

Financial update: 1 January 2020 – 31 March 2020

Klarna.[®]

Klarna Bank AB Group

Summary of the period, January 1 - March 31, 2020

Business highlights from the period:

- Consumers across markets continue to choose Klarna as our offering provides a healthier, simpler and smarter alternative to credit cards. During the period more than six million new consumers used our services globally. Consumer preference and engagement continues to be high, and the number of monthly active app users globally has increased by more than 70% compared to March last year. This steadily increasing demand for Klarna's offering drives continued growth in total underlying sales and total net operating income, 37% and 31% YoY respectively. Total underlying sales amounted to almost SEK 97bn (USD 9.9bn¹) during the period. Commission income driven by merchant revenues grew by 37%, and is the fastest growing revenue stream continuing to increase as share of total revenues. During the quarter, Klarna has increasingly diversified revenue streams with new non-credit and affiliate services.
- We have seen a surge of global brands now live with Klarna across markets. By the end of March almost 15,000 new merchants had been added to the global base of more than 200,000 merchants.
 - New and existing retailers include: Sephora, The North Face, Disney+, Shein, ROMWE, Timberland, Modcloth, Ego Shoes, Groupe Dynamite, Shoe Carnival, WWE, TOMS, Boohoo Group, Hibbett Sports, Lulus, Charlotte Tilbury, JD Group outdoor brands (Blacks, Millets, Go Outdoors), Sweaty Betty, Ebuyer, Levi's, Mamas & Papas, Snow + Rock, as well as the go live of H&M in the US.
- The growth in app downloads globally continues, with a 240% increase compared to the same period last year. The Klarna app is continuously updated with new and enhanced features to give consumers inspiration, convenience and value through features such as curated wishlists and content, easier checkout with flexible payment alternatives, pictures of all purchases, delivery tracking, personal finance tools and price drop notifications. New features see immediate traction and the number of weekly wishlisted items reached all time high in mid-March.
- In the US, the popularity of the Klarna offering is growing rapidly and the number of consumers amount to 7.5 million by the end of March. During the period Klarna's app saw almost 300,000 more downloads than the direct competitors in the US. In March, we reached an all time high in monthly shopping volume in the app. Additionally, we saw our second-highest weekly transaction volume ever on the Klarna app in the US, with only the Black Week last year having higher volumes.
- The Klarna card, currently available in Germany and Sweden, and its flexible, smart and rewarding features including no fees, no added FX cost, instant purchase notifications and the possibility to pay with your phone, drive continued volume growth through both number of card holders and number of transactions. The volume for the quarter has increased more than 400% compared to the same period last year.
- Total expenses year to date are in line with plan, as the commitment to further invest in consumer-friendly product offering, top talent and increased brand awareness continues, with a focus on the US and market expansion.
- Klarna has continued to actively manage down the share of late fees in relation to total volume during the period. This is to a large extent supported by an increased app usage adoption as the app helps consumers to keep track of their outstanding payments, and thereby enabling them to increase control over their personal finances.
- A growing consumer base, and especially first time Klarna consumers in new markets, affects net credit losses. New market entries are likely to entail higher credit loss rates during the initial phase. Credit quality remains steady in core markets and is steadily improving in newer markets.

¹Klarna's results are reported in SEK. To arrive at USD values, the average exchange rates YTD have been used; 1 USD equals approximately 9.7 SEK for the first three months 2020.

Events during the period:

- In January we launched in Australia, by introducing the Klarna app and its shopping feature. We partnered with The Commonwealth Bank of Australia (CBA), which invested in Klarna last year, to launch services in Australia and New Zealand. CBA app users are now able to easily connect their CBA account to a Klarna account, enabling smooth shopping in a few easy steps. The launch has been successful with more than 100,000 app installs by the end of March.
- In March, Ant Financial Services Group, owner and operator of the world's leading payments and lifestyle platform Alipay, invested a minority stake in Klarna. With this investment we deepen our partnership to bring more innovative and convenient financial services to consumers worldwide.
- Klarna acquired the Italian 'buy now, pay later' startup Moneymour, which gives access to intellectual property to further improve our underwriting capabilities, as well as additional expertise and competence. This acquisition marks the first step in launching Klarna's latest product development hub in Milan.

Comment on current situation:

In light of the recent events related to the Corona-virus (Covid-19) where social distancing and other restrictions have been imposed, we have seen significant changes in consumers' spending priorities and behaviors. This crisis combined with the unprecedented closure of physical retail stores and mass cancellation of travel and events has affected companies differently, depending on the sector. For some it is clearly challenging while others are seeing increased demand and growth. There has been a sharp shift of consumers from offline to online shopping, and many of our merchants are expediting the development of their online offering. At times like this, the attractiveness of our solution increases rapidly among both merchants and consumers as consumers become more focused on cash flow and seek the increased financial flexibility and control that we offer.

At Klarna, we are continuously monitoring relevant development and ensuring that all appropriate assessments on the potential impact are made on both the consumer and merchant facing sides of the business across all markets. Shorter duration credits in combination with our diversified exposure with regards to verticals and geographical markets gives us balance, and despite restricting the credit policy we continue to see strong growth. As a responsible and precautionary measure, we have decided to add an additional reserve for increased credit risk given the Covid-19 situation. This impacts the operating profit by SEK 100m. Klarna's financial standing is robust given the equity raises during 2019 and the current liquidity buffer. We, as all other financial institutions, are also supported by measures provided from regulators. The migration of our geographically dispersed workforce to remote working occurred efficiently. In this context it has been advantageous to be cloud technology based, this combined with well-developed remote working capabilities developed across all competences, has meant we have maintained the highest level of availability, uptime, and resilience. We have maintained some limited physical operations where only absolutely necessary, always in line with local government guidance and to ensure compliance with our regulatory obligations. Throughout this, our focus has been on the welfare of our employees, consumers and merchants partners.

Income Statement, Klarna Bank AB Group

Amounts in SEkk	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
Interest income calculated according to the effective interest rate method	789,383	630,905	2,794,769
Interest expenses	-128,422	-77,606	-368,203
Net interest income	660,961	553,299	2,426,566
Commission income	1,572,413	1,146,174	5,232,181
Commission expenses	-117,195	-102,508	-476,023
Net result from financial transactions	-59,105	-15,887	-76,437
Other operating income	22,901	3,559	48,381
Total net operating income	2,079,975	1,584,637	7,154,668
General administrative expenses	-1,903,144	-1,313,821	-6,081,229
Depreciation, amortization and impairment of intangible and tangible assets	-85,747	-70,046	-299,271
Total operating expenses before credit losses	-1,988,891	-1,383,867	-6,380,500
Operating profit before credit losses, net	91,084	200,770	774,168
Credit losses, net	-691,754	-296,713	-1,862,817
Operating profit	-600,670	-95,943	-1,088,649
Income tax	141,010	-255	186,293
Net profit for the period	-459,660	-96,198	-902,356

Balance Sheet, Klarna Bank AB Group

Amounts in SEkk	31 Mar 2020	31 Dec 2019	31 Mar 2019
Assets			
Cash and balances with central banks	428,133	107,076	582
Treasury bills chargeable at central banks, etc.	5,382,929	2,510,606	2,506,094
Loans to credit institutions	2,754,798	1,907,129	2,231,518
Loans to the public	28,981,899	29,654,552	19,997,280
Bonds and other interest-bearing securities	2,808,813	1,833,567	-
Other shares and participations	20,852	20,081	20,081
Intangible assets	2,311,017	2,145,846	2,067,934
Tangible assets	939,529	892,654	499,887
Deferred tax assets	311,509	310,666	46,985
Other assets	894,700	337,071	186,384
Prepaid expenses and accrued income	226,424	148,312	205,702
Total assets	45,060,603	39,867,560	27,762,447
Liabilities			
Liabilities to credit institutions	533,679	4,939,524	452,994
Deposits from the public	20,840,663	12,287,653	13,835,137
Debt securities in issue	6,149,742	5,582,703	1,997,836
Deferred tax liabilities	83,797	76,411	113,955
Other liabilities	10,669,409	9,822,329	5,776,035
Accrued expenses and prepaid income	926,704	907,475	633,006
Provisions	318,723	357,674	275,199
Subordinated liabilities	598,636	598,325	597,846
Total liabilities	40,121,353	34,572,094	23,682,008
Equity			
Share capital	52,752	52,752	52,752
Other capital contributed	4,805,140	4,805,140	2,805,140
Reserves	332,986	225,821	228,545
Additional Tier 1 instruments	250,000	250,000	250,000
Retained earnings	-41,968	864,109	840,200
Net income for the period	-459,660	-902,356	-96,198
Total equity	4,939,250	5,295,466	4,080,439
Total liabilities and equity	45,060,603	39,867,560	27,762,447

Cash Flow Statement, condensed, Klarna Bank AB Group

Amounts in SEkk	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
Cash flow from operating activities ¹	708,028	961,121	-2,429,915
Cash flow from investing activities	-112,882	-1,015,580	-1,379,179
Cash flow from financing activities	559,212	-27,463	3,474,384
Cash flow for the period	1,154,358	-81,922	-334,710
Cash and cash equivalents at the beginning of the period	1,618,008	1,917,407	1,917,407
Cash flow for the period	1,154,358	-81,922	-334,710
Exchange rate diff. in cash and cash equivalents	48,372	27,708	35,311
Cash and cash equivalents at the end of the period	2,820,738	1,863,193	1,618,008
Cash and cash equivalents include the following items			
Cash and balances with central banks	428,133	582	107,076
Loans to credit institutions ²	2,392,605	1,862,611	1,510,932
Cash and cash equivalents	2,820,738	1,863,193	1,618,008

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

²Adjusted for non-cash items in loans to credit institutions such as money in transfer.