



## Affirm's capital strategy 2.0 — A Silicon Valley approach to building bridges between Wall Street, Main Street, and everywhere in between

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For well over a decade, Affirm's mission of delivering honest financial products that improve lives has relied upon having access to deep pools of committed capital. How else can we responsibly extend access to credit without having access ourselves?

In the very early days of the company, we literally put our money where our mouth was by committing our own dollars upfront and having a number of partners provide facilities to support funding the loans extended. Our philosophy of having 'skin in the game' and alignment of interests continues to this day, but we recognized that the scale and sophistication of our capital platform needed to evolve to support Affirm's accelerated growth. Indeed, Affirm's gross merchandise volume and funding capacity have both increased at an approximate 50% CAGR over the past four years through FY'24.

Affirm's capital markets expertise has been a key driver of our success and is a major competitive advantage in the pay-over-time market. We have invested heavily in our team and our relationships with more than 150 capital partners to ensure that we can fund the loans we extend today, tomorrow, and years into the future as we advance our ambitious growth plans.

Our Capital team's mandate at Affirm is to provide a runway of funding to support our growth plans *ahead of the need*, and in the most sustainable and cost-efficient manner. The top priority to doing so – and where our ultimate success starts and ends – is through managing credit (always job #1) and leveraging the power of partnerships across our ecosystem.

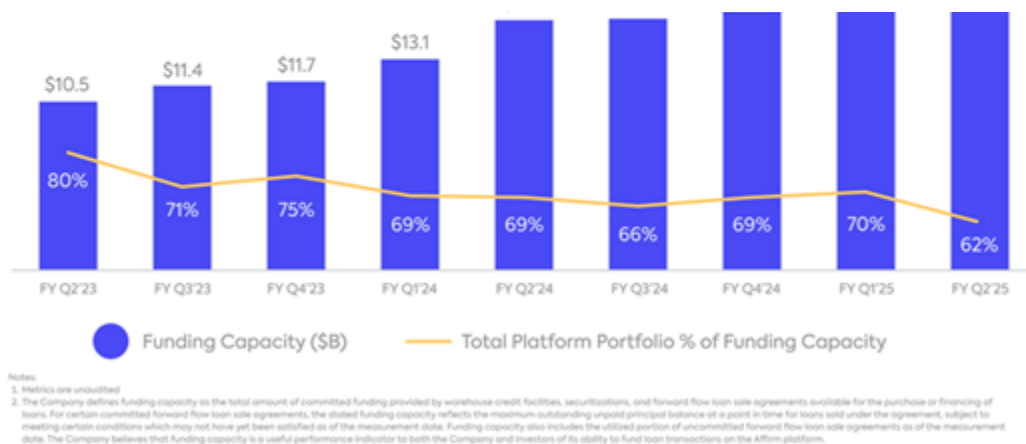
As we look to the future, we are doubling down on what has made us successful. This means investing in relationships over transactions and scaling with our long-term capital partners as we execute on three key objectives of our Capital 2.0 Strategy:

1. Deepening our stable access to funding at transformational scale;
2. Driving operational efficiencies throughout our Capital ecosystem; and
3. Delivering strong unit economics through efficient risk-based pricing and innovative structures.

But, before diving into where we're headed and how we'll get there, let me first review how far our capital platform has come.

### Funding Capacity





## How Affirm Funds the Loans We Facilitate

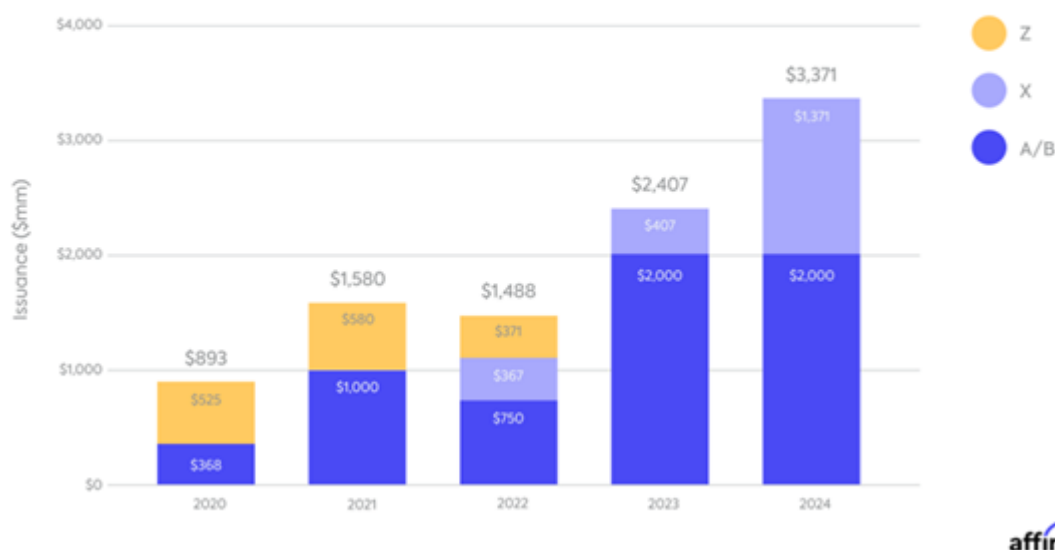
An Affirm loan goes through several stages throughout its lifespan – from initiation to repayment. When a consumer chooses Affirm at checkout, the loan is underwritten using our proprietary technology before we make a real-time credit decision. Because Affirm doesn't have any late fees or hidden charges, our success depends upon our underwriting.

Generally, after a consumer is approved in accordance with our originating bank partner's credit policies, the loan is originated by the partner, which ensures compliance with all applicable regulations. Once originated, Affirm purchases this loan from the bank partner and allocates it to one of our three core funding channels:

1. **Asset-Backed Securitizations (ABS):** Affirm places hundreds of thousands of loans into the same bankruptcy-remote trust, which receives ratings from multiple credit rating agencies, and then sells the entire pool or a significant portion of them to investors, who get paid when consumers repay their loans. Asset-Backed Securitizations are a tried and true practice in other consumer finance markets (e.g. housing/residential, auto, credit cards), but Affirm was the first point-of-sale, pay-over-time platform to execute an asset-backed securitization backed by those loans, in July 2020.

Since launching our first securitization, Affirm has become a programmatic issuer in the ABS markets with over 20 unique offerings representing more than \$10 billion in issuance. We have made continuous enhancements to the platform over time, including onboarding two ratings agencies in Fitch and DBRS Morningstar. In late 2024, we also established a new Master Trust to drive efficiencies and streamline operations. Through this process, the Master Trust will provide a single revolving issuance platform to track, deepening liquidity and increasing transparency.

## Affirm ABS Issuance



2. **Forward-Flow (AKA Direct Loan Sales):** These agreements involve selling loans directly to fixed-income investors like insurance companies, alternative asset managers, and pension funds. These investors generally purchase loans from Affirm for more than the principal balance of the loan, allowing us to earn upfront revenue and generate a gain on sale while freeing up additional capacity so that we can continue to expand access to our honest financial products. As consumers repay their loans, these investors receive their money back. Our forward flow program includes some of the most sophisticated long-term credit investors like CPPIB, Liberty Mutual, Prudential, and Sixth Street, which provides us with ample capacity to

continue expanding access to our honest financial products.

3. **Warehouse Facilities:** This structure allows Affirm to borrow from large banks offering our loans as collateral, providing flexibility and liquidity to fund more loans.

**Engineering-Driven Approach and Benefits of Vertically Integrated Capital Stack**

We employ an engineering-driven approach to our capital strategy through having excess capacity and redundancies across the platform.

Unlike other buy now, pay later providers, Affirm underwrites every transaction in accordance with our originating bank partner's credit policies. Underwriting is a key competitive advantage for Affirm that enables us to drive higher conversion rates for merchants and more delightful experiences for consumers. In doing so, Affirm is able to unlock more value from each transaction vs. needing to find other avenues for monetization to build a successful and sustainable business model.

We manage our utilization to maintain the right level of cushioning while deploying capital effectively and staying true to our principles of diversification, durability, and risk management. A key part of this process is ensuring that we are not overly indexed on any single strategy or partner. That's why we have and will continue to invest in all of our channels across all market cycles. We aim to keep our equity capital required ratio at 5% or lower long term, which we believe strikes the right balance between maintaining access to all of our channels while efficiently deploying capital. The chart below depicts how we think about the interplay between each of our channels.



**Why Investors are Attracted to Affirm's Assets**

So why do investors purchase Affirm loans? Three key factors stand out:

- 1. **Technology-Driven Risk Management:** Affirm has demonstrated a superior technology-driven approach to tiering and pricing risk. Our transaction-level underwriting provides a structural advantage compared to other credit issuers since we underwrite every transaction individually before making a real-time credit decision. This provides us numerous levers and agility due to our ability to manage the duration of each loan, as well as individual consumer exposure limits.
- 2. **Short-Duration Assets:** With a weighted average life of around 4.5 months, Affirm's assets offer an attractive risk profile and consistent turnover. The loans don't need to withstand multiple credit cycles and we're able to react incredibly quickly given the many signals we receive through our transaction level-underwriting.
- 3. **Consistent Risk-Adjusted Returns:** Affirm is able to generate quality assets at scale that have become known for their consistent credit performance and providing a reliable source of yield for our partners. That said, we take none of this for granted as our success is driven by managing credit outcomes, which will always remain our top priority - as demonstrated by our results.

While credit is always job #1, job #1A is ensuring that we are never capacity constrained as merchants, consumers, and capital partners depend on our products. That is why we continually add funding capacity across all of our channels and market cycles.

Together, all of this activity and engagement has enabled us to have a very robust capital position of more than \$22 billion in funding capacity as of December 31, 2024. And because our assets are relatively short in duration, this provides us the ability to fund more than \$44 billion in volume per year. Our next wayward point is being able to support \$50 billion in annual volume, and eventually \$100 billion as we execute on our growth plans.

**Looking Ahead – What's Next for Affirm Capital**

As we look to the future, Affirm remains focused on sustainably and cost-effectively supporting our consumers and merchants. We'll continue investing in our long-term capital partnerships as we expand funding capacity across all three of our channels.

Over the last several years, Affirm has strategically expanded and diversified our capital platform. By staying laser focused on credit and investing in relationships over transactions, we have been able to attract a diverse mix of world class investors including insurance companies, alternative asset managers, sovereign wealth funds, pension funds, and hedge funds, among others.

Looking ahead, we will continue to invest in growing all three of our channels and continuing to leverage our underwriting and diversification as our superpowers.