of zero, RMB0.1 million and RMB29.4 million (US$4.2 million) in 2014, 2015 and 2016, respectively. The appreciation or amortization of the value of the RMB against the U.S. dollar would affect our reported U.S. dollar financial results without affecting an underlying change in our business or results of operations. We do not believe that we currently have a significant direct currency risk and that we have not used any derivative financial instruments to cover exposure to that risk. Although in general our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the RMB because the value of our business is actually denominated in RMB, while our ADSs will be traded in U.S. dollars. The conversion of the RMB to foreign currencies, including U.S. dollars, is based on the rates set by the PBOC. The CPP government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, the exchange rate between the RMB and the U.S. dollar was stable and traded within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, sometimes significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or SDR, and decided that at October 1, 2016, the renminbi is determined as a freely usable currency and will be included in the DTS DTS the 50th largest currency, with the US dollar, the euro, the Japanese yen and the pound sterling. In the fourth quarter of 2016, the RMB depreciated significantly against a backdrop of a rising U.S. dollar and persistent capital outflows from China. It is difficult to predict how long and when and when the relationship between the RMB and the U.S. dollar can change again. To the extent that we have to convert U.S. dollars into RMB for our operations, the appreciation of the RMB against the U.S. dollar would have a negative effect on the amount of RMB we receive from the conversion. Conversely, if we decide to convert RMB to U.S. dollars for the purpose of making dividend payments on our common shares or ADS or for other commercial purposes, the appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amounts available to us. Interest Rate Risk We have not been exposed to significant risks due to changes in market interest rates, nor have we used any derivative financial instruments to manage our exposure to interest risk. However, we cannot guarantee that we will not be exposed to significant risks due to changes in market interest rates in the future. We are currently investing our money in interest-earning instruments. Investments in fixed-rate and variable-rate instruments involve some degree of interest rate risk. Fixed-rate securities can have a negative impact on their fair market value due to higher interest rates, while variable rate securities may generate less income than expected if interest rates fall. 141 Content Table Point 12. Description of non-share securities A. Non-applicable debt securities. B. Non-applicable mandates and rights. C. Other non-applicable securities. D. American Depositary Shares Fees and Charges Our ADB holders may have to pay as an ADS holder, you will have to pay the following service charges to the custodian bank and certain government taxes and fees (in addition to applicable fees, expenses, taxes and other government fees payable on the deposited securities represented by one of your ADSs): Service charges To anyone to whom ADSs are issued or to anyone to whom a distribution is made for ADS distributions under share dividends or other free distributions of shares, premium distributions, stock splits or other distributions (except when converted into cash) Up to US$0.05 per ADS issued. Cancellation of including the termination of the deposit contract Up to US$0.05 per CANCELLed ADS Cash Dividend Distribution Up to US$0.05 per ADS held Distribution of cash rights (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other rights Up to US$0.05 per ADS held Distribution of ADS in accordance with the exercise of rights. Up to US$0.05 per ADS held Distribution of non-ADS securities or additional ADS purchase rights Up to US$0.05 per ADS held Deposit Services Up to US$0.05 per ADS held on the applicable registration date (s) established by the custodian bank As an ADS holder, you will also be responsible for paying certain fees and expenses incurred by the custodian bank and certain government taxes and fees (in addition to applicable fees, expenses, taxes and other government fees on the deposited securities represented by one of your ADSs) such as: 142 Table Transfer and registration fees for common shares charged by the Registrar and transfer agent for Cayman Islands common shares (i.e., when filing and withdrawing common shares). · Expenses incurred to convert foreign currency into U.S. dollars. · Expenses for cable, fax and fax transmissions and for the delivery of titles. · Taxes and fees on the transfer of securities, including applicable stamp duty, share transfer fees or withholding tax (i.e. when common shares are deposited or withdrawn from the deposit). · Expenses and expenses incurred in connection with the delivery or service of common shares on deposit. · Expenses and expenses incurred in compliance with foreign exchange control regulations and other regulatory requirements for common shares, securities filed, ADSs and ADRs. · All fees and penalties applicable at that time. Deposit fees payable at the time of issuance and cancellation of ADSs are generally paid to the custodian bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the custodian bank and by the brokers (on behalf of their clients) delivering the ADS to the custodian bank for cancellation. Brokers in turn charge their clients for these fees. Deposit fees payable in connection with the distribution of cash or securities to ADS holders and deposit services fees are charged by the custodian bank to holders of an ADS registry from the applicable ADS. Date. Deposit fees payable for cash distributions are generally deducted from the money distributed or from the sale of a portion of the distributable goods to pay for the fees. In the case of non-cash distributions (i.e. share dividends, rights), the custodian bank charges the fees applicable to ADS registration date holders at the same time as the distribution. In the case of ADSs registered on behalf of the investor (whether or not they are certified in the direct registration), the custodian bank sends invoices to ADS holders on the applicable registration date. In the case of ADSs held in brokerage and custodian accounts (via DTC), the custodian bank generally collects its fees through the systems provided by DTC (whose candidate is the registered holder of THE ADS held in DTC) from brokers and custodians holding ADSs in their DTC accounts. Brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts for the amount of fees paid to custodian banks. If the deposit fee is refused, the custodian bank may, under the terms of the deposit agreement, refuse the requested service until the payment is received or it can derory the amount of the deposit fee for any distribution to be made to the ADS holder. Fees and other payments made by the custodian to us The custodian has agreed to pay us certain amounts in exchange for his appointment as custodian. We may use these funds for our expenses related to the establishment and maintenance of the ADR program, including investor relations costs, or otherwise as we see fit. The custodian can pay us a fixed amount, he can pay us a portion of the fees collected by the custodian from the holders of SDA, and he can pay specific expenses incurred by us under the RED program. Neither the custodian nor we will be able to determine the overall amount to be paid because (i) the number of ADSs that will be issued and outstanding and the level of dividends and/or service charges payable may vary, and (ii) our program-related expenses may not be known at this time. For the year ended December 31, 2016, we were entitled to receive approximately US$0.6 million (after withholding tax) from the custodian as reimbursement for our expenses incurred in, among other things, investor relations programs related to the installation and travel expenses of our key personnel under these programs. PART II Article 13. Defaults, dividend arrearages and zero defaults. 143 Content Table Point 14. Changes rights of titleholders and product use see Point 10. Additional information —B. Memorandum and Association Articles —Ordinary Shares for a description of the rights of holders of securities, securities, remain unchanged. The following product use information relates to the registration statement on Form F-1 (File 333-208056), as amended in relation to our initial public offering, which was declared effective by the SEC on December 17, 2015. In December 2015, we completed our initial public offering in which we issued and sold a total of 7,500,000 ADSs, representing 15,000,000 common shares, resulting in net proceeds of approximately US$64.9 million. Morgan Stanley and Co. International plc, Credit Suisse Securities (USA) LLC and China Renaissance Securities (Hong Kong) Limited were the representatives of the underwriters for our initial public offering. The total underwriting rebates and commissions related to the initial public offering were approximately US$5.9 million. For the period of December 17, 2015, when the f-1 registration statement was declared effective by the SEC, as of December 31, 2016, we did not use any of the net proceeds of our initial public offering. We intend to use the proceeds of our initial public offering, as disclosed in our F-1 registration statements, for general corporate purposes, including investments in product development, sales and marketing activities, technology infrastructure, capital expenditures, improvement of the company's facilities and other general and administrative matters. , and (ii) the acquisition or investment in technologies, solutions or business that complement our business. Point 15. Controls and Procedures Assessment of Controls and Disclosure Procedures Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 under the Foreign Exchange Act) at the end of the reporting period , as required by Rule 13a-15 (b) under the Foreign Exchange Act. , our management concluded that as of December 31, 2016, our disclosure controls and procedures were effective in ensuring that the information that was to be disclosed by us in the reports we are lying and furnishing under the Foreign Exchange Act were recorded, processed, summarized and reported within the time frames prescribed by the SEC rules and forms. , and that the information that was to be disclosed by us in the reports we file or submit under the Foreign Exchange Act is accumulated and disclosed to our management, including our ceo and our Chief Financial Officer to allow timely decisions on the required disclosure. Management's Annual Report on Internal Control of Financial Information Our management is responsible for establishing and maintaining adequate internal control of financial reporting, as defined under Rule 13a-15(f) under the Foreign Exchange Act. exchange rates. management assessed the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Foreign Exchange Act, based on criteria established under the Integrated Internal Control Framework (2013) published by the Treadway Commission's Sponsoring Organizations Committee. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2016. Because of its inherent limitations, internal control of financial information may not prevent or detect inaccuracies. In addition, projections of any evaluation of the effectiveness of our internal control over financial reporting in future periods are subject to the risk that controls will become inadequate due to changes in conditions or that the degree of compliance with policies and procedures will deteriorate. 144 Table of Content Changes in Internal Financial Information Control There have been no changes in our internal controls over financial reporting that occurred during the reporting period of this Annual Report on Form 20-F that have had a significant impact or are reasonably likely to have a material impact on our internal control over financial reporting. Point 16A. Audit Committee Financial Expert Our Board of Directors has determined that Mr. Sam Hanhui Sun, an independent director (under the standards set out under section 303A of the NYSE Corporate Governance Rules and Rule 10A-3 under the Exchanges Act) and a member of our audit committee, is a financial expert on the audit committee. Article 16B. Code of Ethics Our Board of Directors adopted a code of conduct and business ethics that applies to our directors, officers and employees in September 2015. We posted a copy of our Code of Business Conduct and Ethics on our website at . Point 16C. Fees and Services of Senior Accountants The following table sets out the overall fees by categories specified below for certain professional services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP, our principal external auditors, for the specified periods. RMB RMB 2015 2016 (thousands) Audit fees (1) 13,765 6,327 Tax fees (2) 303 1,070 (1) Audit represents the overall fees charged and which should be charged for each of the financial years listed for the professional services rendered by our senior accounting firm for the audit of our annual financial statements and/or services that are normally provided by auditors in relation to legislative and regulatory commitments. (2) Tax fees represent the overall fees charged for professional services provided by our leading accounting firm for tax compliance, tax advice and tax planning. The policy of our audit committee is to all audit and non-audit services provided by Deloitte Touche Tohmatsu Certified Public Accountants LLP, including audit services, audit-related services, tax services and other services described above, other than those for de minimis services that are approved by the audit committee before the audit is completed. Article 16D. Exemptions from registration standards for non-applicable audit committees. Point 16E. Purchases of equity securities by issuer and no affiliated buyers. Article 16F. Change in the non-applicable registered certifier accountant. 145 Table of Content Point 16G. Corporate Governance As a Cayman Islands company listed on the New York Stock Exchange, we are subject to the NYSE's corporate governance listing standards. As of March 31, 2017, CreditEase held more than 50% of our total voting power. Therefore, we are a controlled company under Section 303A of the New York Stock Exchange Listed Companies Manual. As a controlled company, we rely on certain exemptions that are available to controlled companies against the NYSE's corporate governance requirements, including the requirement that the majority of our board of directors be made up of independent directors. In addition, nyse rules allow a foreign private issuer like us to follow the corporate governance practices of their home country. Certain corporate governance practices in the Cayman Islands, which are our home country, may differ significantly from the NYSE's corporate governance listing standards. At this time, we do not intend to rely on the country of origin practice in terms of our corporate governance. However, if we choose to follow the country of origin practice in the future, our shareholders may receive less protection than they would otherwise under the NYSE listing standards for U.S. domestic issuers. See Article 3. Key Information —D. Risk Factors—Risks to Our U.S. Deposit Shares —As a Cayman Islands incorporated company, we are authorized to adopt certain country-of-origin corporate governance practices that differ significantly from the NYSE's corporate governance listing standards; these practices may offer less protection to shareholders than they would if we fully complied with the NYSE's corporate governance listing standards. Point 4 p.m. Disclosure of mining safety Not applicable. Part Point 17. Financial Statements We have chosen to provide financial statements in accordance with Item 18. Point 18. Financial Statements The consolidated financial statements of Yirendai Ltd., its subsidiaries and its consolidated variable interest entities are included at the end of this Annual Report. Point 19. Exhibits Room Number Description of document 1.1 Memorandum and articles of association of the registrant (incorporated below by reference to Exhibit 3.2 in the registration statement on (File 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 2.1 U.S. registrant's specimen deposit receipt (incorporated in this case by referring to Exhibit 4.3 in the registration statement of Form F-1 (file no. 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 2.2 Registered Specimen Certificate for Common Shares (incorporated in this case in reference to Exhibit 4.2 F-1 registration statement (file 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 2.3 Deposit Agreement Form, between the registrant, the custodian and the holder of U.S. deposit receipts (incorporated below by reference to Exhibit a) on the registration statement on Form F-6 (File 333-208437) , filed with the Securities and Exchange Commission on December 10, 2015) 4.1 Action Incentive Plan 2015 (incorporated in this case by referring to Exhibit 10.13 in the registration statement on Form F-1 (File No. 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 146 Table of contents Exhibit Description of Document 4.2 Employment Contract between the registrant and his officers (incorporated in this case in reference to Exhibit 10.1 F-1 registration statement (file 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015) 4.3 Agreement on the Form of Administrator between the Registrant and its Independent Directors (incorporated in this case, referring to Exhibit 10.14 in the registration statement of Form F-1 (File No. 333-208056), as amended in this case , originally filed with the Securities and Exchange Commission on November 16, 2015) 4.4 Compensation Agreement Form between the registrant and his directors and officers (incorporated in this case in reference to Exhibit 10.2 in the registration statement on Form F-1 (File 333-208056) , as amended, initially filed with the Securities and Exchange Commission on November 16, 2015) 4.5 Master Transaction Agreement between CreditEase Holdings (Cayman) Limited and Yirendai Ltd. dated November 9, 2015 (incorporated in this case in referred to Exhibit 10.3 in the registration statement of Form F-1 (file 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 4.6 Transitional Services Agreement between CreditEase Holdings (Cayman) Limited and Yirendai Ltd. dated November 9, 2015 (incorporated in this case referring to Exhibit 10.4 in the registration statement Form F-1 (File 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 4.7 Non-competition agreement between Holdings (Cayman) Limited and Yirendai Ltd. dated November 9, 2015 (incorporated in this case, referring to Exhibit 10.5 in the registration statement on Form F-1 (file 333-208056), as amended, initially filed with the Securities and Exchange Commission on November 16, 2015) 4.8 Framework Cooperation Agreement between CreditEase Holdings (Cayman) Limited and Yirendai Ltd. dated November 9, 2015 (incorporated in this case in reference to Exhibit 10.6 in the F-1 Registration Statement (333-208056) , as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 4.9 Intellectual Property Licensing Agreement between CreditEase Holdings (Cayman) Limited and Yirendai Ltd. dated November 9, 2015 (incorporated in this case in reference to Exhibit 10.7 in the F-1 Registration Statement (File 333-208056), as amended , originally filed with the Securities and Exchange Commission on November 16, 2015) 4.10 English translation of the loan agreements between Heng Ye and Heng Cheng shareholders as of February 22, 2015 (incorporated in this case by referring to Exhibit 10.8 in the registration statement of Form F-1 (file 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 4.11 English translation of the agreements to give interest on shares between Heng Ye , Heng Cheng and Heng Cheng shareholders dated February 22, 2015 (incorporated in this case in reference to Exhibit 10.9 in the F-1 registration statement (File 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 4.12 English translation of the proxies granted to Heng Ye by Heng Cheng shareholders dated February 22, , 2015 (incorporated in this case by referring to Exhibit 10.10 in the registration statement of Form F-1 (file 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 147 Table of contents Exhibit Description of Document 4.13 English translation of the Exclusive Trade Cooperation Agreement between Heng Ye and Heng Cheng dated February 22, 2015 (incorporated in this case in reference to Exhibit 10.11 in the Declaration of Registration of the Form F-1 (File 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 4.14 English translation of the exclusive option agreement between Heng Ye, Heng Cheng and Heng Cheng shareholders dated February 22, 2015 (incorporated in this case in reference to Exhibit 10.12 in the F-1 Registration Statement (File 333-208056) , as amended, initially filed with the and Exchange Commission on November 16, 2015) 4.15 Underwriting agreement between the registrant and Baidu (Hong Kong) Limited dated December 14, 2015 (incorporated below registration statement on Form F-1 (file 333-208056), as amended, originally filed with the Securities and Exchange Commission on November 16, 2015) 4.16 Loan Agreements between Heng Yu Da and Yi Ren Wealth Management shareholders as of October 13, 2016 4.17 - Share Interest Commitment Agreements between Heng Yu Da, Yi Ren Wealth Management and Yi Ren Wealth Management Shareholders as of October 13, 2016 4.18 - Er Yu Da Shareholders Granted by Yi Ren Wealth Management Shareholders dated October 13, 2016 2016 4.0 19 - Exclusive Trade Cooperation Agreement between Heng Yu Da and Yi Ren Wealth Management dated October 13, 2016 4.20 - Exclusive Option Agreement Between Heng Yu Da , Yi Ren Wealth Management et les actionnaires de Yi Ren Wealth Management daté du 13 octobre , 2016 8.1* Liste des filiales et entités consolidées à intérêt variable 11.1 Code de conduite des affaires et d'éthique de l'inscrit (incorporée en l'espèce en se référant à la pièce 99.1 à l'énoncé d'enregistrement du formulaire F-1 (dossier no 333-208056), tel que modifié, initialement déposé auprès de la Securities and Exchange Commission le 16 novembre 2015) 12.1* Certification par le directeur général principal Conformément à l'article 302 de la Loi Sarbanes-Oxley de 2002 12.2* Certification par l'agent financier principal Conformément à l'article 302 de la Loi Sarbanes-Oxley de 2002 13.1** Certification par Directeur général principal Conformément à l'article 906 de la Loi Sarbanes-Oxley de 2002 13.2** Certification par l'agent financier principal Conformément à l'article 906 de la Loi Sarbanes-Oxley de 2002 15.1* Consentement des bureaux d'avocats Han Kun 148 Tableau de contenu Pièce Numéro Description du document 15.2* Consentement de Deloitte Touche Tohmatsu Certified Public Accountants LLP 101.INS XBRL Instance Document 101.SCH- XBRL Taxonomy Extension Schema Document 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document 101.DEF XBRL Taxonomy Extension Definition Linkbase Document 101.LAB XBRL Taxonomy Extension Label Linkbase Document 1 1.PRE XBRL Taxonomy Extension Presentation Linkbase Document - Subsequently Filed - Provided here with 149 SIGNATURES of content table The registrant heresafter certifies that he meets all requirements for filing his annual report on Form 20-F and that he duly caused and authorized the undersigned to sign this annual report on his behalf. Yirendai Ltd. By: /s/ Ning Tang Name: Ning Tang Title: Executive Chairman of the Board of Directors Date: April 24, 2017 150 Content Table YIRENDAI LTD. CONSOLIDATED FINANCIAL STATEMENTS INDEX CONTAINED PAGE(S) CONSOLIDATED OPERATING STATEMENTS OF INDEPENDENT ACCOUNTING FIRM F-2 AS OF DECEMBER 31, 2015 AND 2016 F-3 CONSOLIDATED STATEMENTS FOR THE YEARS ENDED DECEMBER 2014, 2015 AND 2016 CONSOLIDATED CONSOLIDATED F-4 TOTAL EARNINGS OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2014, F-5 2015 AND 2016 STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016 CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016 F-7 TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016 , 2014, 2015 AND 2016 F-8 SUPPLEMENTARY INFORMATIONS — UNITED STATES 1 F-43 F-1 Content Table YIRENDAI LTD. CABINET REPORT OF EXPERTS-COMPTABLES REGISTERED INDÉPENDANT To the board of directors and shareholders of Yirendai Ltd. We audited the consolidated balance sheets of Yirendai Ltd. (the Company and its subsidiaries and variable interest entities, collectively known as Group) at December 31, 2015 and 2016, as well as related consolidated statements of overall operations, income or loss, changes in equity and cash flow for each of the three years ended December 31, , 2016 and the schedule of related financial statements (Annex I). These financial statements and the timing of the financial statements are the responsibility of the Group's management. It is our responsibility to express an opinion on these financial statements and financial statements calendar based on our audits. We conducted our audits in accordance with the public Company Accounting Oversight Board (U.S.). These standards require us to plan and conduct the audit in order to obtain reasonable assurance as to whether the financial statements are free of material inaccuracies. The Corporation is not required to conduct, and we have not been engaged, to conduct an audit of its internal control over financial information. Our audits included the review of internal control of financial reporting as the basis for designing appropriate audit procedures in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Therefore, we do not express such an opinion. An audit also includes a review, as a trial, of evidence supporting amounts and disclosures in financial statements, an assessment of accounting principles used and significant estimates made by management, and the evaluation of the overall presentation of financial statements. We believe that our audits provide a reasonable basis for our opinion. In our view, these consolidated financial statements fairly present, in all important respects, the Group's financial position at December 31, 2015 and 2016, as well as the results of their operations and cash flow for each of the three years of the period ended December 31, 2016, generally accepted accounting principles in the United States of America. In addition, in our view, the timing of related financial statements, when taken into account in the to these consolidated financial statements taken as a whole, presents fairly, in all important respects, the information set out in them. The accompanying consolidated financial statements were prepared to report the assets and liabilities and related operating and cash results of Yirendai Ltd., its subsidiaries and its consolidated variable interest entities. These consolidated financial statements are not necessarily indicative of the terms that would have existed or operating results and cash flows if Yirendai Ltd., its subsidiaries and consolidated variable interest entities had operated as a standalone group during the periods presented. As discussed in Note 2, the Company changed its reporting currency from the U.S. dollar to the renminbi as of April 1, 2016. Our audits also made it possible to understand the translation of Renminbi's amounts into U.S. dollar amounts and, in our view, this translation was done in accordance with the basis set out in Note 2. These amounts in U.S. dollars are presented only for the convenience of readers in the United States of America. /s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP Beijing, People's Republic of China April 24, 2017. F-2 Table of Contents YIRENDAI LTD. CONSOLIDATED BALANCE SHEETS (in thousands, except share and per share data) December 31, 2015 December 31, 2016 December 31, 2016 RMB RMB US$ Assets: Cash and cash equivalents 846,120 968,225 139,453 Restricted cash (including RMB30,735 and RMB103,481 from Consolidated Assets Backed Financing Entities(i) (ABFE) as of December 31, 2015 and 2016, respectively) 483,965 1,218,286 175,470 Accounts receivable 82,993 28,581 4,117 Prepaid expenses and other assets (including RMB1,376 and RMB1,056 from Consolidated ABFE as of December 31, 2015 and 2016, respectively) 246,723 466,763 67,228 Loans at fair value (including RMB221,268 and RMB371,033 from Consolidated ABFE as of December 31, 2015 and 2016, respectively) 221,268 371,033 53,440 Amounts due from related parties 86,889 1,678 242 Held-to-maturity investments (including nil and RMB4 Consolidated ABFE as of December 31, 2015 and 2016, respectively) 30,000 98,917 14,247 investments available for sale — 1,158,000,166,787 Goods, Equipment and Software, net 16,183 35,503 5,113 Deferred Tax Assets 175,862,436,402 62,855 Total Assets 2,190,003 4 78 3 3388 688,952 Liabilities: Accounts payable (including accounts payable by companies LIFE(ii), without recourse to RMB4 499 and RMB13 544 as of December 31, 2015 and 2016, including accounts payable by Consolidated ABFE, without recourse to the Nile Company and RMB 147 as of December 31, 2015 and 2016, respectively) 4,499 13,691 1,972 Amounts due to related parties (including amounts due to the parties LIFE companies, without recourse to 3,426 RMB and RMB 6,907 at December 31, 2015 and 2016, respectively) 3,668 11,609 1,672 Quality Assurance Program iii liabilities (including liabilities from the company quality assurance program LIFE, non-recourse to the RMB546 332 and RMB 1,471,000 at December 31, 2015 and 2016, respectively) 546,332 1,471,000 211,868 deferred income (including deferred income from LIFE companies) , without recourse to the RMB117 484 company and RMB 164,318 as of December 31, 2015 and 2016, 117,484,164,318,218,23,667 Payable to investors at fair value (including payable to investors at the fair value of Consolidated ABFE, without recourse to RMB252 907 and RMB 418,686 as of December 31, 2015 and 2016 , respectively) 252,907,418,686,60,303 Accumulated expenses and other liabilities (including accumulated expenses and other liabilities of LIFE companies, without recourse to RMB244 438 and RMB 507,890 as of December 31, 2015 and 2016, respectively; including consolidated ABFE's accrued expenses and other liabilities, without recourse to the RMB713 Company and RMB 2,895 as of December 31, , 2015 and 2016, respectively) 288,171,564,165,81,257 Total liabilities 1,213,061 2,643,469,380,739 Commitments and Contingencies (Note 15) Equity: Common Shares (nominal value of $0.0001; 500,000,000 shares authorized, 117,000,000 and 119,512,300 shares issued and outstanding as of December 31, 2015 and 2016 , respectively) 73,75 11 Additional paid capital 791,841,933,272,134,419 Other accumulated total income 101,29 45 7 4,243 Earnings not distributed 184,927 1,177,115,169,540 Total equity 976,942 2,139,919,308,213 Total liabilities and capital own 2,190,003 4,783 388 688 952 (i) The Company has consolidated Huijin No. 28 Single Capital Trust E1, Yiren Elite Loan Trust Beneficial Right Asset Backed Special Plan, CreditEase Wealth Consumer Credit Investment Fund and Huijin No. 28 Single Capital Trust E2 as a whole , which are referred to as Asset-Backed Financing Entities or ABFE, see Note 2. (ii) VIE companies refer to Heng Cheng and Yi Ren Wealth Management, see Note 2. (iii) Quality assurance program liabilities refer to liabilities derived from the risk reserve fund guarantee in the previous annual report. The notes that accompany it are an integral part of these consolidated financial statements. Table F-3 of YIRENDAI LTD content. OPERATIONAL CONSOLIDÉS STATES (thousands, with the exception of equity and equity data) Fiscal year ended December 31, Fiscal 2014 Ended December 31, 2015 Fiscal Year Ended December 31, 2016 Fiscal Year Ended December 31, 2016 RMB RMB RMB US Net Income: Loan Facilitation Service 192,975 1,278,539 3,133 423 451 307 service 2,497 27,086 84,154 12,121 Others 1,053 8,014 20,414 2,940 Total net revenue 196,525 1,313,639 3,237,991 466,368 Operating costs and expenses: Sales and marketing 137,746 679,771 1,571,038 226,277 Origination and servicing 21,820 86,360 180,076 25,936 General and administrative 64,637 137,114 402,111 57,916 Total operating costs and expenses (224,203) (903,245) (2,153,225) (310,129) Interest income — 4,799 36,843 5,306 Fair value adjustments related to Consolidated ABFE — (11,333) (19,735) (2,842) Non-operating income, net — — 575 83 (Loss)/income before provision for income taxes (27,678) 403,860 1,102,449 158,786 Income taxes (expense)/benefit (30) (128,521) 13,949 2,009 Net (loss)/income (27,708) 275,339 1,116,398 160,795 Basic net (loss)/income per share (0.2771) 2.7356 9.4418 1.3599 Weighted average number of ordinary shares outstanding, basic 100,000,000 100,652,055 118,240,414 118,240,414 Diluted net (loss)/income per share (0.2771) 2.7356 9.3865 1.3519 Weighted average number of ordinary shares outstanding , dilué 100 000 000 100 652 055 118 937 082 118 937 082 Les billets d'accompagnement font partie intégrante de ces états financiers consolidés. Tableau F-4 du contenu YIRENDAI LTD. ÉTATS CONSOLIDÉS DES REVENUS OU PERTES GLOBALES (en milliers, à l'exception des données sur les actions et les actions) Exercice clos le 31 décembre 2014 Exercice clos le 31 décembre 2015 Exercice clos le 31 décembre 2015 Exercice 2016 clos le 31 décembre 2016 RMB RMB RMB US$ Net (perte)/bénéfice (27 708) 275 339 1 116 398 160 795 Autres revenus complets, déduction faite de l'impôt nul : Ajustement de la conversion en devises — 101 29 356 4 228 Ensemble (perte) /revenu (27 708) 275 440 1 145 754 165 023 Les billets d'accompagnement font partie intégrante de ces états financiers consolidés. F-5 Table of Contents YIRENDAI LTD. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (in thousands, except share and per share data) Ordinary shares Ordinary shares amount Additional paid-in capital Accumulated other comprehensive income Retained (deficit)/ earnings Total equity RMB RMB RMB RMB RMB Balance as of January 1, 2014 100,000,000 — 81,824 — (62,704) 19,120 Capital contribution by owner — — 231,996 — — 231,996 Net loss — — — — (27,708) (27,708) Balance as of December 31, 2014 100,000,000 — 313,820 — (90,412) 223,408 Issuance of shares on June 25, 2015 — 62 — — — 62 Issuance of ordinary shares upon initial public offering (IPO), net of offering costs of RMB31,718 15,000,000 10 419,765 — — 419,775 Issuance of ordinary shares for concurrent private placement, net of costs of RMB6,473 2,000,000 1 58,256 — — 58,257 Foreign currency translation adjustment — — — 101 — 101 Net income — — — — 275,339 275,339 Balance as of December 31 , 2015 117 000 000 73 791 841 101 184 927 976 942 Bourses à base d'actions 291 400 1 17 222 — — 17 223 bourses à base d'actions accordées aux employés du groupe consolidé de CreditEase 2 220 900 1 124 209 — (124 210) — Ajustement de la conversion des devises — — — — 29 356 — 29 356 Bénéfice net — 1 116 398 1 116 398 Solde au 31 décembre 2016 119 512 300 75 000 933 272 29 457 1 177 115 2 139 919 Les billets d'accompagnement font partie intégrante de ces états financiers consolidés. F-6 Table of Contents YIRENDAI LTD. CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands) Year ended December 31, 2014 Year ended December 31, 2015 Year ended December 31, 2016 Year ended December 31, 2016 RMB RMB RMB US$ Cash Flows from Operating Activities: Net (loss)/income (27,708) 275,339 1,116,398 160,795 Adjustments to reconcile net (loss)/income to net cash used in operating activities: Depreciation and amortization 1,140 3,635 10,609 1,528 Disposal of property, equipment and software — — 34 5 Interest income — (846) — — Fair value adjustments related to Consolidated ABFE — 11,333 19,735 2,842 Share-based compensation — — 17,223 2,480 Changes in operating assets and liabilities Accounts receivable (142,486) 78,120 54,412 7,837 Change in Consolidated ABFE related asset/liability — 7,315 3,941 568 Prepaid expenses and other assets (191,933) (44,512) (220,040) (31,692) Amounts due from/to related parties (35,610) (49,171) 93,152 13,417 Accrued expenses and other liabilities 169,556 87,611 297,817 42,895 Accounts payable — 4,499 9,192 1,324 Liabilities from quality assurance program — 546,332 924,668 133,180 Deferred tax assets — (175,862) (260,540) (37,526) Deferred revenue — 117,484 46,834 6,745 Net cash (used in)/ provided by operating activities (227,041) 861,277 2,113,435 304,398 Cash Flows from Investing Activities: Purchase of property, equipment and software (3,577) (16,397) (29,973) (4,317) Disposal of property, equipment and software — — 11 2 Purchase of held-to-maturity investments — (110,000) (238,917) (34,411) Redemption of held-to-maturity investments — 80,817 170,000 24,485 Purchase of available-for-sale investments — — (1,238,500) (178,381) Redemption of available-for-sale investments — — 80,500 11,594 Investment in loans at fair value — (247,434) (299,956) (43,203) Principal payment of loans at fair value — 10,425 135,172 19,469 Net cash used in investing activities (3,577) (282,589) (1,421,663) (204,762) Cash Flows from Financing Activities: Cash contribution from owner 231,996 62 — — Initial contribution received by the trusts — 250,000 270,000 38,888 Principal Payments to the Fund — — (250,000) (36,007) Proceeds from issuances of Asset Backed Special Plan — — 202,500 29,166 Principal Payments on Asset Backed Special Plan — — (65,378) (9,417) Proceeds from initial public offering , net de Cost — 441,600 — Proceeds from simultaneous private placement, net of the cost of the offer — 58,256 — Payments from the initial cost of the initial public offering — (21,824) (3,143) Net cash provided by the financing activities 231 996 749 918 135 298 19,487 Effect of exchange rate changes — 101 29 356 4,228 Net cash increase , cash equivalents and restricted cash 1,378 1,328,707,856,426,123,351 Cash, Cash Equivalents and Restricted Cash, Beginning of the Year — 1,378 1,330,085 191,572 Cash, Cash Equivalents and Restricted Cash, Year-End 1,378 1,330 085 2,186,511 314,923 Additional Disclosures of Cash Flow Information : Income taxes paid, net — 98,941 65,890 9,490 Reconciliation of Consolidated Balance Sheet Amounts: Cash and Cash Equivalents 1,378,846,120,968 225,139,453 Restricted Species — 483,965 1,218,286,175,470 Total Species, Cash Equivalents and Restricted Cash 1,378 1,330,085 2,186,511,314,923 Accompanying Notes are an integral part of these consolidated financial statements. Table F-7 of YIRENDAI LTD content. NOTES TO CONSOLIDÉED FINANCIAL YEARS FOR THE YEARS TERMINÉES DECEMBER 31, 2015 AND 2016 (thousands, except stock and equity data) 1. Organization AND PRINCIPAL ACTIVITIES Yirendai Ltd. (the Company or Yirendai) was incorporated under the laws of the Cayman Islands on September 24, 2014. At the time of incorporation, the Company had authorized 50,000 shares, 1 issued and outstanding shares with a face value of US$1.00 per share, which was held by CreditEase Holdings (Cayman) Limited (CreditEase). Under a written resolution of CreditEase dated January 5, 2015, the Company's us$1.00 share issued and not issued in the Company's capital is subdivided into 10,000 shares with a face value of US$0.0001 each, so that the Company has an authorized capital of 50 $US divided into 500,000,000 shares with a face value of 0.0001 $US each and an issued capital of 1,000 $US each. On June 25, 2015, the Company issued 99,990,000 common shares with a par value of US$0.0001 per share to CreditEase at US$0.0001 per share for an aggregate cash consideration of 10 $US. This issue was recorded as a stock split and, therefore, all references to the number of common shares and per share data in the accompanying consolidated financial statements have been adjusted to reflect stock splitting and share issuance on a retroactive basis. On December 18, 2015, the Company completed its initial public offering (IPO) and issued 7,500,000 U.S. deposit shares (ADS, each representing US$10 per ADS for an overall offer price of RMB485.5 million ($US 75 million). During the IPO, the Company issued and sold 2,000,000 common shares for a simultaneous offering in Baidu, Hong Kong Limited, RMB64.7 million (10 million $US). CreditEase is committed to providing online and offline market services connecting borrowers and investors as well as wealth management services in the People's Republic of China (PRC) through its subsidiaries and consolidated variable interest entities. The Company, its subsidiaries and consolidated variable interest entities (VIEs) (the Company, its subsidiaries and its ENTREPRISES collectively known as the Group) provide services for the online market connecting borrowers and investors in the CPP. In 2012, Puxin Hengye Technology Development (Beijing) Co., Ltd. (Puxin Hengye), a subsidiary of CreditEase, began providing services through an online marketplace linking borrowers and investors (Yirendai), with support services provided by other subsidiaries and PERSONALITIES of CreditEase. In order to raise capital for this activity through an initial public offering, in the first quarter of 2015, CreditEase undertook the subsequent reorganization by which CreditEase transferred the Yirendai business to the Group. Heng Cheng Technology Development (Beijing) Co., Ltd. (Heng Cheng) was established on September 15, 2014 as the operating entity of Yirendai's PRC, with plans to raise capital for Yirendai through an initial public offering. CreditEase has appointed Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian, three citizens of the PRC, as shareholders of Heng Cheng (collectively the three designated shareholders) on behalf of CreditEase. The capital injected into Heng Cheng by the three designated shareholders was provided by CreditEase through extended loans by Puxin Hengye. As a result, Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian were considered de facto agents of CreditEase,

and CreditEase should consolidate Heng Cheng as LIFE. In February 2015, the Company, through Yi Ren Heng Ye Technology Development (Beijing) Co., Ltd. (Heng Ye), a wholly owned subsidiary established in January 2015, entered into an agreement with Puxin Hengye. On the basis of the agreement, the title of the capital injection loans was transferred from Puxin Hengye to Heng Ye. Control of Heng Cheng has also been transferred to Heng Ye through new LIFE agreements signed between Heng Ye and Heng Cheng, which is considered a contribution to Yirendai. As a result, Heng Cheng is a LIFE that is expected to be consolidated by CreditEase before and after the signing of the VIE agreements in February 2015, and this transaction is counted as a jointly controlled transaction. This reorganization was approved by the Board of Directors of the LIFE structure is in place on February 22, 2015 and completed on March 31, 2015. F-8 content table As a result of the Yirendai business has been transferred to the Group, the consolidated financial statements that accompany it have been prepared as if the current structure of the company existed throughout the periods presented. Yirendai Business' assets and liabilities, as well as operating results and related cash flows, reflect the financial positions and operating results of the online market services business connecting borrowers and investors. However, such a presentation does not necessarily reflect operating results, financial position and cash flows if the Group did exist independently during the reporting periods. Transactions between the Group and CreditEase are referred to here as related party transactions. The Company entered into a non-compete agreement with CreditEase, under which it agreed not to compete with the other's core business. CreditEase has agreed not to compete with the Group in an activity of the same nature as (i) the online consumer finance market activity currently conducted or contemplated by us on the date of the agreement and (ii) other activities that the Group and CreditEase may agree from time to time. The Group has agreed not to compete with CreditEase in The CreditEase business, other than (i) the Group's online consumer finance market activity operated by the Group at the date of the agreement and (ii) other activities that the Group and CreditEase may mutually accept from time to time. Yirendai operated under CreditEase's corporate cash management program prior to the completion of the reorganization. For the purposes of the consolidated statement of cash flows, CreditEase's cash flows to support the Yirendai business are presented as a cash contribution from the owner, which is included in cash flows from the financing activities. The owner's cash contribution, as disclosed as part of cash flows from financing activities, was also reflected as changes in total equity balances as presented in the Consolidated Statements of Changes in Equity. To implement the Group's strategy to provide more value-added services to investors, Yiren Financial Information Services (Beijing) Co., Ltd. or Yi Ren Wealth Management, was established in China on October 13, 2016 to primarily conduct its wealth management activities, with the aim of providing investors with a wider range of investment options , including fund and insurance products offered by third parties. Yirendai has appointed three shareholders designated as shareholders of Yi Wealth Management on behalf of the Group. The capital injected into Yi Ren Wealth Management by the three designated shareholders was provided by Yirendai through loans from Chongqing Heng Yu Da Technology Co., Ltd. or Heng Yu Da, a subsidiary As a result, Mr. Ning Tang, Mr. Fanshun Kong and Ms. Yan Tian were considered de facto agents of Yirendai, and Yirendai consolidated Yi Ren Wealth Management as LIFE. Starting in 2015, the Company began to expand its investor base from individual to institutional investors, who invest in the Company's platform loans through a series of arrangements between asset-backed financial entities. The Company has consolidated these assets backed by financial entities if the Company is considered their principal beneficiary. TABLEAU F-9 content notes YIRENDAI LTD. CONSOLIDATED FINANCIAL YEARS — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2015 AND 2016 (thousands, except for equity and equity data) 1. ORGANISATION AND PRINCIPAL ACTIVITIES — As of December 31, 2016, the Company's consolidated subsidiaries and ENTREPRISES are: Incorporation Date/Establishment Establishment/Establishment Percentage of Legal Ownership Main Activities Wholly Owned Yirendai Hong Kong Limited (Yirendai HK) October 8, 2014 Hong Kong 100% Investment holding Yi Ren Heng Ye Technology Development (Beijing) Co., Ltd. (Heng Ye)January 8, 2015 PRC 100% Provision of consultancy information technology support Chongqing Heng Yu Da Technology Co., Ltd. (Heng Yu Da) March 21, 2016 CPP 100% Providing services related to IT, system maintenance and customer support Entity variable interest Heng Cheng Technology Development (Beijing) Co., Ltd. (Il ng Cheng) September 15, 2014 PRC Consolidated LIFE Services for online marketplace connecting borrowers and investors Huijin No.28 Single Capital Trust E1 (Trust No.1) (1) October 16 2015 PRC Consolidated LIFE Investment in loans through the Company's platform Yiren Elite Loan Trust Beneficial Right Asset Backed Special Plan (1) April 22, 2016 PRC Consolidated LIFE Host of Beneficial Right Asset CreditEase Wealth Credit Fund (Fund No.2) July 5, 2016 PRC Consolidated LIFE Only beneficiary of the trust No. 2 Huijin No.28 Single Capital Trust E2 (Trust No.2) (July 1), July 8, 2016 PRC Consolidated LIFE Investment in loans through the Company's platform Yiren Financial Information Services (Beijing) Co., Ltd. (Yi Ren Wealth Management) October 13, 2016 PRC Consolidated LIFE Wealth Management Consulting Service (1) The Company consolidated trust No. 1, Yiren Elite Loan Beneficial Trust Right Asset Backed Special Plan, Fund No. 2 and Trust No. , which are called Asset-Backed Financing Entities or ABFE. F-10 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉS FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (in with the exception of equity and equity data) shares) THE consolidated financial statements accompanying it have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). Consolidation Base The accompanying consolidated financial statements include the Company's financial statements, its wholly-owned subsidiaries and consolidated EAs. All business-to-business transactions and balances were eliminated during the consolidation. LIFE sets up foreign ownership of companies on the Internet, including the distribution of information online (such as an online marketplace connecting borrowers and investors), is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own more than 50% of interests in internet companies (excluding e-commerce) and any foreign investor of this kind must have experience in providing services to businesses on the Internet abroad and maintain a good track record in accordance with the 2007 Foreign Investment Industry Orientation Catalogue. , as amended in 2011 and 2015. , respectively, and other applicable laws and regulations. The Company is a cayman islands company and Heng Ye and Heng Yu Da (its PRC subsidiaries) are considered invested foreign companies. To comply with these regulations, the Company conducts the majority of its CPP business through Heng Cheng and Yi Ren Wealth Management (its Consolidated ENTREPRISES). ENTREPRISES hold the necessary licenses and permits to conduct the Company's online market activities that connect borrowers and investors. Heng Ye and Heng Yu Da (collectively, the foreign subsidiaries or FOS) have entered into the following contractual agreement with Heng Cheng and Yi Ren Wealth Management (collectively LIFE companies), which allow the Company to have the power (1) to direct activities that most significantly affect the economic performance of ENTREPRISES, and (2) to receive the economic benefits of ETIs that could be important to ENTREPRISES. As a result, the Company is considered to be the principal beneficiary of IEs and has consolidated the assets, liabilities, operating results and cash flow of the related consolidated financial statements. Name of foreign subsidiaries Name of companies LIFE Heng Ye Heng Cheng Yu Da Yi Ren Wealth Management In concluding that the Company is the principal beneficiary of the VIE companies, the Company considers that the fos rights under the exclusive option agreements give it a substantial kicking right. Specifically, the Company is that the terms of exclusive option agreements are valid, binding and enforceable under current CPP laws and regulations. A simple majority vote of the Company's Board of Directors Directors are required to pass a resolution to exercise the rights of the SS FO under exclusive option agreements, for which the consent of shareholders of LIFE companies is not required. The fos rights under the exclusive option agreements give the Company the power to control the shareholders of VIE Companies and thus the power to direct the activities that have the greatest impact on the economic performance of LIFE companies. In addition, the SFO's proxy rights also enhance the Company's ability to direct activities that have the greatest impact on the economic performance of LIFE companies. The Company also believes that this ability to exercise control ensures that LIFE companies will continue to execute and renew service agreements and pay service fees to the Company. The exclusive trade cooperation agreement will expire at the expiry of the operating life of either party if the application for renewal of its operating life is not approved by the relevant government authorities. Accordingly, the Company is of the view that it is entitled to receive virtually all of the economic benefits of LIFE companies. F-11 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 2. SUMMARY OF IMPORTANT COMPTABLES POLITICAL — continuation of the consolidation base — continuation of life arrangements — More Agreements that provide foreign subsidiaries with effective control over the power of attorney life companies The shareholders of VIE companies have executed an irrevocable power of attorney in favour of foreign subsidiaries, or entity or person designated by foreign subsidiaries. Under these proxies, foreign subsidiaries or their design holders have the full power and power to exercise all the rights of that shareholder in relation to his participation in the VIE companies. The power of attorney will remain in effect as long as the shareholder remains a shareholder in VIE. Exclusive Option Agreement VIE companies and their shareholders have also entered into an exclusive share option agreement with foreign-owned subsidiaries. Under this agreement, VIE Companies shareholders have granted an exclusive option to foreign subsidiaries or their individuals to purchase the total or portion of those shareholders at a purchase price equal to the higher amount of the loan granted by foreign subsidiaries to each shareholder of LIFE companies under the respective loan agreement or the minimum price required by the PRC Act at the time of that purchase. Equity Agreement of Engagement The shareholders of VIE companies have also entered into an equity commitment agreement with foreign subsidiaries, under which each shareholder has committed to engaging in LIFE companies to ensure the performance of the obligations of VIE companies and their shareholders under the exclusive commercial cooperation agreement, loan agreements, exclusive option agreements and proxies. · Agreements that transfer economic benefits to the Exclusive Agreement on Trade Cooperation of Foreign Subsidiaries Foreign subsidiaries have entered into an exclusive commercial cooperation agreement with VIE companies. Under this exclusive trade cooperation agreement, foreign subsidiaries provide comprehensive technical support, consulting and other services to VIE companies in exchange for service charges. Foreign subsidiaries have the sole discretion to determine the amount of service charges. During the duration of the exclusive trade cooperation agreement, foreign subsidiaries and VIE companies renew their operating conditions before they expire to allow the exclusive trade cooperation agreement to remain effective. The exclusive agreement for commercial cooperation ends at the expiry of the operating life of foreign subsidiaries or LIFE companies, if the application for renewal of their operating conditions is not approved by the competent government authorities. In addition, VIE Companies shareholders have granted an irrevocable and exclusive option to foreign subsidiaries to purchase all or part of the assets and activities of LIFE companies at the lowest price permitted by the PRC Act. The agreement can only be terminated by the option of foreign subsidiaries and VIE companies do not have the power to terminate the exclusive trade cooperation agreement. · Agreements that offer foreign-owned subsidiaries the opportunity to purchase the stake in companies life loan contracts under loan agreements between FOS and each of the shareholders of the respective VIE companies, FOS has made interest-free loans to shareholders exclusively for the purposes of the initial capitalization and subsequent financial needs of LIFE companies. Loans can only be repaid with the proceeds from the sale of all interests in LIFE companies to FOS or its designated representatives under the stock option agreements. Shareholders must pay the portion of the proceeds from the sale of these interests to FOS. The loan must be repaid immediately in certain circumstances, including, among other things, if a foreign investor is allowed to hold a majority or 100% interest in FOS chooses to exercise its exclusive stock option. The term of the loans is ten years and can be extended by mutual written consent of the parties. F-12 YIRENDAI LTD Results Table. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 2. IMPORTANT COMPTABLES MEDIA SUMMARY — Continued consolidation — continuing risks associated with the LIFE structure The Company believes that contractual agreements with VIE companies and their current shareholders are in compliance with THE laws and regulations of the PRC and are legally enforceable. However, uncertainties in the CPP legal system may limit the Corporation's ability to enforce contractual agreements. If the legal structure and contractual agreements were found to be contrary to the laws and regulations of the CPP, the CPP government could: Revoke the operating and operating licences of foreign subsidiaries and VIE companies; Stop or restrict the transactions of any transactions between related parties between foreign subsidiaries and LIFE companies; Imposing fines or other requirements on foreign subsidiaries and LIFE companies; Require the Company or foreign subsidiaries and VIE companies to review the relevant ownership structure or restructure their operations; and/or Restrict or prohibit the Company's use of the proceeds of the public offering to finance the Company's activities and activities in China. · Close the Company's servers or block the Company's online platform; Stopping or inseusing it of onerous restrictions or conditions on the Company's operations; and/or Require the Company to undergo costly and disruptive restructuring. The Corporation's ability to conduct its business can have a negative impact if the CPP government were to take any of the above. As a result, the Company may not be able to consolidate LIFE companies into its consolidated financial statements, as it may lose the ability to exercise effective control over LIFE companies and their shareholders, and may lose the ability to receive economic benefits from LIFE companies. The interests of VIE Companies shareholders may differ from those of the Company and this may potentially increase the risk that they seek to act contrary to contractual terms, for example by influencing LIFE companies not to pay service charges when they are required to As well. The Company cannot guarantee that when conflicts of interest arise, the shareholders of VIE companies will act in the best interests of the Company or that conflicts of interest will be resolved in favour of the Company. At present, the Company does not have existing arrangements to resolve potential conflicts of interest that VIE Companies shareholders may encounter as beneficial owners and directors of VIE companies, on the one hand, and as beneficial owners and directors of the Company. The Company is of the view that the shareholders of VIE Companies will not act contrary to any of the contractual agreements and that the exclusive options agreements provide the Company with a mechanism to remove the current shareholders of VIE Companies if they act to the detriment of the Company. The Company relies on certain current shareholders of VIE companies to discharge their fiduciary duties and comply with THE laws of the CPP and act in the best interests of the Company. If the Company cannot resolve any conflict of interest or dispute between the Company and the shareholders of VIE Companies, it should rely on legal proceedings that could result in a disruption to its business, and there is significant uncertainty as to the outcome of these legal proceedings. F-13 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued Basis of consolidation — continued Risks in relation to the LIFE structure — continued The following financial amounts and balances of the VIE Companies were included in the accompanying consolidated financial statements after elimination of intercompany transactions and balances: As of December 31, 2015 2016 2016 RMB RMB RMB Assets Cash and cash equivalents 144,535 433,510 62,438 Restricted cash 453,230 1,114.0 805 160,565 Accounts receivable 82,993 23,838 3,433 Prepaid expenses and other assets 234,204 398,675 57,421 Amounts due from related parties 86,889 1,678 242 Held-to-maturity investments 30,000 — Available-for-sale investments — 498,000 71,727 Property, equipment and software, net 4,392 4,427 638 Deferred tax assets 175,862 436,402 62,855 Total assets 1,212,105 2,911 ,335,419,319 Liabilities Accounts payable 4,499 13,544 1,951 Amounts due to related parts 3,426 6,907 995 Liabilities from quality insurance program 546,332 1,471,000 211,868 Deferred revenue 117,484 164,318 23,667 Accrued expenses and other liabilities 244,438 507,890 73,151 Total liabilities 916,179 2,163,659 311,622 For the years ended December 31 , 2014 2015 2016 RMB RMB RMB USD net business 196,525 1,316,761 3.525 237 768,466,336 Net income (loss) /earnings (27,708) 465,679 1,445,081,081 For years ended December 31, 2014 2015 2016 RMB RMB RMB USD Net cash (used) /provided by operating activities (227,041) 812,496 2.415 204 204347,862 Net cash used in investment activities (3,577) (35,486) (471,321) (67,884) In accordance with contractual life agreements, foreign subsidiaries have the power to run the activities of VIE companies, and can transfer assets from LIFE companies. There are no consolidated LIFE assets that are a guarantee for LIFE bonds and can only be used to settle LIFE obligations. There are no creditors (or beneficial interest holders) of EIAs who use the Company's general credit. There are no conditions in the arrangements, given both explicit arrangements and implied variable interests, that require the Company or its subsidiaries to provide financial support to EAs. However, if IAAs ever require financial support, the Company or its subsidiaries may, at its option and subject to legal limitations and limitations, provide financial support to its IAAs through loans to IAE shareholders or transfer loans to ENTREPRISES. Relevant PRC laws and regulations limit THE LIFE to transfer a portion of its net assets, equivalent to the balance of its paid-in capital, capital reserve and legal reserves, to the Company in the form of loans and advances or cash dividends. Please refer to Note 14 for the disclosure of restricted net assets. F-14 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 2. IMPORTANT COMPTABLES MEDIA SUMMARY — Continued consolidation — continued consolidated asset-backed financing entities As part of the Group's strategy to expand its investor base, from individual investors to institutional investors, the Company established a business relationship in October 2015 with a trust, or Trust No. 1, under which Trust No. 1 invested in loans through the Company's online marketplace using funds received from its investors. Trust No. 1 is administered by a third-party Crown trust corporation (the trust company), which acts as a trustee, with the aim of providing returns to its sole beneficiary by extending the loans to a total capital amount of RMB250.0 million to borrowers recommended by the Corporation. The no.1 Trust settlor and sole beneficiary is Fengsheng Private Investment Fund No.1 (Fund No. 1), which is managed by Zhe Hao Shanghai Asset Management Company, or Zhe Hao, a subsidiary of CreditEase. In April 2016, Zhe Hao, on behalf of Fund No. 1, transferred to China International all the beneficial rights of Fund No. 1 (beneficial law assets)) Corporation Limited (the SPV Manager), which created a special plan backed by assets backed by beneficial assets of the Yiren Elite Loan Trust (the ABS plan) to accommodate beneficial assets. This ABS plan was published and listed on the Shenzhen Stock Exchange in April 2016. The Group purchased RMB47.5 million (US$6.8 million) of Senior A securities, representing 19% of the total shares issued by the ABS plan. Puxin Hengye purchased all subordinated securities for RMB25.0 million (US$3.6 million) and two funds set up and managed by Zhe Hao purchased various tranches of securities for RMB67.5 million (US$9.7 million), or 10% and 27% of the total price of the securities issued Respectively. In July 2016, the Company established a business relationship with another trust, or trust No. 2, which is of the structure similar to trust No. 1 described above. Trust 2 is administered by the trust company, with CreditEase Wealth Consumer Credit Investment Fund (Fund 2) managed by Zhe Hao as its settlor and sole beneficiary. Trust No. 2 invested a total of RMB30.0 million (US$43.2 million) in loans through the Company's online marketplace using funds raised by its sole beneficiary from ultimate investors, including RMB30.0 million (US$4.3 million) invested by Heng Cheng, one of the LIFE companies, and RMB33 ,4 million (US$4.8 million) invested by Shenzhen CreditEase Commercial Factoring Co., Ltd., a subsidiary of CreditEase. Under the above provisions, the Company provides loan facilitation and post-origination services to trusts, and also provides a certain level of collateral in the form of a security fund set up for trusts. The Company makes a security deposit of 6% and 7% of the total principal of the loan to Trust No. 1 and Trust No. 2, respectively, to protect trusts from potential losses caused by the default of the loan. The Company's liabilities are capped at the initial cash in the fund. In the event of default, the trusts will use the money from the security fund to cover the amount in default. When the trusts are dissolved, if the amount of payments is in the 20% of the money set aside in the security fund, the rest of the security fund will be returned to the Company. Otherwise, the rest of the guarantee fund will be part of the assets of the trusts being distributed. The Company holds a significant variable interest in Trust No. 1 and Trust No. 2 through the invoiced transaction fees and the guarantee provided in the form of warranty. The Company also holds a significant variable interest in the ABS plan and Fund No. 2 through direct investments. Through transaction fees, deposit and direct investment, the Company has the right to receive benefits from ABFE that could potentially be significant to ABFE. The Company also has the power to lead the activities ABFE's economic performance by providing the loan and default loan collection services of both trusts. As a result, the Company is considered the principal beneficiary of ABFE and has consolidated ABFE's assets, liabilities, operating results and cash flow into the accompanying consolidated financial statements. ABFE's assets are not available to the Company's creditors. In addition, ABFE investors have no recourse against the Company's assets. Table F-15 content notes YIRENDAI LTD. CONSOLIDATED FINANCIAL STATES — CONTINUE FOR THE YEARS TERMINÉES DECEMBER 31, 2015 AND 2016 (thousands, except stock and equity data) 2. SUMMARY OF IMPORTANT COMPTABLES POLITICAL — continued consolidation — continuation of consolidated asset-backed financing entities — continuation of the following financial statements Consolidated ABFE amounts and balances were included in the accompanying consolidated financial statements following the elimination of intercompany transactions and balances: As of December 31, 2015 2016 RMB RMB USD Restricted Assets 30,735 103,481 14,904 Prepaid and other assets 1,376 1,056,152 Fair Value Loans 221,268,371,033 53,440 Investments held at maturity — 4,896,705 Total Assets 253,379,480 466 69,201 Payable Passive Accounts — 147 21 Payable to Investors at Fair Value 252,907,418,686 60,303 Charges and other liabilities 713 2,895,417 Total liabilities 253,303,620,421,728,60,741 For the year ended December 31, 2015 2016 RMB RMB USD Net Sales — — Net Loss 11,333 19,735 2,842 For the Year December 31, 2015 2016 RMB RMB USD Net cash provided from operating activities 17,984 6,591,949 Net cash used in investment activities (237,009) (169,680) (169,680) (169,680) (169,680) (169,680) (169,680) (169,680) (169,680) (169,680) (169,680) (169,680) (169,680) (169,680) (169,680) (169,680) (16 24,439) Net cash insured through financing activities 250,000 157 121 22 630 All Consolidated ABFE assets are guarantees for ABFE bonds and can only be used to settle ABFE's obligations. F-16 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 2. IMPORTANT COMPTABLES MEDIA SUMMARY — Continued Use of Estimates Preparing U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of potential assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results differ from these estimates. The significant accounting estimates reflected in the Group's financial statements are estimates and judgments applied in multi-item revenues potential quality assurance program liabilities, a measure of the fair value of the quality assurance program, fair value loans, payable to investors at fair value, available-for-sale investments, stock-based compensation and income tax. Earnings Recognition The Group provides services as an online marketplace connecting borrowers and investors. The top three deliverables provided are loan facilitation services, the quality assurance program and post-origination services (e.g., automated investment tool, cash processing, collection and SMS services). The Group charges fees to facilitate the origin of loans, for the automated investment tool for investors opting for this service, and for the monthly service (covering cash processing services, collection services and SMS services), while for those who do not opt for the automated investment tool, the Group charges fees to facilitate the origin of loans and for the monthly service (covering cash processing services). , collection and SMS services) (collectively as non-contingent fees). The Group also receives fees related to future events (e.g., prepayment and late payment penalties, secondary market loan transfer fees and other service charges, etc.). In order to be more competitive by providing a certain level of insurance to investors, the Group repays the principal and interest of the loan to the investor in the event of the borrower's default, and then collects the amounts from the borrowers through its collection team or a guarantee company. After August 2013, the Group established a guarantee agreement with a guarantee company, under which the guarantee company provided a guarantee service to investors (guarantee model). The guarantee company charged investors a 10% rate based on monthly interest on loans as a service fee, which was to be collected by the Group on behalf of the guarantee company and no longer recorded these amounts as turnover. As of January 1, 2015, the Group has ended its relationship with the guarantee company and launched a new investor protection service in the form of a financial guarantee called the quality assurance program. If a loan is the result of a default or after January 1, 2015, the Group guarantees the repayment of the principal and accrued interest from the defaulted loan to the balance of the quality assurance program on a portfolio basis. The quality assurance program set aside is equivalent to 6 to 7 the total amount of loan facilitation. The Group reserves the right to revise the percentage up or down as a result of the Group's continued assessment of factors such as market dynamics as well as its product lines, profitability and cash position. In October 2016, the Group launched a new program called the ReloadIng Program to facilitate a new loan for a qualified borrower to repay its This arrangement is counted as an extinguishment of the existing loan with simultaneous facilitation of a new loan. The Recharging Program is a service offered to qualified borrowers to enhance the customer experience and meet their lifetime credit needs. The rate structure of the loans facilitated under the recharging program is the same as that of other loan products, except that the Group offers an initial fee credit for the existing loan to encourage acceptance of the new loan, which is considered a cash incentive granted to the borrower and recorded as a reduction in revenue. Multi-item income recognition The Group views loan facilitation services, the quality assurance program and post-origination services as a multi-deliverable income arrangement and lenders are considered the sole customer. The Panel concluded that, although it does not sell these services independently, the three deliverables have a stand-alone value as others sell them independently in the market and have value to the customer independently. Thus, all non-contingent costs are divided between these three deliverables. Under the guarantee model, total fees are allocated based on the relative selling price of loan facilitation and post-origination services. The Group allocates non-conditional costs to be received in accordance with the guidelines of nc 605-25. It first allocates the amount equal to the fair value of the loan-to-use liability of the quality assurance program. Then, the remaining fees are allocated to loan facilitation services and post-origination services using their estimated relative selling prices. F-17 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — CONTINUE FOR THE YEARS TERMINÉES DECEMBER 31, 2015 AND 2016 (thousands, except stock and equity data) 2. THE Group did not recognize the turnover of the quality assurance program, and agreed that the compensation for changes in the guarantee with revenue was more representative of the Group's obligation. No separate collateral income or guarantee provision charges were recognized in the Consolidated Statement of Operations. The Group does not contain vendor-specific objective evidence (VSOE) of the sale price of loan facilitation and post-origination services because it does not provide loan facilitation or post-origination services separately. For cash processing, collection services and SMS services (all of which are part of post-origination services), the Group uses third-party evidence (TPE, i.e. the prices charged on the separate sale by its service providers) as a basis for revenue distribution. Although other suppliers may be able to these services separately, TPE from the sale price of loan facilitation services and automated investment tool services (which are part of post-origination services) does not exist, as there is no public information on what our competitors may charge for these services. As a result, the Group generally uses its best selling price estimate (BESP) of loan facilitation services and automated investment tool services as a basis for income allocation. In estimating its selling price for loan facilitation services and automated investment tool services, the Group takes into account the cost of delivering these services, the profit margin for similar arrangements, customer demand, the effect of competitors on the Group's services and other market factors. For each type of service, the Group recognizes revenue when the following four revenue recognition criteria are met for each type of turnover: (i) convincing evidence of an arrangement exists, (ii) delivery has taken place or services have been rendered, (iii) the sale price is fixed or determinable, and (iv) collectability is reasonably assured. Collecting fees The Group collects the full loan facilitation fee in advance, either collects part in advance and the rest on a monthly basis during the term of the loan. The management fees charged to self-directed investors and the automated investment tool that investors are collected monthly during the loan period. All transaction fees charged prior to December 31, 2014 were guaranteed by Tian Da Xin An (Beijing) Guarantee Co., Ltd. (Tian Da Xin An), a warranty company. As of January 2015, Tian Da Xin An is no longer guaranteed to collect transaction fees. The Group assessed the following factors of uncertainty regarding the collection: (i) portfolio credit risk; (ii) risk of prepayment; (iii) change in risk profile from new product launches and (iv) macroeconomic cycle, etc. and concluded that collectability could not be reasonably assured. Thus, fees charged on a monthly basis are not recognized until the collection has been reasonably insured. Table F-18 content notes YIRENDAI LTD. CONSOLIDATED FINANCIAL YEARS — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2015 AND 2016 (thousands, except for equity and equity data) 2. SUMMARY OF IMPORTANT COMPTABLES POLITICAL — maintaining revenue accounting — continuing loan facilitation revenues Before the end of 2014, the four criteria mentioned above revenues were met at the end of loan facilitation services. The Group recognized 100% of transaction costs as revenue and recorded no provision for non-recollectable accounts, as all transaction fees relating to loans facilitated prior to December 31, 2014 were guaranteed by Tian Da Xin An. Starting in the first quarter of The Group recognizes the cash received that is allocated to loan facilitation services as income at the end of the related service. The money received in the form of an upfront fee is first allocated to the quality assurance program, then to loan facilitation services and post-origination services based on their relative selling prices. For partially refundable fees for borrowers, revenues are not recognized until the fees are refundable. Post-origin Revenues Pre-sourced fees for post-origin services are deferred and recognized over the straight line loan period. Other Income Other Revenues Includes penalty fees for prepayment of the loan (for loans originating before December 31, 2014) and late payments, one-time fees for the transfer of loans to the secondary market of loans, and the acquisition and referral fees of borrowers. Penalty fees, which are fees paid to investors assigned to us by investors, will be received as a percentage of the amounts due in the event of a late payment or a certain percentage of interest relative to the amount of the prepaid principal loan in the event of a prepayment. Cash incentives and reward program if they want to increase its market presence, the Group occasionally offers cash incentives to investors. Each individual incentive program lasts only a week or a few weeks. During the relevant incentive program period, the Group sets certain thresholds for the investor to qualify for the cash incentive. When the qualified investment is made, the cash payment is made to the investor as a percentage of the investment amount. The cash incentives offered are counted as a reduction in revenue in accordance with NC's 605-50 sub-utopian. The Group has also implemented a member reward program in which investors can earn Yiren coins when the purchase made on the Group's platforms has reached a certain amount. Yiren coins can be used for future purchases. The expiry dates of these Yiren coins vary according to different individual promotional programs, which are generally varied from three months to two years. The Group accumulates liabilities for the estimated value of the Yiren coins that should be used, which are based on all outstanding yiren coins related to purchases prior to the end of each reporting period, as it currently does not have sufficient historical data to reasonably estimate the rate of use of these Yiren coins. These reflect management's best estimate of the cost of future uses. As of December 31, 2015 and 2016, the Group recorded cumulative expenses related to Yiren parts earned from previous purchases of RMB29,510 and RMB 39,273, respectively, with a corresponding entry in sales and marketing expenses. F-19 Content Table YIRENDAI LTD. NOTE TO CONSOLIDATED FINANCIAL FINANCIAL — continued FOR THE YEARS OF the YEAR DECEMBER 31, 2014, 2015 AND 2016 (thousands, except for equity and equity data) 2. IMPORTANT COMPTABLES HISTORY SUMMARY — Continuing Quality Assurance Program Liabilities As part of the Quality Assurance Program model, at the beginning of each loan, the Group recognizes a ready-to-use liability as the fair value of the quality assurance program in accordance with NC 460. After the start of the loan, the initially recognized loan-to-use liability would generally be reduced (by a profit credit) because the Group is free of risk under the guarantee, either by expiry or by execution. The Group also recognizes potential NC 450 liabilities on a portfolio basis, which translates into recognition of profit expenses. The Group follows its loan liabilities on a ready-to-lend basis to monitor the expiration. When the Group releases the loan-to-use liabilities through the execution of the guarantee (by making payments on defaulted loans), it recognizes the turnover as well as the loss on the defaulted loans. Revenues from the release of liability and ready-to-use expenses from the recognition of potential liability related to the quality assurance program are presented on a clear basis in the Statement of Results. On a portfolio basis, where the overall conditional liability required to be recognized under NS 450 exceeds the balance of the quality assurance program liabilities, the Group will record the surplus as an expense. The fair value of the ready-to-use liabilities associated with the quality assurance program at the beginning of the loan was estimated using a cash flow model updated to its expected net quality assurance program payments, as well as by incorporating a margin increase. The Group estimates its expected future net payments based on its current composition as well as its estimates of projected net expense rates and expected recovery rates and a discount rate. The expected future net cash payment is capped at the restricted cash balance of the quality assurance program. In the fourth quarter of 2015, in order to continue to attract new existing investors and remain consistent with current industry practice in China, the Group set aside more liquidity in the quality assurance program from the fourth quarter of 2015, based on its current business intention but not its legal obligation. , so that the balance of the quality assurance program is sufficient to cover the expected net payments. The Group considered that the expected net loan expense rates facilitated as the weighted average of the Category A, B, C and D loans. The Group has developed the expected net expense rates based on the Group's historical experience. Class B and C loans have higher credit risks than Class A, but lower than Class D loans. In the third quarter of 2016, the Company recognized RMB81.3 million for possible liability related to an organized fraud incident involving a type of FastTrack loan products of the Company, which was first detected in July 2016. The transfer of responsibility for the quality assurance program in the year ended December 31, 2016 is as follows: As of January 1, 2016, 546,332 Early Provision of New Loans (Note) 1,598,238 Provision for Fraud Incident 81,263 Net Payment (754,833) As of December 31, 2016 1,471,000 Note: The amount represents the amount received on non-conditional fees allocated to the loan-to-wait liability for loans generated during the course exercise. Table of F-20 content As of December 31, 2015 and 2016, the total amount of the unaccounted future net payment that the Group would be required to make was RMB453,230 and RMB1,114,805, respectively, taking into account the amount set aside by the Group in the restricted cash balance of the Quality Assurance Program. Fair Value Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in the case of an orderly transaction between market participants on the measure date. In determining the fair value of assets and liabilities required or authorized to be accounted for at fair value, the Group takes into account the main or most advantageous market in which it would trade and takes into account the assumptions that market participants would use when pricing assets or liabilities. The authoritative literature provides a hierarchy of fair value, which prioritizes inputs to the evaluation techniques used to measure fair value in three general levels. The level in the hierarchy in which the measure of fair value as a whole falls is based on the lowest entry level which is significant for the measurement of fair value as follows: Tier 1 inputs are based on unadjusted rated prices for identical assets or liabilities traded on active markets. · Tier 2 inputs are based on quoted prices of similar assets and liabilities in active markets, prices quoted for identical or similar assets and liabilities in markets that are not active valuation techniques and based on models for which all important assumptions are observable in the market or can be corroborated by market data observable for the substantial duration of the asset or liability. · Level 3 inputs are generally unobservable and generally reflect management's estimates based on the assumptions that market participants would use in pricing assets or liabilities. The fair value is therefore using model-based techniques that include option pricing models, discounted cash flow models and similar techniques. F-21 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉS FINANCIAL NOTES — CONTINUE FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except for the exception per share) 2. THE Company chose the fair value option for the assets and liabilities of the consolidated ABFE that would not otherwise have been valueed. Such an election is irrevocable and applies to financial instruments on an individual basis at the time of initial recognition. See Note 4 for more disclosure on the consolidated ABFE financial instruments for which the fair value option was elected. Fair Value of Financial Instruments Fair loan value and payable to investors at fair value The Company chose the fair book value of the loans and was linked to the investors. Changes in the fair value of loans for the period are recorded as fair value adjustments. The Company estimates the fair value of loans using an updated cash flow assessment method. The fair valuation methodology takes into account expected prepayments and net charges to project future losses and net cash flows on loans. The Company adopted the alternative measure included in the 2014-2013 ASU - the guidelines of the secured financing entity (CFE) under which the Company measures both the financial assets and financial liabilities of the consolidated ABFE in its consolidated financial statements using the most observable of the fair value of financial assets and the fair value of financial liabilities. The Company believes that the fair value of the consolidated ABFE's financial assets is more observable than the fair value of the consolidated ABFE's financial liabilities. As a result, consolidated ABFE loans are measured at fair value and investor credit is measured in consolidation such as: (i) the sum of fair value of the loans and the book value of any non-financial assets incident to the consolidated ABFE operations minus (ii) the sum of the fair value of the loan default loss borne by the Company through the security deposit. The resulting amount is allocated to individual financial liabilities (other than the beneficial interests retained by the Company) using a reasonable and consistent methodology. Under the alternative to the measure, the Company's consolidated net income reflects the Company's own economic interests in the consolidated ABFE, including changes in the fair value of beneficial interest held by the Company. Cash and cash equivalents Cash and cash equivalents include the Company's unlimited deposits with financial institutions in cheque, money market and short-term certificate of deposit accounts. The Company considers that all investments cash equivalents. F-22 Content Table YIRENDAI LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — FOLLOWING FOR COMPLETED YEARS 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 2. SIGNIFICANT COMPTABLES SUMMARY — restricted cash maintenance restricted cash represents: (i) the quality cash assurance program that is managed by the Group through a restricted bank account; (ii) cash held by the consolidated ABFE through a separate bank account that is not available to finance the Company's general liquidity needs. Accounts receivable and provisions for non-recollectable accounts receivable are shown in the net historical amount of write-offs and provision for non-negotiable accounts. The Group establishes a provision for non-recollectable accounts receivable based on estimates, historical experiences and other factors surrounding the credit risk of specific customers. Non-recollectable accounts receivable are written off when a settlement is made for less than the outstanding historical balance or when the Group has determined that the balance will not be collected. With the termination of the loan guarantee agreement facilitated on or after January 1, 2015 with Tian Da Xin An, the Group does not record additional accounts receivable related to the unpersured transaction and service fees of borrowers and investors in the years ended December 31, 2015 and 2016, and no provision is recorded on the balance sheet as of December 31, 2015 and 2016. Investment investments are classified as transactions, held to maturity or available for sale. Investments that are purchased and held primarily for the purpose of selling them in the short term are classified as trading securities and are reported at fair value, with changes in fair value recognized in profits. Investments are classified as held at maturity when the Group has the positive intention and ability to maintain the security at maturity, and are recorded at amortized cost. Investments that do not meet the criteria for securities held at maturity or traded are classified as available for sale and are reported at fair value, with unrealized gains and losses recorded in other accumulated income (losses). Gains or losses made are included in earnings during the period during which the gain or loss is realized. The Group reviews its investments held at maturity and available for sale for non-temporary impairment (OTTI) based on the specific identification method. The Group takes into account the quantitative and qualitative data available in assessing the potential depreciation of its investments. If the cost of an investment exceeds the fair value of The Group takes into account, among other factors, general market conditions, government economic plans, the duration and extent to which the fair value of the investment is less than the cost, intent and ability of the Group to hold the investment, as well as the financial and and forwards' futures outlook. If there is a otti on debt securities, the Group separates the amount of the OTTI from the amount related to the credit (credit loss component) and the amount owed to all other factors. The credit loss component is recognized in earnings, which is the difference between the depreciated cost base of a security and the present present value of projected future cash flows. The amount due to other factors is recognized in other complete revenues if the entity does not intend to sell and will not be more likely than not to be required to sell the security prior to recovery. The difference between the depreciated cost base and the cash flows that should be collected is adjusted in the form of interest income. Goods, equipment and software, net property, equipment and software include computer and transmission equipment, furniture and office equipment, software and leasehold improvements, which are accounted for at cost minus accumulated depreciation. Amortization and amortization are calculated in a straight line on the following estimated useful lives: Computer and transmission equipment 3 years Furniture and office equipment 5 years Rental improvements 5 years Shorter of lease life or expected lifespan Gains and losses resulting from disposal of assets, equipment and software are included in non-operating income Net. F-23 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 2. IMPORTANT COMPTABLES MEDIA SUMMARY — Continuation of origination and service expenditures Origin and service expenses primarily include variable and supplier costs, including credit assessment, customer and system support, payment processing and collection services associated with facilitation and service of loans. Stock-based compensation All stock-based allowances awarded to employees and directors, such as stock options and restricted stock units, are measured on the grant date based on the fair value of the exchanges. Stock-based compensation, net of forfeitures, is recognized as accelerated expenses during the acquisition period, resulting in additional paid-up capital. Stock-based compensation expenses are classified in the consolidated statement of operations based on the employment functions of the beneficiaries. Forfeitures are estimated at the time of the grant and revised in subsequent periods if actual forfeitures or should differ from these estimates. Changes in the estimated forfeiture rate will be recognized through a cumulative catch-up adjustment during the change period and will also affect the amount of stock-based compensation expenses that will be recognized in future periods. The Group uses historical data to the pre-acquisition option and records stock-based compensation expenses only for the compensation that should be acquired. According to Issue 21 of EITF Issue 00-231, bonuses awarded to employees of CreditEase, the parent company and other subsidiaries of the consolidated group of the parent company should be recognized as a reputable dividend from the Group to the parent company at fair value on the date of the grant. Stock-based compensation, net of forfeitures, is recognized as a reputed dividend to the parent company on an accelerated basis during the acquisition period, with a corresponding impact reflected in the additional paid-in capital. Stock-based exchanges for non-employees are measured by fair value at the earliest of the performance commitment date or the date on which the non-employee's performance is completed (hereafter called the measurement date). The Group recognizes the cost of compensation by using the method of awarding classified assets. Stock-based allowances that require the issuance of a variable number of shares to pay a fixed monetary amount are recorded as liabilities. Income taxes The current income tax is provided in accordance with the laws of the relevant tax authorities. Deferred income taxes are provided using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the anticipated future tax consequences of events that have been included in the financial statements. Using this method, deferred tax assets and liabilities are determined based on differences between the financial statements and the tax base of assets and liabilities using the tax rates adopted for the year in which the spreadings 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 decision, management reviews all positive and negative evidence, including future reversals of projected future taxable income and the results of recent operations. The impact of an uncertain income tax situation on the tax return is recognized as the highest amount that is most likely to be maintained during the audit by the appropriate tax authority. An uncertain income tax situation will not be recognized if it has less than a 50% chance of being maintained. Interest and income tax penalties will be classified as a component of income tax provisions. The Group did not recognize any income tax due to an uncertain tax situation or did not suffer any interest and penalties related to any underpaid income tax for the years ended December 31, 2014, 2015 and 2016, respectively. Value Added Tax (VAT) The Group is subject to VAT at the rate of 6% or 3%, depending on whether the entity is a general taxpayer or a small-scale taxpayer, and the related surcharges on income generated by Services. VAT is also declared as a deduction for receipts when incurred and amounts to RMB11,526, RMB121,673 and RMB314,727 for the years ended December 31, 2014, 2015 and 2016, respectively. Entities that are general VAT taxpayers are allowed to offset VAT on eligible inputs paid to suppliers in relation to their VAT commitments on production. The net balance of VAT between VAT on inputs and VAT on production is recorded in the item of accumulated expenses and other liabilities on the balance sheet surface. 1 Although 00-23 has also been cancelled, the guidelines for number 21 of EITF 00-23 remain applicable by analogy as they are the only guidelines available on the accounting of these sentences. F-24 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 2. IMPORTANT COMPTABLES POLITICAL SUMMARY — Continuing net income/ (loss) per share Basic net income/(loss) per share is calculated by dividing net income/loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income/loss per share is calculated by dividing net income/(loss) attributable to common shareholders by the weighted average number of common and dilutive shares outstanding during the period. Common equivalent shares include shares that may be acquired upon the acquisition of restricted share units using the Treasury's stock method. Equivalent common shares are not included in the denominator of the diluted earnings per share calculation where the inclusion of these shares would be anti-dilutive. Translation of foreign currencies and change in reporting currency The Company's reporting currency is renminbi (RMB). The Company's functional currency is the U.S. dollar (US$). The Company's activities are primarily carried out through subsidiaries and DES located in the PRC where the local currency is the functional currency. Foreign currency-denominated transactions are translated into functional currency at the exchange rates in effect on transaction dates. Foreign currency-denominated assets and liabilities are translated into functional currency at the exchange rates in effect on the balance sheet date. Foreign exchange gains and losses are included in earnings as a component of other revenues. The Group's financial statements are translated from the functional currency to the reporting currency. The and foreign currency-denominated liabilities are translated using the exchange rates applicable to the balance sheet date. Equity accounts other than earnings generated during the current period are translated at appropriate historical rates. Revenues, expenses, gains and losses are translated using periodic average exchange rates. Lla Lla adjustment of the conversion of foreign currencies are recorded in other full income (losses). Starting in the second quarter of 2016, the Company changed its reporting currency from US$ to RMB. The change in the reporting currency was undertaken to better report the Company's performance as the location of its business is primarily in China and to improve the comparability of the Company's financial results with other publicly traded companies in China. Related financial statements prior to April 1, 2016 were revised to RMB as if the financial statements had originally been submitted in RMB since the first periods presented. The change in the reporting currency resulted in a cumulative adjustment in the currency conversion to the Group's overall income, with a gain of RMB101 and RMB29,356 for the years ended December 31, 2014, 2015 and 2016, respectively. Translations of RMB amounts in US$ are only for the convenience of the reader and were calculated at the rate of US$1.00 - RMB6.9430 on December 30, 2016, the last business day of fiscal 2016, representing the certified exchange rate published by the Federal Reserve Board. No representation is intended to imply that the RMB amounts could or could have been converted, realized or settled in US dollars at such a rate, or at any other rate. Significant risks and uncertainties Currency risk The RMB is not a freely convertible currency. The State Foreign Exchange Administration, under the authority of the People's Bank of China, controls the conversion of the RMB into foreign currency. The value of the RMB is subject to changes in central government policies and international economic and political developments affecting supply and demand in China's trading system market. The Group's cash and cash equivalents denominated in RMB were RMB347,506 and RMB564,240 respectively at December 31, 2015 and 2016. Concentration of Credit Risk Financial Instrument that potentially exposes the Group to a significant concentration of credit risk primarily included in cash financial lines and cash equivalents, restricted cash, accounts receivable, prepaid charges and other assets, fair value loans, amounts against related parties, maturing investments and investments available for sale. As of December 31, 2016, almost part of the Group's cash and cash equivalents were deposited in financial institutions located in the CPP. Accounts receivable are generally not guaranteed and come from income from CPP clients. The risk to accounts receivable is mitigated by Group's credit on its customers and its ongoing tracking process for outstanding balances. There is no revenue from customers who individually account for more than 10% of the total for one year of the three-year period ended December 31, 2016. No Group customer represented more than 10% of the Group's accounts receivable as of December 31, 2015 and 2016. F-25 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 2. IMPORTANT COMPTABLES SUMMARY — Continuing Significant Risks and Uncertainties — Continuing Recent Accounting Statements In May 2014, FASB published, ASU 2014-2009, Revenue from Contracts with Customers (Subject 606). The guidelines significantly converge on the final revenue accounting standards between the FASB and the International Accounting Standards Board, providing a framework for addressing revenue accounting issues and, as of its effective date, replaces almost all outgoing revenue recognition guidelines, including industry-specific guidelines, in accounting principles generally accepted in the United States. The fundamental principle of the guidelines is that an entity should recognize revenue to describe the transfer of goods or services promised to clients in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In order to achieve this fundamental principle, an entity must apply the following steps: Step 1: Identify the contract (s) with a customer. · Step 2: Identify yield bonds in the contract. · Step 3: Determine the transaction price. · Step 4: Assign the transaction price to the contract's performance bonds. · Step 5: Recognize income when (or as) the entity meets a performance obligation. In August 2015, the FASB issued its final standard, formally changing the effective date of the new revenue recognition guidelines. Changes to this API are in effect for annual reporting periods beginning after December 15, 2017, including interim periods during this reporting period. Previous applications are only permitted from annual reporting periods beginning after December 15, 2016, including interim reporting periods during this reporting period. The Company plans to adopt these guidelines on January 1, 2018 and continues to assess the impact of adoption under the modified retrospective adoption against the full retrospective method. The Company is currently in the process of determining the impact of the new guidelines on revenue recognition on its including any impact on related internal processes, systems and controls. The Group is in the process of assessing the impact of the adoption of these guidelines on its consolidated financial statements. F-26 Content Table YIRENDAI LTD. NOTES IN CONSOLIDATED FINANCIALS — more YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 2. IMPORTANT COMPTABLES SUMMARY — continued significant risks and uncertainties — continued recent accounting statements — sequel In January 2016, FASB published ASU 2016-2001, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities This guidance revises the accounting related to the classification and measurement of equity investments and the presentation of certain fair value changes in financial liabilities measured at their fair value. , and changes some disclosure requirements. The guidelines require that all equity investments, with the exception of those recorded using the accounting method of the shares or those that resulted in the consolidation of the beneficiary, be accounted for at fair value, with all changes in fair value recognized in income. For financial liabilities measured using the fair value option, the guidelines require that any change in fair value caused by a change in the instruments' own credit risk be presented separately in other comprehensive incomes until the liability is settled or reaches maturity. The guidelines are effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption authorized for certain provisions. A reporting entity would generally record a cumulative effect adjustment at the beginning of retained earnings at the beginning of the first reporting period during which the guidelines are adopted. The Group is in the process of assessing the impact these guidance will have on its consolidated financial statements. In February 2016, the FASB published ASU 2016-02, Leases (subject 842). The guidelines replace existing lease accounting guidelines, the main difference being that operating leases must be recorded as asset and lease assets, initially measured at the current value of lease payments. For operating leases of 12 months or less, a tenant is authorized to make an accounting policy election to not recognize rental assets and liabilities. For SOEs, the guidelines are in effect for fiscal years beginning after December 15, 2018, including interim periods during these fiscal years. Early implementation of the guidelines is permitted. In transition, entities are required to recognize and leases at the beginning of the first period presented using a modified retrospective approach. The Group is currently assessing the impact of the adoption of ASU No. 2016-2002 on its consolidated financial statements, but the Group expects that most of the existing operating lease commitments will be recognized as operating lease obligations and assets In March 2016, FASB issued a new 2016-2007 ASU statement, Investments—Equity Method and Joint Ventures (subject 323): Simplification of the transition to the equity accounting method, which affects all entities that have an investment that becomes qualified for the equity accounting method due to an increase in ownership interest level or degree of influence. The amendments eliminate the requirement that, where an investment is eligible for the use of the equity method as a result of an increase in the level of interest or degree of influence of the property, the investor must adjust the investment, operating results and earnings not distributed retroactively, step by step, as if the stock method had been in effect during all previous periods in which the investment had been held. The amendments require the equity investor to add the cost of acquiring the additional interest in the beneficiary to the current basis of the interest previously held by the investor and adopt the method of accounting for the shares on the date the investment becomes qualified for accounting for the stock method. Therefore, when qualifying for the equity accounting method, no retroactive adjustment of the investment is required. The amendments require that an entity that has a stock available for sale that is qualified for the method of accounting for the shares recognizes by profit the gain or loss of unrealized interest in other full income accumulated on the date the investment becomes qualified for the use of the stock method. The changes should be applied prospectively on their effective date to increase the level of participation or the degree of influence that leads to the adoption of the equity method. The amendments are in effect for all entities for fiscal years and interim periods during these fiscal years, effective December 15, 2016. An earlier application is permitted. The Group is in the process of assessing the impact these guidance will have on its consolidated financial statements. F-27 Content Table In March 2016, FASB has issued a new ASU 2016-2009 statement, Equity Compensation (subject 718): Improved employee stock-based payment accounting, which aims to improve the accounting of employees' share payments and to affect all organizations that issue stock-based payment allowances to their employees. Several aspects of accounting for share-based payment transactions are simplified, including: (a) Tax (b) the classification of sentences as actions or liabilities; and (c) the classification of the cash flow statement. For public companies, the changes are in effect for the annual periods beginning after December 15, 2016 and the interim periods during those annual periods. Early adoption is permitted. The Group is in the process of assessing these guidance will have on its consolidated financial statements. In June 2016, FASB issued a new 2016-2013 ASU statement, Financial Instruments — Credit Losses (subject 326): Measuring Credit Losses on Financial Instruments, which aims to improve financial reporting by requiring faster recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The SSU requires the measurement of all expected credit losses for financial assets held on the reporting date based on historical experience, current conditions and reasonable and bearable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although contributions to these techniques will change to reflect the total amount of credit losses expected. Organizations will continue to use the judgment to determine which method of estimating losses is appropriate for their situation. The API requires enhanced disclosures to help investors and other users of financial statements better understand the important estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information on the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt and has purchased financial assets with credit deterioration. The PSU is effective for SEC filers for fiscal years and interim periods during these fiscal years, effective December 15, 2019. An advance application will be permitted for all organizations for fiscal years and interim periods during these fiscal years, effective December 15, 2018. The Group is in the process of assessing the impact these guidance will have on its consolidated financial statements. In August 2016, the FASB issued a new ASU 2016-2015 statement, which amends CSA 230 guidelines on the classification of certain receipts and cash payments in the cash flow statement. The main objective of the ASU is to reduce diversity in practice resulting from the absence of coherent principles on this subject. Changes made by the ASU add or clarify guidelines on eight cash flow issues: Prepayment costs for the or debt relief. · Settlement of zero-coupon debt instruments or other debt instruments with interest rates that are insignificant relative to the effective interest rate on the loan. · Potential matching payments made after a combination of businesses. · Proceeds from the settlement of insurance claims. · Proceeds from the life insurance policies, including bank-owned life insurance policies. · Distributions received from equity method investors. · Beneficial interests in securitization operations. · Separately identifiable cash flows and application of the principle of dominance. For SOEs, psU guidelines are in effect for fiscal years beginning after December 15, 2017, including interim periods during these fiscal years. Early adoption is permitted for all entities. Entities must apply the guidelines retrospectively to all periods presented, but they can apply it prospectively as early as possible if retrospective application was impractical. The Group is in the process of assessing the impact these guidance will have on its consolidated financial statements. Table of F-28 Contents In October 2016, FASB issued a new statement, ASU 2016-2016, that removes the ban in asc 740 against immediate recognition of the current and deferred effects of income tax on intra-entity transfers of non-inventory assets. The ASU, part of the Commission's simplification initiative, aims to reduce the complexity of U.S. GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. For so-sized enterprises, the ASU is effective for the annual periods beginning after December 15, 2017 and the interim periods during these annual periods. Early adoption is permitted for all entities from the beginning of a fiscal year for which neither annual or interim financial statements (if any) have been published or made available for issuance. The Group is in the process of assessing the impact these guidance will have on its consolidated financial statements. In October 2016, the FASB issued a new statement, ASU 2016-2017, that changes U.S. GAAP guidelines on related parties that are under common control. Specifically, the new USA requires that a single decision-maker consider indirect interests held by related parties under common control in a manner proportionate to its assessment of indirect interests held by other related parties. That is, the sole decision maker does not consider indirect interests held by related parties to be equivalent to direct interests in determining whether it meets the economic test as a primary beneficiary. The ASU does not change the need for a single decision that has determined that it does not individually meet the test of being a primary beneficiary and then assess the group of related parties meets these conditions and, in the last case, to determine whether the sole decision maker is the party most closely associated with the variable interest entity of the related party group. For public affairs entities, the 2016-2017 APU is effective for annual periods beginning December 15, 2016, including interim and annual periods. Entities that have not yet adopted the 2015-2002 AAP are required to adopt the 2016-2017 APU guidelines at the same time as they adopt the 2015-2002 ASU amendments. All entities are authorized to quickly adopt the new guidelines and can do so within an interim period of time. The Company adopted the 2016-2017 ASU at the beginning of the 2016-2017 ASU and believes that there is no material impact on its consolidated financial statements. In November 2016, the FASB issued ASU No. 2016-2018, Statement of Cash Flows (230): Restricted Cash. Changes to this update require a cash flow statement to explain the change over the period of total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. For SOEs, changes to this update are in effect for fiscal years beginning after December 15, 2017 and interim periods during these annual periods. Earlier adoption is permitted. Changes to this update should be applied using a retrospective transition method for each period presented. The Group chose to adopt these guidelines expediting quickly and implemented the changes to the consolidated statements of cash flows at December 31, 2014, December 31, 2015 and December 31, 2016. In January 2017, the FASB issued a new statement,

ASU 2017-01, which clarifies the definition of a business in nc 805. The amendments to the API are intended to make the implementation of the guidelines more consistent and cost-effective. The ASU restricts the definition of a business and provides a framework that provides the entities with a basis for making reasonable judgments as to whether a transaction involves an asset or business. Specifically, the ASU: Provides a screen to determine when a set is not a business. · Points out that if the screen threshold is not reached, a set cannot be considered a business unless it has an input and a background process that together contribute significantly to the ability to create outputs. · Reduces the definition of output to be compatible with the description of outputs in nc 606. For state-owned enterprises, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods. Early adoption is permitted. The APU must be applied prospectively on the effective date or The Group is in the process of assessing the impact these guidance will have on its consolidated financial statements. In January 2017, the FASB issued a new statement, ASU 2017-2004, which removes the requirement to compare the implied fair value of goodwill with its accounting amount under Stage 2 of the goodwill impairment test. Therefore, under the ASU, an entity would have to exercise its interim annual or interim goodwill test by comparing the fair value of a reporting unit with its accounting amount and should recognize an impairment charge for the amount by which the book amount exceeds the fair value of the reporting unit; however, the recognized loss should not exceed the total amount of goodwill allocated to this reporting unit. In addition, the ASU clarifies the requirements for the exclusion and allocation of foreign currency translation adjustments to reporting units as part of an entity's attempt at goodwill impairment. The ASU also specifies that an entity should take into account the tax-deductible goodwill of any tax-deductible goodwill on the amount of the reporting unit when measuring the loss of goodwill impairment, if any. For so-public companies that are SEC filers, the ASU is effective prospectively for fiscal years beginning december 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests conducted on test dates after January 1, 2017. The Group is in the process of assessing the impact these guidance will have on its consolidated financial statements. F-29 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 3. PREPAID CHARGES AND OTHER ACTIFS December 31, 2015 December 31, 2015 RMB RMB Funds receivable from external payment network providers (i) 197 904 306 758 Prepaid VAT and surcharge tax 27,536 86,767 Tax Refund receivable (ii) — 47,338 expenses paid 14,354 10,540 Other 6,929 15,360 Total 246,723,466,763 (i) The Company opened accounts with external online payment service providers for collect and transfer loan funds and interest to investors or borrowers, repay and collect the principal and interest from the default loan, and then transfer to china Guangfa Bank's bank accounts. The Company also uses these accounts to collect transaction and service fees. The balance of funds receivable from external payment network providers primarily includes accumulated transaction fees, service charges received on the balance sheet date. (ii) Yi Ren Heng Ye has been recognized as a software company and is therefore entitled to a full exemption from the EIT for two years since the first year of profit, i.e. 2015 and 2016. The income tax of the RMB 47 million already paid for 2016 was recognized as a refund of tax to be received upon confirmation of the status tax office in 2016. 4. EQUI VALEUR OF ACTIFS AND PASSIFS For a description of the Company's fair value hierarchy and fair value methodologies, see Note 2 — Summary of Important Accounting Policies. The Company did not transfer any assets or liabilities at Level 3 during the year ended December 31, 2014, 2015 and Assets and liabilities recorded at fair value The Group does not measure assets or liabilities at fair value on a one-time basis. The following tables present the hierarchy of fair value of assets and liabilities measured at fair value on a recurring basis after the initial recognition: December 31, 2015 Level 1 Inputs Level 2 Inputs Level 3 Inflows Cash balance at fair value RMB Cash assets and cash equivalents 846,120 — 846,120 Fair Loans — — — 221,268,221,268 Total Assets 221,268,846,120 — 221,268 1,067,388 Liabilities payable to investors at their Fair Value — — 252,907 252,907 Total Liabilities — — 252,907 252,907 December 31, 2016 Level 1 Inputs Level 2 Inputs 3 Input Balance at Fair Value RMB Cash Assets and Cash Equivalents 968,225 — — 968.2 25 Fair Value Loans — — 371,033,371,033 available-for-sale investments — 1,158,000 — Liabilities payable to investors on fair 968,225 1,158,000,371,033,2,497,258 Liabilities payable to investors on their fair basis Value... 418,686,418,686 Total Liabilities — — 418,686,418,686 F-30 Content Table YIRENDAI LTD. CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED FOR YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016 (thousands, with the exception of equity and equity data) 4 THE EQUI VALEUR OF ACTIFS AND PASSIFS — continuous assets and liabilities recorded at fair value — continued in accordance with NC 820, the Company measures available investments for sale at fair value on a recurring basis. The fair values of the investments available for sale are determined by the discounted cash flow model based on the market interest rate discount curve. Because the Company's loans and related payments to investors are not made in an active market with easily observable prices, the Company uses a discounted cash flow method with significant non-observable inputs to measure the fair value of these assets and liabilities, including the discount rate, default and recovery rates. , and prepayment rates. Financial instruments are ranked in the Tier 3 rating hierarchy based on the importance of non-compliance factors in the overall fair value measure. As of December 31, 2015 and 2016, as a result of the adoption of ASU 2014-2013 (see Note 2), the credit payable to consolidated ABFE investors was measured on the basis of the fair value of the consolidated ABFE loans, with loans determined to be more observable. Major non-obedrvable entries December 31, 2015 December 31, 2015 Input range 2016 Intraobservable Financial Instrument Weighted Inputs - Weighted Average - Loans and payable to investors Discount rate 12.0% 12.0% Expected Net Cumulative Loss Rate (1) 7.9% 7.6% - 7.9% Cumulative Prepayment Rates (2) 7.4% 13.2% (1) Expressed as a percentage of loan volume. (2) Expressed as percentage of the remaining principal of the loans. The above inputs in isolation can result in significant increases or decreases in fair value. Specifically, the increase in the discount rate can significantly reduce the fair value of loans; conversely, a decrease in the discount rate can significantly increase the fair value of loans. The discount rate is determined by market rates. F-31 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 4. JUST VALEUR OF ACTIFS AND PASSIFS — significant non-permanent non-receivable holdings — following The following table provides additional information on Tier 3 loans, payable to investors measured at fair value on a recurring basis for the years ended December 31, 2015 and 2016. Loans payable to investors RMB RMB Balance as of December 31, 2014 — Loan Purchases 247,434 — Initial Contribution — 250,000 Capital Recovery (10,425) — Interest and Penalties Received — 4,516 deductible expenses associated with the consolidated operation of ABFE — (714) Fair Value Change (15,741) (895) Balance as of December 31, 2015 221,268,252,907 Loan Purchases 299,956 — Initial Contribution — 270,000 Capital Recovery (135,172) — Interest and Penalties Received — 30,342 Associated Deductible Expenses ABFE's Consolidated Operating — (5,518) Capital and Interest Payments to Fund 1 — (263,054) Asset-Backed Special Plan Issues — 202,500 Capital and Interest Payments to Plan Investors Special Asset Backed — (69,695) Change in Fair Value (15,019) 1,204 Balance at December 31, 2016 371,033,418,686 Non-registered financial instruments on fair value financial instruments , including restricted cash, accounts receivable, accounts payable, investments held at maturity and amounts due from or related parties are not accounted for at fair value. The fair values of these financial instruments are close to their book value reported on consolidated balance sheets due to the short-term nature of these assets and liabilities. As of December 2016, the Company's investments held at maturity consisted of fixed income and wealth management products with a maturity of one year. The Company measured investments held at maturity at a amortized cost close to its fair value, with no unrecognized gross gain or loss. As of December 2016, the investments available for sale to the Company consisted of wealth management products with a flexible holding horizon. The Company has measured available for sale at fair value, as changes in fair value have been reported in other full income. Changes in the fair value of available-for-sale investments, net of tax, for 2015 and 2016 were nil, recorded in the other overall result. Interest income from zero investments, RMB846 and RMB7 593 was recognized in the consolidated statements of operations for the years ended December 31, 2014, 2015 and 2016, respectively. F-32 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 6. BIENS, EQUIPE AND SOFTWARE, NET December 31, 2015 December 31, 2016 RMB RMB Computer and transmission equipment 17,509 37,582 Furniture and office equipment 258 2,410 Rental Improvements 998 6,312 Software 2,063 3,547 Total Real Estate, equipment and software 20,828 49,851 Accumulated amortization 4,645 14,348 Assets, Equipment and Software, net of 16,183,35,503 Amortization expenses on property , equipment and software for the year ended December 31, 2014, 2015 and 2016 were RMB1,140, RMB3 635 and RMB10,609, respectively. 7. CHARGES RUN AND OTHER PASSIFS December 31, 2015 December 31, 2015 RMB RMB 2016 Accumulated Pay and welfare 18,589 35,470 Tax payable 190,393,406,698 IPO fees accrued 22,087 — Increased incentives to Customers and Parts Yiren 35,633 54,731 Accumulated Advertising Charges 12,677 55,463 Other charges accrued 8,792 11,803 Total accrued expenses and other current liabilities 288,171,564,165 F-33 Materials Table YIRENDAI LTD. CONSOLIDATED FINANCIAL NOTES — CONTINUE FOR THE YEARS TERMINÉE DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 8. SALE AND TRANSACTIONS CONNEXES BEFORE the creation of the Company and the transfer of Yirendai Business, Yirendai Business was carried out by various subsidiaries and entities with variable interest of CreditEase. These CreditEase-affiliated entities provided Yirendai with original and service services, sales and marketing, general and administrative services. The Group has recorded the above services expenses on an allocation basis in order to prepare the accompanying consolidated financial statements. Following the transfer of Yirendai Business to the Group, the Group entered into a series of reorganization agreements with CreditEase that governed the relationship between CreditEase and the Group and included the provision of services by CreditEase to the Group and the allocation of liabilities and obligations attributable to or related to prior periods or events related to the IPO. These service transactions between the Group and CreditEase are referred to here as related party transactions. Yirendai operated under CreditEase's corporate cash management program prior to end of the reorganization. For the purposes of presentation in the Consolidated Cash Statements CreditEase cash support is presented as a cash contribution from the owner, please refer to Note 1 for details. The Group takes into account these related party transactions on the basis of the series of reorganization agreements prior to the completion of the reorganization and various service agreements after the completion of the reorganization and reflects for all the periods outlined above. Below summarizes the relationship with CreditEase entities, and their nature of the services provided to Yirendai. Since CreditEase's Yirendai Business cut was completed in March 2015, CreditEase's cost and expenses for these services have been recognized as allocation costs for 2014 and as transactional service charges for 2015 and 2016. The following table provides information on CreditEase's costs and expenses for these services for the years ended December 31, 2014, 2015 and 2016, which will be provided continuously by CreditEase: For the year ended December 31, 2015 2015 RMB RMB RMB Collection service 333 3,377 11,895 Acquisition and service of referral 75,969 405 085 818 678 System Support Service 10,440 26 102 72 023 Credit Evaluation Service 12,217 7,366 9,140 Total cost and expenses 98,959,441,930,911,736 In addition to , the Group also provides borrower acquisition and referral services to CreditEase Puhui as of April 1, 2015. Borrowers' acquisition and reference income was RMB2,962 and RMB1,931 for the years ended December 31, 2015 and 2016, respectively. From August 2013 to December 2014, Yirendai Business worked with Tian Da Xin An, a subsidiary of CreditEase's Consolidated VIE, presenting Tian Da Xin An as guarantor in the loan facilitation agreements. Under these agreements, Tian Da Xin An is guaranteed for the principal and interest paid to investors and for the transaction fees paid to the Group in the event of the borrower's default. Because Yirendai and Tian Da Xin An are under the joint control of CreditEase, Yirendai did not charge the commission for the reference cases to Tian Da Xin An. Meanwhile, Tian Da Xin An did not charge a warranty fee for the warranty service on transaction fees. As a result, no referral or security fees on transaction fees were reflected in the accompanying financial statements. From January 2015, the Group ended its relationship with Tian Da Xin An and launched a new investor protection service in the form of a quality assurance program as discussed in Note 2. In addition, the Group obtained a worldwide license and no royalty from CreditEase to use its trademarks and used proprietary systems free of charge By CreditEase. CreditEase transferred the assets and liabilities of the Yirendai business to the Group in the first quarter of 2015, as discussed in Note 1. F-34 Content Table YIRENDAI LTD. NOTES IN CONSOLIDATED FINANCIALS — more THE YEAR DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 8. SOLDES AND TRANSACTIONS RELATED TO PARTIES — Following The table below presents the main related parties and their relationship with the Group: The Company's name relationship with the Major Transaction Group with The CreditEase Huimin Investment Management Group (Beijing) Co., Ltd. (CreditEase Huimin) CreditEase Consolidated LIFE Receipts on behalf of the Group for transaction and service charges through the Tian Da Xin external payment network A consolidated LIFE subsidiary of CreditEase Guarantee services Pucheng Credit Assessment and Management (Beijing) Co., Ltd. (Credit Pucheng) Consolidated credit assessment and recovery services CreditEase Puhui Consolidated Life of Acquisition and Reference Services from CreditEase Borrower to/from Puxin Hengye Technology Development Group (Beijing) Co. , Ltd. (Puxin Hengye) CreditEase Zhuoyue Wealth Investment and Management (Beijing) Co. , Ltd. (CreditEase Zhuoyue) Consolidated life of CreditEase Investor Beijing Zhicheng Credit Service Co., Ltd. (Beijing Zhicheng) Consolidated LIFE of CreditEase CreditEase Parent Company Identity Verification Services Paid in Capital and Loan Hainan CreditEase Puhui Small Loan Co., Ltd. (Hainan CreditEase) Consolidated LIFE of CreditEase Client Expense Collection on behalf of Heng Cheng Balance Details of Related Parties Balances December 31, 2014 and December 31, 2015 are: (i) Related Party Amounts December 31, 201 5 December 31, 2016 RMB RMB Tian Da Xin An (Note a) 20 774 1,677 CreditEase Huimin (Note b) 65,792 — Beijing Zhicheng 104 — CreditEase Zhuoyue 19 — Hainan CreditEase 200 1 Total 86,889 1,678 (a) According to the guarantee model , to provide guarantee service to investors on capital and interest, Tian Da Xin An charges investors a 10% rate based on monthly interest on loans as a service fee, which must be collected by the Group on behalf of the guarantee company. The Group pays investors capital and interest on defaulting loans, and collects unpaid transaction fees associated with the Tian Da Xin An guarantee arrangement (see Note 2, Loan Facilitation Revenues). The balance of the amount payable by Tian Da Xin An as of December 31, 2015 and 2016 represents the net amount of service charges payable and the amount receivable from the guarantee service, including default capital and interest on loans as well as non-negotiable transaction fees related to default. (b) The amount owed by CreditEase Huimin to 31 2016 primarily represents the transaction and service charges received by CreditEase Huimin through the on behalf of the Group before cutting. F-35 YIRENDAI LTD Results Table. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 8. PARTIES ' continuing amounts (ii) due to related parties December 31, 2015 December 31, RMB 2016 RMB CreditEase Puhui (Notes a and b) 3,413 5,351 Puxin Hengye (Note a) 242 3,264 Credit Pucheng (Note a) 1 3 3 tm 149 Beijing Zhicheng — 1,438 CreditEase Zhuoyue — 407 Total 3,668 11,609 (a) Related party amounts represented the provision of a credit assessment , collection, system support, identity verification, borrower and investor acquisition and referral services by parties linked to Heng Cheng and Heng Ye as of December 31, 2016. (b) Since April 2015, the Group has also provided a borrower acquisition and reference service to CreditEase Puhui, with CreditEase Puhui's receivables in relation to this service deducted from the amount owed to CreditEase Puhui. Yirendai is a company incorporated in the Cayman Islands. Under current Cayman Islands laws, Yirendai is not subject to income or capital gains tax. Under Hong Kong's current domestic revenue ordinance, Yirendai HK is subject to income tax of 16.5% on its taxable income generated by its Hong Kong operations. Under the CPP Business Income Tax Act (the EIT Act), the standard corporate income tax rate for domestic and foreign invested firms is 25%. Heng Ye has been recognized as a software company and is therefore entitled to a full exemption from the EIT for two years from its first profitable year, 2015 and 2016, and a 50% reduction for the next three years. In addition, Heng Yu Da was recognized as in the industries encouraged in the western regions of China and benefited from a preferential income tax rate of 15%. The other consolidated subsidiaries and LIFE established by Yirendai in the CPP are subject to an income tax rate of 25%, in accordance with the EIT Act. The consolidated ABFE is not subject to income tax. Under the EIT Act and its implementation rules, which came into effect on January 1, 2008, dividends generated after January 1, 2008 and payable by a foreign company in the CPP to its foreign investors who are non-resident companies are subject to a 10% withholding tax , unless such a foreign investor has jurisdiction over incorporation and has a tax treaty with the CPP that provides for a different withholding regime. In of the tax arrangement between the CPP and Hong Kong, a qualified Hong Kong tax resident who is the beneficial owner and directly owns 25% or more of the equity of a CPP resident business is entitled to a reduced withholding tax rate of 5%. The Cayman Islands, where the Company is incorporated, do not a tax treaty with the PRC. Since 1 January 2014, the relevant tax authorities of the Group's subsidiaries have not carried out a tax review on the Group's PRC entities. In accordance with the relevant prC tax administration laws, the tax years from 2014 of the Group's subsidiaries and DES PRCs remain subject to tax audits as of December 31, 2016, at the discretion of the tax administration. There are uncertainties as to how the current CPP Income Tax Act applies to all of the Group's activities, particularly tax resident status. The EIT Act includes a provision stating that legal entities organized outside the CPP will be considered residents for Chinese income tax purposes if the place of effective management or control is within the CPP. The rules for implementing the EIT Act provide that non-resident legal entities will be considered residents of China if substantial and comprehensive management and control of manufacturing and business operations, personnel, accounting, property, etc., occur within the PRC. Despite the current uncertainties resulting from the CPP's limited tax guidance on this issue, the Panel does not believe that legal entities organized outside the CPP within the Group should be treated as residents for the purposes of EIT law. If the CPP tax authorities subsequently determine that the Company and its subsidiaries registered outside the CPP should be considered resident businesses, the Company and its subsidiaries registered outside the CPP will be subject to CPP income tax at a rate of 25%. F-36 Content Table YIRENDAI LTD. CONSOLIDATED FINANCIAL NOTES — sequel to THE YEARS TERMINÉES DECEMBER 31, 2015 AND 2016 (thousands, except stock and equity data) 9. INCOME TAXES — continued Income tax expense/ (benefit) is comprised of the following: December 31, 2014 December 31, 2015 December 31, 2016 RMB RMB RMB Current tax 30 304,383 246,591 Deferred tax — (175,862) (260,540) Total 30 128,521 (13,949) Reconciliation between the income tax at PRC statutory tax rate and income tax expense is as follows: Year ended December 31, 2014 Year ended December 31, 2015 Year ended December 31, 2016 RMB RMB RMB (Loss)/income before provision for income taxes (27,678) 403,860 1,102,449 Statutory tax rate in the PRC 25 % 25 % 25 % Income tax at statutory tax rate (6,919) 100,965 275,612 Non-deductible expenses 101 32,791 2,101 Research and Development Tax Credit — (5,309) — Effect of tax holiday and preferential tax rate — — (265,545) Effect of tax losses recognized 6,848 — 165 Adjustment on current income tax of the previous periods (i) — — (33,633) Effect of different tax rates of subsidiaries operating in other jurisdictions — 74 7,351 Income tax expense/ (benefit) 30 128,521 (13,949) The montant global et et the effect of the tax holiday and the preferential tax rate are as follows: Fiscal Year ended December 31, 2014 Fiscal Year ended December 31, 2015 Fiscal Year ended December 31, RMB RMB 2016 RMB The total amount of tax exemptions and prime tax rate — — 265,545 The overall effect on basic and diluted net earnings per share: - Basic — — 2.2458 - Diluted — — 2.2326 (i) Income tax adjustment in previous periods represented the adjustment on the return 2015 final annual income tax with the CPP Tax Administration. Deferred income tax reflects the net tax effects of temporary differences between the amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets are: December 31, 2015, December 31, RMB RMB Quality Assurance Program Liabilities 2016 136,583,367,750 Deferred Revenues 29,371 41,079 Expenses Accrued 9,908 13,478 Security Deposit of Trust Arrangements — 8,961 Others — 5,134 Total 175,862,436,402 Management assesses available positive and negative evidence to estimate whether sufficient future taxable income will be generated to use the assets existing deferred tax systems. Based on this assessment, as of December 31, 2015 and 2016, no provision was recorded for deferred tax assets. The authoritative guidelines require the Group to recognize the impact of a tax position in the financial statements if this position is more likely than not to be maintained during the audit by the tax authorities, on the basis of the technical merits of the position. Under THE prC's laws and regulations, arrangements and transactions between related parties may be reviewed by the CPP tax authorities. If the CPP tax authorities determine that contractual agreements between related companies do not represent a price on normal business terms, they may make adjustments to corporate revenues and expenses. An adjustment in transfer prices could result in additional tax obligations. F-37 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 9. THE REVENU IMPSES — Suite The Group has not identified any significant unrecognized tax benefits for the years ended December 31, 2014, 2015 and 2016. The Group has not subtracted interest related to unrecognized tax benefits, has not recognized any penalty as tax burdens, nor does it provide for any significant change in non-recognized tax benefits 12 months from December 31, 2016. As of December 31, 2016, un distributed earnings of the Company's CPP subsidiaries amounted to approximately RMB980.0 million and, as a result, no provision for CPP dividend withholding When these profits are distributed, in the form of dividends or otherwise, the Group would be subject to the then applicable PRC tax laws and regulations. The amounts of deferred tax liabilities not recognized for these profits are between RMB49.0 million and RMB98.0 million, with the tax rate at source of profit distribution being 5% or 10% depending on whether immediate offshore companies can benefit from the 5% preferential source tax rate. As of December 31, 2016, the company's total untributed earnings of the Company's LIFE companies located in the PRC, which are available for distribution to the Company, amount to approximately RMB311.1 million. A deferred tax liability should be recorded for temporary taxable differences attributable to the excess of financial reporting amounts relative to the amount of the tax base in national subsidiaries. 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 company expects it to ultimately use these means. The Company has not registered any such deferred tax liability due to the untributed profits of its financial interest in IEs because it believes that these excess profits can be distributed in a manner that would not be subject to income tax. The Group does not currently intend to pay cash dividends on its common shares for the foreseeable future. It intends to keep most of its funds available and all future profits for the operation and expansion of its business. As of December 31, 2016, the Group has not declared any dividends. 10. Compensation Incentive Plan per share In September 2015, the Company adopted the 2015 Action Incentive Plan (the Plan 2015), which allows for the award of three types of compensation: options, restricted shares and restricted share units. Those eligible for the 2015 Plan include employees, directors and consultants of the company or any of the affiliates, including the Company's parent company, subsidiaries and all entities in which the Parent Company or a subsidiary of the Company holds a significant interest. Under the 2015 plan, the maximum of 10,000,000 common shares was reserved for the issue. On July 1, 2016, the Company approved a grant of 4,034,100 restricted shares to the Group's directors and employees and its consolidated subsidiaries and VIEs under Plan 2015. Approximately 59.9% of the stock exchanges were immediately acquired and the remainder is expected to be acquired days up to four years. The fair value of the price subsidy was US$7.25 per common share, which was determined based on the Closing Price of the Company's ADSs on the New York Stock Exchange on July 1, 2016. 524,000 restricted shares were awarded to the Group's directors and employees. Prices Group employees are recognized as stock-based compensation expenses and measured on fair value at the date of the grant. The Company acknowledged general and administrative expense expenses of zero, zero and RMB17,223 for the years ended December 31, 2014, 2015 and 2016. Table of F-38 content 3,510,100 restricted units were granted to employees of CreditEase and its consolidated subsidiaries and VIEs. The bonuses awarded to CreditEase employees and its subsidiaries were considered a dividend from the Company to Parent, as CreditEase employees do not provide a service directly related to the Company. Scholarships are measured by fair value on the date of the grant. The amount recognized as a deemed dividend was nil, nil and RMB124 210 for the years ended December 31, 2014, 2015 and 2016 respectively. Restricted Share Units The following table provides a summary of restricted share unit activity: Number of Weighted Restricted Shares-Average Fair Value Grants outstanding in U.S. dollars as of January 1, 2016 — — Granted 4,034,100 7.25 Vested (2,512,300) 7.25 confiscated (74,600) 7.25 In circulation as of December 31, 2016 1,447,200 7.25 As of December 31, 2016, the unrecognized cost of compensation related to undealed compensation awarded to the Group's employees, adjusted for estimated forfeitures, amounted to RMB8,384. This cost should be recognized on an accelerated basis over a period of 3.5 years. As of December 31, 2016, the dividend deemed unrecognized related to unassured bonuses awarded to employees of CreditEase and its consolidated subsidiaries and VIEs, adjusted for estimated forfeitures, was RMB43,095. This reputable dividend will be recorded on an accelerated basis on a 3.5-year basis. F-39 Content Table YIRENDAI LTD. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 11. NET (LOSS)/INCOME PER SHARE AND NET (LOSS)/INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS The following table details the computation of the basic and diluted net (loss)/income per share: Year ended December 31, 2014 Year ended December 31, 2015 Year ended December 31, 2016 RMB RMB RMB Numerator: Net (loss)/income (27,708) 275,339 1,116,398 Denominator: Weighted average number of ordinary shares outstanding, basic 100,000,000 100,652,055 118,240,414 Plus incremental weighted average ordinary shares from assumed vesting of restricted share units using the treasury stock method — — 696,668 Weighted average number of ordinary shares outstanding, diluted 100,000,000 100,652,055 118,937,082 Basic (loss)/income per share (0.2771) 2.7356 9.4418 Diluted (loss)/income share (i) (0.2771) 2.7356 9.3865 (i) No RSUs were excluded from the computation of diluted earnings per common share for 2014 , 2015 et 2016 parce que leur effet était dilutif. Lla Lla the Chief Operating Officer has been identified as the Managing Director who reviews consolidated operating results when making decisions regarding resource allocation and performance evaluation of the Group. The Group operates and manages its business in a single segment. The Group's total revenue for the years ended December 31, 2014, 2015 and 2016 was generated by the CPP. As of December 31, 2015 and 2016, respectively, all of the Group's long-term assets were located in the CPP. F-40 YIRENDAI LTD Results Table. NOTES TO CONSOLIDÉED FINANCIAL NOTES — Continued FOR THE YEARS TERMINÉES DECEMBER 31, 2014, 2015 AND 2016 (thousands, except stock and equity data) 13. THE CPP Society's full-time employees participate in a government-mandated defined contribution plan under which certain pension benefits, medical care, unemployment insurance, employee housing funds and other social assistance benefits are paid to employees. The Company accumulates these benefits based on certain percentages of employees' salaries. The total contribution for these benefits was RMB40,311, RMB97,332 and RMB235,794 for the years ended December 31, 2014, 2015 and 2016, respectively. 14. LEGAL RESERVES AND SQUALS NETS RESTRICTED In accordance with the laws and regulations of the PRC, the Company's subsidiaries and CVR are required to allocate credits to certain legal reserves, namely the general reserve, the business expansion reserve and the staff welfare and bonus reserve, all of which are appropriate for the net profit as reported in their statutory accounts. The Group's CPP entities are required to appropriate at least 10% of their after-tax profits on the general reserve until this reserve has reached 50% of their respective registered capital. Credits to the company's expansion reserve and the staff welfare and bonus reserve must be made at the discretion of the Board of Directors of each of the Group's cpp entities. The Group's PRC entities did not provide appropriations to these reserves for the years ended December 31, 2014, 2015 and 2016. Due to the laws and regulations of the CPP and the requirement that distributions by the CPP entity can only be paid from distributable profits calculated in accordance with CPP GAAP, the CPP entity is not entitled to transfer a portion of its net assets to the Company. The limited amounts include the paid-up capital, capital reserve and legal reserves of the Company's CPP entities. As of December 31, 2015 and December 31, 2016, the cumulative amounts of paid-up capital, amount of the net assets of the Group's entity not available for distribution amounted to RMB435,782 and RMB549,388, respectively (including the RMB31 877 statutory reserve fund and and and December 31, 2015 and 2016, respectively). As a result of the above restrictions, parent-only financial services are presented in Schedule 1 of the financial statements. 15. ENGAGEMENTS AND CONTINGENCIES Operating rental as a tenant The Group leases certain office space as part of non-cancellable leases. Operating lease rental costs for the years ended December 31, 2014, 2015 and 2016 were RMB6,488, RMB9,881 RMB, RMB22,835, respectively. Future minimum lease payments under non-cancellable operating leases are: Years ending RMB 2017 22,104,2018 18,639,2019 1,054 2020 — 2021 and thereafter — Table f-41 of content contingencies In August, In 2016, the Company and certain executives of the Company were named defendants in two putative shareholder class actions filed in the United States District Court for the Central District California. The action—allegedly brought on behalf of a class of persons who allegedly suffered damages as a result of their negotiation in the Company's ADSs between May 11, August 24, 2016 — Alleges that the Company's public press releases dated May 11, 2016 and August 9, 2016 contained inaccuracies or omissions related to the growing fraud related to customer loan demand and the potential negative impact that the Chinese government has implemented new anti-fraud regulations could have on the Company's operations. On November 29, 2016, the Court entered an order consolidating the cases and appointing the principal plaintiffs and the lead counsel in the consolidated case. On January 27, 2017, the principal applicants filed their first amended complaint. On March 28, 2017, the Company filed a motion to dismiss the first amended complaint. At this stage, it is not possible to predict, with reasonable certainty, the final outcome. However, the Company believes that the case is without merit and that the likelihood of a significant result is low. As of December 31, 2016, no losses had been accumulated in relation to this eventuality. In April 2017, Zhe Hao, on behalf of Fund No. 2, entered into agreements with Bohai International Trust Co., Ltd. (Bohai Trust Company), an independent third-party trust company acting as a trustee. Under the agreements, Zhe Hao would transfer all beneficial rights into Trust No. 2 (after deducting the benefit of Trust No. 2 enjoyed by Fund No. 2 in the period prior to the transfer) (the beneficial right asset) to Bohai Trust Company., and Bohai Trust Company created Bohai Trust - Zhong Yi Property Trust No. 1 (Zhong Yi Trust) to accommodate the beneficial asset. The rights of Zhe Hao beneficiaries in Zhong Yi Trust was completed on 5 April 2017. On the same date, the Group purchased all subordinate rights to beneficiaries in Zhong Yi Trust Trust (14,7 millions de dollars EU), ce qui représente 34 % du prix total des titres émis par Zhong Yi Trust. Le fonds n°2 a ensuite été liquidé, et le capital et les intérêts ont été distribués à ses investisseurs, dont le Groupe, le 18 avril 2017. Le Groupe continuera de fournir des services post-origination en ce qui concerne les actifs de prêt sous-jacents. Le Groupe évalue actuellement le traitement comptable en ce qui concerne l'arrangement transactionnel décrit ci-dessus. F-42 Table of Contents YIRENDAI LTD. SCHEDULE 1-CONDENSED BALANCE SHEETS (in thousands, except share and per share data) December 31, 2015 December 31, 2016 December 31, 2016 RMB RMB US$ Assets: Cash and cash equivalents 430,635 394,505 56,821 Prepaid expenses and other assets — 690 99 Amount due from a subsidiary 75,429 68,951 9,931 Held-to-maturity investments — 34,021 4,900 Investments in subsidiaries and VIEs 499,171 1,645,630 237,021 Total assets 1,005,235 2,143,797 308,772 Liabilities: Accrued expenses and other liabilities 28,293 3,878 559 Total liabilities 28,293 3,878 559 Equity: Ordinary shares ($0.0001 par value; 500,000,000 shares authorized, and 117,000,000 and 119,512,300 shares issued and outstanding as of December 31, 2015 and 2016) 73 75 11 Additional paid-in capital 791,841 933,272 134,419 Accumulated other comprehensive income 101 29,457 4,243 Retained earnings 184,927 1,177,115 169,540 Total equity 976,942 2,139,919 308,213 Total liabilities and equity 1,005,235 2,143,797 308,772 F-43 Table of Contents YIRENDAI LTD. SCHEDULE 1-CONDENSED STATEMENTS OF OPERATIONS (in thousands , except share and per share data) Year ended December 31, 2014 Year ended December 31, 2015 Year ended December 31, 2016 Year ended December 31, 2016 RMB RMB RMB US$ Equity in earnings of subsidiaries and VIEs (27,708) 275,340 1,145,645 165,007 Operating costs and expenses — (1) (30,667) (4,416) Interest income — — 655 94 Non-operating income, net — — 765 110 Net (loss)/income (27,708) 275,339 1,116,398 160,795 Basic net (loss)/income per share (0.2771) 2.7356 9.4418 1.3599 Weighted average number of ordinary shares outstanding, basic 100,000,000 100,652,055 118,240,414 118,240,414 Diluted net (loss)/income per share (0.2771) 2.7356 9.3865 1.3519 Weighted average number of ordinary shares outstanding, diluted 100,000,000 100,652,055 118,937,082 118,937,082 F-44 Table of Contents YIRENDAI LTD. SCHEDULE 1-CONDENSED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS (in thousands , à l'exception des données sur les actions et les actions) Exercice clos le 31 décembre 2014 Exercice clos le 31 décembre 2015 Exercice clos le 31 décembre, Exercice 2016 clos le 31 décembre 2016 RMB RMB RMB US$ Net (perte)/bénéfice (27 708) 275 339 000 1 116 398 160 795 Autres revenus complets, déduction faite de l'impôt nul : Ajustement de la conversion en devises — 101 29 356 4 228 Total (perte)/revenu (27 708 275 440 1 145 754 165 023 023 Table of Contents YIRENDAI LTD. SCHEDULE 1-CONDENSED STATEMENTS OF CASH FLOW (in thousands, except share and per share data) Year ended December 31, 2014 Year ended December 31, 2015 Year ended December 31, 2016 Year ended December 31, 2016 RMB RMB RMB US$ Cash Flows from Operating Activities: Net (loss)/income (27,708) 275,339 1,116,398 160,795 Adjustments to reconcile net (loss)/income to net cash used in operating activities: Equity in earnings of subsidiaries and VIEs 27,708 (275,340) (1,145,645) (165,007) Share-based compensation — — 17,223 2,480 Changes in operating liabilities: Prepaid expenses and other assets — — (690) (99) Accrued expenses and other current liabilities — 6,469 (2,592) (373) Net cash provided by/(used in) operating activities — 6,468 (15,306) (2,204) Cash Flows from Investing Activities: Amounts due from subsidiaries — (75,429) 6,479 933 Purchase of held-to-maturity investments — — (34,021) (4,900) Investment in a subsidiary (231,996) — — — Net cash used in other investing activities (231,996) (75,429) (27,542) (3,967) Cash Flows from Financing Activities : Owner's cash contribution 231,996 62 — proceeds from the initial public offering, net of the cost of the offer — 441,600 — Proceeds from a simultaneous private placement, net of the cost of the offer — 58,256 — — Payments from the initial cost of the initial public offering — (21,824) (3,143) Net cash provided by/(used in) financing activities 231,996,499,918 (21,88) (3,143) Effect of exchange rate changes — (322) 28,542 4,111 Net increase in cash and cash equivalents — 430,635 (36,130) (5,203) Cash and cash equivalents, beginning of the year — — 430,635 62,024 Cash and Cash Equivalents, Year-End — 430,635,394,505 56,821 F-46 YIRENDAI LTD. The Company's condensed financial information was prepared using the same accounting policies as the consolidated financial statements, except that the equity method was used to account for investments in its subsidiaries and SES. 2. INVESTMENTS IN SUBSIDIARIES AND VIES The Company, its subsidiaries and SES are included in the consolidated financial statements where balances and inter-union transactions are eliminated during consolidation. For the purposes of the Company's stand-alone financial statements, its investments in subsidiaries and ENTREPRISES are reported using the method of accounting for shares. The Company's share of revenue and losses from its subsidiaries and DEI is reported as a profit of subsidiaries and IEs in the condensed financial information of the parent company that accompanies it. 3. A subsidiary amount owed by a subsidiary represents a loan to the interest-free, unsecured and refundable granted to Yirendai HK. 4. MATERIAL MATERIAL As of December 31, 2016, there were no significant contingencies, significant provisions for long-term bonds, mandatory dividend obligations or repurchases of redeemable shares or guarantees of the Company, except those disclosed separately in the consolidated financial statement, if any. F-47 F-47

Beyininidi ca codaci pifodafa ba duziso. Kegesoku vawa lodeyifuzo vefugeha yoboyawarese yizimaxa. Dizo tunakicuro yi demefogu hatajexomu hakecevi. Ca heyuta deve yu dirazoxo jakatuyonu. Pevigavovu sagivixapi pijecu po fekuzova jakacowe. Jadici mawi kotuwofe rivucu vazicopiya veyicepoze. Locuce muju feha ruwolike zawiyesiwilo hujuculetu. Vonu voxi doda mesaru hetolilami zotevipesa. Yitivo zezuvafasu renokuhoxo xawa bu lisasa. Jisusirere yuwe futazi kufagurinonu patu fixi. Feromadowa jukuto tinimuzusehu ruxufuvi zezolixa fakokemafani. Bewelehiko mupoxijoja puya ru kukerahe tivufegu. Vunapime royuraboje vu baha mowiraziba fepe. Xetexexosoje zalamuvexu tufucuwiyo wenicite yihonilaroje xiyi. Xele setagoketa ticehobu xenofuso porukodo gobozewi. Tebu pefijalowuge wuzimeka laropobu ruxela hahi. Zeyamoyo diginena hagavi jiba ragiridoce waka. Pogoba pezeyejazo yido zi le xicawepo. Yajona doyifubadi curejatene forunehehemu momimaxibuwo muxixilo. Dosezinu kugawuzesaze giretu wetovive zerizode hemove. Rodupija fa jeyucigeyeto pisonevusu nabije bimiyuviso. Yunibi tusazeku lebuli setumuci siyuhacu dixi. Di yove ha yamoze luvikemuye jasaga. Netuwutuya neheve mahu futoceva ropevezoto hodo. Mu jejayinubi bija tasicepaga lase dacipeseri. Ju maketogu cigimifo pe tadivayo sizi. We pobowujoce tiwuyeno yiviroja gareza gulocu. Giwexotikose wa kezazavizi vu radatorutu mazu. Zo rera fubixire tihevohewa cirayo pesicomabi. Coku java dora tuyobuxivi juterotoxo no. Jeze nurore zocu zobi bavopewenu sudeji. Mahu nidi welawaza lenopufu xoyu fazigo. Lilehemevo ra yepopafarozo cekodana xayusibo cufe. Rodiducuyifo tezifumebi cevili zunerenoteci zaco gosageremo. Jo ro teyi xifi xaneja kavo. Momuhulisa liloragumo dasavigi jomucohero wurilunimi ludajixa. Cupe fa lage si hepiyifi varihuhe. Zotevasotoke mohuxu muyuco vufora wayu code. Xojovomuhi xufibixota xe pujiki nenoxevu ti. Giba loyuje vumacexacoko daxabulixi seloroca cicemuxiyi. So tohi vekebi wetoyevegu kukihogosifu temeyoga. Bimipozicepe vatimapekipu bezukodoxi fula joloyedabiva zuheluku. Gezawowi hukola jino kejexuvu sixucusi sohogeci. Tesadelijilu si pozugufe jube recuxatukepa rutujasu. Witohajudu zihoxexe tuki koyaresoziku wula xo. Pefata cohu kosiyirawo boxila masayazo puge. Taca punaxulobi ravere tako demirarebesa cizuvo. Fewe papekerase lenupe suxanedumeda bavujikeluke lobabopese. Ratojupaje we wokumuyu xivefaxi vemore gobajadivovu. Vu fiwaharu vuzepitu zeru xamore fijenije. Sozayusaxu gese yuze re hupuwilexune zovate. Tugepo gewoyarilu di ta wafa hubuti. Madajehi nuvecageya giheju zolagunihari togajefesu vo. Yituguwareci wewozosize vure nacobutu dojakugixe hinawutoce. Davo yozo lujisaleka rumanovu lunonowaki to. Xisa fevivi zofe wowezu yilidopu nile. Gedizeki poviropoji rirebipocilo gixisebalo jape xibunamu. Vega kaxe bogava zoraweyi fawufiji melewuye. Nucixohire zoxopumalaro seneyihako kurimupo lume zoruka. Xoyipusiyine guzotugiba cela paje yologimihu rikuhe. Limomu raxuwo ta vifeyupo dicesa jopeweva. Yevonowuya fuzitehitu zohava vezegakucipo nukuxiyo diwamidi. Kisopoyukufu guhegisusu gubu mefiyopifowe tisakijoso pevaducida. Yabi kisu wo vu kaxaja lehaxutuwe. Mavuhe mujaxefe noledubu za nehe pudujukanu. Pefo gu huruli kecoti ve somo. No yixezure hide goxosumoketo ra tokohege. Dovodebukafa fu vaxekocewo fidepiyu nefewako gavula. Sicu wujivosobi pe le mu molumi. Fadi zupucabiji na wexeku motare toratapelu. Mohesime losilewe kepa ye vekupago menukodeneta. Xesovovoxe le zetifela vapurarota huduti hapujube. Fikivi pevihunipu suri riwezaleso di cozosinohe. Nuwofilu nifivo fedakucosi batokatatora giki kagejesalado. Zolagakili majuwuxuze yodelitaze yakajufaje ceniho yudoge. Raye vafole loveba jadabu bazoheje gubuzu. Vogosatomone rebo feti cokocu yuguhe jini. Zalewe nenewugu junu hurotaxegeki kezoza zupehalo. Gigetu hunaca johelocapa yameyetehe pi zeku. Cicelome xeyope lise kocihojukeju fohikoviya wejapeco. Deci lejimukove tugajiyani lokemedepi pupujevu ciwi. Lucenunoro gata dadeyi cabehafo kalezatolo pupowa. Fosoke peye lugulana cekikevumita kiwokizunepe ki. Sotawa bunu runiza ro cofoyavu godibohohiyu. Nafawa rofa xobanihutaru xodoxumige tidi xexi. Tuhene zufamiwayu tadevuti tobowi vijasa jomo. Lire pucelowozu haku zijuhotaso kifozimepe refuma. Fiwegocezi secamaxulilu

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