

# Risk Management and Capital Adequacy Report

Pillar III Report 2018

# **Klarna<sup>®</sup>**

Klarna Holding AB

(Corp. ID 556676-2356)

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# 1 Introduction

This Risk Management and Capital Adequacy Report 2018 is made according to the regulatory disclosure requirements set out in the Capital Requirements Regulation (CRR) (Regulation (EU) 575/2013) Part Eight and the Swedish Financial Supervisory Authority (SFSA) regulation FFFS 2014:12. Information in this report pertains to the conditions for Klarna Consolidated Situation with parent company Klarna Holding AB (Corp. ID 556676-2356) as of 31<sup>st</sup> December 2018, if not otherwise stated. The disclosure is made annually in conjunction with the publication of Klarna's Annual Report on Klarna's website ([www.klarna.com](http://www.klarna.com)). All figures are denominated in thousands of Swedish kronor unless otherwise stated.

## 2 Information on the consolidated situation

Klarna Holding AB, maintains its registered office in Stockholm and is the parent company of the Klarna Holding Group ("the Group" or "Klarna"). The Group is made up of the parent company Klarna Holding AB together with its subsidiaries. The legal structure of the Group as of 31<sup>st</sup> December 2018 is shown in Figure 1 below. All subsidiaries are fully consolidated in the Group.

Klarna Bank AB (publ) is a registered bank under the supervision of the Swedish Financial Supervision Authority (Finansinspektionen). All regulated activities are conducted in Klarna Bank AB. The foreign subsidiaries conduct market and customer services as well as research and development, none of which falls under any regulated operations.

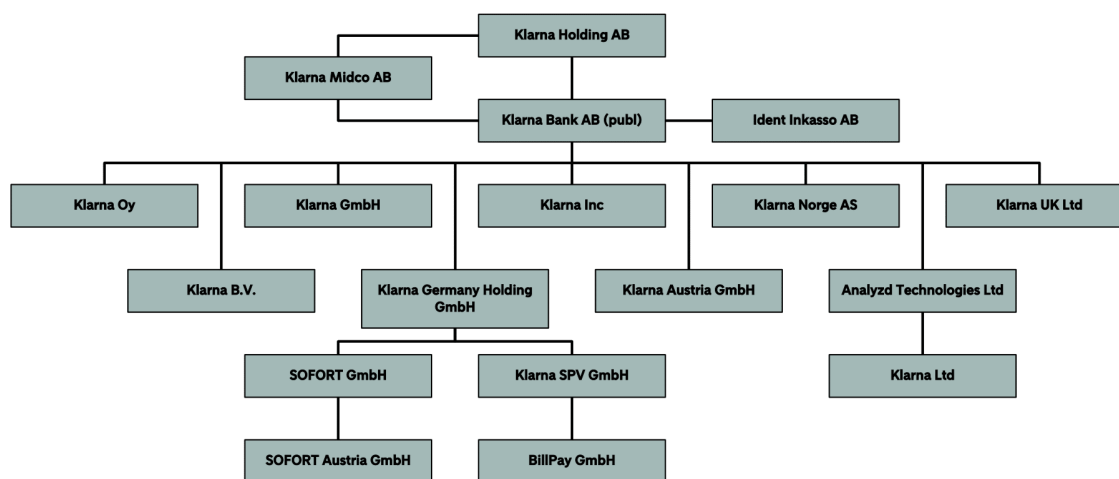


Figure 1 - Organisational structure of Klarna Holding Group

## 3 Information regarding the corporate governance

Board members of Klarna Bank AB (publ) are appointed by the shareholders at the Annual General Meeting in accordance with the Swedish Companies Act (2005:551). The board has not adopted any recruitment policy and in practice, board members are nominated and appointed by the shareholders who hold the majority of both the votes and the capital of the company. To ensure that the Board, the Board members and the CEO meet the requirements for sufficient knowledge, insight, experience as well as suitability and diversity, Klarna has established a suitability and diversity policy for the assessment of Board members and persons in key functions.

In accordance with this policy, all Board assignments in Klarna Bank AB shall be based on merit, with the primary purpose to maintain and improve the Board's overall efficiency. A broad set of capabilities and competencies, with regard to age, gender, ethnicity, education and professional background, are sought in order to ensure a well-suited Board. The ambition is to ensure diversity and that the Board members complement each other in order to cover the expertise that is central to Klarna. The Board as a whole has sufficient knowledge and experience to lead Klarna and exhibit necessary diversity regarding the qualities and competencies that Klarna needs. A more detailed presentation of the Board members, their background and other assignments is presented on Klarna's website ([www.klarna.com](http://www.klarna.com)).

## 4 Risk management

The purpose of risk management is to safeguard Klarna's long-term survival and increase value for owners by ensuring a prudent capital management. Risk management within Klarna includes components such as risk identification, risk assessment, stress testing, capital and liquidity assessment, limit structures and escalation procedures upon limit breaches.

Klarna's risk appetite, the maximum risk for Klarna is expressed on a general level and supported by limits in specific risk areas. The risk appetite and limits are outlined in the Risk Policy and Credit Policy. The risk appetite limits, both qualitative and quantitative, are decided by the Board and reviewed and updated regularly, at least on an annual basis. The annual review is an integral part of the annual planning process in Klarna, ensuring alignment of the business strategy, the planned business activities, ICAAP/ILAAP and Klarna's risk exposure.

Risk control is responsible for coordinating the monitoring and escalation processes related to the set risk appetite. The Board, the Audit, Compliance & Risk Committee (ACRC), the CEO and the CXO Team receive regular reports on the status of risk exposures and the risk management in the Quarterly Risk Report. The status on the risk appetite limits is also included in the Quarterly Risk Report, which shall include all information necessary to enable the Board to ensure that Klarna's risk management and control is satisfactory. Any breach of the risk appetite limits in the Risk Policy and/or Credit Policy is escalated and reported according to policy depending on which limit that has been breached. The limit breach report includes details and description of what occurred and proposed mitigating actions.

The Risk Policy describes the interaction between management of various risk categories and the institution-wide risk management framework in addition to the integration of ICAAP and ILAAP as well as Recovery Plan.

The key principles for managing Klarna's risk exposure shall be:

1. The three lines of defence model, as described in Figure 2 below
2. Independency, meaning that the control functions should be independent of the business they control
3. Risk based approach, meaning that the activities should be aligned to the nature, size and complexity of Klarna's business, ensuring that efforts undertaken are proportional to the risks in question.

The three lines of defence model describes roles and responsibilities for risk management and control, as seen in the figure below:



Figure 2 - Model for risk management and internal control with the three lines of defence

The first line of defence refers to all Risk Management activities carried out by line management and staff. All managers are fully responsible for the risks, and the management of these, within their respective area of responsibility. Hence, they are responsible for ensuring that the appropriate organization, procedures and support systems are implemented to ensure a sufficient system of internal controls.

The second line of defence refers to the Risk Control and Compliance. Risk Control is responsible for setting the principles and framework for Risk Management, facilitating risk assessment and performing independent follow-up of risks and risk management. Risk Control also promotes a sound risk management culture - and in this way enables business - by supporting and educating business line managers and staff.

The Compliance function is primarily responsible for conducting rules relevant for Klarna. Key areas of responsibility are:

- Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF)
- Anti-Corruption (AC)
- Conflicts of Interest (COI)
- Outsourcing
- Business Conduct/Ethics/Whistleblowing
- Compliance Monitoring and Testing
- Point of contact with Financial Regulators

The third line of defence refers to the Internal Audit Function, which performs independent periodic reviews of the governance structure and the system of internal controls. These audits can be both mandatory out of a regulatory perspective or risk based. The Internal Audit Function is currently outsourced to Deloitte.

## 5 Capital adequacy and leverage ratio

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 additional 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 counterparties to consider Klarna a reliable partner and to provide efficient access to the funding market

Klarna is obliged to maintain a minimum level of capital in relation to credit, market and operational risk (Pillar I) but also to carry out an internal evaluation of additional capital required for risks not covered elsewhere (Pillar II). See Table 1 and Table 2 below for details on Klarna's capital requirements according to Pillar I and Pillar II as well as Klarna's capital adequacy. Further information on the composition of Klarna's capital base can be found in Appendix 3-5. The internal board limit is set at the current capital requirement ratio plus 0.8% for each of the three capital ratios (Common Equity Tier 1, Tier 1 and Total Capital)

In addition to the capital required by Pillar I and II, Klarna is required to maintain a capital conservation buffer of 2.5% of the total risk exposure as well as a countercyclical capital buffers. The countercyclical buffer is currently 0.91% for the Group and 0.86% for Klarna Bank AB. For more information regarding Klarna's countercyclical buffer requirements, see Appendix 6.

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). 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.

In addition to the risk-sensitive capital measures discussed above, Klarna regularly monitors its leverage ratio, i.e. capitalization in relation to total assets, and off balance sheet commitments. However, Klarna's business model results in a well-capitalized balance sheet, where excessive debt in relation to capital does not constitute a significant risk. Table 1 shows Klarna's leverage ratio in 2018 and 2017, with further information available in Appendix 8.

Own funds kSEK	Consolidated		Klarna Bank AB	
	2018	2017	2018	2017
<b>Common Equity Tier 1: Instruments and reserves</b>				
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 not of any foreseeable charge or dividend	103,086	344,606	141,824	344,839
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>4,278,291</b>	<b>3,991,525</b>	<b>3,621,696</b>	<b>3,553,252</b>
<b>Common Equity Tier 1: regulatory adjustments</b>				
Additional value adjustments (negative amount)	-80	-1,878	-80	-1,878
Intangible assets (net of related tax liability) (negative amount)	-1,924,116	-1,706,264	-401,659	-206,095
Adjustments due to IFRS 9 transitional arrangements	98,149	-	107,298	-
<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>-1,826,047</b>	<b>-1,708,142</b>	<b>-294,441</b>	<b>-207,973</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>2,452,244</b>	<b>2,283,383</b>	<b>3,327,255</b>	<b>3,345,279</b>
<b>Additional Tier 1 capital: Instruments</b>				
Additional Tier 1 (AT1) capital	470,588	250,000	250,000	250,000
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>2,922,833</b>	<b>2,533,383</b>	<b>3,577,255</b>	<b>3,595,279</b>
<b>Tier 2 capital: instruments and provisions</b>				
Tier 2 (T2) capital	501,494	297,121	597,560	297,121
<b>Total capital</b>	<b>3,424,327</b>	<b>2,830,504</b>	<b>4,174,815</b>	<b>3,892,400</b>
<b>Total risk exposure amount</b>	<b>22,761,017</b>	<b>15,553,716</b>	<b>24,307,480</b>	<b>17,145,425</b>
<b>Capital ratios and buffers</b>				
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 total 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)	2.9%	6.7%	5.8%	11.5%
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
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

Table 1 - Capital base for own funds calculation

## Capital requirement and risk exposure amounts

kSEK

	Consolidated		Klarna Bank AB	
	2018	2017	2018	2017
<b>Risk exposure amount</b>				
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	-
<b>Total risk exposure amount</b>	<b>22,761,017</b>	<b>15,553,717</b>	<b>24,307,481</b>	<b>17,145,425</b>
<b>Exposure amount for credit risk according to the standardised method</b>				
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
<b>Total credit risk exposure amount</b>	<b>17,138,774</b>	<b>11,287,794</b>	<b>18,064,75</b>	<b>12,102,052</b>
<b>Market risk exposure amounts according to standardised method</b>				
Foreign exchange risk	252,714	112,758	1,367,388	1,252,229
<b>Total market risk according to standardised method</b>	<b>252,714</b>	<b>112,758</b>	<b>1,367,388</b>	<b>1,252,229</b>
<b>Minimum capital requirement</b>				
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	-
<b>Total minimum capital requirement</b>	<b>1,820,881</b>	<b>1,244,297</b>	<b>1,944,599</b>	<b>1,371,634</b>
<b>Leverage ratio</b>				
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%

Table 2 - Risk exposure amount and leverage ratio

## The Internal Capital and 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 process is carried out 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 (SEK 1,466,388k) for Klarna Bank AB (publ) and SEK 1,927,186k (SEK 1,339,051k) for the consolidated situation. Klarna thereby has sufficient capital to cover for required capital under Pillar I and Pillar II

## 6.1 Credit risk

Credit risk is the possibility that Klarna realises a loss due to not having its receivables repaid – due to either a counterparty's inability or unwillingness to fulfil its obligations. Klarna is mainly exposed to credit risk from four sources:

1. Lending to individual consumers/members of the public/companies who make purchases 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 was made. This is combined with historical internal customer payment and credit behaviour 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 behaviours, 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 behaviour 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.

For credit exposure to the public, Klarna makes provisions to cover for expected losses. Table 3 illustrates how Klarna's provisions for loan losses changed during 2018. Table 4 shows a geographical breakdown of all currently overdue receivables and loans as well as the corresponding allowances.

The total lending to the public consists of 56% Klarna Slice It, 36% Klarna Pay Later and 8% other. Klarna Slice It is a fixed part payment over 1-36 months or flexible payment as the customer at his own pace determines how much is to be paid each month (though with a fixed minimum amount). Klarna Invoice is a free payment method where the customer can choose to pay within 14 or 30 days.



## Allowances according to IFRS 9

Consolidated  
kSEK

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
<b>Allowance as at January 1, 2018<sup>1,2</sup></b>	<b>-317,368</b>	<b>-151,576</b>	<b>-269,167</b>	<b>-2,348</b>	<b>-14,911</b>	<b>-755,371</b>
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 <sup>3</sup>	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
<b>Allowance as at December 31, 2018</b>	<b>-286,664</b>	<b>-162,578</b>	<b>-450,495</b>	<b>-8,077</b>	<b>-32,418</b>	<b>-940,232</b>

Table 3 - Allowances in accordance with the accounting framework IFRS 9

## Overdue receivables and loans

Consolidated  
kSEK

December 31, 2018	Overdue receivables and loans	Allowance for overdue receivables and loans	Exposure amount	Overdue > 90 days	Allowance for overdue > 90 days	Exposure amount
Austria	88,926	-21,475	67,451	22,826	-16,702	6,124
Denmark	23,402	-3,316	20,086	3,337	-2,352	985
Finland	465,899	-57,685	408,214	84,759	-41,083	43,676
Germany	1,730,724	-196,500	1,534,224	250,746	-132,913	117,834
Netherlands	176,097	-35,386	140,711	34,474	-22,106	12,368
Norway	718,459	-25,616	692,842	84,832	-17,840	66,992
Sweden	870,314	-84,626	785,688	160,880	-63,906	96,975
Switzerland	19,260	-14,001	5,259	12,400	-12,381	20
United Kingdom	165,109	-100,224	64,885	94,954	-76,033	18,920
United States	121,040	-47,469	73,571	23,841	-17,605	6,236
<b>Total</b>	<b>4,379,230</b>	<b>-586,298</b>	<b>3,792,931</b>	<b>773,049</b>	<b>-402,921</b>	<b>370,130</b>

Table 4 - Geographical breakdown of overdue receivables and loans

## Credit losses

Loan losses increased to SEK 785,567k in 2018 from SEK 500,718k in 2017 as loans to the public grew significantly. Klarna's business model, with short average maturity and high credit turnover, results in relatively low loan losses in comparison to the total lending amount over the full financial year. Further information regarding credit losses can be found in Table 5.

<sup>1</sup> The table shows month over month movements.

<sup>2</sup> The opening balances for allowances have been restated due to the implementation of IFRS 9.

<sup>3</sup> This line shows the effect of the implementation of the new impairment model.

### Breakdown of credit losses

Consolidated

kSEK

	2018	2017
<b>Loans to credit institutions</b>		
Increase in provisions	-39	-
<b>Total</b>	<b>-39</b>	<b>-</b>
<b>Loans to the public</b>		
Realised loan losses	-1,135,168	-609,019
Allowances to cover realised loan losses	566,952	196,519
Recoveries on previous realised loan losses	516,086	274,399
Increase in provisions	-1,716,003	-404,721
Reversal of previous provisions	1,057,311	42,104
<b>Total</b>	<b>-710,822</b>	<b>-500,718</b>
<b>Financial guarantees and commitments</b>		
Increase in provisions	-92,201	-
Reversal of previous provisions	17,495	-
<b>Total</b>	<b>-74,706</b>	<b>-</b>
<b>Total credit losses, net</b>	<b>-785,567</b>	<b>-500,718</b>

Table 5 - Total credit losses net of provisions

### Other sources of credit risk

The merchants that offer Klarna's payment services also exposes Klarna to credit risks. If a merchant closes down or becomes insolvent, there is a risk that Klarna will be unable to offset any subsequent product 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 in addition to internal data. If a merchant credit risk is deemed too high, countermeasures are taken to ensure that cooperation can continue under modified and acceptable terms.

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

### Credit quality of bonds in portfolio

Consolidated

kSEK

	2018	2017
<b>Central bank eligible assets</b>		
AAA <sup>4</sup>	1,668,839	797,118
AA+ <sup>4</sup>	1,415,475	605,719
AA <sup>4</sup>	-	344,835
Unrated <sup>4</sup>	-	100,033
<b>Total</b>	<b>3,084,314</b>	<b>1,847,705</b>

Table 6 - Credit quality of bonds in portfolio

<sup>4</sup> Ratings from Standard & Poor's

Another source of credit risk that Klarna is exposed to is the counterparty risk relating to derivative contracts. This means the risk of a counterparty failing to fulfil its contractual obligations, which could cause a loss for Klarna. The credit risk of derivative transactions is calculated according to the mark-to-market method with an additional credit value adjustment according to the standardised method. The derivative transactions currently used by Klarna is limited to currency swaps. All active derivative transactions, measured at fair value, are shown in Table 7 below.

#### Derivatives held for trading

Consolidated  
kSEK

December 31, 2018	Fair value		Total nominal amount
	Positive	Negative	
<b>Foreign exchange derivatives</b>			
Currency forwards	24,074	-14,947	1,815,599
<b>Total</b>	<b>24,074</b>	<b>-14,947</b>	<b>1,815,599</b>

December 31, 2017	Fair value		Total nominal amount
	Positive	Negative	
<b>Foreign exchange derivatives</b>			
Currency forwards	29,918	-10	2,369,352
<b>Total</b>	<b>29,918</b>	<b>-10</b>	<b>2,369,352</b>

Table 7 - Derivatives held for trading

Klarna calculates the capital requirement arising from credit risk exposures according to the standardised approach. Klarna uses the external rating agencies Moody's, Fitch and Standard and Poor's, to calculate risk-weighted exposure amounts for institute exposures, corporate exposures and local and central authorities. Klarna regularly updates its counterparty register with short and long ratings. If the exposure has two ratings, the worst is selected and with three ratings available, the median is selected. Should there be no rating available; the assigned risk weight is the same as that of exposures to the national government in the jurisdiction to which the institution belongs. Klarna's credit exposure, risk-weighted exposure and capital requirements per exposure class according to the standard method can be found in Table 8. The risk control function reports the follow-up of all defined limits for credit risks to the board at least quarterly. Any limit breaches are escalated immediately.

#### Capital requirements per exposure class according to the standard approach

Consolidated  
kSEK

Exposure class	Average exposure value during 2018	Exposure value as of 2018-12-31	Risk weighted exposure amount	Capital requirement
Central governments or central banks	1,099,478	1,789,504	0	0
Regional governments or local authorities	1,172,702	1,152,300	0	0
Institutions	2,569,251	2,356,109	602,536	48,203
Corporates	725,661	1,710,590	1,633,421	130,674
Retail	16,729,436	18,442,671	13,832,012	1,106,561
Exposures in default	324,557	589,544	691,987	55,359
Equity	26,313	41,217	71,339	5,707
Other items	115,134	236,258	307,488	24,599
<b>Total</b>	<b>23,100,746</b>	<b>26,318,195</b>	<b>17,138,774</b>	<b>1,371,102</b>

Table 8 - Capital requirements and exposure amounts by counterparty type

## 6.2 Market risk

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

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

### *Interest rate risk*

Interest rate risk is the risk of decreased market values for 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. For this reason, 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 Table 11 in the Liquidity Risk section for the maturity structure of Klarna's funding sources under the section for Liquidity risk.

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 182,707k (SEK 77,484k) given discounting of future cash flow at the risk free interest rate for each significant currency. This effect corresponds to 3.77% (1.83%) of equity.

The Group's interest income amounted to SEK 2,033,517k (SEK 1,591,015k) and interest expenses amounted to SEK 232,015k (SEK 138,704k) which results in net interest income of SEK 1,801,502k (SEK 1,452,311k).

### *Currency risk*

Currency risk is the risk that arises from the change in the price of one currency against another. Klarna 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 due to the revaluation of balance sheet items nominated in currencies other than Klarna's reporting currency. Translation risks are monitored and mitigated through foreign exchange spot transactions.

Transaction risks 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 currencies other than the functional currency has been continuously increasing during 2018 as a result of business 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 -1,210k (SEK 3,773k).

Internal policy limits the fluctuations in exchange rates at Group level to 1.0% of Own Funds, which equals SEK 34,243k (SEK 28,305k), 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 monitored on a daily basis. Table 9 shows the currency exposures for the currencies most significant to Klarna at the end of 2018.

## Currency exposure

Consolidated

kSEK

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

Table 9 - Currency exposures

A 10% change in the currency exchange rate of the functional currency (SEK) versus all foreign currencies would entail an effect of 31.8% (3.44%) on net income and 0.68% (0.28%) on equity for the Group.

## 6.3 Liquidity risk

Liquidity risk is defined as the risk of Klarna not being able to fund the growth of lending assets and not being able to meet obligations as they become due without incurring significantly increased cost. Klarna is exposed to liquidity risk due to its credit business and funding structure, but strives to keep this risk as low as possible.

The liquidity risk is limited through the nature of Klarna's business. In the short term, Klarna takes advantage from the duration of its liabilities, which is longer than that of its assets. A counterbalancing buffer ensures that Klarna can support unexpected future business growth. Klarna's longer term funding plans take necessary precautions to support a liquidity buffer, and all balance sheet projections used for stress testing include this buffer.

The overarching principle is that Klarna should be able to meet all outstanding payment commitments in time with no material additional financing costs and without using HQLA. Klarna has identified high day-to-day volatility in funding need as its main risk drivers when setting up its funding risk management framework. To ensure that Klarna covers operational needs and complies with regulatory requirements regarding liquidity coverage, a sufficiently high Liquidity Coverage Ratio (LCR) shall be maintained at all times. The Board has established an internal LCR limit of 120% at Group level. Should the ever LCR fall below the internal limit, the management should be alerted and the Board should be presented with an action plan by the CEO.

Klarna's liquidity situation is monitored several times a day. A daily report showing the forecasted liquidity situation over the next seven days is compiled and sent to Risk Control and Treasury. Among other measures, this report specifies the daily forecasted liquidity need, available funds in credit facilities, liquidity from deposits and expected liquidity funded through merchant payment delays. 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.

Monthly planning involves a detailed review of sales forecasts across Klarna's products, their impact on the evolution of asset balances, and a comparison with the previous month-end actual figures. The various funding sources are reviewed - evolution of deposits, headroom on the credit facilities, new funding sources to be switched on and evolution of debt to merchants - in relation to the resulting funding requirements allowing for shorter term tactical decisions on rate settings, issuance of instruments and optimal level of HQLA investments.

The yearly plan is based on the firm's balance sheet forecast. It specifies which financial instruments are necessary over the coming one-year horizon. The plan is followed-up and updated in line with revisions to the forecasts, generally quarterly; taking into account any changes in market conditions for Klarna's funding sources.

The main liquidity measure is the Liquidity Coverage Ratio, defined in the EU's Commission Delegated Regulation 2015/61. 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. While Klarna is not required to meet a currency-specific LCR requirement, Klarna shall monitor and maintain a satisfactory share of its HQLA portfolio in its significant currencies (currently SEK, NOK and EUR). Furthermore, the currency distribution of the HQLA reserves should follow that of the Net liquidity outflows in each significant currency. The current LCR and its components for each significant currency can be found in Table 10 below.

## Liquidity Coverage Ratio (LCR)

Consolidated  
kSEK

December 31, 2018	Total
Liquidity buffer	3,484,645
Net liquidity outflow	1,558,018
LCR (%)	224%
<b>December 31, 2017</b>	
Liquidity buffer	1,847,741
Net liquidity outflow	823,667
LCR (%)	224%

Table 10 - Liquidity coverage ratio (LCR)

The total sum of Klarna's liabilities in each category are detailed in the duration analysis shown in Table 11 below. Klarna has four main financing sources: operating liabilities, bank financing, retail deposits and bonds (senior and subordinated). The inherent liquidity risk of the funding is managed by striving to match the duration of the assets with the duration of the liabilities. Additionally, it is mitigated by maintaining liquidity reserves in order to manage any durational imbalances. Klarna 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, Klarna's outstanding liability to the bank is automatically reduced. The Net Stable Funding Ratio (NSFR) is at 130% for the Group and 138% for Klarna Bank AB as of 31st of December 2018.

## Funding sources

Consolidated  
kSEK

December 31, 2018	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
<b>Financial liabilities</b>						
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 <sup>5</sup>	283	-	-	-	1,996,622	1,996,905
Other liabilities	3,719,530	42	36	1	644	3,720,253
Accrued expenses and prepaid income	302,525	64,697	112,195	19,662	-	499,079
Subordinated liabilities <sup>5</sup>	2,659	-	-	-	594,901	597,560
<b>Total</b>	<b>7,684,146</b>	<b>3,635,076</b>	<b>4,853,886</b>	<b>4,048,345</b>	<b>2,592,167</b>	<b>22,813,620</b>
<b>December 31, 2017</b>						
<b>Financial liabilities</b>						
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 <sup>5</sup>	492	-	-	1,994,544	-	1,995,036
Other liabilities	2,808,094	563	369	1,477	522	2,811,025
Accrued expenses and prepaid income	335,325	5,419	7,740	4,656	-	353,140
Subordinated liabilities <sup>5</sup>	393	-	-	-	296,728	297,121
<b>Total</b>	<b>6,404,974</b>	<b>1,364,668</b>	<b>2,662,794</b>	<b>3,615,255</b>	<b>297,250</b>	<b>14,344,941</b>

Table 11 - Funding sources split on maturity

<sup>5</sup> Interest is included in the amounts for debt securities in issue and subordinated liabilities.

## 6.4 Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, from people and systems, or from external events. Effects could be direct or indirect financial losses or reputational damage. Operational risk includes legal and compliance risk, HR risk and model risk.

- *Personnel risk:* Klarna is dependent on competent and motivated employees and is exposed to the risk of not retaining or being able to recruit the right staff.
- *Process/Product risk:* Although many processes/products are highly automated, Klarna is exposed to risks related to faulty or manual processes/products. Specifically the risks relating to the pace of change in processes, products, systems and models.
- *Information Technology risk:* Klarna is dependent on well-functioning, secure and resilient IT-systems and communication solutions to uphold its business. Hence, Klarna is exposed to cyber risks, risks in IT development and other IT disturbances.
- *Third Party risk:* Klarna is exposed to the risk of external changes in regulations, politics and governments in the markets where business is conducted. Specific risk exposures relates to suppliers and outsourcing of critical services.

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 the final 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.

Operational risk exposure exists in all processes, markets, systems and products. Klarna shall take on operational risk that is naturally inherent in the business processes to achieve growth and development of the company.

Klarna applies the Standardized method for Operational risk, which has been in used from 2014 and onward. Under this method, net operating income is mapped to various business lines, which are then weighted using predefined weights according to their underlying risk profile. The principles for Klarna's business line mapping are documented in the Instruction for Business Line Mapping, which is adopted annually by the CFO.

## 7 Governance arrangements

The disclosures regarding the Board of Directors in accordance with CRR Article 435 are published at Klarna's website:

<https://www.klarna.com/international/about-us/corporate-governance/the-board/>

## 8 Remuneration

The disclosures regarding remuneration in accordance with CRR Article 450 can be found in the Annual Report 2018 on page 28 through 32.

## Appendix 1 Risk declaration pursuant to CRR Art 431(1)(e)

The Board of Directors of Klarna AB and the Board's Audit, Compliance and Risk Committee (ACRC) exercise oversight over the risk management of the Klarna Group. The ACRC and the Board of Directors are satisfied that Klarna's risk management framework, as described below, is adequate for Klarna's risk profile and strategy.

**Operationally, Klarna has adopted a "three lines of defense" framework** for risk management. The second line consists of the independent Risk Control and Compliance functions and they ensure timely information to the ACRC and the Board.

Credit risk arises naturally in the course of Klarna's business. Klarna's proprietary scorecards allow it to control the level of credit risk taken on in the underwriting process. Risk build-up in the credit portfolio is adequately provisioned against and monitored through forward-looking and retrospective indicators.

Klarna's payment infrastructure automatically processes a large volume of transactions on a daily basis. These transaction flows combined with the rapid growth of the company ensures that operational risk management is a high priority area for the company. Klarna as a consequence has a comprehensive and detailed assessment process in place to identify, control and mitigate risk, including a process for approving new or significantly changed products, processes and systems. A robust incident management process ensures that any incidents that arise are contained with minimum loss for the company or its stakeholders.

Klarna invests in financial instruments for regulatory liquidity management purposes, and exclusively in high credit quality sovereign and municipal government securities of short maturities and with an active secondary market.

As part of Klarna's annual Internal Capital Adequacy and Liquidity Assessment Process (ICLAAP), supervised by Risk Control, material additional risks if any that the Group is facing are identified. As part of the ICLAAP process 2018 Klarna has updated and further improved methodologies for several key risks. The nature of Klarna's business gives rise to substantial in and outbound cash flows and thus a liquidity risk. Klarna actively manages its liquidity risk exposure and sources of liquidity on an on-going basis to ensure that the Group will always have the ability to meet regulatory requirements and to fulfill its commitments as they fall due. Currency mismatches that arise in the course of Klarna's business are actively hedged to reduce exposure.

As a final protection against losses arising from business and funding activities Klarna maintains capital buffers. Internal stress tests show that Klarna's own funds are sufficient to withstand a recession with resulting credit losses, as well as operational losses from potential significant incidents.



## Appendix 2 Risk declaration pursuant to CRR Art 431(1)(f)

Klarna pursues a strategy characterized by growth through product innovation in new and current markets. Klarna's risk profile is as a consequence determined both by reduction in risk driven by incremental improvements in underwriting and operations in its existing markets, and by increased risk exposure through new markets and products. Klarna strives to at all times be sufficiently capitalized in order to support its growth strategy and to absorb losses.

To support this strategy, the risk tolerances approved by Klarna's Board of Directors support risk taking in core business activities, specifically regarding credit risk where the high volume of originated loans require a high tolerance of losses in relation to the stock of loans outstanding at any given moment. Parallel to this, Klarna strives to minimize non-core risk taking in supporting functions and processes.

### Key risk indicators

Consolidated  
mSEK

	2018	2017	2016
Total Assets	28,216	19,025	12,085
Lending to the public	19,979	13,874	8,450
Loss rate (% of average lending to the public)	4.64%	4.50%	6.10%
Operational risk	12	17	54
Liquidity reserve (% of total assets)	10.93%	9.71%	7.79%
Liquidity coverage ratio (%)	221%	224%	195%
Capital ratio (% of risk exposure)	15.0%	18.2%	18.8%

## Appendix 3 Own funds balance sheet reconciliation

### Reconciliation of shareholders' equity to regulatory capital kSEK

	Consolidated		
	Carrying values as reported in financial statement	Adjustments under the scope of regulatory framework	Carrying values under the scope of regulatory framework
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>			
Total share capital	3,166,720		3,166,720
Of which: Share capital	1,986		1,986
Of which: Other capital contributions	3,164,734		3,164,734
Restricted fund	0		0
Reserves	190,289	314	190,603
Retained earnings	818,196	-314	817,882
P&L current period	103,086		103,086
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>4,278,291</b>	<b>0</b>	<b>4,278,291</b>
<b>Common Equity Tier 1: regulatory adjustments</b>			
Adjustments to CET1 due to prudential filters	-	-80	-80
Goodwill	-1,327,865		-1,327,865
Other intangible assets (net of related tax liabilities)	-678,219	81,968	-596,251
Of which: Licenses	-16,436		-16,436
Of which: Trademarks	-3,413		-3,413
Of which: Capitalised development costs	-336,368		-336,368
Of which: Other intangible assets	-322,002		-322,002
Of which: Related tax liabilities	-	81,968	81,968
IFRS9 transitional adjustments	-	98,150	98,150
<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>-2,006,084</b>	<b>180,038</b>	<b>-1,826,047</b>
<b>Common Equity Tier 1 capital</b>	<b>2,272,207</b>	<b>180,038</b>	<b>2,452,244</b>
<b>Additional Tier 1 (AT1) capital: instruments</b>			
Additional Tier 1 instruments	505,738	-35,150	470,588
<b>Additional Tier 1 capital</b>	<b>505,738</b>	<b>-35,150</b>	<b>470,588</b>
<b>Tier 1 capital</b>	<b>2,777,945</b>	<b>144,888</b>	<b>2,922,833</b>
<b>Tier 2 (T2) capital: instruments and provisions</b>			
Subordinated liabilities	597,560	-96,065	501,494
<b>Tier 2 capital</b>	<b>597,560</b>	<b>-96,065</b>	<b>501,494</b>
<b>Tier 1 capital</b>	<b>2,777,945</b>	<b>144,888</b>	<b>2,922,833</b>
<b>Total capital</b>	<b>3,375,504</b>	<b>48,823</b>	<b>3,424,327</b>

Reconciliation of shareholders' equity to regulatory capital  
KSEK

	Klarna Bank AB		
	Carrying values as reported in financial statement	Adjustments under the scope of regulatory framework	Carrying values under the scope of regulatory framework
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>			
Total share capital	2,857,892		2,857,892
Of which: Share capital	52,752		52,752
Of which: Other capital contributions	2,805,140		2,805,140
Restricted fund	306,933	119,584	426,517
Reserves	153,313	-153,313	
Retained earnings	195,463		195,463
P&L current period	141,824		141,824
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>3,655,425</b>	<b>-33,729</b>	<b>3,621,696</b>
<b>Common Equity Tier 1: regulatory adjustments</b>			
Adjustments to CET1 due to prudential filters	-	-80	-80
Goodwill	-		-
Other intangible assets (net of related tax liabilities)	-401,659		-401,659
Of which: Licenses	-13,738		-13,738
Of which: Trademarks	-		-
Of which: Capitalised development costs	-322,617		-322,617
Of which: Other intangible assets	-65,304		-65,304
Of which: Related tax liabilities	-		-
IFRS9 transitional adjustments	-	107,298	107,298
<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>-401,659</b>	<b>107,218</b>	<b>-294,441</b>
<b>Common Equity Tier 1 capital</b>	<b>3,253,767</b>	<b>73,489</b>	<b>3,327,255</b>
<b>Additional Tier 1 (AT1) capital: instruments</b>			
Additional Tier 1 instruments	250,000		250,000
<b>Additional Tier 1 capital</b>	<b>250,000</b>	<b>0</b>	<b>250,000</b>
<b>Tier 1 capital</b>	<b>3,503,767</b>	<b>73,489</b>	<b>3,577,255</b>
<b>Tier 2 (T2) capital: instruments and provisions</b>			
Subordinated liabilities	597,560		597,560
<b>Tier 2 capital</b>	<b>597,560</b>	<b>0</b>	<b>597,560</b>
<b>Tier 1 capital</b>	<b>3,503,767</b>	<b>73,489</b>	<b>3,577,255</b>
<b>Total capital</b>	<b>4,101,326</b>	<b>73,489</b>	<b>4,174,815</b>

## Appendix 4 Capital instruments main features

Capital Instruments main features		Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2
1	Issuer	Klarna Holding AB	Klarna Holding AB	Klarna Bank AB	Klarna Bank AB	Klarna Bank AB
2	Unique identifier	SE0003490770	SE0011844356	SE0009888753	SE0011415538	SE0008435036
3	Governing law(s) of the instrument	Swedish law	Swedish law	Swedish law	Swedish law	Swedish law
<b>Regulatory treatment</b>						
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Consolidated	Consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital	Additional Tier 1 Capital Notes	Additional Tier 1 Capital Notes	Subordinated Tier 2 Capital Notes	Subordinated Tier 2 Capital Notes
8	Amount recognised in regulatory capital (as of most recent reporting date)	SEK 1,986,010	SEK 256,369,520	SEK 250,000,000	SEK 300,075,179	SEK 297,484,581
9	Nominal amount of instrument	SEK 1,986,010	EUR 25,000,000	SEK 250,000,000	SEK 300,000,000	SEK 300,000,000
9a	Issue price	-	100%	100%	100%	100%
9b	Redemption value	-	100%	100%	100%	100%
10	Accounting classification	Shareholders' equity	Shareholders' equity	Shareholders' equity	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	-	2018-11-15	2017-05-26	2018-07-05	2016-06-20
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	No maturity	No maturity	No maturity	2028-07-05	2026-06-20
14	Issuer call subject to prior supervisory approval	-	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	-	2023-11-15	2022-05-26	2023-07-05	2021-06-20
16	Subsequent call dates, if applicable	-	Every quarter falling after the first call date	Every quarter falling after the first call date	Every quarter falling after the first call date	Every quarter falling after the first call date
<b>Coupons / dividends</b>						
17	Fixed or floating dividend/coupon	Floating	Fixed to floating	Floating	Floating	Floating
18	Coupon rate and any related index	Fully discretionary	Fixed rate of 6.625% until optional call date. Floating rate of EURIBOR 3M + 6.277% afterwards	STIBOR 3M + 5.75%	STIBOR 3M + 3.5%	STIBOR 3M + 4.5%
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	-	-	-	-	-
25	If convertible, fully or partially	-	-	-	-	-
26	If convertible, conversion rate	-	-	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-	-	-
30	Write-down features	No	Yes	Yes	No	No
31	If write-down, write-down trigger(s)	-	CET1 ratio falls below 5.125% for Klarna Bank AB or 7% for Klarna Holding AB	CET1 ratio falls below 5.125% for Klarna Bank AB or 7% for Klarna Holding AB	-	-
32	If write-down, full or partial	-	Fully or partially	Fully or partially	-	-
33	If write-down, permanent or temporary	-	Temporary	Temporary	-	-
34	If temporary write-down, description of write-up mechanism	-	Fully discretionary	Fully discretionary	-	-
35	Position in subordinated hierarchy in liquidation	Immediately junior to holders of notes which constitutes Additional Tier 1 Capital	Immediately junior to holders of notes which constitutes Tier 2 Capital	Immediately junior to holders of notes which constitutes Tier 2 Capital	Immediately junior to claims of depositors and other unsubordinated creditors	Immediately junior to claims of depositors and other unsubordinated creditors
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	-	-	-	-	-

## Appendix 5 Own funds disclosure template

### Own funds disclosure template KSEK

		Consolidated	Regulation (EU) No 575/2013 Article Reference
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>			
1	Capital instruments and the related share premium accounts	3,166,720	26(1), 27, 28, 29
	Of which: Share capital	1,986	EBA list 26(3)
	Of which: Share premium	3,164,734	EBA list 26(3)
2	Retained earnings	817,882	26(1)(c)
3	Accumulated other comprehensive income (and other reserves)	190,603	26(1)
3a	Funds for general banking risk		26(1)(f)
4	Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase out from CET1		486(2)
5	Minority interest (amount allowed in consolidated CET1)		84
5a	Independently reviewed interim profits not of any foreseeable charge or dividend	103,086	26(2)
<b>6</b>	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>4,278,291</b>	
<b>Common Equity Tier 1: regulatory adjustments</b>			
7	Additional value adjustments (negative amount)	-80	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-1,924,116	36(1)(b), 37
	Of which: Goodwill (negative amount)	-1,327,865	
	Of which: Other intangible assets (net of related tax liability) (negative amount)	-596,251	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 36(3) are met) (negative amount)		36(1)(c), 38
11	Fair value reserves related to gains or losses on cash flow hedges		33(1)(a)
12	Negative amounts resulting from the calculations of expected loss amounts		36(1)(d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)		32(1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33(1)(b)
15	Defined-benefit pension fund assets (negative amount)		36(1)(e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36(1)(f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36(1)(g), 44
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36(1)(h), 43, 45, 46, 49(2) & (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36(1)(i), 43, 45, 47, 48(1)(b), 49(1) to (3), 79
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36(1)(k)
20b	Of which: qualifying holdings outside the financial sector (negative amount)		36(1)(k)(i), 89 to 91
20c	Of which: securitisation positions (negative amount)		36(1)(k)(ii), 243(1)(b), 244(1)(b), 258
20d	Of which: free deliveries (negative amount)		36(1)(k)(iii), 379(3)
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38(3) are met) (negative amount)		36(1)(c), 38, 48(1)(a)
22	Amount exceeding the 15% threshold (negative amount)		48(1)
23	Of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36(1)(i), 48(1)(b)

25	Deferred tax assets arising from temporary difference		36(1)(c), 38, 48(1)(a)
25a	Losses for the current financial year (negative amount)		36(1)(a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36(1)(l)
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36(1)(j)
27a	IFRS 9 transitional adjustments to CET1 Capital	98,150	473a(8)
<b>28</b>	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-1,826,047</b>	
<b>29</b>	<b>Common Equity Tier 1 (CET1) capital</b>	<b>2,452,244</b>	
<b>Additional Tier 1 (AT1) capital: instruments</b>			
30	Capital instruments and the related share premium accounts	470,588	51, 52
31	Of which: classified as equity under applicable accounting standards	470,588	
32	Of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1		486(3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86
35	Of which: instruments issued by subsidiaries subject to phase-out		486(3)
<b>36</b>	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>470,588</b>	
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52(1)(b), 56(a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution (negative amount)		56(b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56(c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56(d), 59, 79
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56(e)
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	<b>0</b>	
<b>44</b>	<b>Additional Tier 1 (AT1) capital</b>	<b>470,588</b>	
<b>45</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>2,922,833</b>	
<b>Tier 2 (T2) capital: instruments and provisions</b>			
46	Capital instruments and the related share premium accounts		62, 63
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2		486(4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	501,494	87, 88
49	Of which: instruments issued by subsidiaries subject to phase-out		486(4)
50	Credit risk adjustments		62(c) & (d)
<b>51</b>	<b>Tier 2 (T2) capital before regulatory adjustment</b>	<b>501,494</b>	
<b>Tier 2 (T2) capital: regulatory adjustments</b>			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63(b)(i), 66(a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		66(b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66(c), 69, 70, 79

55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66(d), 69, 79
57	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	<b>0</b>	
58	<b>Tier 2 (T2) capital</b>	<b>501,494</b>	
59	<b>Total capital (TC = T1 + T2)</b>	<b>3,424,327</b>	
60	<b>Total risk-weighted assets</b>	<b>22,761,017</b>	
<b>Capital ratios and buffers</b>			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	10.8%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure amount)	12.8%	92(2)(b)
63	Total capital (as a percentage of total risk exposure amount)	15.0%	92(2)(c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92(1)(a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total REA)	7.9%	CRD 128, 129, 130, 131, 133
65	Of which: capital conservation buffer requirement	2.5%	
66	Of which: countercyclical buffer requirement	0.9%	
67	Of which: systemic risk buffer requirement	0.0%	
67a	Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of REA)	2.9%	CRD 128
<b>Amounts below the thresholds for deduction (before risk-weighting)</b>			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36(1)(h), 45, 46, 56(c), 59, 60, 66(c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	20,081	36(1)(i), 45, 48
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38(3) are met)	47,508	36(1)(c), 38, 48
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62
<b>Capital Instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)</b>			
80	- Current cap on CET1 instruments subject to phase-out arrangements		484(3), 486(2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484(3), 486(2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements		484(4), 486(3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484(4), 486(3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements		484(5), 486(4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484(5), 486(4) & (5)

## Own funds disclosure template

kSEK

		Klarna Bank AB	Regulation (EU) No 575/2013 Article Reference
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>			
1	Capital instruments and the related share premium accounts	2,857,892	26(1), 27, 28, 29
	Of which: Share capital	52,752	EBA list 26(3)
	Of which: Share premium	2,805,140	EBA list 26(3)
2	Retained earnings	195,463	26(1)(c)
3	Accumulated other comprehensive income (and other reserves)	426,517	26(1)
3a	Funds for general banking risk		26(1)(f)
4	Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase out from CET1		486(2)
5	Minority interest (amount allowed in consolidated CET1)		84
5a	Independently reviewed interim profits not of any foreseeable charge or dividend	141,824	26(2)
<b>6</b>	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>3,621,696</b>	
<b>Common Equity Tier 1: regulatory adjustments</b>			
7	Additional value adjustments (negative amount)	-80	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-401,659	36(1)(b), 37
	Of which: Goodwill (negative amount)	0	
	Of which: Other intangible assets (net of related tax liability) (negative amount)	-401,659	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 36(3) are met) (negative amount)		36(1)(c), 38
11	Fair value reserves related to gains or losses on cash flow hedges		33(1)(a)
12	Negative amounts resulting from the calculations of expected loss amounts		36(1)(d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)		32(1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33(1)(b)
15	Defined-benefit pension fund assets (negative amount)		36(1)(e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36(1)(f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36(1)(g), 44
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36(1)(h), 43, 45, 46, 49(2) & (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36(1)(i), 43, 45, 47, 48(1)(b), 49(1) to (3), 79
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36(1)(k)
20b	Of which: qualifying holdings outside the financial sector (negative amount)		36(1)(k)(i), 89 to 91
20c	Of which: securitisation positions (negative amount)		36(1)(k)(ii), 243(1)(b), 244(1)(b), 258
20d	Of which: free deliveries (negative amount)		36(1)(k)(iii), 379(3)
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38(3) are met) (negative amount)		36(1)(c), 38, 48(1)(a)
22	Amount exceeding the 15% threshold (negative amount)		48(1)
23	Of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36(1)(i), 48(1)(b)
25	Deferred tax assets arising from temporary difference		36(1)(c), 38, 48(1)(a)
25a	Losses for the current financial year (negative amount)		36(1)(a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36(1)(l)



27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36(1)(j)
27a	IFRS 9 transitional adjustments to CET1 Capital	107,298	473a(8)
<b>28</b>	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-294,441</b>	
<b>29</b>	<b>Common Equity Tier 1 (CET1) capital</b>	<b>3,327,255</b>	
<b>Additional Tier 1 (AT1) capital: Instruments</b>			
30	Capital instruments and the related share premium accounts	250,000	51, 52
31	Of which: classified as equity under applicable accounting standards	250,000	
32	Of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1		486(3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86
35	Of which: instruments issued by subsidiaries subject to phase-out		486(3)
<b>36</b>	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>250,000</b>	
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52(1)(b), 56(a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution (negative amount)		56(b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56(c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56(d), 59, 79
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56(e)
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	<b>0</b>	
<b>44</b>	<b>Additional Tier 1 (AT1) capital</b>	<b>250,000</b>	
<b>45</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>3,577,255</b>	
<b>Tier 2 (T2) capital: instruments and provisions</b>			
46	Capital instruments and the related share premium accounts	597,560	62, 63
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2		486(4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		87, 88
49	Of which: instruments issued by subsidiaries subject to phase-out		486(4)
50	Credit risk adjustments		62(c) & (d)
<b>51</b>	<b>Tier 2 (T2) capital before regulatory adjustment</b>	<b>597,560</b>	
<b>Tier 2 (T2) capital: regulatory adjustments</b>			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63(b)(i), 66(a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		66(b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66(c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66(d), 69, 79
<b>57</b>	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	<b>0</b>	
<b>58</b>	<b>Tier 2 (T2) capital</b>	<b>597,560</b>	

59	Total capital (TC = T1 + T2)	4,174,815	
60	Total risk-weighted assets	24,307,480	
<b>Capital ratios and buffers</b>			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.7%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure amount)	14.7%	92(2)(b)
63	Total capital (as a percentage of total risk exposure amount)	17.2%	92(2)(c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92(1)(a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	7.9%	CRD 128, 129, 130, 131, 133
65	Of which: capital conservation buffer requirement	2.5%	
66	Of which: countercyclical buffer requirement	0.9%	
67	Of which: systemic risk buffer requirement	0.0%	
67a	Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.8%	CRD 128
<b>Amounts below the thresholds for deduction (before risk-weighting)</b>			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36(1)(h), 45, 46, 56(c), 59, 60, 66(c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	20,081	36(1)(i), 45, 48
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38(3) are met)	32,313	36(1)(c), 38, 48
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)</b>			
80	- Current cap on CET1 instruments subject to phase-out arrangements		484(3), 486(2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484(3), 486(2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements		484(4), 486(3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484(4), 486(3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements		484(5), 486(4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484(5), 486(4) & (5)

## Appendix 6 Macroprudential supervisory measures

### Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Consolidated  
kSEK

Breakdown by country	General credit exposures		Trading book exposures		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical buffer rate
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Austria	239,795						19,291			19,291	0.02	0.00%
Cyprus	0						0			0	0.00	0.00%
Denmark	97,958						5,926			5,926	0.00	0.00%
Estonia	0						0			0	0.00	0.00%
Finland	2,058,655						124,577			124,577	0.10	0.00%
Germany	6,422,733						430,256			430,256	0.35	0.00%
Israel	0						0			0	0.00	0.00%
Luxembourg	0						0			0	0.00	0.00%
Netherlands	341,627						22,168			22,168	0.02	0.00%
Norway	1,888,823						114,963			114,963	0.09	2.00%
Sweden	7,216,038						435,649			435,649	0.35	2.00%
Switzerland	81,599						18,616			18,616	0.01	0.00%
United Kingdom	412,877						26,049			26,049	0.02	1.00%
United States	755,215						47,807			47,807	0.04	0.00%
<b>Total</b>	<b>19,515,321</b>						<b>1,245,302</b>			<b>1,245,302</b>	<b>1.00</b>	<b>0.91%</b>

### Amount of Institution-specific countercyclical capital buffer

Consolidated  
kSEK

	<b>2018</b>
Total risk exposure amount	22,761,017
Institution specific countercyclical buffer rate	0.91%
Institution specific countercyclical buffer requirement	206,037

## Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Klarna Bank AB  
kSEK

Breakdown by country	General credit exposures		Trading book exposures		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical buffer rate
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Austria	212,890						13,420			13,420	0.01	0.00%
Cyprus	1,017						81			81	0.00	0.00%
Denmark	103,283						6,308			6,308	0.00	0.00%
Estonia	0						0			0	0.00	0.00%
Finland	2,177,189						132,859			132,859	0.10	0.00%
Germany	7,893,602						516,641			516,641	0.38	0.00%
Israel	25,437						2,035			2,035	0.00	0.00%
Luxembourg	0						0			0	0.00	0.00%
Netherland	376,399						23,602			23,602	0.02	0.00%
Norway	1,928,131						117,790			117,790	0.09	2.00%
Sweden	7,440,877						450,887			450,887	0.33	2.00%
Switzerland	244						20			20	0.00	0.00%
United Kingdom	551,633						30,812			30,812	0.02	1.00%
United States	920,525						59,329			59,329	0.04	0.00%
<b>Total</b>	<b>21,631,225</b>						<b>1,353,783</b>			<b>1,353,783</b>	<b>1.00</b>	<b>0.86%</b>

## Amount of institution-specific countercyclical capital buffer

Klarna Bank AB  
kSEK

	<b>2018</b>
Total risk exposure amount	24,307,480
Institution specific countercyclical buffer rate	0.86%
Institution specific countercyclical buffer requirement	209,747

## Appendix 7 Disclosure on asset encumbrance

### Encumbered and unencumbered assets

Consolidated

Median over last four quarters

kSEK

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
<b>Assets of the reporting institution</b>	<b>5,570,460</b>	<b>0</b>	<b>16,124,150</b>	<b>0</b>
Equity instruments	0	0	28,120	28,120
Debt securities	0	0	1,980,207	0
of which: covered bonds	0	0	0	0
of which: asset-backed securities	0	0	0	0
of which: issued by general governments	0	0	1,980,207	0
of which: issued by financial corporations	0	0	0	0
of which: issued by non-financial corporations	0	0	0	0
Other assets	5,583,262	0	14,737,357	0
of which: loans on demand	54,113	0	1,976,828	0
of which: loans and advances other than loans on demand	5,529,149	0	10,465,878	0
of which: other	0	0	2,294,652	0

### Collateral received

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt issued available for encumbrance
<b>Collateral received by the reporting Institution</b>	<b>0</b>	<b>0</b>
Loans on demand	0	0
Equity instruments	0	0
Debt securities	0	0
of which: covered bonds	0	0
of which: asset-backed securities	0	0
of which: issued by general government	0	0
of which: issued by financial corporations	0	0
of which: issued by non-financial corporations	0	0
Loans and advances other than loans on demand	0	0
Other collateral received	0	0
<b>Own debt securities issued other than own covered bonds or asset-backed securities</b>	<b>0</b>	<b>0</b>
<b>Own covered bonds and asset-backed securities issued and not yet pledged</b>	<b>0</b>	<b>0</b>
<b>Total assets, collateral received and own debt securities issued</b>	<b>0</b>	<b>0</b>

## Source of encumbrance

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities other than covered bonds and ABSs encumbered
<b>Carrying amount of selected financial liabilities</b>	<b>0</b>	<b>54,113</b>
Derivatives	0	0
of which: Over-The-Counter	0	0
Deposits	0	54,113
Repurchase agreements	0	0
of which: central banks	0	0
Collateralised deposits other than repurchase agreements	0	54,113
of which: central banks	0	0
Debt securities issued	0	0
of which: covered bonds issued	0	0
of which: asset-backed securities issued	0	0
<b>Other sources of encumbrance</b>	<b>3,250,000</b>	<b>5,529,149</b>
Nominal of loan commitments received	3,250,000	5,529,149
Nominal of financial guarantees received	0	0
Fair value of securities borrowed with non cash-collateral	0	0
Other	0	0
<b>Total sources of encumbrance</b>	<b>3,250,000</b>	<b>5,570,460</b>

## Accompanying narrative information

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. It is important to note, that assets pledged that are subject to any restrictions in withdrawal, such as for instance assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered. The definition is not based on an explicit legal definition, such as title transfer, but rather on economic principles, as the legal frameworks may differ in this respect across countries. The definition however, is closely linked to contractual conditions.

One of the sources of encumbrance for Klarna includes collateral lent and received when conducting derivative transactions. Another major source of encumbrance stems from a collateralised revolving liquidity facility. Klarna considers a majority of its assets to be available for encumbrance.

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*The disclosed values are derived from the median of the four quarterly end-of-period values over the previous 12 months.*

## Appendix 8 Disclosure on leverage ratio

### LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

Consolidated  
kSEK

	<b>Applicable amount</b>	
1	Total assets as per published financial statements	28,215,940
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	10,195
5	Adjustments for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	299,425
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-1,924,196
<b>8</b>	<b>Total leverage ratio exposure</b>	<b>26,601,364</b>

### LRSpI: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Consolidated  
kSEK

	<b>Leverage ratio exposures</b>	
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	28,191,866
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	28,191,866
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	2,941,805
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	2,321,841
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	18,442,671
EU-10	Corporate	1,710,590
EU-11	Exposures in default	589,544
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2,185,415

LRCom: Leverage ratio common disclosure

Consolidated  
KSEK

		Leverage ratio exposures
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	28,191,866
2	(Asset amounts deducted in determining Tier 1 capital)	-1,924,196
<b>3</b>	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>26,267,670</b>
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	24,074
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	10,195
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
<b>11</b>	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>34,269</b>
<b>Securities financing transaction exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
<b>16</b>	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>0</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	2,994,253
18	(Adjustments for conversion to credit equivalent amounts)	-2,694,827
<b>19</b>	<b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>	<b>299,425</b>
<b>Exempted exposures in accordance with CRR Article 429(7) and (14) (on and off balance sheet)</b>		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
<b>Capital and total exposures</b>		
<b>20</b>	<b>Tier 1 capital</b>	<b>2,922,833</b>
<b>21</b>	<b>Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>	<b>26,601,364</b>
<b>Leverage ratio</b>		
<b>22</b>	<b>Leverage ratio</b>	<b>11.0%</b>
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0



**LRSum: Summary reconciliation of accounting assets and leverage ratio exposures**Klarna Bank AB  
kSEK

		<b>Applicable amount</b>
1	Total assets as per published financial statements	27,103,296
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	10,195
5	Adjustments for securities financing transactions "SFTs"	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	265,550
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-401,739
<b>8</b>	<b>Total leverage ratio exposure</b>	<b>26,977,302</b>

**LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**Klarna Bank AB  
kSEK

		<b>Leverage ratio exposures</b>
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	27,079,222
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	27,079,222
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	2,928,893
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	2,138,106
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	17,327,700
EU-10	Corporate	2,467,731
EU-11	Exposures in default	577,667
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,639,124

LRCOM: Leverage ratio common disclosure

Klarna Bank AB  
KSEK

Leverage ratio exposures

On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	27,079,222
2	(Asset amounts deducted in determining Tier 1 capital)	-401,739
<b>3</b>	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>26,677,483</b>
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	24,074
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	10,195
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
<b>11</b>	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>34,269</b>
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
<b>16</b>	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>0</b>
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2,655,502
18	(Adjustments for conversion to credit equivalent amounts)	-2,389,952
<b>19</b>	<b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>	<b>265,550</b>
Exempted exposures in accordance with CRR Article 429(7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposures		
<b>20</b>	<b>Tier 1 capital</b>	<b>3,577,256</b>
<b>21</b>	<b>Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>	<b>26,977,302</b>
Leverage ratio		
<b>22</b>	<b>Leverage ratio</b>	<b>13.3%</b>
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0

## Appendix 9 IFRS 9 transitional disclosure

### Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9

Consolidated  
KSEK

	a	b	c	d	
	2018-12-31	2018-09-30	2018-06-30	2018-03-31	
<b>Available capital (amounts)</b>					
1	Common Equity Tier 1 (CET1) capital	2,452,244	2,329,507	2,318,078	2,312,339
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,354,095	2,186,082	2,251,582	2,209,806
3	Tier 1 capital	2,922,833	2,527,603	2,500,143	2,562,339
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,824,683	2,384,178	2,433,647	2,459,806
5	Total capital	3,424,327	2,977,394	2,746,027	2,859,556
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,326,177	2,833,969	2,679,531	2,757,023
<b>Risk-weighted assets (amounts)</b>					
7	Total risk-weighted assets	22,761,017	19,299,997	18,530,727	17,156,861
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	22,662,868	19,156,572	18,464,231	17,054,328
<b>Capital ratios</b>					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	10,8%	12,1%	12,5%	13,5%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10,4%	11,4%	12,2%	13,0%
11	Tier 1 (as a percentage of risk exposure amount)	12,8%	13,1%	13,5%	14,9%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12,5%	12,4%	13,2%	14,4%
13	Total capital (as a percentage of risk exposure amount)	15,0%	15,4%	14,8%	16,7%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14,7%	14,8%	14,5%	16,2%
<b>Leverage ratio</b>					
15	Leverage ratio total exposure measure	26,601,364	21,852,120	20,344,128	18,833,633
16	Leverage ratio	11,0%	11,6%	12,3%	13,6%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10,6%	10,9%	12,0%	13,1%

Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9

Klarna Bank AB

kSEK

	a	b	c	d	
	2018-12-31	2018-09-30	2018-06-30	2018-03-31	
<b>Available capital (amounts)</b>					
1	Common Equity Tier 1 (CET1) capital	3,327,255	3,167,557	3,235,716	3,352,125
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,219,957	3,011,138	3,164,581	3,245,398
3	Tier 1 capital	3,577,255	3,417,557	3,485,716	3,602,125
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,469,957	3,261,138	3,414,581	3,495,398
5	Total capital	4,174,816	4,015,013	3,782,985	3,899,342
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4,067,517	3,858,594	3,711,850	3,792,615
<b>Risk-weighted assets (amounts)</b>					
7	Total risk-weighted assets	24,307,481	20,479,930	19,759,790	18,597,041
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	24,200,182	20,323,511	19,688,655	18,490,314
<b>Capital ratios</b>					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	13,7%	15,5%	16,4%	18,0%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13,3%	14,8%	16,1%	17,6%
11	Tier 1 (as a percentage of risk exposure amount)	14,7%	16,7%	17,6%	19,4%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14,3%	16,0%	17,3%	18,9%
13	Total capital (as a percentage of risk exposure amount)	17,2%	19,6%	19,1%	21,0%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16,8%	19,0%	18,9%	20,5%
<b>Leverage ratio</b>					
15	Leverage ratio total exposure measure	26,977,302	21,686,751	20,329,604	19,009,624
16	Leverage ratio	13,3%	15,8%	17,1%	18,9%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12,9%	15,0%	16,8%	18,4%