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Q2 2018 Yirendai Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Yirendai Second Quarter 2018 Earnings Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, 29th of August 2018.

I would now like to hand the conference over to your first speaker today, Miss Lydia Yu. Thank you. Please go ahead

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Lydia Yu ***IR Manager***

Thank you, and welcome to Yirendai's Second Quarter 2018 Earnings Conference Call. Today's call features presentations by our CEO, Miss Yihan Fang; and our CFO, Mr. Dennis Cong. Mr. Yang Cao, our COO and CTO; and Miss Joanne Liu, our VP of Finance, will join the presenters in the Q&A session.

Before beginning, we would like to remind you that discussions during this call contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties and factors that may cause actual results to differ materially from those contained in any such statements.

Further information regarding potential risks, uncertainties or factors is included in Yirendai's filings with the U.S. Securities and Exchange Commission. Yirendai does not undertake any obligation to update any forward-looking statement, except as required under applicable law.

During this call, we will be referring to several non-GAAP financial measures as supplemental measures to review and assess our operating performance. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. For information about these non-GAAP measures and reconciliations to GAAP measures, please refer to our earnings press release.

With that, I will turn the call over to our CEO. Yihan, please begin.

Yihan Fang ***Yirendai Ltd. - CEO***

Thank you, Lydia, and thank you all for joining us today. The past several months have been challenging for the overall industry in China. However, we have seen continued effort from the government to promote the healthy development of the industry. This was illustrated by the recently announced rules and guidelines by CBIRC and various industry associations. For example, CBIRC has been actively issuing guidelines for P2P platforms to comply with any tool, eliminate the fraud and retain the tool.

Most recently, the national online lending special working tool under CBIRC issued a notice to all local financial bureaus on carrying out compliance inspections of P2P platforms. They also issued the much anticipated P2P platform compliance inspections checklist consisting of 108 rules. We have already begun our self-inspection process based on the checklist and expect to upload our self-inspection report by September.

Back to the second quarter of 2018. We have again achieved solid operating results by leveraging our renowned brand name and a strong online operating capability. Our loan origination volume increased by 38% from Q2 last year to RMB 11.7 billion, while industry transaction volume in Q2 2018 declined by 15% from Q2 last year according to [cpi.com]. We're pleased to see we have successfully managed market headwinds and outgrown overall industry.

In Q2, the average AUM of our individual investors continued to increase to RMB 146,000 with an average investment term of approximately 10 months. We have been spending efforts in client relations management through systematic online and off-line mass education, interaction and communication. Through these efforts, we have successfully strengthened investors' confidence in our platform.

At the same time, we have made concrete progress in establishing institutional cooperation. We have established partnership with Goldman Sachs and Xinwang Bank, one of the leading investment banks in China on institutional banking. We have also launched a leading product guaranteed by PICC in early July. Furthermore, we became one of the first 15 lending companies who connect with China's first unified credit reporting platform, Baihang Credit.

Going into the remaining several months of the year, we will focus on managing the credit risk of our asset portfolio, optimizing our individual investor base, establishing more institutional partnerships and sustaining the strong momentum of Yiren Wealth. In addition, we'll continue to invest in technology, improve our operating efficiency and attract more talent to position ourselves for long-term growth. We stay firmly committed to building Yirendai into the exceedingly compliant online platform in China to offer safe and professional financial products and services to consumers.

With that, I'll turn the call to over to our CFO, Dennis, to discuss about our Q2 financial results.

Yu Cong *Yirendai Ltd. - CFO*

Thanks, Yihan. Hello, everyone. For our financial update, I will only focus on key items of our business operation and financial performance, and you can refer to the detailed financial results to our earnings release and IR deck that is now online.

Total loan originations grew 38% year-over-year in Q2 2018 to CNY 11.7 billion. And in particular, loans from online channels grew 78% year-over-year. During this quarter, we continued to proactively tighten our risk policies amid uncertain market environment. In addition, we have also proactively controlled loan growth due to the balance cap set by the local regulator in June 2018.

During the quarter, 76.3% of borrowers came from online channels, and 65% of loans were generated online. About 23.4% of loan volume came from repeat borrowers in Q2 2018.

Total net revenue grew 28% year-over-year to CNY 1.52 billion during the quarter with a corresponding net revenue take rate of 13% as compared to a revised net revenue take rate of 14.3% last quarter.

However, during the quarter, over 10% of loans were generated through our partnership with Baidu. And the loans facilitated through our Baidu partnership are founded with the trust arrangement. The service fees earned on these loans is reflected as change in fair value of the loans in nonoperating income instead. And in this portion of income tax net revenue, our net revenue take rate for Q2 2018 would be 13.9%, fairly stable quarter-over-quarter.

Next, onto wealth management business. Building Yiren Wealth into a leading online wealth management platform in China remains our top strategic focus. Despite recent challenging industry environment, as we see large numbers of problematic peer-to-peer platforms shutting down, our cumulative registered investor grew 27% year-over-year to 7.3 million by the end of June 2018. And the number of active investors were 730,000 as of June 2018, indicating investors' strong demand of the attractive loan investment product from our platform.

In July, we launched our new PICC fixed income loan product, which features an annualized return of 6.8% as compared to an average yield of 7.7% for our P2P products in Q2. This product attracts particular high demand from investors when there's a heightened concern over the industry's stability.

On risk management. To ensure compliance with regulatory requirements and that we remain as a pure online lending information intermediary platform, we switched our Quality Assurance Program to a new quality assurance scheme. Under the new scheme, loans with a 12-month term will be covered through PICC surety insurance program, and all other loans will be covered by a new credit assurance program managed by a third-party financial guarantee company. The guaranteed amount will be capped at the balance of funds deposited in the credit assurance program. Going forward, the corresponding assets and liabilities relating to the credit assurance program will be presented off balance sheet.

As to our risk performance, we observed continued improvement in our overall asset quality that is in line with industry overall trend. However, we maintain prudent risk policy with anticipation of participant challenges as the industry is going through the compliance evaluation process in the next 12 months.

This quarter, we continued to enhance and tighten our credit policy while focusing on driving improving collection efforts. As a result, we noted 30 past delinquency rates improved to 2.5% down from 2.9% from prior quarter. This quarter, the average borrow contribution to the credit assurance program is about 12% of the contract amount of the loan, which is equivalent to the previous Quality Assurance Program reserve issue at a relatively higher level in relation to our current vintage performance to ensure sufficient investor protection coverage going forward.

Prior to transferring to the new credit assurance program managed by a third-party financial guarantee company, we also accrued a contingent liability of CNY 200 million for historical loans to cover any additional volatility in credit performance of our asset portfolio. We are confident that our risk performance will return to normal as we refine and optimize our risk policies as well as increase collection efforts.

On the balance sheet side, we continue to maintain a solid cash position. As of June 30, 2018, our cash and cash equivalent were CNY 568 million. Balance of held-to-maturity investments were CNY 312 million. And balance available-for-sale investment were CNY 530 million. The decrease of the cash and short-term investments were mainly due to the deployment of CNY 880 million of our own capital to the aforementioned trust arrangement to fulfill loans for the Baidu partnership.

In June 2018, our board has approved USD 20 million share repurchase program. As of August 2018, we have not yet purchased any share due to being in the blackout period. However, we continue to believe that our shares are significantly undervalued, and we plan to activate our share buyback program to show management's confidence in the future growth of the company. In addition, our board has also approved a temporary suspend of our semi-annual dividend policy until we see stronger signs of business recovery.

Lastly, again, I would like to highlight the impact of adopting ASC 606, adding an adjustment of CNY 235.9 million on income earned from loans facility before 2018. Prior to adopting ASC 606, our adjusted net income for Q2 2018 were CNY 440.5 million, and our adjusted EPS were CNY 7.26 or USD 1.1.

For business outlook, the uncertain industry environment make it difficult to provide an accurate outlook for loan origination for the remaining of the year. For the first half of 2018, we'll generate approximately CNY 23.7 billion of loans. In July, we'll generate approximately [CNY 2.4 billion] (corrected by company after the call) of loans, and we expect Q3 likely to be the low point for loan origination and expect business to recover in Q4. We expect further regulatory clarity as we're going through the compliance evaluation process, and we're confident to be able to resume high-quality growth in the near future.

That concludes my remarks, and I'd now like to turn the call back to operator for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Alice Li of Crédit Suisse.

Alice Li

I have 2 questions, which are more related to the accounting things. The first one is that we see -- in the other income, we see a gain from the fair value adjustment related to the consolidated ABFE. I would like to know, what is this gains for? And my second question is about the take rate decline. Because we see in the second quarter of this year, the take rate declined further compared to the first quarter. So I would like to know, could you give us a breakdown of the impact? Say, what percentage of the impact comes from the customer upgrade? Or what percentage comes from the increased contribution to the surety assurance and the Quality Assurance Program?

Joanne Liu ***VP Finance***

Alice, it's Joanne. So I'll take the first question. For the fair value change you see in the -- from the chart to plan, it's mainly caused by, as Dennis just mentioned in his transcript, is caused by the partnership with Baidu. So basically, we deployed our own cost capital to the trust plan and the product that we cooperate with Baidu to issue the loans. And because it's a trust plan, so we don't really -- so it follows the investment -- it's like an investment. So the fair value change is similar to the regular revenue take rate you see in the net revenue. So that's why if you want to compare the take rate of this quarter, the second quarter with last quarter, you really need to add the fair value change back to the net revenue number to get a comparable number.

Yu Cong ***Yirendai Ltd. - CFO***

Okay. On the revenue take rate, I think for the Q1, we had a revenue take rate of about 14.1% and -- sorry, 14.3% in Q1. And then in Q2, if you just look at the net revenue take rate, it's at 13%. Part of this is due to the increased level of the contribution to the credit assurance program and also some movement in terms of the overall product mix from those channels as well as the duration. And also, some part of it is due to the product risk -- product pricing adjustment as we're going through some of the regulatory compliance process. However, as mentioned, if you do add the Baidu contribution or the business revenue related to revenue, the overall revenue take rate is actually coming back to 13.9%. So relatively flat. I think the upside of the revenue take rate is some of the product mix and percentage are driving a little bit overall revenue take rate, moving up somewhat from Q1 that offset the impact from the contribution to the credit assurance program -- to offset the increase of the contribution to the credit assurance program.

Alice Li

Got it. May I have a follow up question? So on the design of the trust plan, I would like to know whether the fair value adjustment is net of the credit costs or not. And how are we providing massive protection for the trust bank?

Joanne Liu ***VP Finance***

So basically, yes. The answer is yes. It's not off the credit -- the SMA credit loss from the asset. Otherwise, it's not fair valued. So currently, we don't have a credit protection planned for the trust plan because we are -- Yirendai is the only beneficiary owner of the trust plan. But you can see it as a pre-ABS as well. So basically, we prefund ABS so that we can do -- we can extrapolate the asset into a different change and then transfer, for example, the senior change to other institutes -- to other financial institutes.

Operator

The next question comes from the line of Bo Pang of China Renaissance.

Bo Pang ***China Renaissance Securities (US) Inc., Research Division - VP***

I have some follow-up and -- on accounting, too. So first one, I'm just trying to confirm that if I reconcile all this accounting change on the revenue line, am I getting a number of roughly RMB 1.5 billion in the second quarter? Basically, I add the provision expense back to the revenue and as well as the fair value of the trust plan as well. Sorry, subject the provision expense at the fair value back to get the CNY 1.5 billion, so that's number one. And number 2 is on the new revenue line account management service. I just want to get some clarification in terms of what exactly is this one. My understanding is probably the portion of ASC 606 adjustment for the previously deferred revenue plus the provision expense. That's the top line. And secondly, I want to have some more color on the cash flow, too. Because this quarter, I think the cash outflow on operating activity is CNY 1.3 billion, CNY 1.4 billion. And I think the impact is primarily from the take rate, upfront fee change, upfront fee structured change to the monthly fee and then probably the higher QA fee. So try to get an idea, like when do we see this trend get reversed going forward? And then do we have enough of a liquidity to fund the operation? That's it for now.

Joanne Liu ***VP Finance***

I'll first take your first question. In terms of getting the comparable net revenue, yes, your approach is correct. So you basically subject the provision expense and add back the fair value change from the trust plan. And for the account management services, it's relating to accounting policy change in this quarter. So we basically follow the -- our auditor's advice and took a more conservative approach to recognize our revenue. So before -- or in last quarter, we see our investor as our sole customer. And from this quarter, so we take both borrowers and investor as our customers. And so the account management services is really related to the service or the fees we charge to our investors and -- from the account management service and the service related to the automated investment tool. And that fee is charged on a monthly basis. So before, we recognize the majority of the service fee over the investment period upfront. And now we follow a more conservative approach and recognize on a monthly basis until the cash is collected from the investors. And for the board, the basic logic is pretty much the same as the previous quarter, but we do gross up to present the provision expenses related to the credit risk from the fees we collect from the borrower. Yes. And then in terms of the cash flow, so correct, that we see an outflow of -- about CNY 1.3 billion outflow on the operating activities, and that's really related to -- mainly related to 2 reasons. One is that we changed more products or the portion of our volume to a pure monthly fee collection schedule. And the other is related to the payout from the previous Quality Assurance Program and the currently -- the guarantee scheme we provide to the investors to cover the credit loss. So going forward, I think the cash flow at Q3 is -- we estimate basically breakeven on the cash flow position. And in Q4, we were enhanced -- significantly enhanced the cash inflow. Because as the cash cumulative from the monthly collection -- the monthly product, it takes some time to -- for the cash to come in and to build up the cash flow.

Yu Cong ***Yirendai Ltd. - CFO***

Yes. So just add onto that, we also mentioned there's CNY 880 million of our own capital that's being deployed during the quarter that also contribute to the reduction of our cash balance. However, as you know, these are being repaid back on a monthly basis. So we'll -- and actually with a decent yield return on this CNY 880 million. So we'll see that recovery of that back through the next few months, 12 to 18 months. And also, our business model rather have a lot of leverage into it. And what we see that when the decent volume drop, our capital -- our working capital needs for customer acquisition also reduced. So actually, we have a rather flexible business model. And so combined with that and also some of the movements in terms of product mix of the fee's collection schedule, as Joanne mentioned, we expect that we're reaching a cash flow breakeven in Q3 and probably see some significant improvement in Q4.

Bo Pang ***China Renaissance Securities (US) Inc., Research Division - VP***

Can I have a quick follow-up on this? So I just want to get an idea on what's the percentage of our monthly fee charged product? And then when do we expect this to fully phase out? And also, I think if the current upfront fee structure fully apply with the -- or comply with the regulation requirement.

Yu Cong ***Yirendai Ltd. - CFO***

Yes. So as you know, we have online channels and credit referral channels. These 2 different channel products sometimes follow different fee collection schedules. And from the online perspective, we have a certain amount -- percentage of the fees collected upfront, and then a certain amount of them will be collected through the month. That will continue -- retain to be the same. And then from the off-line product perspective, we have both monthly collected fees as well as more upfront collection fees. So this product mix will be adjusted as we progress through the Q3 and Q4. In terms of -- and as a matter of fact, we're actually going to probably see more upfront fees collection in terms of scheduling at the product mix. As for the compliance -- regulation compliance perspective, we have followed clearly with the guidelines in terms of when and where you can deduct the platform fees from these customers' account or -- and then to demonstrate a clear borrowing cost for the borrower. So we believe we're in good compliance with the regulator in terms of our product design and fee collection schedules.

Operator

The next question comes from the line of Richard Xu of Morgan Stanley.

Ran Xu ***Morgan Stanley, Research Division - MD***

Two questions. Firstly, could you comment on the, basically, the net charge-off rates? It seems like some of these fourth quarter and I guess, some of the third quarter, second quarter last year's vintage are still trending up a little bit. I'm not sure what trends you're seeing at the moment. And also, there's some, industry-wide fluctuation in the investor base. What's our trends on the investor base? What strategy were you using to stabilize your investor base in the moment? And lastly, it seems like the dividend is better this time. Just wondering what's the future strategy on that.

Yu Cong ***Yirendai Ltd. - CFO***

Sure. So in terms of net charge-off, as you can see from our disclosure, the 2015 charge-off is around 10.7%?

Joanne Liu ***VP Finance***

10%, around.

Yu Cong ***Yirendai Ltd. - CFO***

It's around 10%, sorry. It's around 10%. And 2016, it's around 8.7%. So these are -- still demonstrate a good performance. And as you remember or you're looking from the chart, historically, the 2016, 2017 early vintages indication have demonstrated better than 2015. So we saw that as well as we're continuing to beef up our collection efforts, adding manpower and also testing out new ways of incentivize borrowers to repay. And also, as you know that the government has showed strong support to the industry, asking all the peer-to-peer platform to report the severe delinquency borrowers list so that can be connected to the national credit reporting system. These, we believe, combined will help us to drive our collection efforts, and this is probably going to pan out through the next months or quarters. That will also gain confidence to us in terms of overall asset quality performance. So based on that, that's how we have decided in terms of -- well, the contribution amount level for the Credit Assurance Program, yes. And then in terms of overall movement, as you probably are very familiar with, the overall industry has seen a kind of spike late part of last year, and then you see some reversal -- reversion in the late part of Q1. And that has continued coming down in Q2. That's very consistent with our observation of our asset performance and vintage performance or early indications. However, there are some recent, probably in June or May and June time frame, further uncertainties or industry volatilities that create some upswing of some asset quality performance. So that what shows in our performance is that we were pushing our asset performance to a certain level, but we probably felt certain resistance in the later part of Q2. But we believe as we go through the compliance evaluation process, the regulatory environment has become much more clarified as well as the support from the government in terms of connecting to the national credit reporting system. We believe we'll see overall improvement of our asset performance as well as some stabilization in terms of industry performance. And then from the investor volatilities or fluctuations, yes. I think for us, we see some investor concerns in the mid of July after a couple of reasonably large-scale peer-to-peer platforms having issues. However, it was -- well, it was not significant. Mainly, we see some request from customer, in particular, the customer who doesn't really have a whole lot of investment on platform, who are new to the industry. They require some early withdrawal requirements. Given our strong liquidity situation, even though we don't have a legal obligation, we actually, from a customers' service perspective, we accounted that. And also, as we mentioned, we introduced the PICC loan product in July, which is a fully guaranteed principal interest by PICC under the surety insurance program. This is well received by our investor. And also, some of the investor who are concerned about the industry's uncertainty would like to do early withdrawal. When we introduced this product, they were very happy to switch to this product. So into August, we see things are pretty much back to normal. And then so we believe this trend will probably continue through the year. Of course, at the same time, as we're making strong effort, continue to build our deep relationship with our individual retail investors, we're also making effort to working with institutions, the Xinwang Bank. And we're also working with a couple of other reasonably large-scale banks in potential tapping into the institution monies. And of course, the PICC relation and partnerships would definitely help as well in terms of how to work with these institutions. And we believe from a regulatory perspective, that's also encouraged long term for the integrated fintech platform to work more closely with traditional financial institutions, really helping the overall improvement efficiency of the financing of the small business industry and consumptions in the China economy. In terms of dividend, yes. So given the uncertainties of industry volatility and potentially continued volatility through the compliance evaluation progress, we took a very prudent approach. So we suspend the dividend policy. However, as we see our business recover, as we see our earnings back to normal, our long-term target margin trend, we'll probably restart the dividend policy at due time.

Operator

The next question comes from the line of Jacky Zuo of Deutsche Bank.

Jacky Zuo ***Deutsche Bank***

This is [Haijen]. Just I think 3 questions for me. First one is on regulation. So previously, I think in June, Beijing required -- we can't grow our P2P balance basically. But then in the recent 108 requirement, they did not put this strict rule. So I just want to get an update. Can we still grow our loan balance? And the sort of loan balance control, when do we expect this can be removed? Is that until the year-end or until the formal registration probably next year? And also related to this, the rule 108 also said something related to the wealth management business, saying that P2P platform cannot put like some internal link to do the marketing for third-party wealth management product. Just want to get a view that -- would that affect our wealth management business? And second question is related to the funding. So particularly, on the institutional funding. We see some progress getting like a funding from Xinwang and also Goldman Sachs. Just want to see if we have more pipeline on the institutional funding. And what percentage of institutional funding -- of overall funding structure we will see probably at the year-end or next year in terms of funding mix? And the third one is on our cooperation with ECR parent. So I think the previous plan is we will terminate the agreement and basically stop the off-line customer acquisition. So what's the update now?

Yu Cong ***Yirendai Ltd. - CFO***

Sure, thanks. So we'll go through these questions. In case we miss any point, please just let us know. So in terms of the regulation, yes, so Beijing Financial Bureau has issued a cap requirement in middle or early June. So basically, for all the ending balance that financed by the retail P2P investors has to stay at the end of June. So we're in strict compliance to that. So that also puts serving cap in terms of how much we can grow through Q3 and Q4. However, for that, we believe if we were able to bring in more institutional capital, that is not subject to the cap. In terms of the recent 108 regulation compliance evaluation process, as you probably know, first, we will go through self-evaluation, and then there will be an industry association-sponsored -- an IFA-sponsored industry check. And then you will have the local regulators evaluation process by the end of the year. So we expect in the next -- through the next few months until the end of the year, we will go through these evaluation process, and then that data will get reported at the local and national level. In terms of it, the cap could be removed once we complete a certain level of evaluation. We're not so sure about that yet. But initial, there were some discussion among the regulator to support leading performing platform to continue to grow as a business in general. So we believe that still is the message from a local regulator as well as a central government level regulator, finding the good ones and taking out the bad ones. And then for the good ones, it should be a business in (inaudible). But we don't have a clear time line or a confirmation for that yet, but we're hopeful. In terms of the 108 rules in relating to peer-to-peer platform cross-selling wealth management related business or product, I think there's 2 rules. One is that you cannot resell third-party wealth management products. But for that, you could do a traffic referral, which is mainly the type of business we're doing. The reason being that for our non-P2P product, wealth management distributing, they are money market type of funds -- mutual funds, so kind of public products that's still okay to do. And there's no restriction. And also, particular for this, we're doing this through CreditEase, who have a license to do the public fund distribution. And then in terms of you cannot have the API connection, that's actually referring to asset management product, which, I believe, is different from the wealth management product that we're working on. So I think from a wealth management product distribution perspective, we're in good compliance. We believe we're in good compliance with the regulation requirement. From institutional funding source perspective, I think it is an important strategy for us as you have seen that we're working with PICC, we're working with Goldman and we're working with Xinwang Bank. However, we're taking a long-term approach. We want to make sure the partner we select are high-quality, top brand. So that's demonstrated in the existing partnership that we have done so far. So we are working closely with 2 or 3 large sites, commercial bank that we're in -- well into a deep discussion, and we are hopeful that we can add 1 or 2 before the end of the year. In terms of percentage, I think probably still small percent -- percentage by end of this year. But we're looking for 20% to 30% of our funding sources in 2019 as a starting point in terms of institutional funding mix. We believe a good mix of regional and institution is important from both funding cost perspective. As you probably know right now, our peer-to-peer loan annual yield is 7.7%, and that's probably quite competitive even if you compare some of the institutional capitals the other platform could achieve. And in terms of the relationship with CreditEase, CreditEase is our parent. We have a very strong strategic relationship. And also, given the recent ending balance growth cap that both Yirendai and CreditEase are subject to the cap, so we all have a choice to make when we grow our business. From the online channel as well as CreditEase channel loan product perspective into apple-to-apple comparison considering both the risk and fee and probability, the CreditEase self-network referral loans thus enjoy a better risk and probability. So in that, I think near term, we expect to make certain adjustment to optimize our business growth in terms of shifting the overall product mix to a high-profit product volume. And as we approach the end of 2018, we're due for a renegotiation with CreditEase in terms of that relationship. We believe we will negotiate on a market term. As you probably see, our online customer acquisition is around 6% of the loan volume. So that will be the expectation. And given we believe a near-term an online/off-line combination is still the preferred or optimized business model, I think the relationship, we will expect to continue. But longer term, we continue to believe through the online customer acquisition credit underwriting and data collection, there's a huge potential to drive the growth upside for pure online business.

Operator

We will take the final question from Alex Ye of UBS.

Alex Ye

I have 3 questions. The first one is on your duration breakdown. So I recall you just said you're shortening your duration, right? So can I have an update on what the percentage of your term line are 24- and 36-month loan products and perhaps an average tenure? And secondly, about the provision. So we have around CNY 200 million of additional provision in -- I mean, expense this quarter. So do we -- should we expect this one-off provision to continue going forward given we have already shifted the third-party -- the credit insurance fund to third-party guarantee? And also about the CNY 136 million of provision expense in other income line. Can you give us some color on why do we need additional provision line on this? Because we already have the provision in the top line and also in the general means? So what is this about? And finally, the question is on your Baidu partnership. Do we have a percentage in terms of the contribution of this partnership to our loan volume in this quarter? And apart from our own capital of CNY 880 million, do we have additional capital funding contribution? And what is the target volume do we -- are we targeting?

Yu Cong ***Yirendai Ltd. - CFO***

Sure. So I will address your question. Maybe then, at the same time, Joanne can find the mix of the different months product and also the provision. So I think overall trend, you're correct. I think into Q2, we are seeing a somewhat shortening of the overall volume-adjusted mix of that tenure, but I don't think it's that significant. But it's -- but I do want to make one highlight in terms of the product. I think right now, our average product duration is probably around 30 months. But when people are thinking about the liquidity match from the asset liability side, because our loans are repaid in principal interest on monthly basis, the principal adjusted weighted average maturity is actually only half of that 30 months, roughly around 15 months. And then if you consider some early repayment reduction, so our asset side duration is probably more closer to 12 to 13 months. While on the investor side, our average investor period is probably close to 10 to 11 months. So the duration, they're still slightly mismatched. But as we're going through the current transition, it's actually a good timing, in particular when you're looking at our PICC loans. The product -- investment product is actually 12 months. And then the 12-month loans under PICC, the effective duration is actually probably only 6 or 7 months. So for those products, u actually have a surplus in terms of the liquidity -- the liability side. So we believe in the near term, we should be able to manage this rather well and also with the help of the institutional money, which is in the form of a revolving line of credit that also help us in terms of that management. From the provision perspective, going forward, given that our Quality Assurance Program into the new scheme that is managed by a third party, we will not be able to contribute any more provision -- or contingent liability. That is not going to continue anymore. And then from the Baidu partnership, so in the current quarter, we're probably looking at that program to contribute to 20% to 30% of our -- or sorry, around 15% of our loan volume in the Q3 time frame. And then the CNY 880 million capital deployment was actually onetime. The reason is that when we first started the partnership, our partner -- the system is not ready to connect to individual peer-to-peer investor. It's actually a complicated matching process. So we have to adopt a single lender system so that we have to design this transfer arrangement, leveraging our own capital to jump-start the business in Q2. And right now, we have built the system together with our partner so that individual or peer-to-peer investors can participate or lend through that program so there's no need for us to deploy any more of our capital. And the -- even the CNY 880 million will get repaid monthly, and we'll recover that with a pretty good return margin on it. So making it short, we do not expect any more contribution or deployment of our own capital for either Baidu or any other program.

Joanne Liu ***VP Finance***

So to add on some comments on the duration of our portfolio. We basically have about 30% of the new origination volume goes to 12-month loans. And the rest -- the majority of the rest actually goes to 36 months. So about 5% to 10% goes to 24 months. So now we see about 28 to 29 months of average tenure on our portfolio. And on the balance, the portfolio balance, we see about 13 months of the average tenure. So it's pretty stable, but it's trending towards the shorter duration. And about the provision, yes, we do have like sort of 2 provisions you can see from our P&L. One is related to -- one is a provision expense line item. That's related to the credit risk of our fees collected from the borrower, and the provision expense or the onetime contingent liability we accrue in Q2 in G&A expense is related to the credit. It's more of the credit risk related to the loan balance -- the loan principal and the interest payment from the borrower. So it's kind of 2 different components. So one is to the platform fee and the other is to the loan principal and the interest. So in the future, I think you won't see any contingent liability increase in our balance sheet or P&L because we transfer -- we basically transfer or spin that off to off-balance-sheet -- to a third-party guarantee company. But in terms of the provision expenses related to our own fees, that you can see quarter-over-quarter.

Operator

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

Yu Cong ***Yirendai Ltd. - CFO***

Okay, thank you.

Operator

Thank you.