

Annual Report 2018

Klarna[®].

Klarna Bank AB (publ)
(Corp. ID 556737-0431)

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To our Shareholders

Fellow shareholders,

A question we are often asked is 'what is Klarna'? Are we a fintech, or a bank, maybe a technology company, an e-commerce facilitator or a payment provider? We are in fact in part all of the above and more but we are not so concerned on fitting into single neat labels, we are focused on what we are actually solving for. When Klarna was founded, the challenge was making technology work in an online retail environment and our mission was to enable merchants to sell and consumers to buy online in an easy, safe and smooth way. We then moved into an era where we had to focus more on reducing unnecessary friction in the shopping journey, so the consumer didn't abandon their purchase in frustration. We believe we are now in the 'experience era'. The technology functions, the unnecessary friction is continually being eliminated but the consumer now expects a highly personalised and intuitive experience that not only meets their individual needs before and at the checkout but also in post-purchase. That means offering a range of services that helps people seamlessly shop, pay, finance, manage and keep track of their purchases in a simple, convenient and secure way. We want to give consumers control, save them time and where possible create a joyful experience stretching far beyond the actual transaction.

This focus on the user experience is relentless and this principle should guide absolutely everything we do at Klarna. By doing so we also importantly drive loyalty, and ultimately sales for over 100,000 merchants and partners operating in a highly competitive environment. The value which our products bring can be seen in the increased conversion rates, order value, number of users and overall preference for our merchants. This value is also reflected in the continued year-on-year growth in volumes, transactions, active users and merchants base across all markets and the increasing strength of our position, particularly in the DACH region (Germany, Austria and Switzerland), which is now our largest market and the success of Pay later in the UK, to the point it has become a verb to 'klarna it'.

We set out big ambitions for 2018 and the results of enormous efforts to make them a reality are evident. The new Klarna app with a host of features is now live across multiple markets and engagement has been really positive but this is just the beginning, the app will continue to evolve into something we believe will truly be empowering for consumers in managing their daily financial lives. We launched a new product called Slice it in 3/Slice it in 4 in the UK and the US, which allows consumers to spread their cost over 3 or 4 installments interest free, giving desired flexibility and purchasing power including on a debit card. This offer has already resonated strongly and will be available in other markets soon. Equally, our off-line presence has steadily developed with instore solutions now live in thousands of stores and the successful launch of the Klarna card, which is utilising the capabilities from our banking license. We have also dedicated more resources to meeting the particular needs of SMEs, this includes new automated onboarding and a financing program that enables simplified access to funds. Finally, being able to share the news on our partnership with H&M across multiple markets has been a particular highlight, we are now working together to soon offer a seamless and engaging shopping experience that will delight consumers across touchpoints.

While Klarna is constantly evolving, we cannot be complacent. Every day brings new challenges and new opportunities. The context we are operating in is developing so rapidly, we need to constantly look ahead. Therefore, we made a strategic decision at the beginning of the year to significantly increase important investments in people, systems and products to further strengthen our capabilities and drive efficiencies. These are investments in our future and our core focus is on growth. While revenues continue to increase steadily, this decision has resulted in a lower net profitability for this year, but we know this was the right decision as we are building Klarna for the long term and an acceleration from the investments is already starting to be realised and this will continue.

Consumers and merchants will not settle for average. And neither do we. Every day, we will work to build world class products which offer the very best service and consumer experience. I want to take this opportunity to thank my fellow employees, our shareholders, merchants and users for their support in 2018 and I am very excited with what 2019 will bring, soon to be revealed.

Together we will create wonders.

Sebastian Siemiatkowski, CEO and Co-founder

Report of the Board of Directors

The Board and the CEO of Klarna Bank AB (publ) hereby submit the report for the period January 1 – December 31, 2018. The annual accounts have been prepared in thousands of Swedish kronor unless otherwise stated.

Information about the business

Klarna Bank AB (publ) is a registered bank and is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). The company's personal data protection officer is responsible that all personal details are dealt with in accordance with the General Data Protection Regulation (GDPR).

Our purpose at Klarna is to make the modern purchase experience smoother and this is done by facilitating the relationship between consumers and merchants, creating a flexible buying experience for consumers and making selling simpler and safer for merchants. Klarna's business is primarily comprised of payment solutions and consumer credit products designed specifically for e-commerce. Today, Klarna's services have expanded beyond traditional e-commerce, for example, by managing payments for public transport, media and increasingly in physical stores. Klarna receives revenues from both the merchants and the consumers that use Klarna's payment solutions.

Klarna's core mission is to give consumers control, to save them time and to create a joyful experience that stretches beyond the actual transaction. Klarna offers consumers a range of payment options including card payments and direct banking, as well as Klarna's proprietary payment options, which include invoice (Pay later), sales financing (Slice it), we also have immediate settlement option (Pay now). This year, Klarna launched Slice it in 3 and 4 in the UK and the US respectively, offering consumers a short-term (3 months or 4 weeks) free instalment plan with no interest or fees. Klarna also launched a payment card, over 50,000 cards have already been issued, as well as a shopping browser with a single-use virtual card, making it possible for our app users to use Klarna also at merchants not connected to Klarna, both online and in physical stores, this is what we refer to as the 'Klarna everywhere' concept. Together, this ensures that consumers can choose how and when to pay for purchases based on their needs and preferences.

Klarna's value proposition to merchants is to increase sales and reduce their working capital requirements by providing simple, safe, and cost-effective payment solutions and consumer credit products across all e-commerce platforms, especially on mobile phones, as well as in physical stores. Klarna's offerings to the merchant include technology, credit risk, customer services and administration. The "Klarna Checkout" is a conversion driving checkout solution optimised for desktop and mobile through which merchants can offer card payments, direct banking and Klarna's proprietary payment options as well as a newly launched shipping service in one solution. Klarna assumes all the risk for both the consumer and merchant.

During the year, Klarna launched several SME focused services. One example is Boost, a merchant lending product that democratises and simplifies access to capital for SMEs to help them accelerate growth and unlock potential. Another example is the new automated and simplified onboarding tool that makes it easier for SME merchants to start to use Klarna's services. Klarna has also launched a new merchant portal, including tools that provides all merchants with additional insights on their current customer base.

Our success to date is a result of the high degree of trust we have built with customers and partners in all markets. This trust is critical in the financial sector and when handling personal data. Maintaining that trust requires that we operate with the highest ethical standards and strive to do what's right every day. Such standards are necessary across all parts of the business - from the handling of sensitive personal data to a robust corporate governance framework and ensuring all employees are treated with respect in a secure working environment.

Business performance

Total sales volume increased by 36% compared to 2017. This was driven by strong growth in the existing merchant base, coupled with continual on-boarding of new merchants across all regions. During 2018, the DACH region established itself as our largest market based on sales volume and the realisation of a successful integration of BillPay GmbH has also contributed positively to this growth trajectory.

Total operating revenues, net, grew by 31% year-on-year resulting in SEK 5,451m at year-end. Klarna had an interest income of SEK 2,034m, corresponding to a 28% growth primarily driven by an increase in the popularity of the Slice it product amongst consumers. Commission income increased by 37% to SEK 3,999m, supported by increased volumes and higher consumer activity. Following the reconciliation of revenues under IFRS 15 and IFRS 9, a reclassification of SEK 155m from interest income to commission income in 2018 was made. As planned, reminder fees related to Klarna's Pay later and Slice it products have continued to decrease in relation to operating revenues.

Total operating expenses grew by 44% as we invest to further strengthen our capabilities, product offering and to support future business expansion. The core business focus is on driving growth and an acceleration from initial investments is already being realised. Investment in talent has increased the average number of full-time equivalents to 1,713 from 1,380 (excluding consultants). We also continue to invest in building our Klarna brand across our markets.

Net credit losses increased by 57% year-on-year, as loans to the public grew significantly, with a higher share of Slice it receivables in relation to total receivables, and strong growth related to expansion in new markets. Furthermore, the implementation of IFRS 9 in 2018 drives higher coverage ratios on early arrear exposures, compared to IAS 39.

Net income recorded at SEK 105m, compared to SEK 346m in 2017.

Loans to the public grew by 44% to SEK 19,979m mainly due to an increased share of Slice it product as a percentage of total volume predominantly in the Nordic countries and the DACH region, but also due to significant global merchant acquisitions.

Deposits from the public grew by 72% to SEK 14,582m, primarily driven by EUR deposits in Germany.

For further comments see below on significant events during the year as well as the notes.

Significant events during the year

On February 13, 2018, an announcement of closure of the Klarna Tel Aviv site in Israel was made. The decision was made as part of our overall strategy to focus on strengthening our commercial and operational presence in our key commercial markets where our merchants and partners are located. All 31 Klarna staff employed in Tel Aviv were offered the possibility to continue to work in other Klarna locations.

On February 22, 2018, the company's director Niklas Adalberth resigned from the board of directors and Niklas Savander was appointed new director.

In May 2018, a decision was taken to close part of the debt collection business, Ident Inkasso AB, including its German branch. All staff employed in Sweden and Germany were offered the possibility to continue to work in other Klarna companies.

On July 5, 2018, Klarna Bank AB (publ) issued subordinated Tier 2 notes in the principal amount of SEK 300m.

On September 13, 2018, Klarna Bank AB (publ) entered into an agreement to acquire Close Brother Retail Finance from Close Brothers Group plc. The acquisition was consummated on 1 January 2019.

On November 15, 2018, Klarna Bank AB (publ) received approval to operate a Branch in the United Kingdom.

Future development

Klarna continues to develop the smooth purchase experience, supporting merchant growth and driving consumer loyalty by offering flexibility and control over their payments but also ensuring they spend less time managing their finances, so they have more time to do what they love. This is evident in the strong progress in consolidation of leading position in Nordics, but more particularly the growth across continental Europe, increasing DACH market share which is now our largest market and huge momentum in UK as offer resonates strongly. The investments made in capabilities and talent over the year are so Klarna can further enhance our offering for both merchants and consumers, which provides a platform for driving sustained customer preference and growth in the next years. Product and services development for consumers and merchants will continue at pace across all our markets.

Risks and risk management

Through its business activities Klarna is subject to a number of different risks, the main ones being credit risk, operational risk, market risk (interest risk and currency risk) and liquidity risk. For a more detailed description, see note 3.

The external regulations set forth requirements for good internal control, identification and management of risks as well as responsibilities for internal control functions. The Board and management regularly decide on policies and instructions for the governance and management of risks, including risk appetite and tolerance limits.

The basis for the risk management and internal control framework is the three lines of defense model. The first line of defense refers to all risk management activities carried out by line management and staff. All accountable leads are fully responsible for the risks, and the management of these, within their respective area of responsibility.

The second line of defense refers to Klarna's independent Risk Control and Compliance Functions, which report directly to the CEO and the Board. To ensure independence, these functions are not involved in business operations. These functions set the principles and framework for risk management, facilitate risk assessment and perform the independent follow-up, as well as make sure the operations are carried out in compliance with external regulations and internal policies. They shall also promote a sound risk management and compliance culture - and in this way enable business - by supporting and educating business line managers and staff.

The third line of defense refers to the Internal Audit function which performs independent periodic reviews of the governance structure and the system of internal controls. The Board has appointed Deloitte as internal auditors.

ESG, corporate governance and Modern Slavery and Human trafficking reports

In accordance with the Annual Accounts Act chapter 6, 10§, Klarna Bank AB (publ) does not report an Environmental, Social and Governance report (ESG) since an ESG report is reported in the parent company Klarna Holding AB, Corp. ID 556676-2356. Klarna Holding AB has its registered office in Stockholm, Sweden. Klarna Holding AB publishes the ESG report separated from the annual report. The ESG report has been submitted to the auditors at the same time as the annual report. The ESG report is available at Klarna's website: www.klarna.com

In accordance with the Annual Accounts Act chapter 6, 8§, Klarna Bank AB (publ) has decided to report the Corporate governance report separated from the annual report. The Corporate governance report has been submitted to the auditors at the same time as the annual report. The report is available at Klarna's website: www.klarna.com

Klarna Bank AB (publ) has decided to report the Modern Slavery and Human trafficking report separated from the annual report. The Modern Slavery and Human trafficking report has been submitted to the auditors at the same time as the annual report. The report is available at Klarna's website: www.klarna.com

Proposed treatment of unappropriated earnings

The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 3,392,427,265 on Klarna Bank AB (publ)'s balance sheet at the disposal of the Annual General Meeting to be carried forward.

Additional Tier 1 instruments	250,000,000 SEK
Retained earnings	3,000,603,109 SEK
Net income for the year	<u>141,824,156 SEK</u>
Total	3,392,427,265 SEK

Five Year Summary, Group

Amounts in SEKk	2018	2017	2016	2015	2014
Income Statement					
Total operating revenues, net ¹	5,450,781	4,158,045	3,289,503	2,581,768	1,980,222
Operating income	160,910	523,987	168,300	170,127	101,441
Net income for the year	105,224	345,613	113,427	127,411	75,424
Balance Sheet					
Loans to credit institutions	2,367,631	1,211,778	1,234,684	499,754	756,176
Loans to the public	19,979,002	13,874,164	8,450,037	6,104,075	4,513,304
All other assets	5,513,199	3,901,290	2,397,103	2,154,566	1,925,742
Total assets	27,859,832	18,987,232	12,081,824	8,758,395	7,195,222
Liabilities to credit institutions	1,418,054	396,965	754,944	708,826	386,116
Deposits from the public	14,581,769	8,491,654	5,839,490	3,959,427	3,705,020
All other liabilities	7,717,750	6,065,083	2,870,025	1,626,780	1,107,479
Total equity	4,142,259	4,033,530	2,617,365	2,463,362	1,996,607
Total liabilities and equity	27,859,832	18,987,232	12,081,824	8,758,395	7,195,222
Key Ratios and Figures²					
Return on equity	3.9%	15.8%	6.6%	7.6%	7.2%
Return on assets	0.4%	2.2%	1.1%	1.6%	1.3%
Debt/equity ratio	4.7	3.7	3.1	2.6	3.2
Equity/assets ratio	14.9%	21.2%	21.7%	28.1%	27.7%
Cost/revenue ratio	82.6%	75.4%	82.0%	80.4%	83.4%
Own funds (Total capital)	3,424,327	2,830,504	1,928,585	1,388,231	819,777
Capital requirement	1,820,881	1,244,297	820,138	578,504	431,855
Total capital ratio	15.0%	18.2%	18.8%	19.2%	15.2%
Average number of full-time equivalents	1,713	1,380	1,244	1,074	1,017

¹ Total operating revenues, net, have been restated for previous periods due to changed presentation of the income statement.

² See "Definitions & Abbreviations" for definitions of how the ratios are calculated.

Five Year Summary, Parent Company

Amounts in SEKk	2018	2017	2016	2015	2014
Income Statement					
Total operating revenues, net	5,091,371	3,790,236	2,921,550	2,277,555	1,860,988
Operating income	100,439	509,400	9,697	68,871	131,063
Net income for the year	141,824	344,839	300	47,020	75,750
Balance Sheet					
Loans to credit institutions	1,962,486	824,695	946,172	313,890	674,074
Loans to the public	19,850,726	13,739,439	8,838,723	6,481,656	5,042,232
All other assets	5,290,084	3,462,732	1,972,577	1,801,745	1,337,849
Total assets	27,103,296	18,026,866	11,757,472	8,597,291	7,054,155
Liabilities to credit institutions	1,418,054	396,965	754,944	708,826	386,116
Deposits from the public	14,557,478	8,475,892	5,839,490	3,959,427	3,705,020
All other liabilities	7,375,651	5,475,254	2,848,743	1,614,770	1,072,591
Total equity	3,752,113	3,678,755	2,314,295	2,314,268	1,890,428
Total liabilities and equity	27,103,296	18,026,866	11,757,472	8,597,291	7,054,155
Key Ratios and Figures¹					
Return on equity	2.8%	14.0%	0.3%	2.7%	7.4%
Return on assets	0.6%	2.3%	0.0%	0.6%	1.3%
Debt/equity ratio	4.9	3.8	3.3	2.6	3.2
Equity/assets ratio	14.3%	21.1%	20.2%	27.7%	27.6%
Cost/revenue ratio	83.8%	74.0%	86.0%	82.8%	80.7%
Own funds (Total capital)	4,174,815	3,892,400	2,540,564	2,256,995	1,807,132
Capital requirement	1,944,599	1,371,634	908,420	697,175	553,165
Total capital ratio	17.2%	22.7%	22.4%	25.9%	26.1%
Average number of full-time equivalents	1,089	900	851	727	700

¹ See "Definitions & Abbreviations" for definitions of how the ratios are calculated.

Income Statement, Group

Amounts in SEKk	Note	2018 ¹	2017 ¹
Interest income calculated according to the effective interest rate method	5	2,033,517	1,591,013
Interest expenses	6	-232,144	-138,682
Net interest income		1,801,373	1,452,331
Commission income	7	3,999,394	2,924,191
Commission expenses	8	-328,870	-205,253
Net result from financial transactions	9	-26,970	-23,899
Other operating income		5,854	10,675
Total operating revenues, net		5,450,781	4,158,045
General administrative expenses	10, 11, 12	-4,349,558	-2,932,765
Depreciation, amortisation and impairment of intangible and tangible assets	13	-154,746	-200,575
Total expenses before credit losses		-4,504,304	-3,133,340
Operating income before credit losses, net		946,477	1,024,705
Credit losses, net	14	-785,567	-500,718
Operating income		160,910	523,987
Income tax	15	-55,686	-178,374
Net income for the year		105,224	345,613

Statement of Comprehensive Income, Group

Net income for the year	105,224	345,613
Items that may be reclassified subsequently to the income statement:		
Exchange differences, foreign operations	66,444	50,931
Other comprehensive income for the year, net after tax	66,444	50,931
Total comprehensive income for the year	171,668	396,544

¹ The presentation of the income statement has been changed for 2018 and restated for 2017. In note 45 the change in presentation for 2017 is disclosed.

Net income and total comprehensive income are both in its entirety attributable to the shareholders of Klarna Bank AB (publ).

Balance Sheet, Group

Amounts in SEKk	Note	31 Dec 2018	31 Dec 2017
Assets			
Cash and balances with central banks		331	36
Chargeable central bank treasury bills	19	3,084,314	1,847,705
Loans to credit institutions	20, 22	2,367,631	1,211,778
Loans to the public	21, 22	19,979,002	13,874,164
Other shares and participations		41,217	-
Intangible assets	24	2,006,084	1,801,072
Tangible assets	25	80,602	61,844
Deferred tax assets	15	47,508	21,763
Other assets	26, 27	107,304	96,401
Prepaid expenses and accrued income	28	145,839	72,469
Total assets		27,859,832	18,987,232
Liabilities			
Liabilities to credit institutions	29	1,418,054	396,965
Deposits from the public	30	14,581,769	8,491,654
Debt securities in issue	31	1,996,905	1,995,036
Deferred tax liabilities	15	117,633	136,250
Other liabilities	27, 32	4,233,481	3,126,085
Accrued expenses and prepaid income	33	532,583	381,178
Provisions	34	239,588	129,413
Subordinated liabilities	35	597,560	297,121
Total liabilities		23,717,573	14,953,702
Equity			
Share capital		52,752	52,752
Other capital contributed		2,805,140	2,805,140
Reserves		190,772	124,328
Additional Tier 1 instruments		250,000	250,000
Retained earnings		738,371	455,697
Net income for the year		105,224	345,613
Total equity		4,142,259	4,033,530
Total liabilities and equity		27,859,832	18,987,232

Statement of Changes in Equity, Group

Amounts in SEKk	Share capital	Other capital contributed ³	Reserves ⁴	Additional Tier 1 instruments	Retained earnings ³	Net income	Total equity
Balance as at January 1, 2018	52,752	2,805,140	124,328	250,000	455,697	345,613	4,033,530
Impact of adopting IFRS 9	-	-	-	-	-69,246	-	-69,246
Impact of adopting IFRS 15	-	-	-	-	21,447	-	21,447
Restated opening balance	52,752	2,805,140	124,328	250,000	407,898	345,613	3,985,731
Transfer of previous year's net income	-	-	-	-	345,613	-345,613	-
<i>Net income for the year</i>	-	-	-	-	-	105,224	105,224
<i>Exchange differences, foreign operations</i>	-	-	66,444	-	-	-	66,444
Total comprehensive income for the year	-	-	66,444	-	-	105,224	171,668
Group contribution ¹	-	-	-	-	-2,284	-	-2,284
Tax effect group contribution	-	-	-	-	501	-	501
Additional Tier 1 instruments ²	-	-	-	-	-13,357	-	-13,357
Balance as at December 31, 2018	52,752	2,805,140	190,772	250,000	738,371	105,224	4,142,259
Balance as at January 1, 2017	52,752	1,396,207	73,397	-	981,582	113,427	2,617,365
Opening balance, manual adjustment	-	629,514	-	-	-629,514	-	-
Transfer of previous year's net income	-	-	-	-	113,427	-113,427	-
<i>Net income for the year</i>	-	-	-	-	-	345,613	345,613
<i>Exchange differences, foreign operations</i>	-	-	50,931	-	-	-	50,931
Total comprehensive income for the year	-	-	50,931	-	-	345,613	396,544
Group contribution ¹	-	-	-	-	-1,300	-	-1,300
Tax effect group contribution	-	-	-	-	286	-	286
Shareholders' contribution	-	779,419	-	-	-	-	779,419
Additional Tier 1 instruments ²	-	-	-	250,000	-8,785	-	241,215
Balance as at December 31, 2017	52,752	2,805,140	124,328	250,000	455,697	345,613	4,033,530

¹ Group contribution to parent company Klarna Holding AB, not paid.

² Amounts in Additional Tier 1 instruments column consist of issued instruments, while amounts in Retained earnings column consist of interest on these issued instruments.

³ The opening balances for other capital contributed and retained earnings in 2017 have been updated and corrected. As part of a new mapping structure, SEK 630m relating to shareholders' contribution, previously classified as retained earnings, should be presented as other capital contributed and have therefore been updated.

⁴ The reserves consist of exchange differences from foreign operations.

Equity is in its entirety attributable to the shareholders of Klarna Bank AB (publ).

Income Statement, Parent Company

Amounts in SEKk	Note	2018	2017
Interest income calculated according to the effective interest rate method	4, 5	2,009,547	1,609,057
Lease income	4	-	4,661
Interest expense	6	-232,929	-138,355
Net interest income		1,776,618	1,475,363
Dividend received	4	261,487	197,001
Commission income	4, 7	3,105,760	2,297,978
Commission expense	8	-313,159	-190,936
Net result from financial transactions	4, 9	-10,233	-5,048
Other operating income	4	270,898	15,878
Total operating revenues, net		5,091,371	3,790,236
General administrative expenses	10, 11, 12	-4,045,704	-2,643,812
Depreciation, amortisation and impairment of intangible and tangible assets	13	-84,135	-72,850
Other operating costs		-138,290	-88,057
Total expenses before credit losses		-4,268,129	-2,804,719
Operating income before credit losses, net		823,242	985,517
Credit losses, net	14	-722,803	-476,117
Operating income		100,439	509,400
Appropriations	16	6,300	-75,212
Income tax	15	35,085	-89,349
Net income for the year		141,824	344,839

Statement of Comprehensive Income, Parent Company

Net income for the year	141,824	344,839
Total comprehensive income for the year	141,824	344,839

Balance Sheet, Parent Company

Amounts in SEKk	Note	31 Dec 2018	31 Dec 2017
Assets			
Cash and balances with central banks		304	4
Chargeable central bank treasury bills	19	3,084,314	1,847,705
Loans to credit institutions	20, 22	1,962,486	824,695
Loans to the public	21, 22	19,850,726	13,739,439
Shares and participations in group companies	23	1,122,265	1,124,283
Other shares and participations		41,217	-
Intangible assets	24	401,659	206,096
Tangible assets	25	40,598	36,008
Deferred tax assets	15	32,313	2,162
Other assets	26, 27	417,641	161,237
Prepaid expenses and accrued income	28	149,773	85,237
Total assets		27,103,296	18,026,866
Liabilities			
Liabilities to credit institutions	29	1,418,054	396,965
Deposits from the public	30	14,557,478	8,475,892
Debt securities in issue	31	1,996,905	1,995,036
Deferred tax liabilities	15	1,341	6,275
Other liabilities	27, 32	3,948,320	2,595,962
Accrued expenses and prepaid income	33	454,365	316,847
Provisions	34	223,847	104,400
Subordinated liabilities	35	597,560	297,121
Total liabilities		23,197,870	14,188,498
Untaxed reserves	36	153,313	159,613
Equity			
Share capital		52,752	52,752
Reserves		306,934	127,619
Additional Tier 1 instruments		250,000	250,000
Retained earnings		3,000,603	2,903,545
Net income for the year		141,824	344,839
Total equity		3,752,113	3,678,755
Total liabilities and equity		27,103,296	18,026,866

Statement of Changes in Equity, Parent Company

Amounts in SEKk	Restricted equity		Non-restricted equity			
	Share capital	Reserves ³	Additional Tier 1 instruments	Retained earnings	Net income	Total equity
Balance as at January 1, 2018	52,752	127,619	250,000	2,903,545	344,839	3,678,755
Impact of adopting IFRS 9	-	-	-	-74,774	-	-74,774
Impact of adopting IFRS 15	-	-	-	21,447	-	21,447
Restated opening balance	52,752	127,619	250,000	2,850,218	344,839	3,625,428
Transfer of previous year's net income	-	-	-	344,839	-344,839	-
<i>Net income for the year</i>	-	-	-	-	141,824	141,824
Total comprehensive income for the year	-	-	-	-	141,824	141,824
Group contribution ¹	-	-	-	-2,284	-	-2,284
Tax effect group contribution	-	-	-	501	-	501
Reserve for development costs	-	179,315	-	-179,315	-	-
Additional Tier 1 instruments ²	-	-	-	-13,357	-	-13,357
Balance as at December 31, 2018	52,752	306,934	250,000	3,000,603	141,824	3,752,113
Balance as at January 1, 2017	52,752	48,602	-	2,212,641	300	2,314,295
Transfer of previous year's net income	-	-	-	300	-300	-
<i>Net income for the year</i>	-	-	-	-	344,839	344,839
Total comprehensive income for the year	-	-	-	-	344,839	344,839
Group contribution ¹	-	-	-	-1,300	-	-1,300
Tax effect group contribution	-	-	-	286	-	286
Shareholders' contribution	-	-	-	779,420	-	779,420
Reserve for development costs	-	79,017	-	-79,017	-	-
Additional Tier 1 instruments ²	-	-	250,000	-8,785	-	241,215
Balance as at December 31, 2017	52,752	127,619	250,000	2,903,545	344,839	3,678,755

¹Group contribution to parent company Klarna Holding AB, not paid.

² Amounts in Additional Tier 1 instruments column consist of issued instruments, while amounts in Retained earnings column consist of interest on these issued instruments.

³The opening balances for reserves consist of reserves for development costs.

Share capital: 157,000 shares (157,000), quota value 336 (336).

Cash Flow Statement

Amounts in SEKk	Note	Group		Parent Company	
		2018	2017	2018	2017
Operating activities					
Operating income		160,910	523,987	100,439	509,400
Taxes paid		-98,965	-120,877	-62,485	3,410
Adjustments for non-cash items in operating activities					
Depreciation, amortisation and impairment	13	154,746	200,575	84,135	72,850
Impairment of shares in group companies		-	-	2,018	-
Dividend received from subsidiaries		-	-	-261,487	-197,001
Provisions excluding credit losses		146,601	86,560	133,949	74,880
Provision for credit losses		166,485	188,127	113,436	172,634
Financial items including unrealised exchange rate effects		-28,130	22,136	-6,802	40,386
Changes in the assets and liabilities of operating activities					
Change in loans to the public		-6,255,744	-5,331,454	-6,237,910	-5,073,350
Change in liabilities to credit institutions		1,021,089	-357,979	1,021,089	-357,979
Change in deposits from the public		6,090,115	2,652,164	6,081,587	2,636,402
Change in other assets and liabilities		-463,924	-463,041	-343,479	-565,579
Cash flow from operating activities ¹		893,183	-2,599,802	624,490	-2,683,947
Investing activities					
Investments in intangible assets	24	-259,678	-127,903	-256,315	-127,095
Investments in tangible assets	25	-53,490	-32,779	-25,586	-23,799
Sales of fixed assets		671	-23	-	-
Investments in subsidiaries	23, 46	-	-400,324	-	-580,285
Investments in other shares and participations		-41,217	-	-41,217	-
Dividend received from subsidiaries		-	-	261,487	197,001
Cash flow from investing activities		-353,714	-561,029	-61,631	-534,178
Financing activities					
Shareholder contribution received		-	779,419	-	779,419
Additional Tier 1 instruments		-	248,000	-	248,000
Senior unsecured bond		-	1,994,000	-	1,994,000
Subordinated debt		297,750	-	297,750	-
Cash flow from financing activities		297,750	3,021,419	297,750	3,021,419
Cash flow for the year		837,219	-139,412	860,609	-196,706
Cash and cash equivalents at the beginning of year		1,043,101	1,171,696	687,202	883,908
Cash flow for the year		837,219	-139,412	860,609	-196,706
Exchange rate diff. in cash and cash equivalents		37,087	10,817	22,055	-
Cash and cash equivalents at the end of year		1,917,407	1,043,101	1,569,866	687,202
Cash and cash equivalents include the following items					
Cash and balances with central banks		331	36	304	4
Loans to credit institutions ²		1,917,076	1,043,065	1,569,562	687,198
Cash and cash equivalents		1,917,407	1,043,101	1,569,866	687,202

¹Cash flow from operating activities includes interest payments received and interest expenses paid, see note 42.

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

Notes with Accounting Principles

Note 1 Corporate information

The Parent Company, Klarna Bank AB (publ), 556737-0431, maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated financial statements for 2018 consist of the Parent Company and its subsidiaries, together they make up the Group. The Group's business is described in the Report of the Board of Directors.

The parent company of Klarna Bank AB (publ) is Klarna Holding AB, 556776-2356. Klarna Holding AB has its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden.

The consolidated financial statements and the Annual Report for Klarna Bank AB (publ) for the financial year 2018 were approved by the Board of Directors and the CEO on March 27, 2019. They will ultimately be adopted by Klarna Bank AB (publ)'s Annual General Meeting on April 25, 2019.

Note 2 Accounting and valuation principles

1) Basis for the preparation of the reports

Group

These annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) such as they have been adopted by the EU. In addition to these accounting standards, the Swedish Financial Supervisory Authority regulations (FFFS 2008:25), the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL, 1995:1559), the recommendation RFR 1 Supplementary Accounting Rules for Groups issued by the Swedish Financial Reporting Board have also been applied.

Parent Company

The Parent Company's annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL, 1995:1559). Klarna Bank AB (publ) applies legally restricted IFRS, which means that the annual accounts have been prepared in accordance with IFRS with the additions and exceptions ensuing from the Swedish Financial Reporting Board recommendation RFR 2 Accounting for Legal Entities and the Swedish Financial Supervisory Authority regulations and general guidelines for the annual accounts of credit institutions and securities companies (FFFS 2008:25). The Group's accounting principles are also applicable for the Parent Company unless otherwise described in this note.

The preparation of reports in accordance with IFRS requires the use of a number of estimates for accounting purposes. The areas which involve a high degree of assessment or complexity and which are of considerable importance for the annual accounts will be reported in section 24.

2) Changed accounting principles

The income statement for the Group has changed presentation in 2018. The presentation is consistent with the Swedish Financial Supervisory Authority regulations (FFFS 2008:25) and the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL, 1995:1559). The change in accounting principle has been applied for comparable figures and increases comparability since it follows the presentation of the largest company of the group; Klarna Bank AB (publ). The change in presentation for the income statement 2017 is presented in note 45.

The following significant new standards (IFRS) or interpretations have come into effect during the period:

IFRS 9 Financial instruments

IFRS 9 covers the classification and measurement of financial assets and liabilities, impairment and hedge accounting, and replaces most of the guidance in IAS 39. The standard became effective for the Group as of 1 January 2018 and comparative figures for 2017 have not been restated.

The classification and measurement requirements in IFRS 9 state that financial assets should be classified as, and measured at, amortised cost, fair value through profit or loss or fair value through other comprehensive income (see section "Financial assets and liabilities – classification and reporting" below). The classification of a financial instrument is dependent on the business model for the portfolio where the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

The analysis of the business model and the SPPI review have resulted in a reclassification of the chargeable central bank treasury bills which were previously reported as designated at fair value through profit or loss under IAS 39. For these instruments, the business model is hold to collect and the cash flows are deemed to be solely payments of principal and interest. Therefore, as of 1 January 2018, the chargeable central bank treasury bills are measured at amortised cost since they no longer fulfill the designation requirements according to IFRS 9 but instead comply with the requirements for the amortised cost category.

The impairment requirements in IFRS 9 are based on an expected credit loss (ECL) model instead of the incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than under IAS 39. IFRS 9 requires all assets measured at amortised cost and fair value through other comprehensive income, as well as off-balance commitments including guarantees and loan commitments, to be included in the impairment model (see section "Impairment of financial assets, financial guarantees and commitments" below).

As a result of applying the IFRS 9 rules, allowances for credit losses increased by SEK 90m for the Group and by SEK 88m in Klarna Bank AB (publ) as of 1 January 2018. Provisions for financial guarantees and commitments have decreased by SEK 2m for the Group and have increased by SEK 7m in Klarna Bank AB (publ) as of 1 January 2018. The impact on equity was SEK -69m, net of tax in the Group and SEK -75m, net of tax in Klarna Bank AB (publ). The increase in allowances for credit losses is driven by the IFRS 9 requirement to also hold provisions for assets without a significant increase in credit risk (stage 1 as defined in the IFRS 9 standard) as opposed to IAS 39 that requires provisions for losses incurred.

During the reporting period Klarna decided to develop a new ECL modelling approach which was implemented in the last quarter of 2018. The effect of the new model, which is a change in estimate, is shown in note 21. Impairment according to this new model is described in the section "Impairment of financial assets, financial guarantees and commitments" below. Compared to the old model it captures the ageing of the receivables on a more detailed level, which in turn captures more granular differences in the probability of default (PD) and thereby produces more precise ECL values. Forward looking effects cannot be predicted since they are dependent on the volume of future financial receivables.

Hedge accounting is not applied by the Group.

IFRS 15 Revenues from contracts with customers

From 1 January 2018, Klarna is applying IFRS 15. The standard establishes the principles for revenue recognition from contracts with customers, but it does not impact the recognition of revenue within the scope of IFRS 9.

Revenues for different types of services are reported as commission income. Commissions and fees for payment services are recognised when the performance obligations have been satisfied which can be at a point in time or over time. The revenues are measured at the fair value of the economic benefits associated with the transaction. Commission and fees for extending credit are considered to be an integral part of the effective interest rate and are therefore recognised in interest income calculated according to the effective interest rate method. Commission income stems from merchants that have an agreement with Klarna and different types of fees related to end-customer receivables.

Klarna has applied the retrospective approach with recognising the cumulative effect of initially applying IFRS 15 as an adjustment of the opening balances of equity. The effect reflects a change in the timing of revenues for reminder and dunning fees for the Pay later product. This change was made as a result of the implementation of IFRS 15 and amounts to SEK 21m, net of tax.

As a result of applying IFRS 15 and IFRS 9, a classification of revenues between interest income and commission income has been made. The effect for the financial year of 2018 is a reclassification of SEK 155m from interest income to commission income.

No other significant new standards (IFRS) or interpretations have come into effect during the period.

New and changed standards and interpretations which have not yet come into effect and which have not been applied in advance by the Group

IFRS 16 Leases

In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognised on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after 1 January 2019 and the EU adopted the standard in November 2017. Early adoption is permitted. Klarna is applying IFRS 16 from 1 January 2019.

Klarna has applied the modified retrospective approach when implementing IFRS 16 and reports lease contracts for which the contract term ends within twelve months as short-term leases and excludes indirect costs from the measurement of the right-of-use asset at the date of initial application. The practical expedients for short-term contracts and low value assets are used. Furthermore, the practical expedient of not separating non-lease components from lease components is applied to car leases. This has resulted in a right of use asset of SEK 438m, a reduction of prepaid expenses of SEK 19m and a lease liability of SEK 419m for the Group. Klarna Bank AB (publ) does also report according to IFRS 16 which has resulted in a right of use asset of SEK 135m, a reduction of prepaid expenses of SEK 17m and a lease liability of SEK 118m. The right of use assets consist mainly of office space and car lease contracts. IFRS 16 does not have a significant impact on the financial statements and capital ratios.

Other future changes in IFRS

1. IFRS 17 Insurance Contracts
2. IAS 19 Plan Amendments, Curtailments or Settlements
3. Amendments to IFRS 9: Prepayment Features with Negative Compensation
4. Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
5. Annual Improvements to IFRS Standards 2015-2017 Cycle
6. IFRIC 23 Uncertainty over Income Tax Treatments
7. References to the Conceptual Framework in IFRS Standards

None of the other changes in IFRS or IFRIC interpretations that have not yet come into effect are expected to have any significant impact on the Group.

3) Group consolidation principles

The consolidated accounts are presented according to the acquisition method and comprise of Klarna Bank AB (publ) and its subsidiaries. The companies are consolidated as from the date when control is transferred to Klarna and consolidation comes to an end when Klarna no longer has control. In the case of business combinations, a purchase price allocation is prepared, where identifiable assets and liabilities are valued at fair value at the time of acquisition. The cost of the business combination comprises the fair value of all assets, liabilities and issued equity instruments provided as payment for the net assets in the subsidiary. Any surplus due to the cost of the business combination exceeding the identifiable net assets on the acquisition balance sheet is recognised as goodwill in the Group's balance sheet. Acquisition-related costs are recognised in the income statement when they arise. The subsidiary's financial reports are included in the consolidated accounts starting on the acquisition date.

Intragroup transactions and receivables and liabilities between the group companies are eliminated.

Subsidiaries

Subsidiaries are those companies that Klarna Bank AB (publ) controls. Control exists when Klarna is exposed to variability in returns from its investments in another entity and has the ability to affect those returns through its power over the other entity. This is usually achieved when the ownership amounts to more than half of the voting rights.

4) Foreign currency translation

Presentation currency and functional currency

The Financial Statements are prepared in Swedish kronor, which is the presentation currency of the Group. The functional currency is the currency of the primary economic environment in which an entity operates. Different entities within the Group therefore have different functional currencies. The functional currency for Klarna Bank AB (publ) is Swedish kronor.

Transactions and balance sheet items

Transactions in a foreign currency are translated into the functional currency at the exchange rate on the day of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate at the end of the reporting period. All profits and losses as a result of the currency translation of monetary items, including the currency component in forward agreements, are reported in the income statement as exchange rate fluctuations under the heading net income from financial transactions.

Subsidiaries

Foreign subsidiaries' assets and liabilities are translated at the closing day rate of exchange and income statement items at the average exchange rate. Translation differences are reported in other comprehensive income.

5) Interest and commissions

Revenues are recognised in accordance with the effective interest method or when identified performance obligations have been fulfilled. The Group's revenues and expenses are reported after elimination of intragroup transactions.

Interest income and interest expenses

The effective interest method is used for recognising interest income and interest expenses on all financial assets and liabilities measured at amortised cost. When measuring a financial asset or a financial liability to amortised cost, the interest income or expense is allocated over the relevant period. The effective interest rate is the rate that corresponds to the rate used for discounting estimated future cash flows to the reported value of the financial asset or liability. The estimated future cash flows used in the calculation include all fees that are considered to be integral to the effective interest rate.

The interest income calculated according to the effective interest rate method consists mainly of interest from loans to the public in the form of revolving credits and interest from lending to credit institutions.

Commission income and commission expenses

Revenues and expenses for different types of services are reported as commission income or commission expenses. Commission income stems from merchants that have an agreement with Klarna and different types of fees related to end-customer receivables.

Commission income from merchants: Klarna provides merchants with a combined service offering (1) a simple, safe and cost-effective payment solution while at the same time (2) providing consumers with credit products and catering for credit risk. Since these two types of services are highly interrelated, this service package epitomises one identified and distinct performance obligation. This performance obligation presents a stand-ready obligation which is satisfied over the contract period since the merchant receives the benefit of that service package over that period.

The transaction price of that performance obligation consists of both fixed and variable components. The variable parts are constraint since they are highly dependent on consumer transactions and therefore not included in the initial transaction price. The transaction price is updated regularly to mirror the dissolved uncertainty occurring in the performance obligation due to the variable components.

The process of completion is measured by evaluating the value to the customer of the provided service transferred to date relative to the remaining services promised under the contract. Since the amount of transactions and usage of the payment solution for the entire contract period is initially unknown, the process of completion is measured by using time elapsed. The revenues are then recognised over time.

Commission income from consumers: Klarna provides consumers with safe and simple online purchases and the possibility to choose when in time to pay. Commission income from consumers is fixed amounts which arise from handling different types of payment options; this constitutes the transaction price. The respective performance obligation is satisfied at the date when the account statements or paper invoices are sent out. The revenue from the consumer commissions is therefore recognised at that point in time.

Commission and fees for extending credit are considered to be an integral part of the effective interest rate and are therefore recognised in interest income.

6) Net income from financial transactions

The net income from financial transactions comprises realised changes in fair value of derivatives, realised and unrealised exchange rate effects and impairment of shares.

7) General administrative expenses

General administrative expenses consist of employee expenses, including salaries, pensions, social charges, and other administrative expenses such as office and computer expenses.

8) Net credit losses

Impairment losses from financial assets classified into the category “measured at amortised cost” (see section “Financial assets and liabilities – classification and reporting” below), in the items Loans to credit institutions and Loans to the public on the balance sheet, are reported as Net credit losses. Furthermore, net credit losses from off-balance sheet exposures related to financial instruments are also reported on this line.

Net credit losses for the period comprise of realised credit losses, recovered amounts from debt sales and provisions for credit losses for granted credit with a deduction for the reversal of provisions for credit losses made previously. Realised credit losses are losses whose amount is for example determined via bankruptcy, a composition arrangement, a statement by an Enforcement Authority or the sale of receivables. Provision for credit losses is calculated either as 12 month expected credit loss or lifetime expected credit loss based on the IFRS 9 impairment requirements, see section “Impairment of financial assets” below for more details.

9) Cash and balances with central banks

Cash comprises legal tender and bank notes in foreign currencies. Balances with central banks consist of deposits in accounts with central banks under government authority where the following conditions are fulfilled:

- the central bank is domiciled
- the balance is readily available at any time

10) Financial assets and liabilities – classification and reporting

Purchases and sales of financial assets and liabilities are reported on the trade date. Financial instruments are removed from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred together with the risks and rights associated with ownership.

Financial instruments are initially measured at fair value including transaction costs except for financial assets and liabilities classified as fair value through profit or loss where the transaction costs are recognised in the income statement.

Unlike under IAS 39, financial instruments are classified into various categories based on both Klarna’s business model to manage its financial assets and the characteristics of the cash flows of the financial assets. Financial instruments are classified into the following categories in accordance with IFRS 9 Financial Instruments:

Financial assets and liabilities at amortised cost

From 1 January 2018, Klarna only classifies and measures its financial assets at amortised cost if both of the following conditions are met:

- (i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Klarna measures loans to the public and loans to credit institutions at amortised cost since they fulfill all requirements.

Klarna measures all financial liabilities at amortised cost except for its derivatives.

The amortised costs are determined on the basis of the effective interest that was calculated at the time of acquisition or origination. Financial assets at amortised cost are reported at the amount at which they are estimated to be received, that is after a deduction for impairments.

Financial assets and liabilities at fair value through profit or loss

This category has two subcategories:

Mandatory: This category includes any financial asset that is not measured at amortised cost, thus does not fulfill one or both of the conditions to be met for a financial asset to be measured at amortised cost.

Designated: This category includes any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes recognised in profit or loss.

Measurement is at fair value and realised and unrealised profits or losses as a result of changes in fair value are included in the income statement in the period in which they arise. The fair value of financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Klarna uses different methods to determine the fair value, see section "Financial assets and liabilities – measurement" below.

Klarna measures its derivatives as well as its investments in equity instruments at fair value through profit or loss. Both do not fulfill the conditions for being measured at amortised cost. In case Klarna's derivatives have negative values, these financial liabilities are measured at fair value through profit or loss. Klarna does neither measure any other financial liability at fair value through profit or loss nor designates any financial instrument at fair value through profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:

- (i) The financial asset is held within a business model with the objective of both: collecting contractual cash flows and selling financial assets, and
- (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Klarna does not classify any financial asset at fair value through other comprehensive income since Klarna has no business model whose objective it is to both collect contractual cash flows and to sell financial assets. Klarna does not use the option to designate its equity instruments as measured at fair value through other comprehensive income under IFRS 9.

From 1 January 2018, Klarna has not reclassified its financial assets subsequent to their initial recognition. Financial liabilities are never reclassified.

The classification of financial assets and liabilities follows internal reporting and follow-up within the Group.

Accounting principles relating to prior year's numbers for financial instruments are presented in the annual report for 2017 except for the accounting principles regarding the impairment of loans and receivables which are presented under section 12.

11) Financial assets and liabilities – measurement

For financial assets and liabilities measured at fair value the Group uses different methods to determine the fair value. The methods are divided into three different levels in accordance with IFRS 13.

Level 1

Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets. This category includes investments in discount papers where direct tradable price quotes exist.

Level 2

Level 2 in the fair value hierarchy consists of assets and liabilities that do not have directly quoted market prices available from active markets. The fair values are calculated using valuation techniques based on market prices or rates prevailing at the balance sheet date. This is the case for currency forwards within other assets and other liabilities where active markets supply the input to the valuation.

The fair value of currency forwards is estimated by applying the forward rate at balance sheet date to calculate the value of future cash flows.

Level 3

Level 3 includes estimated values based on assumptions and assessments. One or more significant inputs are not based on observable market information. Level 3 is used for other shares and participations.

12) Impairment of financial assets, financial guarantees and commitments

With the adoption of IFRS 9 on 1 January 2018, Klarna's impairment calculation method changed essentially. Klarna is recording allowances for expected credit losses (ECL) for all loans and other financial assets not measured at fair value through profit or loss. Klarna calculates allowances for:

- Loans to the public
- Loans to credit institutions
- Financial guarantees and commitments

Chargeable central bank treasury bills have been evaluated for impairment. The expected credit losses have been assessed as immaterial due to the features of the assets. This is also applicable for the majority of the loans to credit institutions which have strong credit ratings and are highly liquid.

Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on either the 12 months' expected credit loss (12m ECL) or on the lifetime expected credit loss (lifetime ECL). The ECL allowance is based on the latter, if there has been a significant increase in credit risk since initial recognition.

Lifetime ECL and 12m ECL are calculated on a collective basis. When calculating ECL on a collective basis, the ECL components are calculated based on segmentation which is built on shared risk characteristics. The probability of default (PD) component is segmented by geographical region, instrument type and by days since origination.

The loss given default (LGD) component is segmented by geographical region, by merchant type, whether a consumer has previously paid with Klarna and by days past due. These PD and LGD estimates are obtained for each of the segment permutations, which is used to calculate the ECL on a collective basis. Since collateral is not held as security, it is not part of the ECL calculations.

Klarna groups its financial assets and off-balance sheet items within the scope of the IFRS 9 impairment requirements into the following:

Stage 1:

Klarna allocates financial assets to stage 1 at initial recognition and until there is a significant increase in credit risk. The allowance is calculated based on 12m expected credit losses. Stage 1 also includes loans where the credit risk has improved and that were reclassified from stage 2 and 3.

Stage 2:

When a loan has shown a significant increase in credit risk since initial recognition, Klarna allocates it to stage 2. The allowance for these loans is calculated based on lifetime expected credit losses. Stage 2 also includes loans where the credit risk has improved and that were reclassified from stage 3.

Stage 3:

Klarna allocates loans to stage 3 that are considered "credit impaired". Klarna determines whether a financial asset is credit impaired based on the historical payments received by the consumer. Based on the default definition (see definition below) a financial instrument is considered being "credit impaired" if it is 90 days past due, has entered debt collection or is classified as fraudulent. The allowance for these stage 3 loans is calculated based on lifetime expected credit losses.

POCI:

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are not allocated to the 3-stage impairment model and are recognised at their fair value at initial recognition.

Significant increase in credit risk:

Klarna assesses, at the end of each reporting period, whether the credit risk of a financial instrument has increased significantly since initial recognition in order to determine whether 12m ECL or lifetime ECL has to be calculated. Klarna determines whether there has been a significant increase in risk on its credit products based on the cash received by the consumer. The definition of a significant increase in credit risk is further influenced by other factors that depend on the product type like days past due or whether the consumer has other contracts with Klarna that are already in stage 2 or 3. An asset being 30 days past due is used as an indicator for a significant increase in credit risk since initial recognition.

If Klarna determines at the reporting date that there is no longer a significant increase in credit risk compared to prior periods, Klarna transfers the respective financial assets back into stage 1 and the allowance is reduced to an ECL calculated on a 12 month basis.

Definition of default:

Financial assets are defaulted when the asset has been 90 days or more past due without any payments, has entered debt collection or is classified as fraudulent.

Whether the default criteria are met is determined by analysing historical payment patterns and assessing whether there is no realistic expectation of recovery.

Measurement of ECL:

The expected credit loss (ECL) for consumer receivables is calculated as a product of the key inputs PD, LGD and the outstanding balance discounted with the effective interest rate (EIR). These parameters are derived from internal statistics and other historical data.

Probability of Default (PD):

The historical balances as well as the proportion of those balances that default over time are used as a base to determine the PD. This approach is applied over different vintages for different countries and for days since origination. Hence, this methodology provides values for 12 month and lifetime PDs for different countries and days since origination. In cases where the maturity of the financial assets is very short, which is common for Klarna's products, the 12 months PD and lifetime PD have equal values.

Loss Given Default (LGD):

LGD is the magnitude of the likely loss if there is a default. Klarna calculates the loss given default using the historical balances over different vintages as a base. Furthermore, the LGD component is determined based on days past due. The recovery rate used in the LGD calculation is determined using the amount recovered from debt sales.

Effective Interest Rate (EIR):

The effective interest rate is determined based on the product type. It discounts the estimated future cash payments through the expected life of the financial instrument to net present value. Calculating the effective interest rate, Klarna considers all financial terms of the financial instrument as well as all corresponding fees. For products that do not charge any interest or fees that constitute as loan servicing fees the effective interest rate is determined to be 0%. For products that do charge interest or fees that are to be included in the effective interest rate, the EIR is approximated as a yearly interest rate.

This product specific EIR is then used to discount the outstanding balance which represents the expected exposure in the event of default. Klarna's loss rates of consumer receivables are not significantly affected by macroeconomic factors due to the unique design and short maturities of Klarna's credit products. Furthermore, Klarna's underwriting process is built on point in time assessments of transactions where the current state of the consumer is regularly assessed. In combination with the short duration of Klarna's credit products, this leads to an automatic adjustment to new market scenarios. The current ECL model is continuously reviewed and adjusted.

For financial guarantees and commitments the measurement of ECL follows mainly the same methodology as for consumer receivables but further includes a credit conversion factor (CCF) in the calculation of the exposure at default (EAD). The CCF is the proportion of the undrawn amount that is expected to be drawn in the event of default.

Financial assets for which Klarna has no reasonable expectation of recovering either the entire outstanding amount or a proportion thereof, are written off. Hence, the gross carrying amount of the financial asset is reduced and the amount of the loss is recognised in the income statement as Credit losses, net. Financial assets are generally written off when Klarna determines that the outstanding debt cannot be collected anymore as the borrower does not have assets or sources of income that could be used to repay the amounts subject to write-offs. To determine whether the outstanding debt cannot be collected anymore, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in principal payments. Financial assets which have been written off are no longer subject to enforcement activities.

When it is considered that there is no realistic prospect of recovery or when the loan or receivable is sold to an external party, the financial asset and the related allowance are removed from the balance sheet.

In case a financial asset faces a substantial contractual modification, the previous asset is derecognised and a new asset is recognised. If the modified financial asset fulfills the definition of "credit impaired", Klarna applies the requirements for purchased or originated credit impaired assets for the recognition of the new asset. If a financial asset faces a non-substantial contractual modification the financial asset is not derecognised and it is assessed if there occurred a significant increase in credit risk since initial recognition. As of now, the volume of contractual modifications is immaterial.

The simplified approach is used when calculating expected credit losses on merchant receivables. Hence the loss allowance for merchant receivables is always measured at an amount equal to lifetime expected credit losses. The merchant receivables are, therefore, initially allocated to stage 2. In order to assess whether a transfer into stage 3 is necessary, Klarna regularly analyses the risk that the merchant would default which is based on quantitative as well as qualitative factors.

Impairment of loans and receivables before the adoption of IFRS 9

Klarna tests all loans and receivables for impairment. The Group assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. Loans and receivables that are not individually significant are assessed collectively.

To determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or breach of contract, for example, default or delinquency in principal payments.

If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan(s) or receivable(s) and the present value of expected future cash flows discounted at its original effective interest rate. The carrying amount of the loans and the receivables is reduced by making a provision for credit losses and the amount of the loss is recognised in the income statement as credit losses, net.

The collective assessment of impairment is to establish an allowance amount on a portfolio basis, a loss amount that is probable of having occurred and is reasonably estimable. The allowance amount represents the incurred losses on the portfolio of smaller-balance homogeneous loans and receivables, which are loans and receivables within the retail business. The loans and receivables are grouped according to similar credit risk characteristics and the allowance for each group is determined using statistical models based on historical experience.

When it is considered that there is no realistic prospect of recovery or when the loan or receivable is sold to an external party, the loan or the receivable and the related allowance are removed from the balance sheet.

If in a subsequent period the amount of a previously recognised impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, the impairment loss is reversed by reducing the allowance account accordingly. Such reversal is recognised in profit or loss.

13) Derivative instruments

Derivative instruments are reported in the balance sheet on their trade date and are measured at fair value, both initially and at subsequent revaluations. Derivative instruments are classified as other assets or other liabilities. Changes in the fair value of derivative instruments are reported immediately in the income statement in the item Net income from financial transactions.

The Group does not apply hedge accounting and has no embedded derivatives.

14) Borrowing

Financial liabilities with regard to borrowing are categorised as liabilities which are initially reported at fair value, net of transaction costs incurred and then at amortised cost and with application of the effective interest method. This category comprises Liabilities to credit institutions, Deposits from the public, Debt securities in issue and Subordinated liabilities.

15) Leasing

Any leasing agreements are attributable to normal agreements for the business and are primarily for office premises, cars and office equipment and are classified as operational leasing. Lease payments for these agreements are expensed linearly over the lease term.

16) Intangible assets

Goodwill

The amount by which a purchase sum, any non-controlling interest or the fair value on the day of acquisition of former shareholdings exceeds the fair value of identifiable acquired net assets is reported as goodwill. Goodwill on acquisitions of subsidiaries is reported as an intangible asset. Goodwill is tested annually to identify any impairment requirement and is recorded at acquisition cost less accumulated impairment. Impairment of goodwill is not reversed. Goodwill is divided among cash-generating units when testing for any impairment requirement.

Brand names and customer related intangible assets

In business combinations a portion of the acquisition price can be allocated to brand names and customer related intangible assets. They are reported at acquisition cost less accumulated depreciation and any accumulated impairment. Straight line depreciation is carried out over the assessed useful life (3-20 years). Certain intangible assets have an indefinite useful life and hence are not amortised, but are tested for impairment at least annually.

Capitalised development expenses and licenses

Costs associated with IT systems and software which have been developed in-house or acquired and which are expected to be of considerable value for the business during at least three years are recognised as intangible assets. Costs for maintenance are expensed as incurred. Straight line depreciation is carried out over the assessed useful life (5 years).

Impairment

Goodwill and other intangible assets with indefinite useful life are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that impairment may have occurred. The impairment charge is calculated as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or cash generating unit, where the value in use is determined as the present value of expected future cash flows. Disclosures on performed impairment test are provided in note 24.

Intangible assets with definite useful lives are reviewed for indications of impairment. If indications exist an impairment test is performed.

17) Tangible assets

Tangible assets consist of equipment, fixtures and fittings, and computers. Tangible assets are reported at acquisition cost after a deduction for accumulated depreciation and any accumulated impairment. By acquisition cost is meant expenses that are directly attributable to the acquisition of the asset. Straight line depreciation is carried out over the assessed useful life.

The following useful life periods are applied:

Equipment, tools, and fixtures and fittings	5 years
Computers and other machinery	3 years
Investments in rented facilities	No longer than the contract time

Assessment of an asset's residual value and useful life is done annually. When the residual value is less than the carrying value an impairment is recognised in the income statement.

18) Participations in subsidiaries

Participations in subsidiaries are reported in the Parent Company according to the acquisition method. If it is assessed that the fair value at the end of the reporting period is less than the acquisition cost, the shares are written down. The impairment is reported in the income statement. If it is assessed that the value will increase again, the impairment is reversed via the income statement.

19) Tax

Income taxes consist of current tax and deferred tax. Income taxes are reported directly in the income statement except when the underlying transaction is reported directly against equity or other comprehensive income, in which case also the accompanying tax is reported in equity or other comprehensive income. Deferred tax is reported according to the balance sheet method for all temporary differences between an asset's or a liability's tax base and its carrying amount in the balance sheet. Deferred tax assets are reported for non-utilised tax relief to the extent it is probable that the relief will be able to be set off against future taxable surpluses. Deferred taxes are estimated according to the tax rate that is expected to apply at the time of taxation.

20) Share-based payments

For share-based payment to employees settled with equity instruments, the services rendered are measured with reference to the fair value of the granted equity instruments. The fair value of the equity instruments is calculated as per the grant date. The grant date refers to the date when a contract was entered into and the parties agreed on the terms of the share-based payment. Since the granted equity instruments are not vested until the employees have fulfilled a period of service, it is assumed that the services are rendered during the vesting period. This means that the expense and corresponding increase in equity are recognised over the entire vesting period. Non-market based vesting terms, such as a requirement that a person remain employed, are taken into account in the assumption of how many equity instruments are expected to be vested. Changes in the estimate of how many shares are expected to be vested due to the non-marked based vesting terms are recognised in the income statement and equity. Any related social charges are recognised as cash-settled share-based payment i.e. as an expense during the corresponding period based on the fair value that serves as the basis for a payment of social insurance charges.

21) Pensions

The Group's pension plans are defined contribution plans, which means that fees are paid to an independent legal entity according to a fixed pension plan. These fees are reported as personnel costs in the period they apply to. After the fees have been paid, the Group has no legal or other obligations.

22) Group contribution

Group contribution is reported in the Parent Company according to its financial significance. Group contribution received from a subsidiary is reported according to the same principles as dividend received. For parent companies this means that group contribution received is reported as revenue in the income statement. Group contribution paid by a parent company to a subsidiary is to be reported as increased participation in the group company. For subsidiaries that pay or receive group contribution, this is to be reported, together with the accompanying tax, in equity among retained earnings.

23) Cash flow statement

The cash flow statement is reported using the indirect method. The cash flow statement is divided into payments from operating activities, investing activities and financing activities. Operating activities are the main revenue-producing activities of the entity that are not investing or financing activities, operating cash flows include cash received from customers and cash paid to suppliers and employees. Investing activities are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents. Financing activities are activities that alter the equity capital and borrowing structure of the entity.

24) Important estimations and assumptions for accounting purposes

The Group makes estimates and assumptions about the future. The estimates for accounting purposes that are a consequence of these will by definition seldom correspond to the actual results. The estimates and assumptions that involve a considerable risk of significant adjustments in the carrying amounts for assets and liabilities during the subsequent financial year are dealt with in broad terms below.

Assessment of and impairment requirements for financial assets, financial guarantees and commitments

For financial assets that are measured at amortised cost or fair value through other comprehensive income as well as for loan commitments and financial guarantees the impairment requirements of IFRS 9 are applied. See section 12 above for impairment of financial assets, financial guarantees and commitments. Any assessments and assumptions used for the impairment calculations are subject to regular checks and follow-up.

Impairment requirements for goodwill and other intangible assets

The Group tests on a yearly basis if there is an impairment requirement for goodwill and other intangible assets with indefinite useful life, in accordance with the accounting principle described in note 24. This is tested by estimating the recoverable value, i.e. the highest of the realisable value and the value in use. If the recoverable value is lower than the carrying amount, the asset is written down.

The Group's intangible assets amounted to SEK 2,006,084k (1,801,072), whereof goodwill amounted to SEK 1,327,865k (1,275,723) at the end of the year and are related to the cash-generating units of Sofort GmbH, BillPay GmbH and Klarna Bank AB (publ). See note 24 for disclosure of performed impairment tests.

Assessment of provisions

Klarna Bank AB (publ) has provisioned SEK 168m (104), net of payments, for 2014-2018 as a consequence of tax assessments made by the Swedish Tax Agency on how Klarna Bank AB (publ) handles VAT. Klarna Bank AB (publ) is disputing the assessments; however the provisioning represents a likely outcome. See note 34 for provisions.

Note 3 Risk management

General

Risk is defined as the possibility of a negative deviation from an expected financial outcome. The Klarna Group is through its business activities subject to a number of different risks, the main ones being credit risk, market risk, liquidity risk and operational risk. Other risks include concentration risk, business risk, strategic risk, reputational risk and remuneration risk.

Klarna has a risk appetite framework in place, set by the Board, which is supported by limits for specific risk areas. The Board and Management also issue written policies and instructions for managing all identified risks, which are complemented by detailed routine descriptions within the organisation.

The purpose of risk management is to safeguard Klarna's long term survival, manage volatility in financial performance, and increase value for the owners by ensuring efficient capital management. The basis for the risk management and internal control framework is the three lines of defense model. The first line of defense refers to all risk management activities carried out by line management and staff. All accountable leads are fully responsible for the risks, and the management of these, within their respective area of responsibility.

The second line of defense refers to Klarna's independent Risk Control and Compliance Functions, which report directly to the CEO and the Board. To ensure independence, these functions are not involved in business operations.

Risk Control has the responsibility to monitor, control, analyse and report risks in Klarna's business.

The Compliance function is responsible for supporting the business and management in compliance matters and for assisting in identifying, follow-up and reporting on compliance risks, which refers to the risk of Klarna not complying with external and internal rules.

Furthermore, the Risk Control and Compliance Functions are responsible for promoting a sound risk and compliance culture across the business by helping to ensure quality, integrity and ethical practices within the business.

The third line of defense refers to the Internal Audit function which performs independent periodic reviews of the governance structure and the system of internal controls. The Board has appointed Deloitte as internal auditors.

The Audit, Compliance and Risk Committee of the Board has the specific responsibility to discuss, steer and monitor these issues and prepare for decisions by the full Board of Directors. For details on the Board of Directors, please see note 10.

The text, figures and tables below are for the Klarna Group. However, the business activities and risks are mainly related to the Parent Company; Klarna Bank AB (publ).

Credit risk

Credit risk is the risk that Klarna realises a loss due to not having its receivables repaid, either due to a counterpart's inability or unwillingness to fulfill its obligations. Klarna is mainly exposed to credit risk from four sources;

1. Lending to individual consumers/members of the public/companies who choose to buy using Klarna payment products
2. Exposure to merchants defaulting/bankruptcy who Klarna partner with and process payments for
3. Directly lending to merchants through the Klarna Boost Program
4. Exposure to credit institutions as well as investments in financial assets like treasury bills.

Klarna is exposed to credit risk in the following regions:

- Nordics (Sweden, Norway, Finland, Denmark)
- DACH (Germany, Austria, Switzerland)
- Netherlands
- United Kingdom
- United States

Klarna's credit risk management is executed by various domains, with the required standards ensured and managed through the Analytics competence. Once the appetite limits are defined by the Board of Directors and executive management, these domains provide support with specialisation in risk systems, data science and modelling, fraud management, compliance and legal management.

In order to mitigate the credit risk from individual consumers Klarna uses proprietary scoring models to perform an applicant's credit assessment. Model inputs consist of a number of purchase related data points, such as purchase amount and the specific merchant from which the purchase is made. This is combined with historical internal customer payment and credit behavior history and external information, to produce the scoring models. Due to differences in local legislation, the availability of external credit rating data and local customer behaviors, models tend to be specific to each country where Klarna conducts business. Loans advanced to customers are a blend of flexible revolving credit options where customers pay at their own pace, with a defined minimum monthly payment, where fixed part payment offerings varying between 3 and 48 months, and short term invoice receivables with a weighted lifetime of between 10 and 30 days.

Customer repayment performances as well as expected losses given by Klarna's underwriting models are continuously monitored and risk appetite for respective product and commercial region is adjusted based on the development of the risk profile of the portfolio, as well as based on commercial considerations. The short average credit duration makes it possible to respond swiftly and effectively whenever the environment changes by changing credit approval criteria. In addition to the scoring models, manual and automated processes are in place to detect potential fraudulent behavior and credit abuse.

Klarna's reporting of end customer credit risks focuses on both internal metrics such as pay rates, delinquency rates and provisions as well as total loss rates experienced on the portfolio over time. Management and the Board receive reporting on Credit Risk on a regular basis.

Klarna's underwriting and credit granting policies are defined based on regional and product risk appetite assessment – approved by the Management and the Board of Directors. These are monitored regularly by teams in finance and product domains under the supervision of Risk Control.

The total lending credit exposure amounts to SEK 22,346,633k (15,085,942), out of which SEK 19,979,002k (13,874,164) is lent to the public and SEK 2,367,631k (1,211,778) is lent to credit institutions. For credit exposure to the public and credit institutions Klarna makes provisions to cover for expected losses.

Credit risk	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Amounts in SEKk				
Loan receivables, gross	23,286,904	15,751,269	22,693,273	15,170,420
Allowance for credit losses	-940,271	-665,327	-880,061	-606,286
Loan receivables, net carrying amount	22,346,633	15,085,942	21,813,212	14,564,134
Of which: Loans to credit institutions	2,367,631	1,211,778	1,962,486	824,695
Of which: Loans to the public	19,979,002	13,874,164	19,850,726	13,739,439

The carrying amount of the financial assets reflects the maximum exposure to credit risk.

Credit risk concentrations

The following tables show Klarna's credit risk exposure and its significant credit risk concentrations as of December 31, 2018:

Group

Amounts in SEKk

Gross amounts	Stage 1	Stage 2	Stage 3	POCI	Total
Per region					
Sweden & Denmark	6,572,653	1,215,924	299,894	-	8,088,471
DACH	5,750,736	1,513,010	373,698	14,517	7,651,961
Norway	1,429,190	396,957	92,622	-	1,918,769
Other	4,929,952	429,090	268,661	-	5,627,703
Total	18,682,531	3,554,981	1,034,875	14,517	23,286,904
Before due and per days past due					
Before due	16,483,242	2,302,460	97,059	-	18,882,761
≤30 days	2,191,821	591,940	125,144	-	2,908,905
>30-60 days	2,255	408,955	52,793	-	464,003
>60-90 days	1,453	195,037	35,649	-	232,139
>90 days	3,760	56,589	724,230	14,517	799,096
Total	18,682,531	3,554,981	1,034,875	14,517	23,286,904

Parent Company

Amounts in SEKk

Gross amounts	Stage 1	Stage 2	Stage 3	POCI	Total
Per region					
Sweden & Denmark	6,569,809	1,215,924	299,894	-	8,085,627
DACH	5,462,879	1,389,222	324,559	-	7,176,660
Norway	1,428,802	396,957	92,622	-	1,918,381
Other	4,815,440	428,907	268,258	-	5,512,605
Total	18,276,930	3,431,010	985,333	-	22,693,273
Before due and per days past due					
Before due	16,149,471	2,190,196	111,636	-	18,451,303
≤30 days	2,127,459	587,878	120,321	-	2,835,658
>30-60 days	-	407,518	48,904	-	456,422
>60-90 days	-	193,772	32,274	-	226,046
>90 days	-	51,646	672,198	-	723,844
Total	18,276,930	3,431,010	985,333	-	22,693,273

Loans to the public past due, not impaired, 2017	up to 30 days	>30-60 days	>60-90 days	Total
Group	1,989,373	353,071	120,814	2,463,258
Parent Company	1,944,715	349,584	117,664	2,411,964

Loans to the public, Group 2017

Recognition quarter	Total volume (principal, fees)	Settled (paid, written off, sold)	Currently outstanding, gross	Aging, current outstanding balance in % of total volume			
				7-29 days	30-59 days	60-89 days	>90 days
Prior to 2016	103,027,048	102,389,906	637,142	0.00%	0.01%	0.01%	0.15%
2016-03	12,208,864	12,036,536	172,328	0.00%	0.06%	0.04%	0.11%
2016-06	13,963,768	13,708,966	254,802	0.00%	0.09%	0.06%	0.15%
2016-09	13,630,248	13,298,161	332,086	0.00%	0.12%	0.08%	0.22%
2016-12	18,575,338	18,024,808	550,530	0.00%	0.20%	0.13%	0.34%
2017-03	16,571,285	15,896,739	674,546	0.00%	0.24%	0.15%	0.40%
2017-06	20,330,183	19,172,191	1,157,992	0.00%	0.42%	0.27%	0.74%
2017-09	20,050,877	18,238,410	1,812,467	0.06%	0.79%	0.78%	0.99%
2017-12	21,937,587	12,989,988	8,947,598	7.83%	2.49%	0.58%	0.12%
Total			14,539,491				

For additional information on allowances on Loans to the public, please see note 21.

The merchants that offer Klarna's payment services also carry a credit risk for Klarna. If a merchant closes down or becomes insolvent, there is a risk that Klarna will be unable to offset any subsequent returns from consumers – which Klarna guarantees on behalf of the consumers – against payments due from Klarna to the merchant or indemnities. Klarna assesses this risk to be limited, based on the low probability of a credit event taking place in combination with a significant exposure volume, but is working proactively with tracking, controlling and mitigating such merchant credit risks. Merchant credit risk is mitigated using a longer payment delay on settlement payments towards merchants. Klarna has a Merchant Risk Monitoring function that, among other tasks, assesses merchants' credit worthiness before they are onboarded to Klarna. The function also manually tracks the financial status of Klarna's largest merchant credit risks. Merchant credit risk assessments use external credit bureau data and internal data. If a merchant credit risk is deemed too high, counter measures are taken to ensure that cooperation can continue under modified and acceptable term.

Klarna is also exposed to credit risk through its investments in debt securities held for liquidity management purposes. The risk of these investments is however mitigated by only investing in debt securities issued by governments or supranationals with at least a rating of AA by Standard & Poor's, by Swedish municipalities or the Swedish central bank ("Riksbanken").

Credit quality of debt securities

Amounts in SEKk	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
<i>Chargeable central bank treasury bills</i>				
AAA ¹	1,668,839	797,118	1,668,839	797,118
AA+ ¹	1,415,475	605,719	1,415,475	605,719
AA ¹	-	344,835	-	344,835
Unrated ¹	-	100,033	-	100,033
Total	3,084,314	1,847,705	3,084,314	1,847,705

¹According to rating from Standard & Poor's.

The monitoring of all defined tolerance limits for credit risk is reported at least quarterly to the Board of Directors by the Risk Control function. Any limit breaches are escalated immediately.

Klarna uses the standardised method for calculating capital requirements for credit risk. See note 44 Capital adequacy for details of the calculation of credit risks.

For financial instruments measured at fair value through profit or loss, the carrying amount represents the maximum exposure to credit risk.

Market risk

Market risk is defined as the risk that the value of or expected future cash flow from Klarna's assets and liabilities will move as a result of changes in market conditions.

Klarna only invests in financial instruments for liquidity management purposes, and not with a speculative purpose. The nature of Klarna's business implies that there is no exposure to commodity or equity risk. Interest and currency risk however exists as part of the business. The management of these risks is further described in the sections below.

Interest rate risk

Interest rate risk is defined as the risk of decreased market values of Klarna's fixed-rate interest-bearing assets due to changes in interest rates (value risk), or the risk of net interest return being negatively affected by changes in general interest rates (earnings risk).

Interest rate risk is related to any mismatch between interest bearing assets and liabilities. Klarna's overall objective is to ensure that any changes in interest rates on its funding can be matched by changes in interest rates on its lending. To allow this, all agreements with merchants and end-customers have, to the extent possible according to regulations, adjustable interest rates.

Klarna's lending is concentrated to short maturities. The funding is also primarily of short maturity, through retail deposits and bank credit facilities. See the table for funding sources under the section for Liquidity risk and note 41 for a maturity analysis of Klarna's liabilities.

Klarna monitors and manages interest rate risk based on internal limits set by the Board. To comply with the internal limits Klarna can adjust rates on its lending or enter into hedging instruments such as interest rate swaps. Klarna calculates and monitors interest rate risk on a continuous basis. As of December 31, 2018, Klarna had not entered into any financial instruments to mitigate interest rate risk.

A parallel shift in market interest rates of 200 bps implies an absolute interest risk of SEK 182,398k (77,482) given discounting of future cash flow at the risk free interest rate for each significant currency. This effect corresponds to 4.40% (1.92) of equity.

The Group's interest income amounted to SEK 2,033,517k (1,591,013) and interest expenses amounted to SEK 232,144k (138,682) which results in net interest income of SEK 1,801,373k (1,452,331).

Currency risk

Currency risk is the risk that arises from the change in the price of one currency against another. The Group is exposed to two different types of currency risks, translation risk and transaction risk.

Klarna is exposed to translation risk on group level. Translation risks primarily arise as a result of revaluation of balance sheet items nominated in currencies other than Klarna's reporting currency. Translation risks are monitored and currently not hedged but managed with foreign exchange spot transactions.

Klarna is exposed to transaction risks which primarily arise when Klarna Bank AB (publ) grants credit in currencies other than the reporting currency. The risk is mitigated by matching the lending assets with liabilities in the same currency, either by matching foreign currency assets with foreign currency loans or by entering into foreign exchange contracts. Lending in a currency other than the functional currency has been continuously increasing during 2018, as a result of growth in markets outside Sweden. Lending in foreign currencies is expected to continue to grow during 2019. During 2018, exchange rate loss related to transaction risk was SEK -775k (3,773).

Internal policy limits the fluctuations in exchange rates at Group level to 1.0% of Own Funds, which equals to SEK 34,243k (28,305), in the event of an exchange rate movement of $\pm 10\%$ in any given day. The Group enters into foreign currency contracts to ensure compliance with this policy if required. Treasury is responsible for the operational management of currency risks which are calculated on a daily basis.

Below is a statement of the currency exposure for each currency at the end of the reporting period in absolute numbers. The exposure is defined as the net balance sheet position in each non-SEK currency.

Currency exposure, Group

December 31, 2018	NOK	EUR	USD	GBP	Other	Absolute exposure
Net position	24,930	196,920	55,707	25,348	25,907	328,811
Effect of 10% change versus the foreign currency	-2,493	-19,692	-5,571	-2,535	-2,591	-32,881
December 31, 2017						
Net position	23,724	66,884	8,410	460	19,008	118,486
Effect of 10% change versus the foreign currency	-2,372	-6,688	-841	-46	-1,901	-11,849

A 10% change in the currency exchange rate (SEK) versus all foreign currencies would entail an effect of 31.25% (3.43) on net income and 0.88% (0.29) on equity for the Group.

The follow-up of all defined tolerance limits for market risk is reported at least quarterly to the board by the Risk Control function. Any limit breaches are escalated immediately.

Klarna uses the standardised method for calculating capital requirements for market risk.

Liquidity risk

Liquidity risk is defined as the risk of the Group not being able to meet its payment obligations on the due date without increasing the cost of meeting its obligations considerably.

The total sum of the Group's liabilities in each category are detailed in the below duration analysis. The Group has four main financing sources: operating liabilities, bank financing, retail deposits and bonds (senior and subordinated). The inherent liquidity risk is managed by striving to match the duration of the assets with the duration of the liabilities. In addition it is mitigated by maintaining liquidity reserves in order to be able to manage imbalances in the duration. The company pledges parts of its receivables as collateral for one of its bank financing. The set-up of the secured bank financing is such that when the receivables are repaid, the Group's bank financing is also automatically reduced. The methods for managing liquidity risk are described in the Risk Policy as well as in separate instructions.

The main liquidity measure is the Liquidity Coverage Ratio, defined in the EU's Commission Delegated Regulation. Klarna has a regulatory requirement to maintain sufficient reserves of liquid assets to support a share (100% as of 31 December 2018) of estimated stressed liquidity outflows over 30 days. Klarna monitors and forecasts its Liquidity Coverage Ratio on a daily basis to ensure that its stock of high quality liquid assets is sufficient to meet the requirements.

The follow-up of all defined tolerance limits for liquidity is reported at least quarterly to the board by the Risk Control function. Any limit breaches are escalated immediately.

Unutilised credit at the end of the reporting period amounted to SEK 3,834,425k (3,653,830).

Funding sources, Group

December 31, 2018	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Financial liabilities						
Liabilities to credit institutions	21,000	-	-	1,397,054	-	1,418,054
Deposits from the public	3,638,149	3,570,337	4,741,655	2,631,628	-	14,581,769
Debt securities in issue ¹	283	-	-	-	1,996,622	1,996,905
Other liabilities	3,723,737	4,041	93,390	66,043	179,499	4,066,710
Accrued expenses and prepaid income	302,044	64,500	112,195	19,662	-	498,401
Subordinated liabilities ¹	2,659	-	-	-	594,901	597,560
Total	7,687,872	3,638,878	4,947,240	4,114,387	2,771,022	23,159,399

December 31, 2017	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Financial liabilities						
Liabilities to credit institutions	-	-	300,795	96,170	-	396,965
Deposits from the public	3,260,670	1,358,686	2,353,890	1,518,408	-	8,491,654
Debt securities in issue ¹	492	-	-	1,994,544	-	1,995,036
Other liabilities	2,979,080	563	369	1,477	522	2,982,011
Accrued expenses and prepaid income	334,994	5,419	7,541	4,656	-	352,610
Subordinated liabilities ¹	393	-	-	-	296,728	297,121
Total	6,575,629	1,364,668	2,662,595	3,615,255	297,250	14,515,397

¹ Interest is included in the amounts for debt securities in issue and subordinated liabilities.

Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, from people and systems, or from external events. Operational risk includes legal and compliance risks, HR risk and model risk.

The main operational risks that Klarna faces are related to the significant growth of the company. The increase in number of employees, number of transactions and the development of new products means a continuous need for new structures and processes as well as development of systems.

The foundation for Klarna's work with operational risk is a risk assessment and internal control framework describing the main processes and the identified risks. The method to assess operational risks includes mapping all major processes in the business, identifying the main risks in each process, deciding and implementing adequate controls and finally testing of the controls. The Group also has processes in place for incident management, business continuity/crisis management as well as approval of major changes (NPA Process). These methods for managing operational risk are described in the Risk Policy as well as in detailed separate instructions. The risk assessment and internal control framework together with the NPA Process have been enhanced during 2018.

The follow-up of all defined tolerance limits for operational risk (including operational losses aggregated risk exposure, inadequate controls, etc.) is reported at least quarterly to the board by the Risk Control function. The report also includes the status of operational risk management and relevant key risk indicators.

Klarna uses the standardised method for calculating capital requirements for operational risk.

Capital

Klarna's own funds provide the capacity to absorb unexpected losses that are not possible to avoid or mitigate, and ensure that at all points in time a sufficient buffer of financial resources exist to meet obligations to stakeholders. In this way, Klarna's capital functions as a last resort protection against risk.

The Board is responsible for the overall planning of the capital structure. Relevant capital planning contributes to the company being well-equipped to meet a situation that requires further capital, and to provide an adequate buffer when entering new markets. The following factors are taken into consideration:

- the minimum capital required by laws and regulations, including buffers;
- the owners' required rate of return and effective capital management;
- the level of capital required for counterparts to consider Klarna a reliable partner and to provide efficient access to the funding market

Klarna's additional capital required under Pillar II, and the resulting total capital requirement, is assessed through the Group's Internal Capital Adequacy Process and Internal Liquidity Adequacy Assessment Process (ICLAAP). See note 44 for details on Klarna's capital requirement under Pillar I and Pillar II, and on Klarna's capital adequacy.

Klarna's Finance and Risk Control functions monitor capital adequacy on an on-going basis to ensure that capital requirements and board limits on capitalisation are not breached. Any breaches are escalated, and Klarna's Financial Recovery Plan provides executive management with a wide range of actions to deploy in case of capital stress.

Note 4 Operating segments and Income by geographical area

The segment information is presented based on the perspective of the Chief Operating Decision Maker (CODM), and the IFRS measurement principles and allocation between operating segments follow the information reported to the Chief Executive Officer, who is identified as the CODM.

Financial information is presented for the three main operating segments, based on regions; Sweden & Denmark, DACH (Germany, Austria and Switzerland) and Norway. The remainder of operating segments fall below the quantitative thresholds in IFRS 8 and are included in "Other" operating segments. Items not fully allocated to any of the operating segments are shown separately as reconciling items.

Klarna's main geographical markets are Sweden and Germany. The remainder of the geographical markets falls below the quantitative thresholds in IFRS 8 and are included in "Other" geographical markets. Revenues are distributed to geographical areas based on either the location of the end-consumer or the location of the merchant's operations.

Group 2018

Operating segments	Sweden & Denmark	DACH	Norway	Other ¹	Total
Revenue	1,908,191	2,245,186	679,937	875,182	5,708,496
Geographical breakdown	Sweden	Germany	Other ²	Total	
Revenue	1,872,801	1,996,533	1,839,162	5,708,496	
Non-current assets	452,850	1,627,352	6,484	2,086,686	

Group 2017

Operating segments	Sweden & Denmark	DACH	Norway	Other ¹	Total
Revenue	1,654,504	1,530,513	546,754	588,484	4,320,255
Geographical breakdown	Sweden	Germany	Other ²	Total	
Revenue	1,626,611	1,371,576	1,322,068	4,320,255	
Non-current assets	242,104	1,600,069	20,742	1,862,915	

¹"Other" mainly includes the countries Finland, the United Kingdom, the United States, Belgium and the Netherlands.

²"Other" mainly includes the countries Finland, Norway, Denmark, the United Kingdom, the United States, Austria, Switzerland, Belgium and the Netherlands.

Certain revenues, costs and general expenditures are not allocated to the segments as they are managed on an overall group basis. The reconciliation between reportable segment revenue to the Group's operating income is as follows:

Reconciliation between total segments and financial statements	2018	2017
Revenue - Total operating segments	5,708,496	4,320,255
Interest income from central activities	1,399	371
Interest expenses	-232,144	-138,682
Net income from financial transactions	-26,970	-23,899
General administrative expenses	-4,349,558	-2,932,765
Depreciation, amortisation and impairment of intangible and tangible fixed assets	-154,746	-200,575
Credit losses, net	-785,567	-500,718
Operating income	160,910	523,987

In accordance with the requirements of FFFS 2008:25 Klarna Bank AB (publ) also discloses income by geographical area.

Parent Company 2018	Sweden	Germany	Other¹	Total
Interest income calculated according to the effective interest rate method	1,025,179	296,266	688,102	2,009,547
Dividend	261,487	-	-	261,487
Commission income	1,057,697	1,009,087	1,038,976	3,105,760
Net income from financial transactions	-227,502	120,227	97,042	-10,233
Other operating income	262,993	5,081	2,824	270,898
Total	2,379,854	1,430,661	1,826,944	5,637,459

Parent Company 2017	Sweden	Germany	Other¹	Total
Interest income calculated according to the effective interest rate method	849,008	177,909	582,140	1,609,057
Lease income	4,661	-	-	4,661
Dividend	197,001	-	-	197,001
Commission income	894,381	720,391	683,206	2,297,978
Net income from financial transactions	-8,664	11,486	-7,870	-5,048
Other operating income	12,108	2,060	1,710	15,878
Total	1,948,495	911,846	1,259,186	4,119,527

¹ "Other" mainly includes the countries Finland, Norway, Denmark, the United Kingdom, the United States, Austria, Switzerland, Belgium and the Netherlands.

Note 5 Interest income calculated according to the effective interest rate method

	Group		Parent Company	
	2018	2017	2018	2017
Loans to credit institutions	669	300	597	272
Loans to the public	2,032,118	1,590,642	2,008,203	1,608,718
Other interest income	730	71	747	67
Total	2,033,517	1,591,013	2,009,547	1,609,057

Note 6 Interest expenses

	Group		Parent Company	
	2018	2017	2018	2017
Liabilities to credit institutions	-44,179	-28,680	-44,036	-28,333
Deposits from the public	-122,067	-78,337	-122,067	-78,337
Other interest expenses	-65,898	-31,665	-66,826	-31,685
Total	-232,144	-138,682	-232,929	-138,355

All interest expenses are calculated using the effective interest method.

Note 7 Commission income by operating segments

Revenues from contracts with customers divided by segments under IFRS 15:

Group

2018	Sweden & Denmark	DACH	Norway	Other ¹	Total
Commission income	1,072,026	1,925,347	476,034	525,987	3,999,394

2017	Sweden & Denmark	DACH	Norway	Other ¹	Total
Commission income	901,015	1,356,835	362,205	304,136	2,924,191

¹ "Other" mainly includes the countries Finland, the United Kingdom, the United States, Belgium and the Netherlands.

Parent Company

2018	Sweden & Denmark	DACH	Norway	Other ¹	Total
Commission income	1,072,026	1,092,137	476,034	465,563	3,105,760

2017	Sweden & Denmark	DACH	Norway	Other ¹	Total
Commission income	901,015	777,130	362,205	257,628	2,297,978

¹ "Other" mainly includes the countries Finland, the United Kingdom, the United States, Belgium and the Netherlands.

The opening balance of receivables connected to commission income amounted to SEK 388m as of January 1, 2018 and the closing balance as of December 31, 2018 amounts to SEK 605m for the Group. For Klarna Bank AB (publ) the opening balance was SEK 294m and the closing balance amounts to SEK 516m. These receivables are included in loans to the public, see note 21.

All commission income arise from financial instruments measured at amortised cost.

Note 8 Commission expenses

	Group		Parent Company	
	2018	2017	2018	2017
Commission to partners	-328,870	-205,253	-313,159	-190,936
Total	-328,870	-205,253	-313,159	-190,936

All commission expenses arise from financial instruments measured at amortised cost.

Note 9 Net result from financial transactions

	Group		Parent Company	
	2018	2017	2018	2017
Realised/non-realised fluctuations in exchange rates	-775	3,773	17,980	22,624
Gains from financial instruments	215	112	215	112
Losses from financial instruments	-26,410	-17,469	-26,410	-17,469
Impairment of shares in unlisted companies	-	-10,315	-	-10,315
Impairment of shares in group companies	-	-	-2,018	-
Total	-26,970	-23,899	-10,233	-5,048

As of December 31, 2018, Klarna Bank AB (publ) had entered into currency forward contracts with the nominal amount of SEK 1,815,599k (2,369,352).

Interest income from financial instruments not measured at fair value through profit or loss amounts to SEK 0 (0).

Interest expense from financial instruments not measured at fair value through profit or loss amounts to SEK 0 (0).

Note 10 Employees and personnel costs

	Group		Parent Company	
	2018	2017	2018	2017
Average number of full-time equivalents	1,713	1,380	1,089	900
<i>Number of men</i>	<i>1,104</i>	<i>884</i>	<i>680</i>	<i>567</i>
<i>Number of women</i>	<i>609</i>	<i>496</i>	<i>409</i>	<i>333</i>
In Sweden	1,089	922	1,089	900
<i>Number of men</i>	<i>680</i>	<i>576</i>	<i>680</i>	<i>567</i>
<i>Number of women</i>	<i>409</i>	<i>346</i>	<i>409</i>	<i>333</i>
In Norway	9	8	-	-
<i>Number of men</i>	<i>7</i>	<i>7</i>	-	-
<i>Number of women</i>	<i>2</i>	<i>1</i>	-	-
In Germany	437	277	-	-
<i>Number of men</i>	<i>306</i>	<i>185</i>	-	-
<i>Number of women</i>	<i>131</i>	<i>92</i>	-	-
In Netherlands	26	15	-	-
<i>Number of men</i>	<i>18</i>	<i>11</i>	-	-
<i>Number of women</i>	<i>8</i>	<i>4</i>	-	-
In Finland	12	7	-	-
<i>Number of men</i>	<i>5</i>	<i>4</i>	-	-
<i>Number of women</i>	<i>7</i>	<i>3</i>	-	-
In Israel	15	39	-	-
<i>Number of men</i>	<i>11</i>	<i>29</i>	-	-
<i>Number of women</i>	<i>4</i>	<i>10</i>	-	-
In Austria	7	7	-	-
<i>Number of men</i>	<i>3</i>	<i>4</i>	-	-
<i>Number of women</i>	<i>4</i>	<i>3</i>	-	-
In United Kingdom	45	31	-	-
<i>Number of men</i>	<i>32</i>	<i>23</i>	-	-
<i>Number of women</i>	<i>13</i>	<i>8</i>	-	-
In USA	73	66	-	-
<i>Number of men</i>	<i>42</i>	<i>39</i>	-	-
<i>Number of women</i>	<i>31</i>	<i>27</i>	-	-

Salaries, other remuneration and social security expenses

	Group		Parent Company	
	2018	2017	2018	2017
Salaries and other remuneration amounted to:				
Board and CEO ¹	-8,081	-7,202	-8,081	-7,202
Other employees	-1,040,234	-849,793	-539,950	-474,503
Total salaries and other remuneration	-1,048,315	-856,995	-548,031	-481,705
Statutory and contractual social security expenses	-413,711	-304,121	-330,917	-248,099
<i>whereof pension expenses</i>	<i>-110,030</i>	<i>-81,736</i>	<i>-96,742</i>	<i>-71,528</i>
Total salaries, other remuneration, social security and pension expenses	-1,462,026	-1,161,116	-878,948	-729,804

¹The basic fee to the board of directors is accounted for in Klarna Bank AB (publ)'s parent company, Klarna Holding AB.

	Group			
	31 Dec 2018		31 Dec 2017	
	Number at closing day	Percentage of men	Number at closing day	Percentage of men
Board members and senior management				
Group CEO and other members of senior management	8	88%	9	89%

The percentage of men in the board was 86% (94%) at the end of the reporting period.

Group 2018

Salaries and other remuneration to the board and senior management	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Jonathan Kamaluddin, Chairman of the Board	-775	-1,048	-	-	-1,823
Niklas Adalberth ¹	-	-	-	-	-
Niklas Savander ¹	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-550	-	-	-	-550
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-6,248	-	-3	-782	-7,033
Knut Frängsmyr, Deputy CEO	-6,576	-316	-3	-770	-7,665
Other members of senior management (6) ²	-30,668	-2,600	-21	-3,534	-36,823
Total	-44,817	-3,964	-27	-5,086	-53,894

¹On February 22, 2018, the company's director Niklas Adalberth resigned from the board of directors and Niklas Savander was appointed new director.

²The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

Group 2017

Salaries and other remuneration to the board and senior management ¹	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Jonathan Kamaluddin, Chairman of the Board	-633	-389	-	-	-1,022
Niklas Adalberth	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Anton Levy ²	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-500	-	-	-	-500
Andrew Young ²	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-5,787	-	-5	-771	-6,563
Knut Frängsmyr, Deputy CEO	-6,433	-316	-7	-825	-7,581
Other members of senior management (8) ³	-23,782	-570	-561	-3,314	-28,227
Total	-37,135	-1,275	-573	-4,910	-43,893

¹ From May 2017, after the annual general meeting in 2017, the basic fee to the board of directors has been accounted for in Klarna Bank AB (publ)'s parent company, Klarna Holding AB.

² Anton Levy resigned as Board member on December 15, 2017. On the same day Andrew Young was appointed to the board.

³ The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

	Parent Company			
	31 Dec 2018		31 Dec 2017	
	Number at closing day	Percentage of men	Number at closing day	Percentage of men
Board members and senior management				
CEO and other members of senior management	8	88%	9	89%
Board members	7	86%	7	86%

Parent Company 2018

Salaries and other remuneration to the board and senior management	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Jonathan Kamaluddin, Chairman of the Board	-775	-1,048	-	-	-1,823
Niklas Adalberth ¹	-	-	-	-	-
Niklas Savander ¹	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-550	-	-	-	-550
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-6,248	-	-3	-782	-7,033
Knut Frängsmyr, Deputy CEO	-6,576	-316	-3	-770	-7,665
Other members of senior management (6) ²	-30,668	-2,600	-21	-3,534	-36,823
Total	-44,817	-3,964	-27	-5,086	-53,894

¹ On February 22, 2018, the company's director Niklas Adalberth resigned from the board of directors and Niklas Savander was appointed new director.

² The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

Parent Company 2017

Salaries and other remuneration to the board and senior management ¹	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Jonathan Kamaluddin, Chairman of the Board	-633	-389	-	-	-1,022
Niklas Adalberth	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Anton Levy ²	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-500	-	-	-	-500
Andrew Young ²	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-5,787	-	-5	-771	-6,563
Knut Frängsmyr, Deputy CEO	-6,433	-316	-7	-825	-7,581
Other members of senior management (8) ³	-23,782	-570	-561	-3,314	-28,227
Total	-37,135	-1,275	-573	-4,910	-43,893

¹From May 2017, after the last annual general meeting, the basic fee to the board of directors has been accounted for in Klarna Bank AB (publ)'s parent company, Klarna Holding AB.

²Anton Levy resigned as Board member on December 15, 2017. On the same day Andrew Young was appointed to the board.

³The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

Remuneration

The rules on remuneration are found in the Swedish Banking and Financing Act and the Swedish Financial Supervisory Authority's regulations (FFFS 2011:1) regarding remuneration systems in credit institutions, securities companies and fund management companies licensed to conduct discretionary portfolio management (below "the remuneration rules").

In accordance with Part Eight of Regulation (EU) No 575/2013, commonly referred to as the Capital Requirements Regulation (CRR) and the regulations and general guidelines of the Swedish Financial Supervisory Authority (FFFS 2014:12) regarding the disclosure of information on capital adequacy and risk management (below "disclosure rules"), Klarna shall at least annually in its Annual Report and on its website give information on its Remuneration Policy and remuneration systems.

The information below follows the provisions of the disclosure rules.

Klarna Remuneration

Klarna has a remuneration structure that recognises the importance of well-balanced but differentiated remuneration structures, based on business and local market needs, as well as the importance of being consistent with and promoting sound and efficient risk management not encouraging excessive risk-taking and short-term profits or counteracting Klarna's long term interests.

The aim with the remuneration structure is to both support the ability to attract and retain talents in every position as well as support equal and fair treatment, but also to ensure that remuneration in Klarna is aligned with efficient risk management and compliant with existing regulations.

Klarna Remuneration Committee

The Board of Directors has established a Remuneration Committee consisting of two members appointed by the Board. The Remuneration Committee is responsible for preparing and presenting proposals to the Board on remuneration issues. This duty includes proposals regarding the Remuneration Policy and on remuneration to members of the Group Management Team and employees who head any of the control functions. The Remuneration Committee shall also prepare proposals for the Annual General Meeting regarding the remuneration of the members of the Board and the Auditors. Furthermore, the Remuneration Committee shall make a competent and independent evaluation of the Remuneration Policy and Klarna's remuneration system, together with the suitable control function(s) if necessary.

The Remuneration Committee has held two formal meetings in 2018. In addition, it has also handled other matters that have arisen on an ongoing basis through correspondence between the committee members with the formal decisions not covered by its delegation authority being reported to and documented by the Board at the closest following Board meeting.

Remuneration Policy and remuneration risk analysis

Klarna's Board has adopted a Remuneration Policy that is designed to be compatible with and promote sound and effective risk management, counteract exaggerated risk taking and be in line with Klarna's long-term interests. The Remuneration Policy shall be revised when it is necessary, at least annually.

Klarna's Remuneration Policy, remuneration system and list of those staff members whose professional activities have a material impact on Klarna's risk profile (Identified Staff) are assessed annually. The assessment includes an analysis of all risks Klarna is or might be exposed to, including the risks associated with its Remuneration Policy and remuneration structure. In general, Klarna's remuneration system involves low risk compared with large banks and other credit institutions with comprehensive trading and other businesses covered by the remuneration rules. The risk cycle in Klarna's credit business is assessed to be short, which means that any risks materialise within a few months.

Remuneration structure

Klarna applies the following general principles on remuneration:

- Remuneration shall be set on an individual basis, based on experience, competence and performance
- Remuneration shall not be discriminating
- Remuneration shall be competitive, but not counterproductive to Klarna's long term interests and capability to generate positive results throughout a full economic cycle.

The remuneration structure within Klarna comprises fixed remuneration and variable remuneration. As stipulated in the remuneration rules, Klarna ensures that the fixed and variable components are appropriately balanced by seeing to that the fixed remuneration represents a sufficiently large proportion of the employee's total remuneration allowing Klarna the possibility to pay no variable remuneration. This means that Klarna can decide that the variable remuneration, including deferred payment, can be cancelled in part or in whole under certain circumstances, as described below.

Variable remuneration shall amount to maximum 100 percent of an employee's total fixed remuneration for Identified Staff and 200 percent of an employee's total fixed remuneration for other employees, unless otherwise decided by the Board of Directors in exceptional cases.

Variable remuneration should not only take into consideration the employee's and his/her team's result but preferably also Klarna's total result as well as qualitative criteria such as the employee's compliance with internal rules. It should be based on results that are adjusted for current and future risks. Klarna shall ensure that it is entitled to unilaterally decrease or withdraw all or parts of the variable remuneration if the criteria are not met or if Klarna's financial situation deteriorates substantially.

If an Identified Staff member receives variable remuneration exceeding the amount stipulated in the remuneration rules such remuneration would be subject to deferral and retention.

Share-based payments

In certain jurisdictions Klarna offers share-based payments to employees consisting of warrants. The warrants are subject to graded vesting in four (five) annual installments, corresponding to the maximum duration of the programs. No program may be settled in cash by Klarna. In total 400,513 (304,119) warrants are considered share-based payments. The weighted average exercise price is as follows: for warrants outstanding at the beginning of the year: SEK 817.57 (752.99); granted during the year: SEK 963.00 (963.00); forfeited during the year SEK 0 (0); outstanding at the end of the year: SEK 817.57 (770.07). All such warrants have an exercise price between SEK 470 and 1,175 (SEK 470 and 1,175). The value of granted warrants has been established using the Black Scholes model.

The total cost of share-based payment is allocated over the duration of warrant programs. The total expense for share-based payments for 2018 is SEK 7,700k (-522).

Remuneration 2018

Total amount entered as an expense for remuneration to the Group Management team (9 persons¹) was SEK 52,992k and for Identified Staff (79 persons¹) this sum was SEK 110,170k, which aggregates to SEK 163,162k. Variable remuneration accounts for SEK 4,386k of the Group Management Team figure paid to 5 of its members and SEK 14,864k of the Identified Staff figure, paid to 21 beneficiaries.

Total amount entered as an expense for remuneration to other employees was SEK 885,153k (703,235).

¹ The number refers to individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

The below table gives a breakdown of variable remuneration paid and awarded during 2018:

Type of Variable Remuneration	Value of Variable Remuneration (in SEKk)			Number of Beneficiaries		
	Group Management Team	Identified Staff	Total	Group Management Team	Identified Staff	Total
Paid as one off Cash payments (relating to Referral bonuses / Gratifications / Sales commission)	443	9,098	9,541	4	15	19
Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits	1,589	-623 ³	966	7	36	43
Outstanding deferred remuneration	1,237	1,818	3,055	3	11	14
Deferred remuneration awarded ¹	0	1,732	1,732	0	10	10
New sign-on bonus paid	2,381	3,702	6,083	1	4	5
Severance payments paid	0	3,167	3,167	0	2	2
Severance payments awarded ²	0	3,167	3,167	0	2	2

¹ There has been one risk adjustment reduction made to deferred remuneration awards during 2018.

² The highest severance payment awarded to a single person was SEK 2,501k.

³ Negative amounts are due to reversal of costs of share-based remuneration when employees leave the company.

No employees have been remunerated more than EUR 1m.

Note 11 Fees and reimbursement of expenses for auditors

	Group		Parent Company	
	2018	2017	2018	2017
<i>EY</i>				
Audit engagement	-4,373	-3,576	-2,235	-2,363
Audit related services	-682	-950	-538	-950
Tax consultancy	-154	-122	-44	-42
Other services	-826	-5,485	-826	-1,815
Total	-6,035	-10,133	-3,643	-5,170
<i>BDO</i>				
Audit engagement	-	-286	-	-
Total	-	-286	-	-
<i>P.G. Economides & Co Ltd</i>				
Audit engagement	-80	-	-	-
Total	-80	-	-	-

Note 12 Operating lease commitments

	Group		Parent Company	
	2018	2017	2018	2017
Total lease and rental costs during the year	-103,632	-98,833	-57,497	-51,132
The future aggregate minimum lease payments under operating leases are as follows:				
No later than 1 year	-105,699	-78,941	-71,261	-51,610
Later than 1 year and no later than 5 years	-176,361	-162,115	-101,262	-94,255
Later than five years	-35,739	-11,529	-11,519	-
Total	-317,799	-252,585	-184,042	-145,865

The leased assets mainly comprise of facilities, vehicles and machinery.

Note 13 Depreciation, amortisation and impairment of intangible and tangible assets

	Group		Parent Company	
	2018	2017	2018	2017
Amortisation / depreciation				
Intangible assets	-107,345	-97,666	-51,153	-56,405
Tangible assets	-35,140	-29,205	-20,996	-16,445
Total amortisation / depreciation	-142,485	-126,871	-72,149	-72,850
Impairment				
Intangible assets	-12,261	-73,704	-11,986	-
Total impairment	-12,261	-73,704	-11,986	-
Total depreciation, amortisation and impairment of intangible and tangible assets	-154,746	-200,575	-84,135	-72,850

Note 14 Credit losses, net

Loan losses divided by class

	Group		Parent Company	
	2018	2017	2018	2017
Loans to credit institutions				
Increase in provisions	-39	-	-39	-
Total	-39	-	-39	-
Loans to the public				
Realised loan losses	-1,135,168	-609,019	-1,123,009	-583,487
Allowances to cover realised loan losses	566,952	196,519	545,172	189,505
Recoveries on previous realised loan losses	516,086	274,399	513,642	274,190
Increase in provisions	-1,716,003	-404,721	-1,591,231	-394,740
Reversal of previous provisions	1,057,311	42,104	980,058	38,415
Total	-710,822	-500,718	-675,368	-476,117
Financial guarantees and commitments				
Increase in provisions	-92,201	-	-61,327	-
Reversal of previous provisions	17,495	-	13,931	-
Total	-74,706	-	-47,396	-
Total credit losses, net	-785,567	-500,718	-722,803	-476,117

Note 15 Taxes

	Group		Parent Company	
	2018	2017	2018	2017
Income tax expense				
<i>Current tax</i>				
Tax expense for the year	-96,132	-162,752	-	-59,570
Adjustment of tax attributable to previous years	-3,916	-25,237	-	-26,238
Total current tax	-100,048	-187,989	-	-85,808
<i>Deferred tax</i>				
Deferred tax regarding temporary differences	44,362	9,615	35,085	-3,541
Total deferred tax	44,362	9,615	35,085	-3,541
Reported tax expense	-55,686	-178,374	35,085	-89,349

The effective tax on income deviates from the nominal tax due to the following items:

	Group		Parent Company	
	2018	2017	2018	2017
Income before tax	160,910	523,987	106,739	434,187
Income tax calculated in accordance with national tax rates regarding income in each country	-55,877	-139,375	-23,483	-95,521
Non-taxable revenues	3,754	10,889	57,549	43,355
Non-deductible expenses	-11,639	-22,415	-8,250	-9,756
Standard revenue, tax allocation reserve	-125	-67	-125	-67
Taxable income not booked over profit or loss	-10,808	-1,122	-10,808	-1,122
Deductible expenses not booked over profit or loss	21,223	-	21,090	-
Effect of change in tax rate	-891	-1,047	-888	-
Adjustments attributable to previous years	-1,323	-25,237	-	-26,238
Reported tax expense	-55,686	-178,374	35,085	-89,349
Effective tax rate	34.6%	34.0%	-32.9%	20.6%

Deferred tax assets	Group		Parent Company	
	2018	2017	2018	2017
The balance comprises temporary differences attributable to:				
Losses carry-forward	37,895	16,248	30,756	-
Allowance for credit losses	368	48	-	-
Other	9,245	5,467	1,557	2,162
Total deferred tax assets	47,508	21,763	32,313	2,162
Deferred tax liabilities	Group		Parent Company	
	2018	2017	2018	2017
The balance comprises temporary differences attributable to:				
Intangible assets	81,968	94,913	-	-
Untaxed reserves	33,729	35,115	-	-
Other	1,936	6,222	1,341	6,275
Total deferred tax liabilities	117,633	136,250	1,341	6,275

The Swedish corporate tax rate will decrease from 22% to 21.4% on January 1, 2019 and to 20.6% on January 1, 2021, consequently the deferred tax assets and liabilities for Swedish companies have decreased.

Note 16 Appropriations

	Parent Company	
	2018	2017
Additional depreciation	-	-2,212
Change in tax allocation reserve	6,300	-73,000
Total	6,300	-75,212

Note 17 Net result from categories of financial instruments

	Group	Parent Company
	2018	2018
Financial instruments mandatory measured at fair value through profit or loss	-48,711	-48,711
Financial assets measured at amortised cost	5,309,838	4,665,804
Financial liabilities measured at amortised cost	-546,492	-531,706
Exchange gains/losses	21,742	40,497
Total	4,736,377	4,125,884

	Group	Parent Company
	2017	2017
Available for sale assets, realised	-10,315	-10,315
Financial instruments designated at fair value through profit or loss	-7,952	-7,952
Financial instruments held for trading	-3,347	-3,347
Financial assets measured at amortised cost	4,014,415	3,430,852
Financial liabilities measured at amortised cost	-335,255	-320,634
Exchange gains/losses	-10,059	8,792
Total	3,647,487	3,097,396

Note 18 Proposed treatment of unappropriated earnings

The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 3,392,427,265 on Klarna Bank AB (publ)'s balance sheet at the disposal of the Annual General Meeting to be carried forward.

Additional Tier 1 instruments	250,000,000 SEK
Retained earnings	3,000,603,109 SEK
Net income for the year	<u>141,824,156 SEK</u>
Total	3,392,427,265 SEK

Note 19 Chargeable central bank treasury bills

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Central bank	400,044	-	400,044	-
State and sovereigns	1,333,077	891,775	1,333,077	891,775
Municipalities and other public bodies	1,351,193	955,930	1,351,193	955,930
Total	3,084,314	1,847,705	3,084,314	1,847,705
- in SEK	1,751,237	1,206,411	1,751,237	1,206,411
- in EUR	1,127,379	591,273	1,127,379	591,273
- in NOK	205,698	50,021	205,698	50,021

The chargeable central bank treasury bills have a remaining maturity of up to one year. For the fair value amounts see note 38.

Note 20 Loans to credit institutions

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Loans to credit institutions	2,367,631	1,211,778	1,962,486	824,695
- in SEK	705,674	292,978	704,944	292,946
- in EUR	1,122,081	700,252	831,323	398,915
- in NOK	81,562	70,626	81,175	70,261
- in USD	157,026	61,732	119,770	23,246
- in GBP	164,705	33,108	164,403	33,108
- in other currencies	136,583	53,082	60,872	6,219

All loans to credit institutions are payable on demand. For the fair value amounts see note 38.

The loss allowance for loans to credit institutions at the end of the reporting period amounts to SEK 39k and was allocated to impairment stage 1. The group has no purchased or originated credit-impaired assets (POCI) related to credit institutions.

Note 21 Loans to the public

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Loans to the public	20,919,234	14,539,491	20,730,748	14,345,725
Allowance for credit losses	-940,232	-665,327	-880,022	-606,286
Total loans to the public	19,979,002	13,874,164	19,850,726	13,739,439

Group

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Gross carrying amount as at January 1, 2018^{1,2}	12,045,403	1,063,987	1,307,735	4,911	144,951	14,566,986
New assets originated or purchased	53,710,188	36,321	2,125	23,308	1,511,998	55,283,940
Assets derecognised or repaid (excl. write-offs)	-45,936,874	-830,093	-299,013	-13,902	-1,376,909	-48,456,791
Transfers to stage 1	517,402	-287,330	-230,072	-	-	-
Transfers to stage 2	-3,256,628	3,397,026	-140,398	-	-	-
Transfers to stage 3	-854,915	-106,095	961,010	-	-	-
Amounts written off	-7,174	-20,476	-609,402	-	-1,076	-638,128
Other adjustments	97,459	17,088	42,890	201	5,589	163,227
Gross carrying amount as at December 31, 2018	16,314,861	3,270,428	1,034,875	14,517	284,553	20,919,234

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Allowance as at January 1, 2018³	-317,368	-151,576	-269,167	-2,348	-14,911	-755,371
New assets originated or purchased	-870,004	-5,448	-1,499	-17,263	-10,682	-904,896
Assets derecognised or repaid (excl. write-offs)	337,173	253,869	115,254	7,826	27,396	741,518
Transfers to stage 1	-14,370	10,454	3,916	-	-	-
Transfers to stage 2	116,281	-119,010	2,729	-	-	-
Transfers to stage 3	326,914	28,004	-354,918	-	-	-
Impact on year end ECL from change in credit risk	12,650	-266,871	-498,977	3,708	-34,846	-784,336
Changes to models and inputs used for ECL calculations ⁴	124,955	79,480	12,459	-	-	216,894
Amounts written off	5,518	10,019	551,009	-	406	566,952
Other adjustments	-8,412	-1,499	-11,301	0	219	-20,993
Allowance as at December 31, 2018	-286,664	-162,578	-450,495	-8,077	-32,418	-940,232

¹ The table shows month over month movements.

² The opening balances for the gross carrying amounts have been restated due to the implementation of IFRS 15.

³ The opening balances for allowances have been restated due to the implementation of IFRS 9.

⁴ This line shows the effect of the implementation of the new impairment model.

Parent Company

	Stage 1	Stage 2	Stage 3	Simplified approach	Total
Gross carrying amount as at January 1, 2018^{1,2}	12,014,397	1,050,274	1,256,878	51,672	14,373,221
New assets originated or purchased	49,390,300	2,139	854	635,238	50,028,531
Assets derecognised or repaid (excl. write-offs)	-41,806,954	-645,175	-259,346	-490,993	-43,202,468
Transfers to stage 1	490,889	-260,841	-230,048	-	-
Transfers to stage 2	-2,997,122	3,137,507	-140,385	-	-
Transfers to stage 3	-848,223	-46,162	894,385	-	-
Amounts written off	-7,144	-20,459	-577,559	-445	-605,607
Other adjustments	78,262	18,021	40,554	234	137,071
Gross carrying amount as at December 31, 2018	16,314,405	3,235,304	985,333	195,706	20,730,748

The parent company has no purchased or originated credit-impaired assets (POCI).

	Stage 1	Stage 2	Stage 3	Simplified approach	Total
Allowance as at January 1, 2018³	-307,431	-148,635	-224,210	-14,393	-694,668
New assets originated or purchased	-836,800	-105	-353	-9,932	-847,190
Assets derecognised or repaid (excl. write-offs)	302,338	241,227	93,305	27,396	664,266
Transfers to stage 1	-8,499	4,598	3,901	-	-
Transfers to stage 2	110,463	-113,188	2,725	-	-
Transfers to stage 3	326,117	19,837	-345,954	-	-
Impact on year end ECL from change in credit risk	7,504	-250,066	-468,184	-34,640	-745,387
Changes to models and inputs used for ECL calculations ⁴	124,955	79,480	12,459	-	216,894
Amounts written off	5,518	10,019	529,239	396	545,172
Other adjustments	-8,171	-1,386	-9,793	241	-19,109
Allowance as at December 31, 2018	-284,006	-158,219	-406,865	-30,932	-880,022

¹ The table shows month over month movements.

² The opening balances for the gross carrying amounts have been restated due to the implementation of IFRS 15.

³ The opening balances for allowances have been restated due to the implementation of IFRS 9.

⁴ This line shows the effect of the implementation of the new impairment model.

	Group	Parent Company
Allowance as at January 1, 2017	-437,101	-435,840
Acquisition of subsidiaries	-53,370	-
Provisions excl. interest and fees, net	-177,097	-172,634
Provisions for interest and fees, net ¹	5,422	6,023
Foreign exchange effect	-3,181	-3,835
Allowance as at December 31, 2017	-665,327	-606,286

¹ Provisions for interest and fees are included in interest income in the income statement.

All loans and receivables are collectively assessed for impairment. For the fair value amounts see note 38.

Note 22 Loans and impairment

The information below shows disclosures for 2017 on loans and impairment.

	Group	Parent Company
	31 Dec 2017	31 Dec 2017
Loans, not impaired	15,277,937	14,760,509
Credit institutions	1,211,778	824,695
Public	14,066,159	13,935,814
Loans, impaired	473,332	409,911
Public	473,332	409,911
Loans before allowances	15,751,269	15,170,420
Allowances for collectively assessed loans, not impaired	-358,611	-349,116
Public	-358,611	-349,116
Allowances for collectively assessed loans, impaired	-306,716	-257,170
Public	-306,716	-257,170
Allowances	-665,327	-606,286
Loans, carrying amount	15,085,942	14,564,134

	Group		Parent Company	
	Loans to the public		Loans to the public	
	Collectively assessed	Total	Collectively assessed	Total
Balance as at January 1, 2017	-437,101	-437,101	-435,840	-435,840
Provisions	-404,721	-404,721	-394,740	-394,740
Reversal of previous provisions	42,104	42,104	38,415	38,415
Changes through the income statement	-362,617	-362,617	-356,325	-356,325
Allowances used to cover realised loan losses	196,519	196,519	189,505	189,505
Translation differences	-62,128	-62,128	-3,626	-3,626
Balance as at December 31, 2017	-665,327	-665,327	-606,286	-606,286

Note 23 Shares and participations in group companies

				Parent Company		
				31 Dec 2018	31 Dec 2017	
Participations in group companies				1,122,265	1,124,283	
Parent Company			31 Dec 2018	31 Dec 2018	31 Dec 2017	31 Dec 2017
Subsidiaries	No. of shares	Share	Book value	Equity	Book value	Equity
Analyzd Technologies Ltd., Cyprus, Corp. ID 273011	1,000	100%	16,547	-82	18,514	3
Ident Inkasso AB, Sweden, Corp. ID 596918-1158	50,000	100%	-	1,922	50	1,226
Klarna Austria GmbH, Austria, Corp. ID 387052w	1	100%	300	3,600	300	1,719
Klarna B.V., Netherlands, Corp. ID 50315250	18,000	100%	173	11,408	173	6,113
Klarna Germany Holding GmbH, Germany, Corp. ID HRB 153963 B	25,000	100%	1,100,590	1,415,879	1,100,590	1,466,916
Klarna GmbH, Germany, Corp ID HRB 77353	25,000	100%	243	37,108	243	12,880
Klarna Inc., USA, Corp. ID 99-0365994	10,000,000	100%	4,263	45,393	4,264	14,586
Klarna Norge AS, Norway, Corp. ID 995 515 164	10,000	100%	122	16,116	122	3,825
Klarna OY, Finland, Corp. ID 2247127-6	2,500	100%	27	12,121	27	3,390
Klarna UK Limited, United Kingdom, Corp. ID 08706739	1	100%	0	13,190	0	6,569
Total			1,122,265		1,124,283	

For the year ending 31 December 2018, the following subsidiary company was entitled to exemption from audit under section 479A of the Companies Act 2006, United Kingdom:

Klarna UK Limited (registered number 08706739)

For the fair value amounts see note 38.

December 31, 2018

Group companies	Geographical area	Total operating revenues, net	Operating income	Taxes	Average no. of employees
Analyzd Technologies Ltd.	Cyprus	-	-87	-	-
BillPay GmbH	Germany	306,932	48,295	-14,298	107
Ident Inkasso AB	Sweden	14,520	813	-104	4
Klarna Austria GmbH	Austria	8,031	2,422	-605	2
Klarna B.V.	Netherlands	53,543	6,607	-1,552	27
Klarna Germany Holding GmbH	Germany	218,019	216,165	-65,581	-
Klarna GmbH	Germany	321,529	32,819	-8,972	194
Klarna Ltd.	Israel	30,537	3,077	-354	17
Klarna Norge AS	Norway	47,410	16,050	-3,697	10
Klarna OY	Finland	33,474	10,782	-2,161	13
Klarna UK Limited	United Kingdom	141,442	9,227	-2,846	46
Klarna, Inc. ¹	USA	221,510	39,607	-10,367	80
Klarna SPV GmbH	Germany	-10	-132	-	-
Sofort GmbH	Germany	388,088	-1,848	18	162
Sofort Austria GmbH	Austria	9,015	2,024	-525	6

December 31, 2017

Group companies	Geographical area	Total operating revenues, net²	Operating income	Taxes	Average no. of employees
Analyzd Technologies Ltd.	Cyprus	-30	-125	-	-
BillPay GmbH	Germany	81,640	8,515	-2,363	135
Ident Inkasso AB	Sweden	28,813	1,553	-568	31
Klarna Austria GmbH	Austria	4,673	222	-58	3
Klarna B.V.	Netherlands	25,445	1,355	-273	16
Klarna Germany Holding GmbH	Germany	390,877	394,013	-98,152	-
Klarna GmbH	Germany	79,543	6,853	-2,966	63
Klarna Ltd.	Israel	67,402	4,901	-886	39
Klarna Norge AS	Norway	14,986	743	-183	8
Klarna OY	Finland	8,577	403	-77	7
Klarna UK Limited	United Kingdom	76,991	4,260	-1,185	32
Klarna, Inc. ¹	USA	189,196	5,407	-2,731	65
Klarna SPV GmbH	Germany	99	-980	-	-
Sofort GmbH	Germany	215,774	-15,930	2,862	165
Sofort Austria GmbH	Austria	6,616	480	-136	4

¹ New tax regulations in the United States effective as of January 1, 2018, have resulted in an increased tax expense for 2017 since deferred tax assets have been calculated using the new corporate tax rate for 2018 of 21% (34).

² Total operating revenues, net, have been restated due to changed presentation of the income statement.

Note 24 Intangible assets

Group				Capitalised development expenses	Other intangible assets	Total
	Goodwill	Brands	Licenses			
Purchase value as at January 1, 2018	1,275,723	78,872	50,686	485,931	353,958	2,245,170
This year's purchase	-	-	13,431	203,849	42,398	259,678
This year's sales/disposals	-	-	-3,152	-23,433	-6,992	-33,577
Currency translation difference	52,142	3,222	224	4,563	11,691	71,842
Purchase value as at December 31, 2018	1,327,865	82,094	61,189	670,910	401,055	2,543,113
Amortisation as at January 1, 2018	-	-656	-38,932	-269,383	-62,085	-371,056
This year's amortisation	-	-2,047	-8,814	-75,436	-21,048	-107,345
This year's sales/disposals	-	-	3,152	15,987	2,452	21,591
Reclassification	-	-	-	-157	2,544	2,387
Currency translation difference	-	-27	-159	-5,203	-916	-6,305
Amortisation as at December 31, 2018	-	-2,730	-44,753	-334,192	-79,053	-460,728
Write-down as at January 1, 2018	-	-72,970	-	-72	-	-73,042
This year's write-down	-	-	-	-7,721	-4,540	-12,261
This year's sales/disposals	-	-	-	7,446	4,540	11,986
Currency translation difference	-	-2,981	-	-3	-	-2,984
Write-down as at December 31, 2018	-	-75,951	-	-350	-	-76,301
Carrying amount as at December 31, 2018	1,327,865	3,413	16,436	336,368	322,002	2,006,084

Group				Capitalised development expenses	Other intangible assets	Total
	Goodwill	Brands	Licenses			
Purchase value as at January 1, 2017	898,455	70,805	38,774	358,534	102,080	1,468,648
This year's purchase	-	-	9,337	96,693	21,873	127,903
Acquisition of subsidiaries	349,778	5,901	2,491	26,209	228,287	612,666
Currency translation difference	27,490	2,166	84	4,495	1,718	35,953
Purchase value as at December 31, 2017	1,275,723	78,872	50,686	485,931	353,958	2,245,170
Amortisation as at January 1, 2017	-	-	-30,882	-183,454	-42,076	-256,412
This year's amortisation	-	-656	-5,985	-75,078	-15,947	-97,666
Acquisition of subsidiaries	-	-	-2,016	-11,132	-	-13,148
Currency translation difference	-	-	-49	281	-4,061	-3,829
Amortisation as at December 31, 2017	-	-656	-38,932	-269,383	-62,085	-371,056
Write-down as at January 1, 2017	-	-	-	-	-	-
This year's write-down	-	-73,631	-	-73	-	-73,704
Currency translation difference	-	661	-	1	-	662
Write-down as at December 31, 2017	-	-72,970	-	-72	-	-73,042
Carrying amount as at December 31, 2017	1,275,723	5,246	11,754	216,476	291,873	1,801,072

Goodwill is allocated to the following cash-generating units:

	31 Dec 2018	31 Dec 2017
Klarna Bank AB (publ), originated from Analyzd Technologies Ltd	10,594	10,152
BillPay GmbH	364,054	349,766
Sofort GmbH	953,217	915,805
Total	1,327,865	1,275,723

Parent Company	Licenses	Capitalised development expenses	Other intangible assets	Total
Purchase value as at January 1, 2018	45,202	307,566	67,777	420,545
This year's purchase	11,488	202,429	42,398	256,315
This year's sales/disposals	-2,399	-23,351	-6,992	-32,742
Purchase value as at December 31, 2018	54,291	486,644	103,183	644,118
Amortisation as at January 1, 2018	-35,045	-142,947	-36,457	-214,449
This year's amortisation	-7,906	-39,372	-3,875	-51,153
This year's sales/disposals	2,399	15,905	2,452	20,756
Reclassification	-	2,387	-	2,387
Amortisation as at December 31, 2018	-40,552	-164,027	-37,880	-242,459
Write-down as at January 1, 2018	-	-	-	-
This year's write-down	-	-7,446	-4,540	-11,986
This year's sales/disposals	-	7,446	4,540	11,986
Write-down as at December 31, 2018	-	-	-	-
Carrying amount as at December 31, 2018	13,739	322,617	65,303	401,659

Parent Company	Licenses	Capitalised development expenses	Other intangible assets	Total
Purchase value as at January 1, 2017	36,024	211,521	45,904	293,449
This year's purchase	9,178	96,045	21,873	127,095
Purchase value as at December 31, 2017	45,202	307,566	67,777	420,545
Amortisation as at January 1, 2017	-29,649	-100,144	-28,250	-158,043
This year's amortisation	-5,396	-42,803	-8,207	-56,406
Amortisation as at December 31, 2017	-35,045	-142,947	-36,457	-214,449
Carrying amount as at December 31, 2017	10,157	164,619	31,320	206,096

Impairment testing of goodwill and intangible assets with an indefinite useful life

Goodwill and other intangible assets with indefinite useful life are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that impairment may have occurred. The impairment charge is calculated as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or cash generating unit, where the value in use is determined as the present value of expected future cash flows.

The Group's recognised goodwill and intangible assets with an indefinite useful life is attributable to the acquisitions of Sofort GmbH, Analyzd Technologies Ltd., and BillPay GmbH. For the goodwill related to Analyzd Technologies Ltd., the cash-generating unit is Klarna Bank AB (publ). The goodwill from the acquisition of Analyzd Technologies Ltd. was mainly attributable to its subsidiary Klarna Ltd. Israel. During 2018 a decision was made to close down Klarna Ltd. Israel. Therefore, the resources were distributed to other Klarna companies. These companies are highly integrated with Klarna Bank AB (publ) and receive their revenues from transfer pricing agreements within the Group. Therefore, the cash-generating unit is Klarna Bank AB (publ). For the goodwill related to the acquisitions of Sofort GmbH and BillPay GmbH, the cash-generating unit is the operating segment DACH.

Expected future cash flows for the cash generating units are based on forecasts for the first 3-5 years. The most important factors for the impairment test are the growth rate of revenues, gross margin, the growth rate of indirect costs and the level of the discount rate. These parameters are based on internal assessments of the cash generating units' development. A long term growth rate is applied for years after the first 3-5-year period. The long term growth rate used in the cash flow forecast for 2018 is 2% (2). The expected cash flows have been discounted to present value using a discount rate that is based on the risk-free interest rate and a company specific risk adjustment. The discount rate used for 2018 was 8.9% (10.5) before tax. The results of the impairment test showed that the recoverable amount is larger than the carrying amount with a good margin and that there was consequently no need for an impairment charge. A sensitivity analysis has been performed with changes in the most important factors of the impairment test. The result of the sensitivity analysis did not indicate any need of impairment charge. The impairment test was performed in Q4 2018.

There were no other intangible assets in the reporting period with an indefinite useful life.

Note 25 Tangible assets

Group	Investments in rented facilities	Equipment	Total
Purchase value as at January 1, 2018	4,879	178,240	183,119
Opening balance purchase value adjustment	-	-378	-378
This year's purchase	24,019	29,471	53,490
This year's sales/disposals	-71	-45,971	-46,042
Currency translation difference	439	2,386	2,825
Purchase value as at December 31, 2018	29,266	163,748	193,014
Depreciation as at January 1, 2018	-2,325	-118,950	-121,275
Opening balance depreciation adjustment	-	378	378
This year's depreciation	-1,154	-33,986	-35,140
This year's sales/disposals	46	45,146	45,192
Currency translation difference	-240	-1,327	-1,567
Depreciation as at December 31, 2018	-3,673	-108,739	-112,412
Carrying amount as at December 31, 2018	25,593	55,009	80,602

Group	Investments in rented facilities	Equipment	Total
Purchase value as at January 1, 2017	7,364	137,948	145,312
This year's purchase	-	32,779	32,779
Acquisition of subsidiaries	-	5,665	5,665
This year's sales/disposals	-	-14	-14
Reclassification	-1,787	1,774	-13
Currency translation difference	-698	88	-610
Purchase value as at December 31, 2017	4,879	178,240	183,119
 Depreciation as at January 1, 2017	 -1,041	 -89,446	 -90,487
This year's depreciation	-1,017	-28,188	-29,205
Acquisition of subsidiaries	-	-1,526	-1,526
This year's sales/disposals	-	11	11
Reclassification	-407	420	13
Currency translation difference	140	-221	-81
Depreciation as at December 31, 2017	-2,325	-118,950	-121,275
 Carrying amount as at December 31, 2017	 2,554	 59,290	 61,844

Parent Company	Equipment	Total
Purchase value as at January 1, 2018	123,238	123,238
This year's purchase	25,586	25,586
This year's sales/disposals	-38,291	-38,291
Purchase value as at December 31, 2018	110,533	110,533
 Depreciation as at January 1, 2018	 -87,230	 -87,230
This year's depreciation	-20,996	-20,996
This year's sales/disposals	38,291	38,291
Depreciation as at December 31, 2018	-69,935	-69,935
 Carrying amount as at December 31, 2018	 40,598	 40,598

Parent Company	Equipment	Total
Purchase value as at January 1, 2017	99,438	99,438
This year's purchase	23,800	23,800
Purchase value as at December 31, 2017	123,238	123,238
 Depreciation as at January 1, 2017	 -70,785	 -70,785
This year's depreciation	-16,445	-16,445
Depreciation as at December 31, 2017	-87,230	-87,230
 Carrying amount as at December 31, 2017	 36,008	 36,008

Note 26 Other assets

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Receivables from group companies	-	-	343,733	96,546
Current tax assets	31,434	6,701	29,576	-
VAT receivables	24,114	10,732	14,398	6,860
Derivatives ¹	24,074	29,908	24,074	29,908
Other receivables	27,682	49,060	5,860	27,923
Total	107,304	96,401	417,641	161,237

¹ For more information on derivatives, see note 27

For the fair value amounts see note 38.

Note 27 Derivatives

Derivatives held for trading

Group

December 31, 2018

	Fair value		Total nominal amount
	Positive	Negative	
Foreign exchange derivatives			
Currency forwards	24,074	-14,947	1,815,599
Total	24,074	-14,947	1,815,599

December 31, 2017

	Fair value		Total nominal amount
	Positive	Negative	
Foreign exchange derivatives			
Currency forwards	29,918	-10	2,369,352
Total	29,918	-10	2,369,352

Parent Company

December 31, 2018

	Fair value		Total nominal amount
	Positive	Negative	
Foreign exchange derivatives			
Currency forwards	24,074	-14,947	1,815,599
Total	24,074	-14,947	1,815,599

December 31, 2017

	Fair value		Total nominal amount
	Positive	Negative	
Foreign exchange derivatives			
Currency forwards	29,918	-10	2,369,352
Total	29,918	-10	2,369,352

Note 28 Prepaid expenses and accrued income

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Accrued interest	1,095	980	18,761	23,592
Accrued other income	8,010	1,577	7,999	1,577
Prepaid rent	16,510	14,426	14,211	13,460
Prepaid insurance	1,518	1,210	875	763
Prepaid licenses	39,774	28,355	39,435	28,055
Other prepaid expenses	78,932	25,921	68,492	17,790
Total	145,839	72,469	149,773	85,237

For the fair value amounts see note 38.

Note 29 Liabilities to credit institutions

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Liabilities to credit institutions	1,418,054	396,965	1,418,054	396,965
- in SEK	438,741	96,170	438,741	96,170
- in EUR	-	-	-	-
- in USD	179,839	-	179,839	-
- in NOK	790,505	300,795	790,505	300,795
- in other currencies	8,969	-	8,969	-
Total	1,418,054	396,965	1,418,054	396,965

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.

Note 30 Deposits from the public

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Private individuals	13,825,440	7,847,312	13,801,149	7,831,550
Companies	756,329	644,342	756,329	644,342
Total	14,581,769	8,491,654	14,557,478	8,475,892
By currency				
- in SEK	4,423,930	3,617,770	4,423,930	3,617,770
- in EUR	9,988,255	4,865,337	9,976,282	4,858,122
- in USD	2,560	921	333	-
- in other currencies	167,024	7,626	156,933	-
Total	14,581,769	8,491,654	14,557,478	8,475,892

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.

Note 31 Debt securities in issue

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Senior unsecured bond	1,996,905	1,995,036	1,996,905	1,995,036
Total	1,996,905	1,995,036	1,996,905	1,995,036

In September 2017, Klarna Bank AB (publ) issued SEK 2,000m of senior unsecured notes. The notes have a maturity of 3 years and pay interest on a quarterly basis. They were listed on Nasdaq Stockholm in December 2017.

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.

Note 32 Other liabilities

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Accounts payable	24,457	135,012	673	121,659
Personnel related taxes	33,388	28,102	21,169	17,589
Liabilities to group companies	347,100	170,985	807,104	223,667
Current tax liabilities	125,529	108,498	-	48,453
Liabilities to merchants	3,645,134	2,673,200	3,071,383	2,184,464
Derivatives	14,947	-	14,947	-
Other liabilities	42,926	10,288	33,044	130
Total	4,233,481	3,126,085	3,948,320	2,595,962

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.

Note 33 Accrued expenses and prepaid income

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Accrued personnel related expenses	193,106	136,181	155,238	112,696
Accrued commissions to partners	51,839	37,295	50,091	33,173
Accrued interest	56,118	31,179	48,408	27,199
Accrued expenses for outsourced functions	38,633	24,237	37,133	22,974
Accrued expenses for consultants	28,752	14,369	26,672	13,887
Accrued distribution costs	16,712	16,413	16,712	16,379
Accrued scoring costs	17,176	17,159	16,619	16,898
Other accrued expenses	103,775	79,755	77,898	49,050
Other prepaid income	26,472	24,590	25,594	24,591
Total	532,583	381,178	454,365	316,847

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.

Note 34 Provisions

Group	Restructuring reserve	Pending legal issues and tax litigations	Commitments and guarantees	Other provisions	Total
Provisions as at January 1, 2018	-	105,443	22,179	1,791	129,413
Adjustment of opening balance	-	-	-22,179	-	-22,179
New provisions	23,273	133,949	-	60	157,282
Amounts used	-11,508	-70,193	-	-	-81,701
Unused amounts, reversed	-10,681	-	-	-	-10,681
Reclassifications	-	776	-	-776	-
Other adjustments	-	42	-	73	115
Provisions as at December 31, 2018	1,084	170,017	-	1,148	172,249

Provisions for financial guarantees and commitments

	Stage 1	Stage 2	Stage 3	Total
Provisions as at January 1, 2018	14,225	4,061	1,963	20,250
New provisions	83,023	4,127	45	87,195
Reversed provisions	-24,036	-5,303	-17,108	-46,447
Transfers to stage 1	2,343	-2,322	-21	-
Transfers to stage 2	-14,557	14,562	-5	-
Transfers to stage 3	-4,036	-11,261	15,297	-
Impact on year end ECL from change in credit risk	1,160	721	3,124	5,005
Other adjustments	1,045	157	134	1,336
Provisions as at December 31, 2018	59,167	4,742	3,429	67,339

	Restructuring reserve	Pending legal issues and tax litigations	Commitments and guarantees	Other provisions	Total
Provisions as at January 1, 2017	-	139,479	1,000	781	141,260
New provisions	-	65,565	10,694	986	77,245
Acquisitions of subsidiaries	-	-	11,485	-	11,485
Amounts used	-	-99,632	-	-	-99,632
Unused amounts, reversed	-	-	-1,000	-	-1,000
Other adjustments	-	31	-	24	55
Provisions as at December 31, 2017	-	105,443	22,179	1,791	129,413

For the Group the total provisions at the end of the year 2018 including the provisions for financial guarantees and commitments amount to SEK 239,588k. At the end of the year 2017 the total provisions amounted to SEK 129,413k.

Parent Company	Pending legal issues and tax litigations	Commitments and guarantees	Other provisions	Total
Provisions as at January 1, 2018	104,400	-	-	104,400
New provisions	133,949	-	-	133,949
Amounts used	-70,193	-	-	-70,193
Provisions as at December 31, 2018	168,156	-	-	168,156

Provisions for financial guarantees and commitments

	Stage 1	Stage 2	Stage 3	Total
Provisions as at January 1, 2018	7,482	-	-	7,482
New provisions	57,802	14	8	57,824
Reversed provisions	-10,760	-605	-2,567	-13,932
Transfers to stage 1	95	-74	-21	-
Transfers to stage 2	-2,720	2,724	-4	-
Transfers to stage 3	-1,640	-14	1,654	-
Impact on year end ECL from change in credit risk	-8	640	2,870	3,502
Other adjustments	769	-8	54	815
Provisions as at December 31, 2018	51,019	2,677	1,994	55,691

	Pending legal issues and tax litigations	Commitments and guarantees	Other provisions	Total
Provisions as at January 1, 2017	138,468	1,000	-	139,468
New provisions	65,564	-	-	65,564
Amounts used	-99,632	-	-	-99,632
Unused amounts, reversed	-	-1,000	-	-1,000
Provisions as at December 31, 2017	104,400	-	-	104,400

For Klarna Bank AB (publ) the total provisions at the end of the year 2018 including the provisions for financial guarantees and commitments amount to SEK 223,847k. At the end of the year 2017 the total provisions amounted to SEK 104.400k.

The restructuring reserve relates to the closure of the Tel Aviv office in Israel.

Klarna Bank AB (publ) has provisioned SEK 168m (104), net of payments, for 2014-2018 as a consequence of tax assessments made by the Swedish Tax Agency on how Klarna Bank AB (publ) handles VAT. Klarna Bank AB (publ) is disputing the assessments; however the provisioning represents a likely outcome. Of the provisions, prior to payments, SEK 232m is related to 2014-2017 and SEK 134m to 2018.

On February 20, 2018, the Administrative Court ruled in the above mentioned tax assessments case concerning 2014-2015. The Administrative Court gave Klarna right in some of the claims but rejected a majority. Klarna Bank AB (publ) has appealed to the Administrative Court of Appeal. The overall assessment concludes that the current provision does not need to be adjusted for the above outcome.

Note 35 Subordinated liabilities

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Subordinated note, nominal value	600,000	300,000	600,000	300,000
Transaction expenses	-5,099	-3,272	-5,099	-3,272
Accrued interest	2,659	393	2,659	393
Total	597,560	297,121	597,560	297,121

In June 2016 Klarna Bank AB (publ) issued subordinated Tier 2 notes of SEK 300m. Additional SEK 300m of subordinated Tier 2 notes were issued in July 2018. The subordinated notes have original maturity of 10 years with a call option of the issuer after 5 years. The interest is paid on a quarterly basis.

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.

Note 36 Untaxed reserves

	Parent Company	
	31 Dec 2018	31 Dec 2017
Additional depreciation	2,213	2,213
Tax allocation reserve 2017	85,000	85,000
Tax allocation reserve 2016	14,500	14,500
Tax allocation reserve 2015	40,000	40,000
Tax allocation reserve 2014	11,600	11,600
Tax allocation reserve 2013	-	6,300
Total	153,313	159,613

Note 37 Pledged assets and contingent liabilities

	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Pledged assets				
<i>Assets pledged for own liabilities</i>				
Pledged loans and receivables	6,645,083	5,393,252	6,570,544	5,339,084
<i>Other pledged assets</i>	9,474	8,200	-	-
Total pledged assets	6,654,557	5,401,452	6,570,544	5,339,084
Contingent liabilities and commitments				
<i>Contingent liabilities</i>				
Guarantees	523,952	357,367	22,432	15,881
<i>Commitments</i>	4,463,600	706,407	4,615,222	986,098
Total contingent liabilities and commitments	4,987,552	1,063,774	4,637,654	1,001,979

Klarna Bank AB (publ) continually pledges parts of its Swedish receivables as collateral for liabilities to credit institutions which provides security for the Group's credit facility. The credit liability amounted to SEK 417,741k (96,170) at December 31, 2018.

Note 38 Financial assets and liabilities at fair value

Group	31 Dec 2018			31 Dec 2017		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	331	331	-	36	36	-
Chargeable central bank treasury bills ¹	3,083,849	3,084,314	-465	1,847,705	1,847,705	-
Loans to credit institutions	2,367,631	2,367,631	-	1,211,778	1,211,778	-
Loans to the public	19,979,002	19,979,002	-	13,874,164	13,874,164	-
Other shares and participations	41,217	41,217	-	-	-	-
Other assets	27,682	27,682	-	49,060	49,060	-
Other assets (Currency forwards)	24,074	24,074	-	29,908	29,908	-
Prepaid expenses and accrued income	9,094	9,094	-	2,543	2,543	-
Total	25,532,880	25,533,345	-465	17,015,194	17,015,194	-
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Liabilities						
Liabilities to credit institutions	1,418,054	1,418,054	-	396,965	396,965	-
Deposits from the public	14,533,365	14,581,769	-48,404	8,436,250	8,491,654	-55,404
Debt securities in issue	2,005,971	1,996,905	9,066	2,231,000	1,995,036	235,964
Other liabilities	4,051,762	4,051,762	-	2,982,011	2,982,011	-
Other liabilities (Currency forwards)	14,947	14,947	-	-	-	-
Accrued expenses and prepaid income	498,401	498,401	-	352,610	352,610	-
Subordinated liabilities	607,374	597,560	9,814	316,875	297,121	19,754
Total	23,129,874	23,159,398	-29,524	14,715,711	14,515,397	200,314

¹ Chargeable central bank treasury bills are under IFRS 9, classified as amortised cost instead of fair value through profit or loss.

Parent Company	31 Dec 2018			31 Dec 2017		
Amounts in SEKk	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	304	304	-	4	4	-
Chargeable central bank treasury bills ¹	3,083,849	3,084,314	-465	1,847,705	1,847,705	-
Loans to credit institutions	1,962,486	1,962,486	-	824,695	824,695	-
Loans to the public	19,850,726	19,850,726	-	13,739,439	13,739,439	-
Other shares and participations	41,217	41,217	-	-	-	-
Other assets	349,594	349,594	-	124,469	124,469	-
Other assets (Currency forwards)	24,074	24,074	-	29,908	29,908	-
Prepaid expenses and accrued income	26,760	26,760	-	25,169	25,169	-
Total	25,339,010	25,339,475	-465	16,591,389	16,591,389	-
Liabilities						
Liabilities to credit institutions	1,418,054	1,418,054	-	396,965	396,965	-
Deposits from the public	14,509,074	14,557,478	-48,404	8,420,488	8,475,892	-55,404
Debt securities in issue	2,005,971	1,996,905	9,066	2,231,000	1,995,036	235,964
Other liabilities	3,912,204	3,912,204	-	2,529,922	2,529,922	-
Other liabilities (Currency forwards)	14,947	14,947	-	-	-	-
Accrued expenses and prepaid income	428,771	428,771	-	292,258	292,258	-
Subordinated liabilities	607,374	597,560	9,814	316,875	297,121	19,754
Total	22,896,395	22,925,919	-29,524	14,187,508	13,987,194	200,314

¹ Chargeable central bank treasury bills are under IFRS 9, classified as amortised cost instead of fair value through profit or loss, applicable for 2018.

Chargeable central bank treasury bills are valued in terms of the active market prices.

Booked value for loans to credit institutions and loans to the public are assumed to be approximations of fair value. Fair value on short term loans is equivalent to their booked value since the effect of discounting is insignificant.

The calculation of fair value of deposits from the public is based on Level 2 input using observable market data in form of yield curves. Deposits from the public are grouped into maturity buckets and thereafter average maturity and interest rates of each group is calculated. To measure the fair value, for each deposit group, the future value of the public deposits is calculated and discounted using yield curves with corresponding maturities.

Fair value on liabilities in terms of issued bonds and senior liabilities have been determined with regards to observable market prices from external markets.

Note 39 Classification of financial assets and liabilities into valuation categories

Group

December 31, 2018	Mandatory at fair value through profit or loss	Amortised cost	Non-financial assets	Total
Assets				
Cash and balances with central banks	-	331	-	331
Chargeable central bank treasury bills ¹	-	3,084,314	-	3,084,314
Loans to credit institutions	-	2,367,631	-	2,367,631
Loans to the public	-	19,979,002	-	19,979,002
Other shares and participations	41,217	-	-	41,217
Intangible assets	-	-	2,006,084	2,006,084
Tangible assets	-	-	80,602	80,602
Deferred tax assets	-	-	47,508	47,508
Other assets	24,074	27,682	55,548	107,304
Prepaid expenses and accrued income	-	9,094	136,745	145,839
Total	65,291	25,468,054	2,326,487	27,859,832

December 31, 2018	Mandatory at fair value through profit or loss	Amortised cost	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	-	1,418,054	-	1,418,054
Deposits from the public	-	14,581,769	-	14,581,769
Debt securities in issue	-	1,996,905	-	1,996,905
Deferred tax liabilities	-	-	117,633	117,633
Other liabilities	14,947	4,051,762	166,772	4,233,481
Accrued expenses and prepaid income	-	498,401	34,182	532,583
Provisions	-	-	239,588	239,588
Subordinated liabilities	-	597,560	-	597,560
Total	14,947	23,144,451	558,175	23,717,573

¹ Chargeable central bank treasury bills are under IFRS 9 classified as amortised cost instead of fair value through profit or loss.

Group	Measured at fair value through profit or loss				Total
	Designated at fair value through profit or loss	Held for trading	Loans and receivables	Non-financial assets	
December 31, 2017					
Assets					
Cash and balances with central banks	-	-	36	-	36
Chargeable central bank treasury bills	1,847,705	-	-	-	1,847,705
Loans to credit institutions	-	-	1,211,778	-	1,211,778
Loans to the public	-	-	13,874,164	-	13,874,164
Intangible assets	-	-	-	1,801,072	1,801,072
Tangible assets	-	-	-	61,844	61,844
Deferred tax assets	-	-	-	21,763	21,763
Other assets	-	29,908	49,060	17,433	96,401
Prepaid expenses and accrued income ¹	-	-	2,543	69,926	72,469
Total	1,847,705	29,908	15,137,581	1,972,038	18,987,232

	Other financial liabilities	Non-financial liabilities	Total
December 31, 2017			
Liabilities			
Liabilities to credit institutions	396,965	-	396,965
Deposits from the public	8,491,654	-	8,491,654
Debt securities in issue	1,995,036	-	1,995,036
Deferred tax liabilities	-	136,250	136,250
Other liabilities	2,982,011	144,074	3,126,085
Accrued expenses and prepaid income ²	352,610	28,568	381,178
Provisions	-	129,413	129,413
Subordinated liabilities	297,121	-	297,121
Total	14,515,397	438,305	14,953,702

¹ Due to the implementation of new accounting standards a new assessment has been made of the classification of financial assets and liabilities. It resulted in a reclassification of SEK 2,543k from Non-financial assets to Loans and receivables. The reclassification has no impact on the valuation of the financial assets and liabilities.

² Due to the implementation of new accounting standards a new assessment has been made of the classification of financial assets and liabilities. It resulted in a reclassification of SEK 120,879k from Non-financial liabilities to Other financial liabilities. The reclassification has no impact on the valuation of the financial assets and liabilities.

Parent Company

December 31, 2018	Mandatory at fair value through profit or loss	Amortised cost	Non-financial assets	Total
Assets				
Cash and balances with central banks	-	304	-	304
Chargeable central bank treasury bills ¹	-	3,084,314	-	3,084,314
Loans to credit institutions	-	1,962,486	-	1,962,486
Loans to the public	-	19,850,726	-	19,850,726
Shares and participations in group companies	-	-	1,122,265	1,122,265
Other shares and participations	41,217	-	-	41,217
Intangible assets	-	-	401,659	401,659
Tangible assets	-	-	40,598	40,598
Deferred tax assets	-	-	32,313	32,313
Other assets	24,074	349,594	43,973	417,641
Prepaid expenses and accrued income	-	26,761	123,012	149,773
Total	65,291	25,274,185	1,763,820	27,103,296

December 31, 2018	Mandatory at fair value through profit or loss	Amortised cost	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	-	1,418,054	-	1,418,054
Deposits from the public	-	14,557,478	-	14,557,478
Debt securities in issue	-	1,996,905	-	1,996,905
Deferred tax liabilities	-	-	1,341	1,341
Other liabilities	14,947	3,912,204	21,169	3,948,320
Accrued expenses and prepaid income	-	428,771	25,594	454,365
Provisions	-	-	223,847	223,847
Subordinated liabilities	-	597,560	-	597,560
Total	14,947	22,910,972	271,951	23,197,870

¹ Chargeable central bank treasury bills are under IFRS 9 classified as amortised cost instead of fair value through profit or loss.

Parent Company	Measured at fair value through profit or loss				Total
	Designated at fair value through profit or loss	Held for trading	Loans and receivables	Non-financial assets	
December 31, 2017					
Assets					
Cash and balances with central banks	-	-	4	-	4
Chargeable central bank treasury bills	1,847,705	-	-	-	1,847,705
Loans to credit institutions	-	-	824,695	-	824,695
Loans to the public	-	-	13,739,439	-	13,739,439
Shares and participations in group companies	-	-	-	1,124,283	1,124,283
Intangible assets	-	-	-	206,096	206,096
Tangible assets	-	-	-	36,008	36,008
Deferred tax assets	-	-	-	2,162	2,162
Other assets	-	29,908	124,469	6,860	161,237
Prepaid expenses and accrued income ¹	-	-	25,169	60,068	85,237
Total	1,847,705	29,908	14,713,776	1,435,477	18,026,866

December 31, 2017	Other financial liabilities		Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	396,965		-	396,965
Deposits from the public	8,475,892		-	8,475,892
Debt securities in issue	1,995,036		-	1,995,036
Deferred tax liabilities	-		6,275	6,275
Other liabilities	2,529,922		66,040	2,595,962
Accrued expenses and prepaid income ²	292,258		24,589	316,847
Provisions	-		104,400	104,400
Subordinated liabilities	297,121		-	297,121
Total	13,987,194		201,304	14,188,498

¹ Due to the implementation of new accounting standards a new assessment has been made of the classification of financial assets and liabilities. It resulted in a reclassification of SEK 25,169k from Non-financial assets to Loans and receivables. The reclassification has no impact on the valuation of the financial assets and liabilities.

² Due to the implementation of new accounting standards a new assessment has been made of the classification of financial assets and liabilities. It resulted in a reclassification of SEK 88,107k from Non-financial liabilities to Other financial liabilities. The reclassification has no impact on the valuation of the financial assets and liabilities.

The following table shows the company's financial assets and liabilities measured at fair value at December 31, divided into the three valuation levels. For description of the fair value levels, see Accounting and valuation principles, section 11. No transfers between levels have been made during 2017 and 2018.

December 31, 2018, Group	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	-	-	41,217	41,217
Other assets (Currency forwards)	-	24,074	-	24,074
Total assets	-	24,074	41,217	65,291
Financial liabilities				
Other liabilities (Currency forwards)	-	14,947	-	14,947
Total liabilities	-	14,947	-	14,947
December 31, 2017, Group	Level 1	Level 2	Level 3	Total
Financial assets				
Chargeable central bank treasury bills	1,847,705	-	-	1,847,705
Other assets (Currency forwards)	-	29,908	-	29,908
Total assets	1,847,705	29,908	-	1,877,613
Financial liabilities				
Other liabilities (Currency forwards)	-	-	-	-
Total liabilities	-	-	-	-
December 31, 2018, Parent Company	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	-	-	41,217	41,217
Other assets (Currency forwards)	-	24,074	-	24,074
Total assets	-	24,074	41,217	65,291
Financial liabilities				
Other liabilities (Currency forwards)	-	14,947	-	14,947
Total liabilities	-	14,947	-	14,947
December 31, 2017, Parent Company	Level 1	Level 2	Level 3	Total
Financial assets				
Chargeable central bank treasury bills	1,847,705	-	-	1,847,705
Other assets (Currency forwards)	-	29,908	-	29,908
Total assets	1,847,705	29,908	-	1,877,613
Financial liabilities				
Other liabilities (Currency forwards)	-	-	-	-
Total liabilities	-	-	-	-

Note 40 Transitional disclosures - classification of financial assets and liabilities

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

Group

	IAS 39		Reclass- ification	Remeasurement		IFRS 9	
January 1, 2018	Category	Amount		ECL	Other	Amount	Category
Assets							
Cash and balances with central banks	L&R	36	-	-	-	36	AC
Chargeable central bank treasury bills ¹	FVPL design.	1,847,705	-	-	-	1,847,705	AC
Loans to credit institutions	L&R	1,211,778	-	-	-	1,211,778	AC
Loans to the public ²	L&R	13,874,164	-	-90,044	27,496	13,811,616	AC
Other assets	L&R	49,060	-	-	-	49,060	AC
Other assets (Currency forwards)	FVPL	29,908	-	-	-	29,908	FVPL
Prepaid expenses and accrued income	L&R	2,543	-	-	-	2,543	AC
Non-financial assets ³	-	1,972,038	-	-	12,820	1,984,858	-
Total		18,987,232	-	-90,044	40,316	18,937,504	

	IAS 39		Reclass- ification	Remeasurement		IFRS 9	
January 1, 2018	Category	Amount		ECL	Other	Amount	Category
Liabilities							
Liabilities to credit institutions	AC	396,965	-	-	-	396,965	AC
Deposits from the public	AC	8,491,654	-	-	-	8,491,654	AC
Debt securities in issue	AC	1,995,036	-	-	-	1,995,036	AC
Other liabilities	AC	2,982,011	-	-	-	2,982,011	AC
Accrued expenses and prepaid income	AC	352,610	-	-	-	352,610	AC
Subordinated liabilities	AC	297,121	-	-	-	297,121	AC
Non-financial liabilities ⁴	-	438,305	-	-1,929	-	436,376	-
Total		14,953,702	-	-1,929	-	14,951,773	

¹ The fair value of the chargeable central bank treasury bills at period end amounts to SEK 3,084,314k. If these assets would not have been reclassified a loss in fair value of SEK 1,715k would have been reported for the period. The effective interest rate on the date of initial application was -0.7% and the net interest expense recognised for the period amounted to SEK 2,180k.

² The remeasurement in column "Other" is the effect of change in principles for revenue recognition as a result of implementing IFRS 15.

³ The remeasurement is attributable to change in tax receivable resulting from the tax effect from the change in the ECL reserve and the change in revenue recognition.

⁴ The remeasurement is attributable to provisions for financial guarantees and commitments.

Parent Company

	IAS 39		Reclass- ification	Remeasurement		IFRS 9	
January 1, 2018	Category	Amount		ECL	Other	Amount	Category
Assets							
Cash and balances with central banks	L&R	4	-	-	-	4	AC
Chargeable central bank treasury bills ¹	FVPL design.	1,847,705	-	-	-	1,847,705	AC
Loans to credit institutions	L&R	824,695	-	-	-	824,695	AC
Loans to the public ²	L&R	13,739,439	-	-88,382	27,496	13,678,553	AC
Other assets	L&R	124,469	-	-	-	124,469	AC
Other assets (Currency forwards)	FVPL	29,908	-	-	-	29,908	FVPL
Prepaid expenses and accrued income	L&R	25,169	-	-	-	25,169	AC
Non-financial assets ³	-	1,435,477	-	-	15,041	1,450,518	-
Total		18,026,866	-	-88,382	42,537	17,981,021	

	IAS 39		Reclass- ification	Remeasurement		IFRS 9	
January 1, 2018	Category	Amount		ECL	Other	Amount	Category
Liabilities							
Liabilities to credit institutions	AC	396,965	-	-	-	396,965	AC
Deposits from the public	AC	8,475,892	-	-	-	8,475,892	AC
Debt securities in issue	AC	1,995,036	-	-	-	1,995,036	AC
Other liabilities	AC	2,529,922	-	-	-	2,529,922	AC
Accrued expenses and prepaid income	AC	292,258	-	-	-	292,258	AC
Subordinated liabilities	AC	297,121	-	-	-	297,121	AC
Non-financial liabilities ⁴	-	201,304	-	7,481	-	208,785	-
Total		14,188,498	-	7,481	-	14,195,979	

¹ The fair value of the chargeable central bank treasury bills at period end amounts to SEK 3,084,314k. If these assets would not have been reclassified a loss in fair value of SEK 1,715k would have been reported for the period. The effective interest rate on the date of initial application was -0.7% and the net interest expense recognised for the period amounted to SEK 2,180k.

² The remeasurement in column "Other" is the effect of change in principles for revenue recognition as a result of implementing IFRS 15.

³ The remeasurement is attributable to change in tax receivable resulting from the tax effect from the change in the ECL reserve and the change in revenue recognition.

⁴ The remeasurement is attributable to provisions for financial guarantees and commitments.

Note 41 Maturity analysis for financial assets and liabilities

Group		31 Dec 2018			31 Dec 2017		
Contractual undiscounted cash flows	Note	Expected to be recovered or settled:		Total	Expected to be recovered or settled:		Total
		Within 12 months	After 12 months		Within 12 months	After 12 months	
Liabilities to credit institutions	29	21,000	1,415,884	1,436,884	300,795	96,170	396,965
Deposits from the public	30	12,045,307	2,701,481	14,746,788	7,026,793	1,554,795	8,581,588
Debt securities in issue	31	25,531	2,019,378	2,044,909	17,946	2,031,467	2,049,413
Other liabilities	32	3,821,168	245,542	4,066,710	2,980,012	1,999	2,982,011
Accrued expenses and prepaid income	33	478,738	19,663	498,401	347,954	4,656	352,610
Subordinated liabilities	35	23,131	774,975	798,106	11,963	389,771	401,734
Total		16,414,875	7,176,923	23,591,798	10,685,463	4,078,858	14,764,321

Parent Company		31 Dec 2018			31 Dec 2017		
Contractual undiscounted cash flows	Note	Expected to be recovered or settled:		Total	Expected to be recovered or settled:		Total
		Within 12 months	After 12 months		Within 12 months	After 12 months	
Liabilities to credit institutions	29	21,000	1,415,884	1,436,884	300,795	96,170	396,965
Deposits from the public	30	12,021,017	2,701,481	14,722,498	7,011,031	1,554,795	8,565,826
Debt securities in issue	31	25,531	2,019,378	2,044,909	17,946	2,031,467	2,049,413
Other liabilities	32	3,120,047	-	3,120,047	2,529,922	-	2,529,922
Accrued expenses and prepaid income	33	409,353	19,418	428,771	287,791	4,467	292,258
Subordinated liabilities	35	23,131	774,975	798,106	11,963	389,771	401,734
Total		15,620,079	6,931,136	22,551,215	10,159,448	4,076,670	14,236,118

Parent Company

Contractual undiscounted cash flows

December 31, 2018	Note	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Loans to credit institutions	20	1,962,486	-	-	-	-	1,962,486
Loans to the public	21	-	7,425,236	4,181,925	9,006,250	2,472,376	23,085,787
Total assets		1,962,486	7,425,236	4,181,925	9,006,250	2,472,376	25,048,273
Liabilities to credit institutions	29	21,000	-	-	1,415,884	-	1,436,884
Deposits from the public	30	1,795,912	1,878,627	8,346,478	2,701,481	-	14,722,498
Debt securities in issue	31	-	6,011	19,519	2,019,378	-	2,044,908
Total liabilities		1,816,912	1,884,638	8,365,997	6,136,743	-	18,204,290

December 31, 2017	Note	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Loans to credit institutions	20	824,695	-	-	-	-	824,695
Loans to the public	21	135,088	4,644,606	3,098,189	6,907,716	2,013,887	16,799,486
Total assets		959,783	4,644,606	3,098,189	6,907,716	2,013,887	17,624,181
Liabilities to credit institutions	29	-	-	300,795	96,170	-	396,965
Deposits from the public	30	1,519,760	1,782,320	3,708,951	1,554,795	-	8,565,826
Debt securities in issue	31	-	4,425	13,521	2,031,467	-	2,049,413
Total liabilities		1,519,760	1,786,745	4,023,267	3,682,432	-	11,012,204

Note 42 Interest received and paid

	Group		Parent Company	
	2018	2017	2018	2017
Interest payments received	1,927,845	1,536,378	1,910,605	1,554,421
Interest expenses paid	-281,920	-159,193	-281,781	-158,866

Note 43 Information on related parties

Group and Parent Company

The following are defined as related parties: all companies within the Klarna Holding AB Group, shareholders in Klarna Holding AB with significant influence, board members of Klarna Holding AB and Klarna Bank AB (publ), key management personnel, as well as close family members of and companies significantly influenced by such board members or key management personnel.

During the year, there have been normal business transactions between companies in the Group and agreed current remuneration to the CEO, board of directors and other key personnel.

The following transactions have taken place with related parties:

2018	Klarna Holding	Subsidiaries
Related parties - revenues and expenses		
Interest income	-	24,592
Interest expenses	-129	-939
Services sold, sales	-	270,162
Services purchased	-	-870,743
Dividend received	-	261,487
31 Dec 2018	Klarna Holding	Subsidiaries
Related parties - assets and liabilities		
Loan receivables	-	638,169
Other receivables	-	272,026
Loan liabilities	347,100	287,422
Other liabilities	-	172,582
2017	Klarna Holding	Subsidiaries
Related parties - revenues and expenses		
Interest income	-	31,001
Interest expenses	-	-43
Services sold, sales	-	11,573
Services purchased, sales	-	-402,900
Services purchased, product development	-	-105,531
Dividend received	-	197,001
31 Dec 2017	Klarna Holding	Subsidiaries
Related parties - assets and liabilities		
Loan receivables	-	500,106
Other receivables	-	52,797
Loan liabilities	-	11,884
Other liabilities	170,985	40,799

Intragroup services is handled in accordance with the internationally recognised arm's length principle, meaning that Klarna Bank AB (publ) and its subsidiaries are remunerated or pay for intragroup services in a manner corresponding to market terms.

See note 10 for transactions with the Board of Directors, CEO, and senior management.

Note 44 Capital adequacy and leverage ratio

Capital adequacy regulations

Capital adequacy refers to the ability of an institution's Own Funds to cover the risk it is exposed to. Within the EU the capital adequacy requirements are contained in the Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR), both implemented in 2014. These regulations are based on the global capital adequacy standards Basel II and III, and define minimum requirements for total own funds in relation to risk-weighted exposure amounts (Pillar I), rules for the Internal Capital Adequacy Process and Internal Liquidity Adequacy Assessment Process "ICLAAP" (Pillar II) and rules for disclosures on risk, capital adequacy etc. (Pillar III).

The information about capital adequacy in this document is based on the Swedish Financial Supervisory Authority regulations (FFFS 2008:25) and (FFFS 2014:12). Other disclosures required under Pillar III are published on Klarna's homepage www.klarna.com

Additional Tier 1 capital

Klarna Bank AB (publ) issued in May 2017 SEK 250m in additional Tier 1 capital instruments. They have a floating coupon rate corresponding to STIBOR 3m plus 5.75% per annum. The securities were offered to a limited number of large Nordic investors and the first call date is May 26, 2022.

Klarna Holding AB issued in November 2018 EUR 25m in additional Tier 1 capital instruments. They have a fixed-to-floating coupon rate corresponding to 6.63% per annum. The floating interest rate is EURIBOR 3M plus 6.28% per annum. The security was offered to a limited number of large Nordic investors and the first call date is November 15, 2023.

Subordinated liabilities

On June 20, 2016, Klarna Bank AB (publ) issued SEK 300m subordinated notes due 2026. The subordinated notes are eligible for inclusion as Tier 2 capital in accordance with current regulations. The notes have a floating coupon rate corresponding to STIBOR 3m plus 4.5% per annum, which corresponds to an initial coupon of approximately 4%. The notes were allocated to a limited number of large Nordic investors and the first call date is June 20, 2021.

On July 5, 2018, Klarna Bank AB (publ) issued SEK 300m subordinated notes due 2028. The subordinated notes are eligible for inclusion as Tier 2 capital in accordance with current regulations. The notes have a floating coupon rate corresponding to STIBOR 3m plus 3.5% per annum, which corresponds to an initial coupon of approximately 3%. The notes were allocated to a limited number of large Nordic investors and the first call date is July 5, 2023.

Consolidated situation

The consolidated situation for Klarna consists of all companies in the Klarna Holding Group.

Capital adequacy disclosure

Capital adequacy disclosure in accordance with the requirements in Commission Implementing Regulation (EU) No 1423/2013 can be found in Klarna's Pillar III report.

IFRS 9 Transitional adjustments

From January 1, 2018, Klarna applies the transitional rules in accordance with article 473a of the European Union regulation no 575/2013 in order to phase in the effect on the capital when applying IFRS 9. This includes adjusting the capital adequacy calculations with a dynamic and a static amount over a five year period.

Excess subsidiary capital deduction

A re-interpretation of CRR Article 85 and 87, following an opinion published by the European Banking Authority, impacted Tier 1 instruments and Tier 2 instruments. The opinion clarified the application of the limitation rules on eligible capital instruments in the consolidated situation. This means Klarna Bank AB (publ)'s Tier 1 and Tier 2 Capital can only be included in the capital base of Klarna Holding Group with the share required to cover the minimum capital requirements of Klarna Bank AB (publ) and its subsidiaries. As of December 31, 2018 the capital was reduced by SEK 36m on Klarna Holding Group Tier 1 capital, and SEK 96m on Klarna Holding Group Tier 2 capital.

Own Funds	Consolidated situation		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts	3,166,720	2,980,978	2,857,892	2,857,892
of which: Share capital	1,986	1,967	52,752	52,752
Retained earnings	817,882	541,614	195,463	98,404
Accumulated other comprehensive income (and other reserves)	190,603	124,327	426,517	252,117
Independently reviewed interim profits net of any foreseeable charge or dividend	103,086	344,606	141,824	344,839
Common Equity Tier 1 (CET1) capital before regulatory adjustments	4,278,291	3,991,525	3,621,696	3,553,252
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	-80	-1,878	-80	-1,878
Intangible assets (net of related tax liability)	-1,924,116	-1,706,264	-401,659	-206,095
IFRS 9 transitional adjustment	98,149	-	107,298	-
Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	-1,826,047	-1,708,142	-294,441	-207,973
Common Equity Tier 1 (CET1) capital	2,452,244	2,283,383	3,327,255	3,345,279
Tier 1 capital				
Additional Tier 1 (AT1) capital	470,588	250,000	250,000	250,000
Tier 1 capital (T1 = CET1 + AT1)	2,922,833	2,533,383	3,577,255	3,595,279
Total capital				
Tier 2 (T2) capital	501,494	297,121	597,560	297,121
Total capital (TC = T1 + T2)	3,424,327	2,830,504	4,174,815	3,892,400
Total risk exposure amount	22,761,017	15,553,716	24,307,480	17,145,425
Capital ratios and buffers				
Common Equity Tier 1 (as a percentage of total risk exposure amount)	10.8%	14.7%	13.7%	19.5%
Tier 1 (as a percentage of total risk exposure amount)	12.8%	16.3%	14.7%	21.0%
Total capital (as a percentage of total risk exposure amount)	15.0%	18.2%	17.2%	22.7%
Institution specific buffer requirement (as a percentage of risk exposure amount)	3.4%	3.4%	3.4%	3.4%
of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5%
of which: countercyclical buffer requirement	0.9%	0.9%	0.9%	0.9%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) ¹	2.9%	6.7%	5.8%	11.5%
Amounts below the thresholds for deduction (before risk weighting)				
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38.3 are met)	47,508	21,763	32,313	2,162

¹ Common Equity Tier 1 capital available for use as buffer is defined as Klarna's Common Equity Tier 1 capital ratio, reduced by the Common Equity Tier 1 capital needed to meet regulatory capital requirements (4.5%). Note that in the Annual report 2017, this figure was further reduced with the Institutional specific buffer requirement (3.4%).

Capital requirement and risk exposure amounts

	Consolidated situation		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017

Risk exposure amount

Credit risk according to standardised method	17,138,774	11,287,794	18,064,760	12,102,052
Market risk according to standardised method	252,714	112,758	1,367,388	1,252,229
Operative risk according to standardised method	5,369,394	4,153,165	4,875,197	3,791,144
Credit valuation adjustment	135	-	135	-
Total risk exposure amount	22,761,017	15,553,716	24,307,480	17,145,425

Exposure amount for credit risk according to the standardised method

Institutional exposure	602,536	318,727	562,621	229,037
Corporate exposure	1,633,421	375,316	2,402,905	824,038
Retail/household exposure	13,832,012	10,288,748	12,995,775	9,729,498
Exposures in default	691,987	166,615	680,107	153,712
Equity exposure	71,339	-	1,193,604	1,124,283
Other items	307,488	138,388	229,747	41,484
Total credit risk exposure amount	17,138,773	11,287,794	18,064,759	12,102,052

Market risk exposure amounts according to standardised method

Foreign exchange risk	252,714	112,758	1,367,388	1,252,229
Total market risk according to standardised method	252,714	112,758	1,367,388	1,252,229

Minimum capital requirement

Credit risk according to standardised method	1,371,102	903,024	1,445,181	968,164
Market risk according to standardised method	20,217	9,021	109,391	100,178
Operational risk according to standardised method	429,551	332,252	390,016	303,292
Credit valuation adjustment	11	-	11	-
Total minimum capital requirement	1,820,881	1,244,297	1,944,599	1,371,634

Leverage ratio

Tier 1 capital	2,922,833	2,533,383	3,577,255	3,595,279
Total leverage ratio exposure	26,601,364	17,776,515	26,977,302	17,995,040
Leverage ratio	11.0%	14.3%	13.3%	20.0%

The Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process "ICLAAP"

The objective of the ICLAAP is to ensure that Klarna clearly and correctly identifies, assesses and manages all risks to which it is exposed. The process considers the financial resources required to cover such risks, and to ensure that Klarna has access to sufficient capital and liquidity to support its business strategy over the coming planning horizon in all market conditions. The main governing document for the ICLAAP is the ICLAAP policy. In this document, Klarna's board defines the responsibilities, processes and rules of the ICLAAP. The ICLAAP is performed at least yearly.

The assessed required capital is based on the minimum capital requirement, Pillar I, and additional capital required for other risks as determined as part of the ICLAAP, Pillar II. The internally assessed required capital at year-end 2018 (2017) amounted to SEK 2,050,903k (1,466,388) for Klarna Bank AB (publ) and SEK 1,927,186k (1,339,051) for the consolidated situation. Klarna thereby has sufficient capital to cover for required capital under Pillar I and Pillar II.

Note 45 Change in presentation of the income statement

The income statement for the Group has changed presentation in 2018 and comparable figures have been restated. The income statement for 2017 is presented below before and after the changed presentation.

After change in presentation	2017
Interest income calculated according to the effective interest rate method	1,591,013
Interest expenses	-138,682
Net interest income	1,452,331
Commission income	2,924,191
Commission expenses	-205,253
Net result from financial transactions	-23,899
Other operating income	10,675
Total operating revenues, net	4,158,045
General administrative expenses	-2,932,765
Depreciation, amortisation and impairment of intangible and tangible assets	-200,575
Total expenses before credit losses	-3,133,340
Operating income before credit losses, net	1,024,705
Credit losses, net	-500,718
Operating income	523,987
Income tax	-178,374
Net income for the year	345,613
Before change in presentation	2017
Interest income calculated according to the effective interest rate method	1,591,013
Commission income	2,924,191
Other operating income	10,675
Total operating revenues	4,525,879
Interest expenses	-138,682
Commission expenses	-205,253
Net result from financial transactions	-23,899
General administrative expenses	-2,932,765
Depreciation, amortisation and impairment of intangible and tangible assets	-200,575
Credit losses, net	-500,718
Total operating expenses	-4,001,892
Operating income	523,987
Income tax	-178,374
Net income for the year	345,613

Note 46 Business combinations

Accounting policies

In connection with a business combination, the Group's acquisition cost is established through a purchase price allocation. In the analysis, the fair value of the identifiable assets and the assumed liabilities is determined.

For business combinations where the cost exceeds the net carrying amount of the acquired identifiable assets and the assumed liabilities, the difference is reported as goodwill in the balance sheet.

The purchase price allocation identifies assets and liabilities that are not reported in the acquired company, such as trademarks and customer contracts. Identified intangible assets that have been identified when making the purchase price allocation are amortised over the estimated useful life. Goodwill and strong trademarks are considered to have an indefinite useful life and are therefore tested annually for impairment, or whenever there is any indication of impairment. Consideration that is contingent upon the outcome of future events is valued at fair value and the change in value is recognised in the income statement. The financial statements of subsidiaries are reported in the consolidated financial statements as of the acquisition date and until the time when a controlling interest no longer exists.

Klarna's acquisition of BillPay

On September 13, 2017, Klarna SPV GmbH, an indirectly owned subsidiary of Klarna Bank AB (publ), acquired 100 percent of the German company BillPay GmbH. BillPay is licensed by the German Federal Financial Supervisory Authority (BaFin) to offer money transmission services under the Payment Services Supervision Act (ZAG). BillPay is a leading online payment provider. The consideration amounted to SEK 579,985k and was paid fully in cash. In the purchase price allocation, goodwill amounts to SEK 339,506k. The goodwill recognised for the acquisition corresponds to the complementary strengths of the two companies in the field of payment solutions. The goodwill recognised is not expected to be deductible for income tax purposes.

BillPay	Purchase Price Allocation
Intangible assets	242,415
Tangible assets	4,017
Lending to the public	272,563
Deferred tax assets	18,284
Other assets	13,005
Cash and cash equivalents	179,661
Provisions	-11,149
Deferred tax liabilities	-72,129
Other liabilities	-406,188
Net identifiable assets and liabilities	240,479
Consolidated goodwill	339,506
Consideration	579,985

Transaction related costs amounted to SEK 14,175k and derive from external legal fees and due diligence expenses. The costs have been included in the item General administrative expenses in the Group's consolidated income statement. For the period from the acquisition date of September 13, 2017 until December 31, 2017, BillPay contributed with total operating revenues of SEK 80,987k and net income of SEK 7,583k to the Group's result. If the acquisition had occurred on January 1, 2017, management estimates that consolidated total operating revenues for the Klarna Group would have increased by additional SEK 164,127k and consolidated net income for the full year would have increased by additional SEK 11,893k.

Note 47 Significant events after the end of the reporting period

On September 13, 2018, Klarna Bank AB (publ) entered into an agreement to acquire the operations of Close Brother Retail Finance from Close Brothers Group plc. The acquisition was consummated on January 1, 2019. The consideration amounted to SEK 980m and was paid in cash. In the preliminary purchase price allocation, which is based on Klarna's accounting policies, SEK 998m is recognised as loans to the public, net. The gross amount is SEK 1,032m. Other assets and liabilities related to the loan portfolio are also part of the agreement. The acquisition aims to significantly strengthen Klarna's position in the UK market for retail financing and will enable accelerated growth and expansion of the consumer offering.

On January 1, 2019 Klarna Bank AB (publ) established a branch in the United Kingdom under the name Klarna Bank AB UK Branch. On the same day the branch became operational following a transfer of the business from Klarna UK Ltd.

No other significant events occurred after the closing date.

Definitions & Abbreviations

AC

Amortised cost

Capital requirement

Total assets and off balance sheet items, risk-weighted according to the capital adequacy rules for credit and market risk. The operational risks are measured and added as risk exposure amount, which only applies to the consolidated situation

Common Equity Tier 1 capital

Equity excluding proposed dividend, deferred taxes and intangible assets and certain other regulatory adjustments defined in Regulation (EU) No 575/2013 (CRR) and EU 241/2014

Cost/Revenue Ratio

Total expenses before credit losses divided by total operating revenues, net

Debt/equity ratio

Average liabilities adjusted for untaxed reserves in relation to average equity adjusted for untaxed reserves. The calculation of average liabilities and average equity is based on opening and closing balances for the reporting period

ECL

Expected credit loss

Equity/assets ratio

Equity adjusted for untaxed reserves as a percentage of total assets at the end of the reporting period

FVPL

Fair value through profit or loss

L&R

Loans and receivables

Merchants

Klarna's e-commerce customers are named merchants

Own funds (Total capital)

The sum of Tier 1 capital and Tier 2 capital

Pay later

Klarna's invoice product is called Pay later

Pay now

Klarna's product for immediate settlement is called Pay now

POCI

Purchased or originated credit-impaired assets

Return on assets*

Net income for the year as a percentage of average total assets. The calculation of average total assets is based on opening and closing balances for the reporting period

Return on equity*

Operating income for the year as a percentage of average equity adjusted for untaxed reserves. The calculation of average equity is based on opening and closing balances for the reporting period

Slice it

Klarna's account product is called Slice it

Tier 1 capital

The sum of Common Equity Tier 1 capital and additional Tier 1 capital

Tier 2 capital

Subordinated liabilities which are eligible for inclusion in the total capital

Total capital ratio

Total capital as a percentage of risk exposure amounts

*Alternative Performance Measures (APM) are financial measures of historical or future financial position, performance or cash flow that are not defined in applicable regulations (IFRS) or in the EU Capital Requirements Regulation and Directive CRR/CRD IV. APMs are used by Klarna when relevant to assess and describe Klarna's financial situation and provide additional relevant information and tools to enable analysis of Klarna's performance. APMs on return on equity and return on assets provide relevant information on the performance in relation to different investment measurements. The cost on revenue ratio provides information on Klarna's cost efficiency. All these measures may not be directly comparable with similar key measures presented by other companies.

Board of Directors' affirmation

The Board of Directors and CEO certify that the annual report has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements have been prepared in accordance with the international reporting standards (IFRS/IAS) referred to in the European parliament and the councils' regulation (EC) 1606/2002, from July 19, 2002, on the application of International Accounting Standards. They give a true and fair view of the Parent Company's and the Group's financial position and result. It is further assured that the report of the Board of Directors gives a true and fair overview of the development of the Parent Company's and Group's business activities, financial position and results of operations as well as describes the material risks and uncertainties that the Parent Company and its subsidiaries are facing.

Stockholm 2019-03-27

Jonathan Kamaluddin
Chairman of the Board

Niklas Savander
Board member

Mikael Walther
Board member

Sarah McPhee
Board member

Andrew Young
Board member

Michael Moritz
Board member

Sebastian Siemiatkowski
CEO

Our audit report was submitted on 2019-04-08

Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Klarna Bank AB (publ), corporate identity number 556737-0431

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Klarna Bank AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 2-80 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Provision for expected credit losses

Detailed disclosures and description of the area are provided in the annual report and consolidated accounts. Credit risk exposures and its management are described in Note 3 from page 25. The Group's reported expected loan losses are specified in Note 21. Disclosures regarding the Parent Company can be found in notes 3 and 21. For the relevant accounting principles for the Group, see Note 2, section 12 on page 18. Of note 2 it can be seen that the Parent Company's accounting principles regarding credit granting and provisions for expected loan losses are in accordance with the Group's accounting principles.

Description	How our audit addressed this key audit matter
<p>As of December 31, 2018, lending to the public amounted to SEK 19,979 M (19,850) in the Group (the Parent Company), which represents 71 (73) % of total assets. The total credit risk exposure, including off-balance sheet commitments, amounts to SEK 22,347 M (21,813). Provisions for expected loan losses for lending to the public amount to SEK 940 (880) million and are based on model-based calculations.</p> <p>The loss reserve shall be valued in a manner that reflects an objective and probability-weighted amount determined by evaluating a range of possible outcomes and based on past events, current conditions and forecasts for future economic conditions. The provision requires the Bank to make assessments and assumptions of, for example, criteria for identifying a significant increase in credit risk and methods for calculating expected credit losses. Given the complexity of the calculation and that it requires the Bank to make judgments and assumptions, the valuation of the reserve for expected credit losses has been assessed as a key audit matter.</p>	<p>We have evaluated whether the Bank's assessment of the probability of default, loss given default, exposure at default and expected credit loss including a significant increase in credit risk is in accordance with IFRS 9.</p> <p>We have gained an understanding of and tested the design of key controls in the credit process, such as how credits are registered. We have tested controls for completeness in loading input data. We have also tested controls related to analysis and approval of model changes and credit loss levels.</p> <p>We have tested that the underlying data used in the calculation is complete and correct. We have reviewed and evaluated the outcome of model validations that have been performed. We have examined and assessed the assumptions and parameters used in the model and for a selection of segments tested actual loan losses compared to expected loan losses. We have examined the calculation for expected loan losses by making an independent control calculation of the provisioning based on the underlying data and assumptions used in the model. We have examined the bank's own analysis of credit losses and underlying model documentation.</p> <p>We have also examined that the information provided in the financial reports regarding credit risk is appropriate.</p>

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual

accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Klarna Bank AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other

matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- ▶ has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- ▶ in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Ernst & Young AB, Jakobsbergsgatan 24, 111 24 Stockholm, was appointed auditor of Klarna Bank AB (publ) by the general meeting of the shareholders on the 13 April 2018 and has been the company's auditor since the 25 May 2016.

Stockholm 8 April, 2019

Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant