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PRESENTATION

Operator

Hello, ladies and gentlemen, thank you for standing by for Qudian's Inc. First Quarter 2020 Earnings Conference Call. (Operator Instructions) And today's conference call is being recorded. I will now turn the call over to your host, Ms. Wen Li from Qudian's Capital Market Department. Wen, please go ahead.

Wen Li

Hello, everyone, and welcome to Qudian's First Quarter 2020 Earnings Conference Call. The company's results were issued by newswire services earlier today and were posted online. You can download the earnings press release and sign up for the company's distribution list by visiting our website at ir.qudian.com. Mr. Min Luo, our Founder, Chairman and Chief Executive Officer; and Ms. Sissi Zhu, VP of Investor Relations, will start the call with the prepared remarks.

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provision of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the company's results may be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is included in the company's 20-F as filed with the U.S. Securities and Exchange Commission. The company does not assume any obligation to update any forward-looking statements, except as under applicable law.

Please also note that Qudian's earnings press release and this conference call include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. Qudian's press release contains a reconciliation of unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures. We also posted a slide presentation on our IR website, providing details on our results in the quarter. We will reference those results in our prepared remarks but will not refer to specific slides during our discussion.

I will now turn the call over to our CEO, Min Luo. Please go ahead.

Min Luo ***Qudian Inc. - Founder, Chairman & CEO***

Thank you, Wen. I want to thank all investors, analysts and media who have taken an interest in joining today's call. In the first quarter, we effectively executed our prudent strategy on the loan book business and achieved positive strides in new initiatives, all while facing a difficult operating environment since the beginning of 2020.

In response to the further downtrend of credit cycle, we implemented more rigorous credit standards for our risk-taking business. Such measures have swiftly reduced the loan book transaction volume in the first quarter compared with the fourth quarter of 2019 and helped us maintain our leverage ratio at lower than 1.5x.

We believe that these actions have enabled us to efficiently reduce risk exposures and protect our net assets amid the market headwinds. In addition, as we have mentioned previously, we would like to utilize our increased liquidity levels for investment in new areas of growth.

With positive views on a long-term growth potential of China's luxury consumption industry, in late March, we officially launched Wanlimu, a luxury e-commerce platform offering a wide range of high-end products for customers in China.

With that said, we expect soft performance in the second quarter of 2020 due to the proactive reduction in transaction volume, heightened provisions for the mounting delinquency rate as well as our investment in promising initiatives. As we continue to operate amid challenging macro headwinds, we are proactively executing our strategy to protect net assets, and at the same time, laying the foundation for broader-based growth in the future.

Now here is Sissi for more details on our results.

Sissi Zhu *Qudian Inc. - VP of IR*

Thank you, Min, and good morning, and good evening, everyone. To echo what Min said, we focus on minimizing risk exposure and protecting our net assets with a more constructive strategy, in light of the challenging start of 2020, where the COVID-19 pandemic further accelerated the macroeconomic slowdown and the downtrend of the price cycle.

These adverse factors drove up our D1 delinquency rate to around 20% as of the end of first quarter, representing a considerable increase from approximately 13% at the end of 2019. Under such circumstances, we remain prudent in executing our conservative strategy through more stringent credit standards and assessment procedures.

This practice has substantially reduced the transaction volume of our loan book business by approximately 53% quarter-to-quarter. In particular, we lowered the off-balance sheet transaction volume by over 90% in this quarter compared with the fourth quarter of the previous year.

Consequently, the outstanding loan balance of our loan book business decreased by over 30% sequentially as of the end of the first quarter. However, we believe it is the only right course of action for us under this circumstance. With this prudent strategy, we have stabilized the D1 delinquency rate at around 20% in April and May so far.

At the same time, financial partners on our open platform also implemented stricter credit standards given the overall high delinquency rate in the credit market, which in turn, decreased the amount of transaction on open platform by over 68% compared with the fourth quarter of 2019.

As Mr. Luo mentioned, we are exploring additional opportunities and investing in new areas of growth. Recently in late March, we were pleased to introduce our new initiative, the Wanlimu e-commerce platform, targeting the significant luxury consumption market in China. We have positive views on the long-term growth prospects of this market and believe the Wanlimu platform will fulfill the tremendous need for online luxury consumption, especially when travel and offline shopping are restricted due to the containment measures for COVID-19.

In May, we engaged with 5 well-known celebrities in China as our brand ambassadors and launched a live streaming sales campaign, which has attracted a cumulative viewership of 130 million. Merely on its first-day event, it generated a GMV of more than CNY 30 million. As this platform is still in its early development stage, we still need to incur significant increases in inventory costs and sales and marketing expenses in order to enhance our brand awareness and boost our user acquisition.

Overall, we expect the second quarter of 2020 will still be a tough period. This is as a result of decreasing transaction amount of both loan book business and open platform loan facilitation, combined with higher provisions, guarantee and risk assurance liabilities as well as increased promotional incentives and marketing expenses for the development of Wanlimu. We believe it is the best approach to maintain a conservative strategy for our loan book business amid the unfavorable operating environment.

Given the uncertainties of credit market dynamics, it is also necessary for us to explore other opportunities to supplement our business and propel future growth. In addition, our strong cash position enables us to carry out these initiatives with sufficient capital support.

Last but not least. We have repurchased an aggregate principal amount of USD 170 million convertible bonds from the open market since the first quarter to capitalize on our undervalued securities at attractive prices. This repurchase has improved the financial condition for the company.

Now let me share with you some key financial results. In the interest of the time, I will not go over it line-by-line. For a more detailed discussion of our first quarter 2020 results, please refer to our earnings press release.

Our total revenue in the first quarter were CNY 957.9 million, down 54.3% from approximately CNY 2.1 billion for the first quarter of 2019. Our financing income totaled CNY 622.7 million, a decrease of a 38.4% from approximately CNY 1 billion for the first quarter of 2019 as a result of a decrease in average on-balance sheet loan balance.

Our loan facilitation income and other related income decreased by 34.4% to CNY 422 million from CNY 644 million for the first quarter of 2019. As a result of a decrease in the amount of off-balance sheet transactions, which is partially offset by reclassification of guarantee income of CNY 387.5 million. As the new accounting policy, ASC 326, which became effective for the company on January 1, this year, requires the fee income earned on the non-contingent aspects of a guarantee to be recognized separately from the expected credit loss.

Transaction service fees and other related income was a loss of a CNY 150.4 million compared with an income of CNY 158.7 million for the first quarter of the previous year. As a combined result of, number one, positive income of CNY 112.9 million for the transactions facilitated during the first quarter this year; number two, an income of CNY 24.1 million for the post-origination services of transactions facilitated in the previous year; and number three, a revaluation loss of CNY 287.4 million for contract assets incurred for the transactions facilitated in 2019.

The revaluation was due to adverse changes occurred in the first quarter of 2020, that led to the deterioration of the estimated likelihood of receiving borrowers' actual repayment of service fees as of March 31, 2020.

Provision for receivables and other assets increased by 183.9% to CNY 1.1 billion from CNY 390.4 million for the first quarter of 2019. The increase was primarily due to an increase in past-due on-balance sheet outstanding principal receivables compared to the first quarter of 2019 as well as an increase in the loss rates estimates in our roll-rate model due to macroeconomic and credit cycle downtrends in the first quarter of 2020.

Our net loss attributable to Qudian shareholders was CNY 486.5 million or net loss per diluted ADS of CNY 1.92 per share compared to net income of CNY 949.6 million in the same period last year. Our non-GAAP net loss attributable to Qudian shareholders was CNY 907.5 million or non-GAAP net loss per diluted ADS of CNY 3.57 compared to non-GAAP net income of CNY 974.3 million in the same period last year.

I also want to add some color on the accounting policy changes regarding ASC 326 measurement of credit losses. In general, this newly-adopted accounting policy requires timelier recording of expected credit losses on loans and other financial instruments, and the most significant impact of this new standard relates to the accounting for risk assurance liabilities. Therefore, we recorded an CNY 1,093 million increase to risk assurance liabilities at the beginning of this year.

The other leg of this double entry after tax adjustment was recorded in retained earnings through a cumulated-effect adjustment. And this CNY 1.1 billion will, in quotation mark, "be released" into our changes in risk assurance liabilities P&L line item, throughout the remaining period of the relevant loans.

The other major impact on our P&L presentation was, as I mentioned above, the reclassification of guarantee income from the changes in risk assurance liabilities to the revenue line. This guarantee income was deferred at the origination of the off-balance sheet loans and recognized when the guarantee service gets performed over time.

The reclassification will very possible -- had limited -- the new accounting policy will very possibly have limited impact on our new off-balance sheet loans this year, because: number one, we reduced our off-balance sheet loan volume dramatically this year; number two, from the second quarter, our off-balance sheet loans will be accounted for as credit derivatives in accordance with ASC 815 and measured at fair value.

So here's all our prepared remarks. Operator, please open the floor for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of John Cai from Morgan Stanley.

John Cai ***Morgan Stanley, Research Division - Research Associate***

I have a few. I think the first one is on the latest operating trends. So we have seen that the D1 delinquency has stabilized, but also the loan balance based on the slide as things continue to decline. So I just wonder what's the latest -- sorry, is there any updates on the latest facilitation volume or loan balance in the loan business and the open platform?

And related to that, I think, is about the asset quality of the new loan. So what sort of the expected loss we assume for the new loans issued in 2020, given we have already implemented the conservative strategy?

And secondly, is that -- sorry, a clarification on the reclassification for guarantee income. So I think if we take that out, it seems the facilitation income is rather low, and I assume that's because of the accounting change. So is there an apple-to-apple facilitation income we can see or is there the assumed take rate that we can use to have an apple-to-apple year-on-year comparison?

And finally, it's on the provision. So just wonder, given we have already made a significant provision for 2 quarters already, do we still expect more in the second quarter?

Sissi Zhu ***Qudian Inc. - VP of IR***

Thank you, John. It's great to hear from you. I'll address your questions one by one, and this is Sissi. So number one, the operating trends with regard to our delinquency and balance in volume. So as we posted a slide on our website, the D1 delinquency so far remains at around 20%, because we started to deleverage very early last year. You may also notice that the D1 delinquency of our loan book business has a sign of declining recently because of our deleveraging strategy.

We continue to adopt this conservative and prudent strategy in the second quarter. So our loan balance for the on-balance sheet and off-balance sheet loans will continue to decrease, and our loan volumes for our open platform will continue to decrease in the second quarter as well.

With regards to the magnitude of the open platform loan volume. It will decrease around 60% to 70% in the second quarter. Our open platform partners also noticed the hike in our delinquency rates. And same as the other players in the industry, both us and our open platform partners will choose to adopt a very prudent loan origination and facilitation strategy.

Your second question regarding the new loan asset quality. As I just mentioned, if you take a close look to the D1 delinquency charts on our PowerPoint, you may notice that our D1 delinquency [on loan book business] (added by the company after the call) started to decrease a little bit in the recent period, which is a result of our prudent strategy and our more stringent risk assessment strategy.

Number three, the classification on guarantee income and the apple-to-apple comparison. So if we take out the guarantee income from the loan facilitation income, we will get a loan facilitation income of approximately CNY 35 million. So the take rate of this CNY 35 million over our loan facilitation volume was about 58% compared with 8% in the fourth quarter, because apart from the day 1 recognition of the revenue, we also have the post origination service income earned on the historical loans. That's why our take rate for the off-balance sheet -- loan facilitation is relatively high in the first quarter, although we didn't disburse much loans off-balance sheet in the first quarter.

And your last question is regarding to the provision. So we actually revaluate our balance sheet, both the provision, the guarantee liabilities and the risk assurance liabilities at each period end. So as of the end of each period, our management believe we have incorporated all the data available and our views for the macro factors available into our roll-rate models.

So we believe at the end of March, we have provided sufficient provisions but we cannot be so sure about the future. At each period end, we will revaluate our risk assurance in the provision balance to make sure our provisions are sufficient. Thank you for your question.

John Cai ***Morgan Stanley, Research Division - Research Associate***

Sissi, so just a quick follow-up. I think -- so we are already under the CECL approach right now. So I think -- so the first quarter provision also factor in our expected life cycle loss for the -- of all the loans in our portfolio? Is that the right way to think about it?

Sissi Zhu ***Qudian Inc. - VP of IR***

Sorry, John, I didn't quite catch your question.

John Cai ***Morgan Stanley, Research Division - Research Associate***

Yes. So just as of end of March, I think we made provision with all the information available. And so -- but starting this year, obviously, we are under the CECL approach. So I think that would mean that we try to factor in as much as the loss over the lifetime, including the future. So just wonder if I understand that correctly. So if the situation didn't deteriorate further, we should make a sufficient provision, even the loan portfolio and our expectation of their future performance?

Sissi Zhu ***Qudian Inc. - VP of IR***

Yes. John, you're correct. If the situation didn't get deteriorated further, we believe we have provided sufficient provision already. And you're right on your first point as well. As of the end of March, we have already adopted a new accounting policy, which requires us to -- instead of the incurred loss model, we also have to provide credit loss for the non-contingent part of our guarantees. So yes, you're right. We have already incorporated all the available information into our models.

Operator

Our next question comes from the line of Vincent Yu from Needham & Company.

Vincent Yu ***Needham & Company, LLC, Research Division - Senior Analyst***

So first question is also for the -- basic for the Q1. I was thinking about the D1 delinquency rate. How should we expect to be in the quarter? How are we seeing in this first, about like two months? My second question is about Wanlimu. What percentage are currently staff -- kind of staff is for this project? And how much more investments we think we're going to spend on these in this year?

Sissi Zhu ***Qudian Inc. - VP of IR***

Thank you, Vincent. Regarding our delinquency rates. Although we posted the D1 delinquency rate online, there's no direct formula for our D1 delinquency to our final loss, but we can make a similar comparison. For last year, our D1 delinquency rate was only 10% to 13%. But this year, starting from February, the end of February, when the outbreak of virus happened, the D1 delinquency rate, rose up to 20%. And as we started to deleverage very early, the impact is limited, has been proven to be limited as we have maintained our D1 delinquency to approximately 20% so far in May.

And with regard to your second question for Wanlimu. We currently deployed around 200 staff, mainly in the R&D staff for the Wanlimu platform right now. There will be some more investments, but we are very prudent in our -- user acquisition.

We pay a lot of attention to user retention and ultimately, the profitability. We are not a company that burns cash for GMV. That's not our style. We will continue to leverage on our past entrepreneurial experience and on our technology capabilities to work on this new business opportunity, but we are not spending like too materially for a huge amount of users. We will be very prudent.

Operator

Our next question comes from the line of Sanjay Jain from Aletheia Capital.

Sanjay Jain ***Aletheia Capital - Head of Financials***

Can you hear me?

Sissi Zhu ***Qudian Inc. - VP of IR***

Yes, Sanjay.

Sanjay Jain ***Aletheia Capital - Head of Financials***

So a few quick questions. First is on the online lending business. Would you say that you are gradually exiting the business, particularly the open platform? Or if you see a rebound and you will focus back on this, then what kind of volumes and growth we can expect, say, in the second half or next year?

Sissi Zhu ***Qudian Inc. - VP of IR***

Sure. So Sanjay, we are absolutely not exiting our core business, the online lending segment. Although we currently will see declines in our loan book business as well as our open platform business, but we believe this is the only right course of action for now during this tough macro environment.

But in the future, when our delinquency rate gets better, and when time is right, we will bounce back with sufficient net assets to do this business. And what's your second question again, sorry?

Sanjay Jain ***Aletheia Capital - Head of Financials***

Yes. So let me just ask one by one. So what kind of growth could we expect once you start becoming more confident about asset quality and the macro backdrop?

Sissi Zhu ***Qudian Inc. - VP of IR***

Sure. Actually, it's a very tough question. We don't have a very good expectation or forecast on how soon the credit cycle will be over. It's a very hard to predict, and it is our company's policy not to give guidance this year. So unfortunately, we don't think we have that growing number right now but we will go as we see. If the delinquency gets better, we will start by testing some volumes one step by one step.

Sanjay Jain ***Aletheia Capital - Head of Financials***

And you expect the delinquencies to start improving in the third quarter or fourth quarter?

Sissi Zhu ***Qudian Inc. - VP of IR***

For our loan book business, we have already started seeing a slight turnaround -- a slight signal of turnaround if you look at our D1 delinquency chart. So it is a good guess to say that our second half of 2020 will be much better than our first half of this year.

Sanjay Jain ***Aletheia Capital - Head of Financials***

Okay. So that's on our loan lending. And the loan facilitation and open platform also from the third quarter or...?

Sissi Zhu ***Qudian Inc. - VP of IR***

For our loan facilitation portion of the book. Actually, we don't have any needs to use outside money to do our business right now. Because as you may also notice, we have abundant cash on our book. So right now, we can just be deploying our own equity to do the loan book business. But in the future, if our volume gets higher, we, of course, will welcome outside money.

For our open platform business, the delinquency actually went up much faster than our loan book business. The D1 delinquency for our open platform business was around 10% at the end of last year and doubled to about 20% recently.

So that's probably why our open platform partners as well as ourselves have decided to adopt a very prudent strategy right now. But if in the future, the delinquency rates get better, we believe the channels, the tools are still there. We are well-connected technologically. So if our open platform partners are happy to come back, we're happy to welcome them back to open platform.

Sanjay Jain ***Aletheia Capital - Head of Financials***

Okay, okay. My second question was on open platform. So if I understood your numbers correctly, you had -- I'm not sure whether you call it a provision or a write-back of income of some CNY 250 million. This is on the expected fee income which you had booked, but you might not receive now. So is it fair to say that of the CNY 2.2 billion open platform income you booked last year, about CNY 250 million you are not going to receive?

Sissi Zhu ***Qudian Inc. - VP of IR***

Correct. That's the current expectation. Although open platform business has no credit risk on the principals, we do have an expectation of the recoverability of getting our share of the service fees. So previously, we estimate that we can make a discount of 10% to 20% on the receivability on the capability of our share of the receivables.

But currently, we have to make more discounts on this number. So that's why there is a negative revenue on the slide this year, this quarter.

Sanjay Jain ***Aletheia Capital - Head of Financials***

No. I'm impressed the rest of the partner is paying up. It's only CNY 250 million, which is lost on your expectation. But looking at this behavior, perhaps you could revisit the income or revenue recognition and book it on a monthly basis rather than booking the open platform expected fee upfront, since the actual payment by the partner happens on a monthly basis rather than upfront.

But anyway, moving to the question on Wanlimu. Could you explain or Mr. Min Luo could explain his thought process behind that? But more importantly, what synergies do you is it in terms of product or -- I know you said technology, but what is -- is it the synergy there? And are you going to be providing financing to those buyers who buy those luxury items on your platform?

Sissi Zhu ***Qudian Inc. - VP of IR***

Right. So with regard to the synergy for Wanlimu and our [lending] (corrected by the company after the call) platform. You're right about the first point. We have the technology capacities that is as a result of our past experience in building up all technology platforms, and we can utilize that for the new platform. That's number one. And number two is, you're also right that in the future, it may be a possibility that financing solutions can be introduced to the Wanlimu platform. But right now, it's still a baby, it's still too young to have a financing solution for that.

And number three, we believe, as a result of the past entrepreneurial experience of our founders or our management team, we always have this appetite to try new things, and we believe our e-commerce background of our founders and the management team will be a good benefit to the new project.

Sanjay Jain ***Aletheia Capital - Head of Financials***

But your biggest strength is basically the 80 million customers, users who are on your -- who are registered with you. But that does not appear to be any compatibility between the e-commerce business, luxury versus your online lending type of customers.

Sissi Zhu ***Qudian Inc. - VP of IR***

Right. They're basically different type of users. We target at high income group of users for our Wanlimu platform. So far, we have proved to the fact that we have the tools and ability to acquire users effectively. We launched a live streaming selling campaign during the Labor Day holiday, and results are fascinating. The accumulated viewership for the selling campaign was 130 million. So as we have proved our ability to effectively acquire users, our next focus is how to retain these users, how to make them more loyal to our platform. So that's currently our thinking about this new project.

Sanjay Jain ***Aletheia Capital - Head of Financials***

So what is your competitive strengths there? Are you offering greater discounts than other e-commerce players or different brands? Or what is the differentiation?

Sissi Zhu ***Qudian Inc. - VP of IR***

Right. So number one, our differentiation. Number one, we have built up a strong supply chain, because as our suppliers are either state-owned enterprise or directly from duty-free shops, we have minimized the intermediaries. We have direct connection to the duty free shops, and the boutique shop in Europe to bring the authentic goods back to China. And by doing this, we have build up the ability to select and evaluate the price globally so that we can offer the best price available to our users.

And number [two] (corrected by the company after the call), as we have this cross-border e-commerce platform, our users can actually enjoy a lower duty or lower import tax. The import tax for our Wanlimu platform is around 9% for our goods -- the cosmetic products, but it can be 20% in other scenarios. So that's why we can offer better price for our users, and the price is very competitive in the market.

Sanjay Jain ***Aletheia Capital - Head of Financials***

Okay. And just the final question on Wanlimu. Is it being done in the main company, Qudian itself? So what kind of cash burn or impact on P&L are you expecting? And eventually, do you have any thoughts in mind about what kind of revenue share and profit share would you have for the 2 businesses?

Sissi Zhu ***Qudian Inc. - VP of IR***

So Wanlimu is actually a wholly-owned subsidiary under Qudian. So regarding the second question, for the revenue share, we don't think that actually matters. If Wanlimu gets larger, we will disclose their -- the revenue lines and the segment reporting separately. But just right now, it only started in late March, not very big right now, and we haven't really spent a lot of money on it, except for marketing. So right.

Sanjay Jain ***Aletheia Capital - Head of Financials***

Sure. So in relation to the revenue, current revenue of the company and current level of profits, it wouldn't be -- especially in the first year, the losses wouldn't be very big?

Sissi Zhu ***Qudian Inc. - VP of IR***

We don't have a visibility for that yet. If we see a good trend in our user retention and our user loyalty, we may ramp up this business much faster than expected. But currently, we are still testing different user acquisition channels and improving our fulfillment service for our users.

Sanjay Jain ***Aletheia Capital - Head of Financials***

Okay. And final question from me. On the convertibles, which you have bought back, the profit, how much is that? And will it be booked in the second quarter?

Sissi Zhu ***Qudian Inc. - VP of IR***

Right. So the profit impact, as you may have already seen from our table was CNY 435 million in the first quarter. For the second quarter, I'm afraid I can't disclose it right now, because we haven't finished our program yet. But it will be a good profit increase to our second quarter results as well.

Operator

Our next question comes from the line of Steven Chan from Haitong International.

Steven Chan ***Haitong International Research Limited - Executive Director***

I think I mainly have 2 follow-up based on John and Sanjay's question. First of all, going back to that revaluation loss of CNY 287 million, can I clarify again that it is related to some of the upfront revenue of only the open platform business that you have recognized in 2019?

And because you think that you are unlikely to get this revenue eventually, so that's why you have to book this revaluation loss of CNY 287 million. And related question is I heard that Sanjay say that you -- under the new accounting policy, you say that you will no longer book the revenue. You will no longer adopt the so-called upfront revenue recognition anymore in 2020. Is that correct?

And again, the related question for that is I still find that we have around 1.5 billion of contract assets in the balance sheet. So does it imply that, that could still be chance of revaluation loss to be booked in the coming quarters? So that's the first big question related to this revaluation loss.

And the second question, I think related to what John mentioned about the provision, whether it is sufficient or not. You mentioned that, that covered the --non-contingent part of guarantee. And then that could be similar to what banks has been adopting for IFRS 9. But I want to clarify 2 things. One, what is the current new loans delinquency rate? And two, do you have to make provisions for the delinquent new loans, even though you mentioned that you have made sufficient provision for Q1?

But in case, if your new loans start to become delinquent, for example, 20%, do you still have to make further provisions in the second quarter? Or we should assume this number to be 0 in the coming quarters? So just these 2 follow-up questions.

Sissi Zhu *Qudian Inc. - VP of IR*

Sure. Thank you, Steven. So for your first question regarding the revaluation of loss. So what I wanted to clarify is that we still have this D1 recognition of revenue for our open platform and loan facilitation income. However, the new accounting policy requires us to recognize the earnings slower. So the new accounting policy in effect is a timing difference. Previously, under ASC 606, we have to recognize the majority part of the revenue at day 1. But right now, with this new accounting policy, the recognition will be much slower because apart from the contingent part of the credit loss, we also have to carve out the noncontingent part of the credit loss at day 1, and release it gradually into the future.

So in effect, the new accounting policy is a timing difference, and it -- makes our earnings recognition slower. Regarding the 1.5 billion contract assets, we believe we had provided sufficient revaluation loss, revaluation to that contract assets at the end of March already. If the macroeconomics, our delinquency assumptions to the roll-rate model change into the future, we may have to evaluate that. That's why we have to do the revaluation at each period end.

So for your second question regarding the sufficiency of our provisions for the new loans. I also hope to clarify one point. Within our loan portfolio, we don't distinguish the new loans from the old loans. So at each period end, we will look at the balance of our outstanding loan principal, the balance of our provisions. We don't distinguish the new from the old. We reassess the whole portfolio at the same time.

So for now, what we can say is that at the end of March, we believe, our management believes and auditors have reviewed that we provided sufficient provision for the loan balance back then. If the delinquency situation didn't get any worse further, we should be sufficient on that.

Steven Chan *Haitong International Research Limited - Executive Director*

So Sissi, so you mean that in case there is no deterioration, we may have 0 provision or even write-back in the coming quarters?

Sissi Zhu *Qudian Inc. - VP of IR*

But you see our loan balance at each period end. It's actually a mathematical calculation for the loan provision. We calculate the balance figure at each period end. And the delta will be the changes in our provision into our P&L lines.

So it's actually a combined effect of too many factors. We are not sure whether there will be a write-back or a more provisions or 0 provision in the future. It's all...

Steven Chan *Haitong International Research Limited - Executive Director*

Because my -- sorry, sorry, my view is that you are expecting that the loan origination will go down and then loan outstanding balance would likely to go down. So you base on the loan balance, probably the loan balance, say, for example, in June compared with March, were likely to be declining. So if you assume the provision balance remain the same in June and compared with March, then probably, the equipment -- that will imply that there will be 0 provision unless you're going to see a very big write-off, which I don't know. That's why I'm asking whether the provisions are also related to the new loans to be made in second quarter.

Sissi Zhu ***Qudian Inc. - VP of IR***

I see what you mean. So we actually applied different loss rates for different age groups of our loans. So for the new loans, which are not delinquent, we apply a relatively smaller loss rate to that. For the loans that are delinquent, 1 to 30 days, we applied a relatively larger loss rate for that. For the loans in age group of delinquent for over 30 days, we apply an even larger loss rate on that.

Steven Chan ***Haitong International Research Limited - Executive Director***

I see. So in other words, there could still be chance of positive provisions, even the loan outstanding balance decline?

Sissi Zhu ***Qudian Inc. - VP of IR***

Right. We may see positive or 0 or negative provisions. We have to look at that number by each period.

Steven Chan ***Haitong International Research Limited - Executive Director***

Okay. A very minor question, a technical one. You have booked the provision adjustment in retained earnings of around CNY 0.9 billion. Any chance to have write-back on that part?

Sissi Zhu ***Qudian Inc. - VP of IR***

Oh, that's -- as a result of the new accounting policy 326, and that number in quotation mark "will be released" into the future for the remaining period of the relevant loans.

Steven Chan ***Haitong International Research Limited - Executive Director***

So that, it will be booked in the P&L?

Sissi Zhu ***Qudian Inc. - VP of IR***

Right, right. It will come back to our P&L.

Operator

Our next question comes from the line of Yiran. Yiran Zhong from Crédit Suisse.

Yiran Zhong ***Crédit Suisse AG, Research Division - Research Analyst***

I think my questions were mostly addressed by previous speakers. Just a small follow-up. Can I verify what you said earlier, Sissi, that the future guarantee liabilities would be accounted as a derivative in accordance with 815?

And secondly, I guess, what's the current assumption of life cycle loss rate under the new CECL, at the end of March? That's it.

Sissi Zhu ***Qudian Inc. - VP of IR***

Right. Thank you, Yiran. So for the future off-balance sheet loans, yes, you're right. Those loans will be counted under ASC 815 as derivatives. The guarantee portion will be counted as derivatives and measured at fair value. So it does not fall into the ASC 326 scope.

And your second question, sorry, can you repeat that?

Yiran Zhong ***Crédit Suisse AG, Research Division - Research Analyst***

It's -- so under the new CECL, what's the kind of -- can I get an understanding of what's the life cycle loss rate that is assumed basically at the end of March?

Sissi Zhu ***Qudian Inc. - VP of IR***

Actually, it's not a single number for the life cycle loss rate. We look into the portfolio by dividing them up to several dimensions. One, the different financial partners, the other one is the age group, and there are many other factors. So there's no single number for the life cycle loss rate. We have a different number for the non-contingent part, for the contingent part, for different age groups and different funding partners.

Operator

Next question comes from the line of Jacky Zuo from CR.

Jacky Zuo ***China Renaissance Securities (US) Inc., Research Division - Analyst***

I just have several follow-up questions. So first one is on the open platform business. So I've observed in the PowerPoint slide, actually, the recent D1 delinquency rate for open platform business is actually higher than the loan book business. I'm just wondering why is that. And do we expect -- we should see better asset quality in the open platform business, given we have those financial institution or funding partner to assess the risk on top of us.

And also, what is the latest take rates on our open platform?

And the second question is related to CECL as well. So just wondering because we also increased our on-balance sheet provision because of CECL. So just wondering how much was the increase because of CECL. We can kind of separate the impact for CECL model versus the previous model.

And the last question is on Wanlimu. So can you give us some guidance on the sales and marketing expense, we should expect in the second quarter or probably the following quarters?

Sissi Zhu ***Qudian Inc. - VP of IR***

Thank you, Jacky. I'll take questions one by one. So for open platform business, yes, you're right, our delinquency rate for our open platform business increased faster than our loan book business. One possible guess for the reason is that the open platform business ticket size and average balance of our users is much, much larger than our loan book business, and a larger ticket size will attract larger amount of delinquency as in our historical experience.

The take rates for open platform business will be single digit. It was around 5% in the first quarter, and it is a good guess to say that it will remain single digit in the near future. The CECL ASC 326 accounting policies, the sector is impacted for that. As we have also disclosed in our 20-F, we recorded a CNY 1.1 billion increase in risk assurance liabilities at the beginning of this year, and this number will get released gradually into this year. So we released around CNY 287 million in the first quarter, and there might be more in the future and in the second quarter.

So the accounting policy, the new accounting policy is actually P&L positive for our business. And the guidance for Wanlimu, unfortunately, it is our company's policy not to provide guidance this year. But for Wanlimu business, we do will incur some purchases spending and [sales and] (corrected by the company after the call) marketing this year. In the second quarter, it will be a material number, but not so significant compared to our core business.

Jacky Zuo ***China Renaissance Securities (US) Inc., Research Division - Analyst***

Sissi, just a follow-up. So for the second question, also actually, I want to ask the impact from CECL new model on the on-balance sheet provisions. The number was about CNY 1.1 billion provision of the on-balance sheet loans in the first quarter. So do we have a comparison of this new CECL model impact? So what will be the number if without CECL?

Sissi Zhu ***Qudian Inc. - VP of IR***

Oh, I see what you mean. The CECL impact on our on-balance sheet provisions is relatively small, it's actually very small because originally, even before the CECL, we already recorded our provision for on-balance sheet business, including the noncontingent part. So the impact from CECL is only some adjustments on the macro factors, the adjustment on the roll rate. It's not that significant.

Operator

The last question comes from the line of Daphne Poon from Citi.

Daphne Poon ***Citigroup Inc, Research Division - VP & Senior Associate***

Sissi, I just have one question about your buyback program. Can you share your thoughts about -- your plans about the further CB buyback, like whether there will be -- whether you're planning to buy back more? Or will there be any limitation in terms of the amounts that you can repurchase?

And also, if we think about your use of cash, that whether we would still prefer to use the cash for buyback or you would prefer to reserve more cash to fund your future loan growth?

Sissi Zhu ***Qudian Inc. - VP of IR***

Thank you, Daphne. So with regards to the buyback program. We will continue to do this. However, I'm not going to disclose the execution plan or the price right now. The limitation for our buyback quarter will be determined by our lawyers and banks separately each time. So I don't have that number right now.

The use of cash -- we always have a profitability focus in our mind, so either -- we can do the buyback to gain short-term probability profits. But if we spend these money wisely into new business opportunities or even our core credit business, we can have a better profitability in the future. We will consider to balance, the short-term and long-term profitability internally. Thank you, Daphne.

Operator

Thank you. There are no further questions at this time. I'd like to turn the call over back to the company for closing remarks. Please go ahead.

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect your line.

Sissi Zhu ***Qudian Inc. - VP of IR***

Thank you, everyone.
