

Klarna.

First Quarter Results 2022

Stockholm, Sweden
23 May 2022



Consumers

150m global active consumers
+60% YoY

27m US consumers
+65% YoY

22m global app MAU¹
+30% YoY

20 markets: Klarna live

45 markets: consumer reach

Gross Merchandise Volume

USD 20bn / SEK 187bn

US GMV +112% YoY
vs US-ecommerce +5%² YoY

39% 3yr GMV CAGR

93% of transactions from returning Klarna users

Retailers

400k+ global retail partners
+37% YoY

New and expanded partnerships:

ebay **Wolt** **STEVE MADDEN**

URBAN OUTFITTERS **intimissimi**

ANTHROPOLOGIE

FREE PEOPLE **MIGHTYape**

Q1 Financial Performance Highlights

- Klarna's Global Gross Merchandise Volume (GMV) growth continues to significantly outpace e-commerce growth³ both globally and regionally, up 19%⁴ YoY (vs global e-commerce down 3%⁵) to USD 20bn / SEK 187bn (Q121 USD 18.7bn / SEK 157bn). Net Operating Income increased 20% YoY to USD 381m/ SEK 3.6bn (Q121 USD 352m/ SEK 3.0bn), highlighting that the revenue take rate is stable.
- 93% of global transactions were from returning Klarna users as consumers adopt further Klarna products for more of their purchases, whether that is Pay Now, Pay Later or with the Klarna card. Klarna's most loyal consumers made an average of 53 purchases in Q1 22, with continuing double-digit growth in global purchase frequency as Klarna adds products and services that drive real value for consumers across the shopping, payments and banking landscape.
- Klarna's advertising products are growing rapidly with marketing revenue +120% YoY, driving a 1.5x uplift in conversion rates for retail partners vs industry benchmarks. While this is currently a small proportion of revenues, we see significant growth potential as global retail partners look for an end-to-end shopping partner to drive value across channels, adopting new services such as Klarna's recently launched virtual shopping service, rather than just a digital payments provider.
- The US remains our fastest growing market, and performance has been particularly strong with GMV more than doubling, up 112% during the period compared to the prior year, fuelled by a rise in Klarna consumers to 27m, and a 43% increase in purchase frequency. 90% of US transactions were from returning Klarna users, as consumers see the value of an alternative to interest-laden credit cards. US credit loss rates as a proportion of GMV have reduced over four consecutive quarters, down 30% YoY in line with trends we have seen across markets as they mature.

¹ Monthly active users

² [Salesforce Shopping Index](#)

³ [Salesforce Shopping Index](#)

⁴ All percentages calculated on SEK basis

⁵ [Salesforce Shopping Index](#)

- In the UK GMV rose 62% YoY based on a strong app performance, while credit loss rates remained steady at well below 1% of GMV.
- Global credit losses remain in line with expectations at 0.6% of GMV, down 20bps from Q4 21 while in our growth markets credit losses as % of GMV dropped 10bps YoY and are below 2%. Absolute credit losses are higher versus the same quarter last year as the proportion of new Klarna users increases following expansion in our growth markets and new market launches in 2021 including France, New Zealand, Ireland, Poland, and Portugal.

Outlook

- While GMV performance continues to be strong across all markets, we do recognise the global macroeconomic shifts and headwinds which are impacting consumers' daily lives. Klarna is well placed to support consumers in managing their cash-flow without passing increased costs on to them because of our retailer revenue-focused business model and stable take rates. We conduct affordability checks on each and every purchase to ensure the best outcome for consumers and for Klarna, helping them avoid the debt trap of revolving credit and high interest charges.
- However, we have again tightened lending parameters to reflect this evolving market context. Klarna is well positioned to adapt quickly to changing market conditions: the short term nature of our loan book means our balance sheet turns over 11x per year and we can finely control and swiftly change our risk appetite. Klarna's constantly improving underwriting models also enables Klarna to ensure we and the consumer are making a sound financial decision.
- Klarna's balance sheet remains strong, supported by an EU banking license in Sweden (AAA rated). Klarna is able to fund the growth of its balance sheet cheaply and efficiently. 89% of Q1 22 funding came from retail deposits in Germany and Sweden, which grew 60% YoY to SEK 61bn. Unlike neobank competitors who provide checking account services susceptible to interest rate rises, Klarna offers fixed term saving accounts with an average initial term of 26 months. The continued popularity of these accounts provides Klarna with significant confidence in the stability of future funding.
- During 2021, Klarna invested significantly in technology, market expansion and M&A to create a strong platform for future growth, which are already showing gains through the launch of new services and products such as virtual shopping and advertising services. Klarna has the right elements in place to drive product parity across our existing geographical footprint, helping to solve the most relevant problems for our 150m active consumers and 400k+ retail partners.
- However, the economic environment today is evidently much more volatile than in 2021 when we made our business plans. While we are still seeing strong growth across the business, it is now time to consolidate and capitalize on the strong foundations we have established. We have revisited our 2022 plans and will implement a number of prudent and pre-emptive measures to meet these evolving challenges. We will sharpen our focus on core value drivers in the business to further accelerate growth in key markets in the US and Europe where we see significant upside based on our current market position. As part of this, we have carefully assessed our organizational needs for the future to deliver on these very targeted priorities which will unfortunately mean c.10% of Klarna colleagues leaving the company, as well as tighter controls on our cost base.

"Klarna's performance continues to strengthen with merchandise volumes growing globally and well above global e-commerce performance, while credit loss rates continue to decline driven by 150m consumers choosing to shop with Klarna everyday over traditional interest-laden revolving credit products. In a rising interest rate environment, we fully expect to see traditional banks capitalizing on the opportunity to pass costs onto consumers while Klarna will continue to offer global consumers the benefit of interest-free products to save them time and money. The Klarna card for example saves consumers over \$400 in fees each year - every time a consumer uses Klarna, it is a small but significant win for their finances. We will continue to run affordability checks on each and every Pay Later purchase to ensure the best outcomes for both consumers and Klarna.

When we set our business plans for 2022 in the autumn of last year, it was a very different world than the one we are in today. What we are seeing now is not temporary or short-lived, and hence we need to act. More than ever, we need to be laser-focused on what really will make us successful going forward. Based on this, the senior leaders of Klarna have made some really tough decisions, some of the hardest ones we have ever had to make. We have re-evaluated our organizational setup to make sure we can continue to deliver on our ambitious goals. It saddens me to say that as a result of this, a number of our colleagues and friends across the company will be impacted. I want to thank each and every one of you for your hard work and above all your contribution to Klarna and our mission."

Sebastian Siemiatkowski, CEO and Co-Founder, Klarna

Driving global consumer engagement and loyalty to create value for retailers

- 1 million consumers now use the interest-free pay later Klarna card for everyday purchases in Sweden, Germany, the UK and soon the US driving purchasing volumes up 78% YoY. The UK and US card waitlists exceed 2m sign ups, illustrating the demand for an alternative to traditional credit cards.
- The integration of PriceRunner is now well advanced due to the rapid migration of teams, products and services with product plans now well advanced for launch in H2 2022. Stocard, a complementary platform to Klarna's own rewards programme, is now fully integrated internally and rebranded to drive consumer awareness ahead of product launches scheduled for Q2 2022. Klarna's rewards programme will also expand to all markets during 2022 driving loyalty and repeat purchases globally, building on the success of Vibes in the US and Australia which currently has over 4m members.
- Klarna's new virtual shopping offering, building on the successful acquisition of [Hero](#), is now live across 18 markets, bringing the best of in-store to the online experience, with more markets to follow. This service enables consumers to browse and buy online with confidence by connecting them directly with in-store experts through live chats and video calls to receive product advice and inspiration. This new service meets retailer demand for an end-to-end shopping partner, from consumer acquisition to payments and post-purchase support.
- Klarna continues to bring retailers from a diverse range of verticals to new consumers, including eBay in Germany, Wolt, Steve Madden, URBN brands including Urban Outfitters, Free People and Anthropologie, and an in-store pilot with the largest pharmacy chain in the US. The luxury sector continues to see particularly strong growth with eleven new luxury brands partnering with Klarna across multiple markets during the quarter.
- Klarna continues to create product parity across markets, ensuring consumers have the same great experience everywhere through its shopping app, and the ability to pay immediately and in full (Pay Now) with Klarna alongside flexible Pay Later options across all 20 markets - now including Canada - in 2022. Additionally, Klarna's industry-wide transparency initiative has expanded beyond the Nordics to Germany, Austria and Switzerland providing consumers with improved payment reminders, elimination of fees, and amended payment terms, making Pay in 30 days the standard Pay Later product alongside Pay in 3 and 4. Klarna has also expanded its in-app budgeting and spend analysis tool to all markets, supporting consumers to make informed decisions and take control of their finances.
- Klarna also announced the launch of Klarna Kosma to harness the rapid growth of its world-leading Open Banking platform. Klarna Kosma has the largest reach of any open banking platform with access to 15,000 banks in 24 countries through a single API, and rapidly reduces the time for new fintech services to reach global scale and provides the essential building blocks for innovation in financial services. Today, Kosma processes close to a billion information requests to bank accounts each year.
- In the UK, Klarna announced it has chosen to voluntarily share information on use of BNPL products with UK credit reference agencies to protect customers, provide the industry with greater visibility of BNPL use, and give UK consumers one less reason to use high-cost credit cards.

Significant events

- On 29 April, after the period, Klarna announced its intention to redeem Floating Rate Subordinated Additional Tier 1 Capital Notes issued on 26 May 2017 with an aggregate amount of SEK 250,000,000 outstanding. The early redemption date will fall on 27 May 2022 and the record date for the early redemption was 19 May 2022.

Income Statement, Klarna Bank AB Group

Amounts in SEkk	Jan - Mar 2022	Jan - Mar 2021	Jan - Dec 2021
Interest income	1,088,579	901,890	4,040,280
Interest expenses	-232,971	-179,874	-821,909
Net interest income	855,608	722,016	3,218,371
Commission income	3,070,772	2,497,754	11,253,925
Commission expenses	-176,127	-183,319	-709,768
Net result from financial transactions	-426,640	-195,905	-670,730
Other operating income	227,882	111,361	662,691
Total net operating income	3,551,495	2,951,907	13,754,489
General administrative expenses	-4,671,025	-2,828,251	-15,032,878
Depreciation, amortization and impairment of intangible and tangible assets	-230,144	-135,368	-654,990
Total operating expenses before credit losses	-4,901,169	-2,963,619	-15,687,868
Operating result before credit losses, net	-1,349,674	-11,712	-1,933,379
Credit losses, net	-1,188,607	-784,653	-4,646,783
Operating result	-2,538,281	-796,365	-6,580,162
Income tax	-32,059	146,260	-512,341
Net result for the period	-2,570,340	-650,105	-7,092,503

Balance Sheet, Klarna Bank AB Group

Amounts in SEkk	31 Mar 2022	31 Dec 2021	31 Mar 2021
Assets			
Cash and balances with central banks	9,340,096	15,810,926	12,772,296
Treasury bills chargeable at central banks, etc.	13,562,849	9,744,295	9,168,959
Loans to credit institutions	4,285,966	4,990,233	2,560,508
Loans to the public	62,234,030	62,086,767	45,114,538
Bonds and other interest-bearing securities	1,130,465	1,132,964	1,455,219
Other shares and participations	460,593	792,259	895,861
Intangible assets	5,477,759	5,410,255	2,572,452
Tangible assets	1,751,811	1,512,605	1,383,932
Deferred tax assets	337,441	316,860	881,546
Other assets	2,810,808	2,367,069	1,036,546
Prepaid expenses and accrued income	1,042,106	960,256	399,385
Total assets	102,433,924	105,124,489	78,241,242
Liabilities			
Liabilities to credit institutions	946,860	712,580	662,104
Deposits from the public	61,159,115	59,670,325	38,242,635
Debt securities issued	6,289,688	9,122,819	4,531,006
Deferred tax liabilities	188,955	183,127	75,799
Other liabilities	15,156,777	13,953,739	21,553,282
Accrued expenses and prepaid income	2,155,676	2,669,347	1,677,276
Provisions	61,314	65,546	129,308
Subordinated liabilities	301,078	301,056	599,180
Total liabilities	86,259,463	86,678,539	67,470,590
Equity			
Share capital	66,819	65,329	57,115
Other capital contributed	26,301,043	26,301,043	12,302,533
Reserves	246,156	238,433	193,515
Additional Tier 1 instruments	526,000	250,000	250,000
Retained earnings	-8,395,217	-1,316,352	-1,382,406
Net result for the period	-2,570,340	-7,092,503	-650,105
Total equity	16,174,461	18,445,950	10,770,652
Total liabilities and equity	102,433,924	105,124,489	78,241,242

Cash Flow Statement, condensed, Klarna Bank AB Group

Amounts in SEKk	Jan - Mar 2022	Jan - Mar 2021	Jan - Dec 2021
Cash flow from operating activities ¹	-4,459,838	3,604,436	-6,887,807
Cash flow from investing activities	-188,644	-1,208,834	-4,931,944
Cash flow from financing activities	-2,666,070	5,251,605	23,364,968
Cash flow for the period	-7,314,552	7,647,207	11,545,217
Cash and cash equivalents at the beginning of the period	18,701,580	6,914,466	6,914,466
Cash flow for the period	-7,314,552	7,647,207	11,545,217
Exchange rate diff. in cash and cash equivalents	249,097	157,267	241,897
Cash and cash equivalents at the end of the period	11,636,125	14,718,940	18,701,580
Cash and cash equivalents include the following items			
Cash and balances with central banks	9,340,096	12,772,296	15,810,926
Loans to credit institutions ²	2,296,029	1,946,644	2,890,654
Cash and cash equivalents	11,636,125	14,718,940	18,701,580

¹ Cash flow from operating activities includes interest payments received and interest expenses paid.

² Adjusted for non-cash items.