

Annual financial statement release

Klarna Bank AB (publ)
January–December 2019

Klarna.

Financial information

All numbers are in SEK and the information presented in this report is for the Klarna Bank Group if not otherwise stated.

July–December 2019

35%

Gross merchandise volume – YoY growth¹

184bn ₍₁₃₇₎

Gross merchandise volume – USD 19bn² (15)

30%

Total operating revenue, net – YoY growth

3,841m _(2,947)

Total operating revenue, net – USD 400m (327)

28.1% _(10.8)

CET 1 ratio

Full year 2019

32%

Gross merchandise volume – YoY growth

332bn ₍₂₅₂₎

Gross merchandise volume – USD 35bn³ (29)

31%

Total operating revenue, net – YoY growth

7,155m _(5,451)

Total operating revenue, net – USD 753m (627)

28.1% _(10.8)

CET 1 ratio

¹ Total monetary value of sold products and services through Klarna over a given period of time.

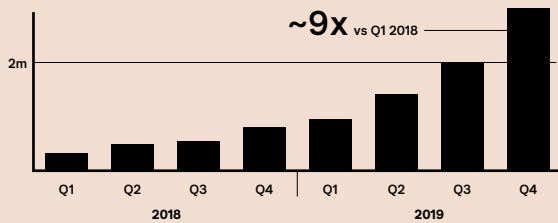
² Klarna's results are reported in SEK. To arrive at USD values, the average exchange rates for 2018 and 2019 have been used; 1 USD equals approximately 9.6 SEK for the last six months 2019, and 1 USD equals approximately 9.0 SEK for last six months 2018.

³ Klarna's results are reported in SEK. To arrive at USD values, the average exchange rates for 2018 and 2019 have been used; 1 USD equals approximately 9.5 SEK for full year 2019, and 1 USD equals approximately 8.7 SEK for full year 2018.

Business highlights

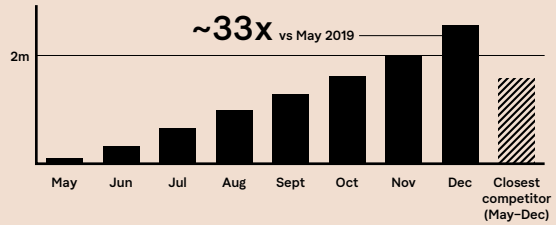
Global app installs

App installs in the quarter, Q1 is the sum of installs in Jan-Mar.



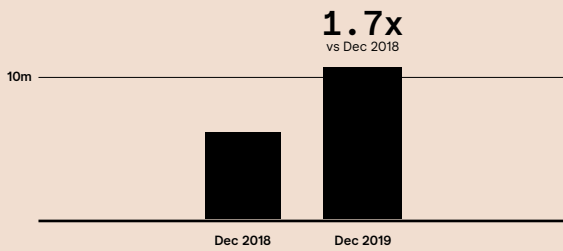
US app installs

Cumulative US app installs since May 2019 for Klarna and closest competitor. Competitor data from AppAnnie.



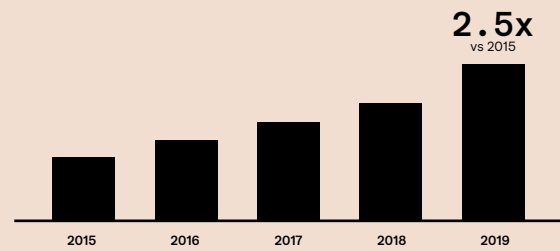
Global monthly active app users

Number of unique app users per month.



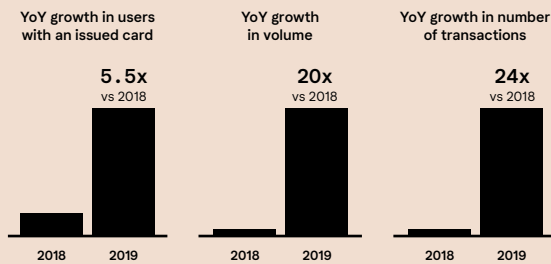
Consumer volumes

Volume per active consumer and year in Sweden.



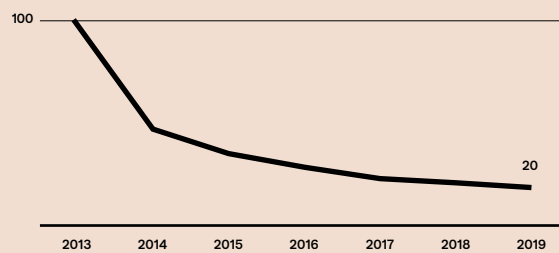
Klarna card

Year on year growth in users with an issued card, volume and number of transactions. The card launched in Sweden in 2018 and in Germany in April 2019.



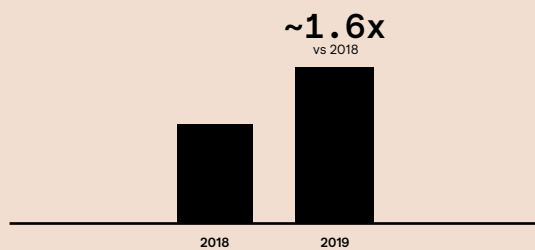
Late fees

Indexed late fees as share of volume. Late fees are defined as fees that originate from consumers not paying on time.



Merchants

Growth in number of merchants with transactions during the last twelve months.



About Klarna

Klarna makes shopping smooth. The uniqueness of Klarna's consumer offering, providing a healthier, simpler and smarter alternative to credit cards, is driving consumer adoption and loyalty across markets. This is further boosted by the addition of multiple services to smoothen the shopping experience - online and offline - and a strong brand.

Klarna is the leading global provider of innovative payments and shopping solutions for consumers and merchants online and in store. Klarna was founded in Sweden in 2005, and since 2017 a fully licensed bank. Klarna is active in 17 core markets and currently holds a post money valuation of USD 5.5bn, which ranks Klarna as the largest private fintech in Europe and one of the largest private fintechs globally.

At Klarna, we continuously develop new products and features to create a superior shopping experience. At the core of everything we do is the aim to give our consumers choice and control in managing their finances in a sustainable way. Together our products and services build the 'Klarna everywhere' concept, which ensures that consumers can choose how and when to pay for purchases with Klarna, based on their own needs and preferences.

Klarna is the partner of choice for merchants globally¹ with more than 200,000 live with us, and we are the most preferred 'pay later' provider among the top 100 highest grossing merchants in the US. H&M, Adidas, IKEA, Zara, Expedia Group, Samsung, ASOS, Peloton, Abercrombie & Fitch, Nike and AliExpress have all enabled Klarna's innovative shopping experience, allowing millions of consumers to benefit from increased control and joy.

Klarna is driving millions of referrals and traffic each month from owned channels to our merchants, as consumers are actively seeking out retailers where they can shop with us. Klarna generates revenues from both merchants and consumers that use our services, as well as through affiliate services.

¹ For more information, see page 9.

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Highlights of the year

- Klarna continues to grow rapidly, adding more than 75,000 new merchants, or one new merchant every seven minutes, to our already strong merchant base. Consumers continue to choose Klarna in all markets, including Klarna's main growth markets, the US and the UK, where the number of active consumers has increased by 6x and 2x respectively during 2019. The growth is driven by Klarna's unique offering towards both merchants and consumers, enabling a smarter way to shop and pay.
- New and updated products and services have been launched and were immediately positively received with much success. The number of issued Klarna cards has increased almost 6x, monthly active app users have reached almost 11 million, and the Instore volumes have increased with more than 5x.
- In the US, the popularity of the direct to consumer offering through the Klarna app is growing rapidly and monthly active users have increased by 4x since June 2019, boosting the consumer acquisition rate and transaction volume. Since the launch, we have been the fastest growing player in the US payment sector.
- Consumer preference and engagement remain high across markets. The average monthly CSAT (customer satisfaction) score amounted to 86% across markets indicating that consumers are happy and engaged with the services provided by Klarna.
- In August, Klarna Holding AB raised USD 460m in an equity funding round, at a post money valuation of USD 5.5bn. This valuation ranks Klarna as the most highly valued private fintech in Europe and as one of the largest private fintechs globally. The funding supports Klarna to continue our rapid rise in the US market in particular.
- We have continued our dedicated and ambitious work of becoming more sustainable in how we operate as a company. This includes initiatives to decrease our carbon effect and as a starting point, we are now measuring our greenhouse footprint. Mindful Money is another project to support and educate consumers and help them make smarter and well-informed financial decisions. Klarna works alongside personal finance journalists, money bloggers and influencers to produce content on topics that are important to consumers.

In the following pages, there are more detailed highlights from the year. These are based around three themes; consumer centricity, powering merchant growth and growth on core markets.

A customer centric product range ensures consumer acquisition and loyalty

Klarna's strategic investments ensure a continuous flow of new products and services, as well as enhancements and optimizations of current core products. These have all received immediate popularity across markets, boosting the consumer and merchant acquisition further. This is especially true in the US, where consumer adoption of our direct to consumer offering has seen great momentum.

The **Klarna app** is continuously updated with new and improved features to give consumers transparency, control and intuitive management of their purchases. The features we have developed in the Klarna app truly helps consumers keep track of their purchases and pay on time. This is in line with our consumer friendly strategy and ambition to decrease our revenues related to late fees, which we are successfully doing. Recent app feature launches also include the possibility for consumers to create and share their own wishlists, get price drop notifications on items they pin in a wishlist and delivery tracking. Other popular features include connecting other bank accounts and cards, friendly reminder push notifications, overview of all purchases and a 24/7 chat function. Together these services create a smoother end to end shopping experience for the rapidly increasing number of monthly active app consumers, amounting to almost 11 million, with approximately 37,000 installs every day globally. This has resulted in Klarna's app trending in the US, the UK and Germany during the year.

The launch of the **shopping feature** in the Klarna app in the US, which lets consumers shop now and pay later in four equal installments with no interest - everywhere - has been very successful. The number of consumers using the Klarna app is increasing rapidly as the number of app installs has increased by 33x since May, and new features get instant traction, one example being that two million items have already been added to consumer wishlists.

The **Installments** product, available in the US and UK, has been well received by consumers who prefer not to hold credit cards or use revolving credit forms. It provides a payment choice, which encourages more convenient online purchasing without the hassle of a long-term commitment or interest.

During 2019, the number of issued **Klarna cards** increased by almost 6x while volumes increased by 20x and transactions by 24x in Sweden and Germany. This growth is a testimony of a strong offering with requested features, including no fees, Google Pay and Apple Pay.

Klarna's **Instore** proposition is now live in nine markets and rapidly gaining traction among merchants and consumers. More than 10,000 stores are live and the volumes have grown more than 5x compared to last year. The card, the app and the in store solution in combination with the core offering continue to build on the 'Klarna everywhere' concept.

Klarna is expanding the **B2B offering** by increasingly making our proprietary infrastructure externally available. The Open Banking Platform has an unrivalled connectivity to 4,300 European banks through one API, and the global Customer Authentication Platform allows multinational businesses to provide a simple, secure and personalized customer authentication experience through one integration.

Powering merchant growth

Klarna is the partner of choice for merchants as we commit to support our merchants in becoming more successful and relevant to their target consumers. Klarna is driving millions of referrals and traffic each month from owned channels to our merchants. In the US, we generated eight million leads to merchants in December alone. By 2020, we expect to generate one billion leads to our merchants across markets through these channels.

The already strong merchant base continues to develop with new **global brand enterprise merchants**. Recent additions include merchants from different verticals, such as the fashion giant River Island, interior brand Made.com and marketplace AliExpress.

The acquisition of **small and medium-sized business (SMB)** merchants continues to be strong, and the number of sign-ups have increased by more than 300% compared to last year. The first version of 'Deals in the shop directory' was launched on the US shop directory site to help merchants take advantage of Klarna's consumer network by offering deals directly in the shopping directory.

Existing merchants continue to strengthen their relationship with Klarna by entering new markets and/or adding products. Some examples of merchants that have chosen to extend their partnership with us this year are H&M, Boohoo group, including boohoo, boohooMAN, PrettyLittleThing and Nasty Gal, ASOS, Wayfair, Acne Studios, Abercrombie and Fitch, Quiz and Samsung.

Partner collaborations are a core focus to further grow the merchant base. During the year, new and existing partnerships with key players across markets have been initiated and extended.

- Partnership with Radial, the leader in omnichannel commerce technology and operations, in the US to allow Radial's retail customers to benefit from flexible financing.
- Partnership with Stripe to support merchants, such as Missguided, to transform the app-based shopping experience, and with the Kaboodle platform to bring flexible payments when buying e.g. festival tickets, opening up a brand new market where Klarna provides an ideal solution for splitting costs.
- Partnership with Adyen to allow merchants across markets, such as AliExpress and Swarovski, to enable Klarna's payment suite.
- Following a successful partnership in the US, Klarna was integrated with BigCommerce on core European markets.
- Partnering with Apple Pay and Google Pay in Germany and Sweden to allow card holders to make mobile payments even easier and more secure, ensuring a fast and smooth way to pay.

The development of **add-on services to partner-connected merchants** continues and a marketing app was launched in Shopify's app store. The app is a tool that offers merchants cost-free targeted and tailored promotions through a simple integration. The app has been installed more than 3,000 times and it has helped merchants increase average order value by 25%. The app will be rolled out with other partners on a continuous basis.

Top tier merchants continue to choose Klarna

Among the top 100 highest grossing e-commerce merchants in the US, Klarna is the partner of choice. Number of merchants offering pay later in the Internet Retailer's Top 100 list:

10

Klarna.

6

Competitor 1

3

Competitor 2

FARFETCH

ASOS

H&M

D&G
DOLCE & GABBANA



MICHAEL KORS

boohoo



ticketmaster

PRETTYLITTLETHING

SEPHORA



MARCHESA



Timberland

TOPSHOP
TOPMAN

Lenovo

Abercrombie & Fitch Co.
A&F | 20&1 | 4&1 | 5&1

dyson

SONOS

GYMSHARK

RIVER
ISLAND

Expedia

BEAUTY BAY

GOOD AMERICAN

A.P.C.

AIRFRANCE

overstock.

Lulus

AliExpress



BOSE

MVMT

LUNYA

Continued rapid growth on all core markets

In **the US**, the launch of the Klarna app has significantly boosted consumer acquisition and transactions, and only in December over 300,000 unique shopping users were acquired and the number of monthly transactions have increased almost 10x since May. The Klarna app is by far the most installed app compared to direct competitors in the US, exceeding other apps by more than 200,000 monthly installs. Merchant onboarding continues at a high pace, 3x compared to last year, and new merchants include Lulus, Storets, Hibbett Sports, Hot Topic, Mejuri, Callaway Golf and Good American.

In **the UK**, Klarna continues to see rapid growth and traction of the pay later offering and more than seven million consumers have used Klarna's services, and the inflow of new consumers continues at a rapid pace as currently more than 100,000 new consumers are being added weekly. Onboarding of merchants within different verticals continues, and new and existing merchants include Boohoo group, River Island, Gymshark, Wayfair and Made.com. Klarna is now also partnering with UK merchants to further integrate the experience between digital and physical stores as the full range of products are now available in store. There has been a strong adoption rate of Instore from major UK retailer partners including Halfords, Thomas Sabo, Schuh and iSmash.

In the **DACH region**, Klarna continues to hold a market leading position as the strong momentum on both consumer and merchant side continues. Consumers continue to choose Klarna, and volumes increase rapidly, especially from the rapidly increasing amount of card users. Brand preference increased by 70% and unaided brand awareness doubled. The merchant acquisition continues at a rapid pace within multiple verticals. Among new merchants are DAZN, Fahrrad.de, Swatch, check24 Flüge and Hero Gaming.

Klarna has opened a new tech hub in Berlin that will enable us to further build out our product portfolio and services. The new site will also ensure that we can better serve our fast-growing merchant and consumer base across Europe and the US and tap into the city's rich talent base. The new site will house more than 500 employees focusing on product, engineering and commercial growth and will be an addition to our German offices in Munich and Linden.

In the **Nordic region**, Klarna's offering is leading across verticals, and long lasting relationships continue to grow to new markets outside the Nordic region, and through added products. Only in Sweden, Klarna adds approximately 20 new merchants per day. Across Nordics merchants including SkinCity, Bokus, Din bil, Hoopla and Eckerö Linjen/Birka cruises have been added to the expanding merchant base. The focus on expanding the product range to become even more relevant across consumer touchpoints, e.g. through the app, the in-app shopping browser and the card, remains across the region. This year the number of monthly app users have almost doubled across Sweden, Norway and Finland and now amounts to more than three million totally. It has also become evident that consumers increasingly demand Klarna's solutions from merchants.

In **the Netherlands**, we have further strengthened our leading position. More than 12,000 merchants are now live including Kijkshop, Jurkjes.com, Dr. Martens and Philips. A new smoother onboarding for the online payment processor Mollie's merchants was released, which resulted in a significant increase in daily merchant go lives. During the year both Pay in 30 days and Klarna Instore were launched and have already gotten traction among merchants and consumers.

To our shareholders

Dear Shareholders,

Everyday more consumers are turning away from credit cards as a means of money management in their daily lives. In this context, Klarna provides a healthier, more intuitive and smarter alternative to credit cards, which resonates more than ever with both consumers and merchants adopting our services at an unprecedented rate. We have been active for over 15 years now, and today we are the fastest growing shopping destination and payments provider with more than 85 million consumers and 200,000 merchant partners across 17 markets. However, we don't view the market opportunity or our own trajectory as being confined to this disruption of the credit card industry, our ambition transcends payment transactions to serving millions of consumers across retail shopping and banking.

Remarking on how people seek to define Klarna is becoming somewhat of a habit, but it is an important starting point. Klarna is a shopping destination, a technology company, a payment platform and a bank - operating in a very unique position at the crossroads of these sectors. Yet this position exactly reflects what the empowered modern consumer is seeking to solve everyday in managing how they shop, pay, finance and plan. Solving for this is exciting work and the opportunities are great; in 2019 American consumers abandoned 76% of their online shopping carts, yet they still spent close to USD 600bn. In a recent landmark report on trust, only 25% of UK citizens polled believed that banks operate with the consumers best intentions at heart. The global retail and banking systems are not 'dead' but they are often inexplicably painful for those they are supposed to serve. Inherent inefficiencies and poor service is driving consumers to seek superior alternative services that meet their needs in a better way. This has been a core differentiator for Klarna, the belief that what a consumer needs and increasingly expects is an intuitive service beyond the payment transaction, consumers desire an optimised end-to-end shopping experience. We at Klarna do not spend energy thinking about the industry category we fit into, we are focused on what we are meaningfully solving for consumers and how we can do it even better.

This focus on consumer experience is relentless and the principle that guides absolutely everything we do. The value we bring is reflected in the continued momentum, with year-on-year growth in volumes and operating revenues, net, of 32% and 31% respectively. Klarna is now powering over 200,000 global merchant partners across verticals and the strength of our position is clear as we are the most preferred payments provider among the top 100 highest grossing merchants in the US. As our brand grows in stature, preference builds and Klarna is now driving millions of referrals and consumer traffic each month from our own channels to our merchant partners, as consumers actively seek out where they can shop with us but also importantly, we help merchants build loyalty in a highly competitive market.

Our global consumer base has swelled and engagement deepened as the possibility to use Klarna grows across touchpoints - online, instore and with the Klarna card. In the US for example, the pace of consumer adoption has accelerated at a very high pace with a 6x increase during 2019. The newly launched shopping experience in the Klarna app, allowing US consumers to shop with Klarna anywhere online all with the app experience, means we are also engaging with and serving consumers in a totally new and unique way. The monthly active app users increased by 4x since launch in June 2019, driving both consumer acquisition rate and transaction volume. On average, we have more than 200,000 more consumer app installs a month than our nearest competitor.

While we share many impressive business metrics in this report from 2019, the reality is Klarna must continually evolve, we cannot be complacent. By nature people are generally creatures of least resistance, we defer to the road most travelled, the path best paved. However, if we at Klarna want to deliver above the industry status quo, build a global brand and drive change in the paradigm of retail, payments and banking, we need to actively seek out complexity, dare to be different and set ourselves ambitious goals on the solutions we bring. We believe these years are defining for our industry, and for Klarna. What we do today and the investments we make, will have an enormous impact on eliminating complexity and friction by innovating truly superior shopping experiences and creating destinations of inspiration for consumers across the world.

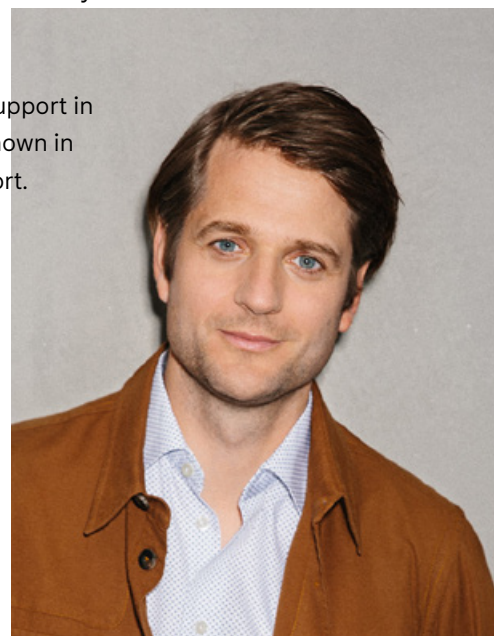
We therefore will continue to make necessary investments in talent, products and the platform to further strengthen our capabilities across all markets and parallelly in execution. We are as sharply focused as ever on continually establishing a platform to drive future long term growth and value for our shareholders and the acceleration is already tangible in the momentum we have built.

As Klarna now enters our 15th year - we can and will look back proudly, but it is what lies ahead that is truly exciting and the impact we can achieve. We are growing larger, but without losing pace - we employ the smartest, most courageous people at all positions, continuously improve cadence and information sharing across our organisation, making our employees more engaged and empowered than ever before. These people are all essential to build the future Klarna. What's been consistent throughout this time, the very DNA of Klarna as we've grown, is at heart we are a bunch of entrepreneurial rebels who are passionate, energetic and nerdy about building products that delivers real value for our consumers each day. We cannot and will not ever lose this.

Thank you my fellow employees, our consumers, and merchants for the support in 2019. To our shareholders, we are thankful for the confidence you have shown in our plans, especially this year and we are grateful for the continued support.

Together we will create wonders.

Sebastian, CEO and Co-founder



Business overview

Business overview

The Board and the CEO of Klarna Bank AB (publ) hereby submit the report for the period July 1 – December 31, 2019 and the full year. Klarna Bank AB (publ)'s parent company is Klarna Holding AB. This report presents the figures for Klarna Bank AB (publ) and its subsidiaries. The report has been prepared in thousands of Swedish kronor unless otherwise stated.

Information about the business

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

Klarna's core mission is to give consumers an engaging shopping experience that helps them discover and purchase goods and services in a meaningful and smart way. Klarna offers consumers a range of flexible payment options including card payments and direct banking, as well as Klarna's proprietary payment options, which include Pay in 14 days or Pay in 30 days, purchase financing (Financing), as well as immediate settlement option (Pay now). Klarna's Installments product, available in the UK and the US, offers consumers a short-term (60 days or six weeks) installment plan with no interest. The frictionless checkout experience saves consumers' purchase preferences and they can also always feel safe with Klarna's Buyer's Protection.

The Klarna app powers the whole shopping experience and is a tool for consumers to take control over their personal finances, including services such as overview of all purchases, creating wishlists, price drop notifications, friendly reminders on purchases, 24/7 customer service through chat, the option to snooze payments, financial overview, financial insights, delivery tracking and return reporting. The Klarna card has so far been launched in Germany and Sweden. The in-app shopping feature makes it possible for app users to use Klarna also at merchants not connected to Klarna, and is live in the US and Sweden. Klarna is also increasingly available in physical stores across markets. Collectively, these services are referred to as the 'Klarna everywhere' concept, which ensures that consumers can choose how and when to pay for purchases with Klarna based on their own needs and preferences.

For merchants, Klarna is a growth partner and the value proposition includes driving new consumers from the Klarna consumer network to their websites to further increase sales. Klarna also ensures that merchants can reduce working capital requirements by providing simple, safe, and cost-effective payment solutions and consumer credit products across all e-commerce platforms as well as in physical stores. Klarna's merchant offering includes technology, credit risk handling, customer services and administration. With Klarna, merchants get an easy integration and onboarding to a fast and friction-free checkout solution where they get paid up front, meaning they can focus on what they do best. The Klarna Checkout is a conversion driving checkout solution optimized for desktop and mobile through which merchants can offer multiple payment

options as well as a shipping service in one solution. Klarna assumes all the risk for both the consumer and the merchant.

Klarna's SMB focused services include the automated and simplified onboarding tool that makes it easier for SMB merchants to start using Klarna's services. The merchant portal is regularly updated and improved with tools that for example provide merchants with additional insights on their current customer base or help them manage communication with consumers more effectively.

During the year Klarna has launched new business-to-business products by making internal, fully proven and mature infrastructure externally available. Klarna's Open Banking Platform will enable access to more than 4,300 European banks through a single Access to Account (XS2A) API in line with Payment Services Directive (PSD2). Klarna's XS2A API is the most established and proven solution that has been developed at scale across markets for almost 15 years through the Klarna Group company Sofort GmbH. The global Customer Authentication Platform allows multinational businesses, including merchants and other banks, to provide a simple, secure and personalized customer authentication experience irrespective of market, through a one-time integration.

Klarna's brand continues to grow in stature, and awareness has been significantly boosted by a series of campaigns, which are fuelling consumer and merchant demand. In less than a year, Klarna created over 1 billion total impressions, powered by partnerships with Snoop Dogg and the comedian Celeste Barber, as well as campaigns celebrating Klarna's personalized shopping experience, including "Shop Like a Queen" and the football fan focused "VAR" campaign. The "Shop like a Queen" campaign alone generated more than half a million app installs in the US within two months.

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

Business results

This year, the demand for Klarna's offering by consumers, merchants and partners across markets has continued to steadily increase. The strong growth is attributable to the success of our new and core products, especially the direct to consumer offering in the US and the installments product in the US and the UK, as well as the expanding merchant base across all markets. Together, this drives the gross merchandise volume which increased by 32% to SEK 332bn compared to last year, as well as the Total operating revenues, net, which increased by 31% year-on-year resulting in SEK 7,155m at period-end. In line with our consumer-friendly strategy, Klarna has continued to actively manage down the share of late fees during the year. This is to a large extent supported by an increased app usage adoption as the app helps consumers to keep track of their outstanding payments, and thereby enabling them to have increased control over their personal finances.

Total expenses grew in line with plan as the commitment stands to further invest to deliver value in terms of brand awareness, a consumer-friendly product range, top talent and a system

infrastructure that will enable us to scale rapidly. This will facilitate further growth as we continue to expand in current markets with a focus on the US as well as move into new markets, including Australia and New Zealand.

With the continued growth and in particular the expansion to new markets, the share of new consumers increases. The share of first time Klarna consumers affects net credit losses, meaning that new market entries are likely to entail higher credit loss rates during the initial phase. Credit quality remains steady in core markets and is improving in newer markets. The average duration of Klarna's credit portfolio is ~45 days, meaning there is an ability to steer balance sheet growth and related risk.

Equity injections in 2019, of in total SEK 5,669m, to Klarna Holding AB have strengthened the capital adequacy. During the year, SEK 2,000m was contributed to Klarna Bank AB (publ) through shareholders' contributions. At the end of the period, SEK 4,341m have been allocated to Klarna Bank AB (publ) through a loan. Further, Klarna Bank AB (publ) has issued SEK 1,700m under the Medium term note program as well as established a Commercial paper program of which SEK 2,084m was outstanding on December 31, 2019. The raised capital will support Klarna's continued international expansion and growth in Loans to the public, which have increased by 48% to SEK 30bn compared to last year.

Branches abroad

Klarna Bank AB (publ) operates Klarna Bank AB UK branch in the United Kingdom.

Significant events during the period

On August, 6, 2019, Klarna Bank AB (publ), entered an agreement with the Commonwealth Bank of Australia, Australia's largest retail and commercial bank, to establish an exclusive partnership to enter and strengthen the presence on the Australian and New Zealand markets.

On September 24, 2019, Klarna Bank AB (publ), launched a commercial paper program of SEK 5bn. The first issuance amounting to SEK 1.79bn under this program was carried out on trade date October 17, 2019.

In Q4 2019, rulings were made in Swedish courts on Klarna Bank AB (publ)'s disputes with the Swedish Tax Agency regarding VAT. Provisions have been adjusted accordingly. Per year end, the net provisioned amount was SEK 303m which covers the entire period from 2016 to 2019.

Future development

Klarna continues to develop the 'smooth' shopping experience, supporting merchant growth and driving consumer loyalty by offering flexibility and control over their payments but also ensuring that they spend less time managing their finances, so they have more time to do what they love. This is evident in the strong progress in the consolidation of the leading position in the Nordics, but more particularly the growth across continental Europe, increasing DACH market share which is the largest market and huge momentum in the UK as offer resonates strongly with consumers and merchants. In addition, the US has strong momentum signing noteworthy brands and rapidly acquiring consumers through in-app shopping. Klarna will continue to grow by entering multiple new markets including Australia and New Zealand. The ongoing investment phase has and will

further enhance the offering towards both merchants and consumers across markets, which provides a platform for driving sustained customer preference and growth in the next years. Product and services development for consumers and merchants will continue at pace across all markets.

Risk management

Through our business activities Klarna is subject to a number of different risks, the main ones being credit risk, operational risk, market risk (interest risk and currency risk) and liquidity risk.

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

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

The second line of defense refers to Klarna's independent Risk Control and Compliance Functions, which report directly to the CEO and the Board. To ensure independence, these functions are not involved in business operations, but set the principles and framework for risk management, facilitate risk assessment and perform independent control, including reporting of adherence to risk appetites, limits and frameworks as well as ensure that operations are carried out in compliance with external regulations and internal policies. They shall also promote a sound risk management and compliance culture by supporting and educating business line managers and staff.

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

Group financials

Five Year Summary Jan - Dec, Group

Amounts in SEKk	Jan - Dec 2019	Jan - Dec 2018	Jan - Dec 2017	Jan - Dec 2016	Jan - Dec 2015
Income statement					
Total operating revenues, net	7,154,668	5,450,781	4,158,045	3,289,503	2,581,768
Operating income	-1,088,649	160,910	523,987	168,300	170,127
Net income for the year	-902,356	105,224	345,613	113,427	127,411
Balance sheet					
Loans to credit institutions	1,907,129	2,367,631	1,211,778	1,234,684	499,754
Loans to the public	29,654,552	19,979,002	13,874,164	8,450,037	6,104,075
All other assets	8,305,879	5,513,199	3,901,290	2,397,103	2,154,566
Total assets	39,867,560	27,859,832	18,987,232	12,081,824	8,758,395
Liabilities to credit institutions	4,939,524	1,418,054	396,965	754,944	708,826
Deposits from the public	12,287,653	14,581,769	8,491,654	5,839,490	3,959,427
All other liabilities	17,344,917	7,717,750	6,065,083	2,870,025	1,626,780
Total equity	5,295,466	4,142,259	4,033,530	2,617,365	2,463,362
Total liabilities and equity	39,867,560	27,859,832	18,987,232	12,081,824	8,758,395
Key ratios and figures¹					
Return on equity	-23.1%	3.9%	15.8%	6.6%	7.6%
Return on assets	-2.7%	0.4%	2.2%	1.1%	1.6%
Debt/equity ratio	6.2	4.7	3.7	3.1	2.6
Equity/assets ratio	13.3%	14.9%	21.2%	21.7%	28.1%
Cost/revenue ratio	89.2%	82.6%	75.4%	82.0%	80.4%
Own funds (Total capital)	8,448,158	3,424,327	2,830,504	1,928,585	1,388,231
Capital requirement	2,115,637	1,820,881	1,244,297	820,138	578,504
Total capital ratio	31.9%	15.0%	18.2%	18.8%	19.2%
Average number of full-time equivalents	2,248	1,713	1,380	1,244	1,074

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

Five Year Summary Jul - Dec, Group

Amounts in SEKk	Jul - Dec 2019	Jul - Dec 2018	Jul - Dec 2017	Jul - Dec 2016	Jul - Dec 2015
Income statement					
Total operating revenues, net	3,840,588	2,946,510	2,264,878	1,713,529	1,386,054
Operating income	-1,010,887	49,263	203,480	34,895	7,347
Net income for the period	-818,828	34,206	117,169	16,931	1,988
Balance sheet					
Loans to credit institutions	1,907,129	2,367,631	1,211,778	1,234,684	499,754
Loans to the public	29,654,552	19,979,002	13,874,164	8,450,037	6,104,075
All other assets	8,305,879	5,513,199	3,901,290	2,397,103	2,154,566
Total assets	39,867,560	27,859,832	18,987,232	12,081,824	8,758,395
Liabilities to credit institutions	4,939,524	1,418,054	396,965	754,944	708,826
Deposits from the public	12,287,653	14,581,769	8,491,654	5,839,490	3,959,427
All other liabilities	17,344,917	7,717,750	6,065,083	2,870,025	1,626,780
Total equity	5,295,466	4,142,259	4,033,530	2,617,365	2,463,362
Total liabilities and equity	39,867,560	27,859,832	18,987,232	12,081,824	8,758,395
Key ratios and figures¹					
Return on equity	-23.1%	3.9%	15.8%	6.6%	7.6%
Return on assets	-2.7%	0.4%	2.2%	1.1%	1.6%
Debt/equity ratio	6.5	4.9	3.5	3.2	2.6
Equity/assets ratio	13.3%	14.9%	21.2%	21.7%	28.1%
Cost/revenue ratio	93.9%	83.9%	76.7%	84.9%	83.1%
Own funds (Total capital)	8,448,158	3,424,327	2,830,504	1,928,585	1,388,231
Capital requirement	2,115,637	1,820,881	1,244,297	820,138	578,504
Total capital ratio	31.9%	15.0%	18.2%	18.8%	19.2%
Average number of full-time equivalents	2,416	1,804	1,456	1,194	1,005

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

Income Statement, Group

Amounts in SEKk	Note	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Interest income calculated according to the effective interest rate method	4	1,488,687	1,095,980	2,794,769	2,033,517
Interest expenses	5	-210,870	-127,690	-368,203	-232,144
Net interest income		1,277,817	968,290	2,426,566	1,801,373
Commission income	6	2,843,844	2,178,942	5,232,181	3,999,394
Commission expenses		-275,744	-188,550	-476,023	-328,870
Net result from financial transactions		-45,376	-15,541	-76,437	-26,970
Other operating income		40,047	3,369	48,381	5,854
Total operating revenues, net		3,840,588	2,946,510	7,154,668	5,450,781
General administrative expenses		-3,450,888	-2,400,640	-6,081,229	-4,349,558
Depreciation, amortization and impairment of intangible and tangible assets	7	-155,877	-72,312	-299,271	-154,746
Total expenses before credit losses		-3,606,765	-2,472,952	-6,380,500	-4,504,304
Operating income before credit losses, net		233,823	473,558	774,168	946,477
Credit losses, net	8	-1,244,710	-424,295	-1,862,817	-785,567
Operating income		-1,010,887	49,263	-1,088,649	160,910
Income tax		192,059	-15,057	186,293	-55,686
Net income for the period		-818,828	34,206	-902,356	105,224

Statement of Comprehensive Income, Group

Amounts in SEKk	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Net income for the period	-818,828	34,206	-902,356	105,224
Items that may be reclassified subsequently to the income statement:				
Exchange differences, foreign operations	-23,110	-41,523	35,049	66,444
Other comprehensive income for the period, net after tax	-23,110	-41,523	35,049	66,444
Total comprehensive income for the period	-841,938	-7,317	-867,307	171,668

Net income and total comprehensive income are both in its entirety attributable to the shareholders of Klarna Bank AB (publ) and its additional tier 1 holders.

Balance Sheet, Group

Amounts in SEk	Note	31 Dec 2019	31 Dec 2018
Assets			
Cash and balances with central banks		107,076	331
Treasury bills chargeable at central banks, etc.		2,510,606	3,084,314
Loans to credit institutions	9	1,907,129	2,367,631
Loans to the public	10	29,654,552	19,979,002
Bonds and other interest-bearing securities		1,833,567	-
Other shares and participations		20,081	41,217
Intangible assets		2,145,846	2,006,084
Tangible assets		892,654	80,602
Deferred tax assets		310,666	47,508
Other assets	11	337,071	107,304
Prepaid expenses and accrued income		148,312	145,839
Total assets		39,867,560	27,859,832
Liabilities			
Liabilities to credit institutions		4,939,524	1,418,054
Deposits from the public	12	12,287,653	14,581,769
Debt securities in issue	13	5,582,703	1,996,905
Deferred tax liabilities		76,411	117,633
Other liabilities	14	9,822,329	4,233,481
Accrued expenses and prepaid income		907,475	532,583
Provisions		357,674	239,588
Subordinated liabilities		598,325	597,560
Total liabilities		34,572,094	23,717,573
Equity			
Share capital		52,752	52,752
Other capital contributed		4,805,140	2,805,140
Reserves		225,821	190,772
Additional Tier 1 instruments		250,000	250,000
Retained earnings		864,109	738,371
Net income for the year		-902,356	105,224
Total equity		5,295,466	4,142,259
Total liabilities and equity		39,867,560	27,859,832

Statement of Changes in Equity, Group

Amounts in SEk	Share capital	Other capital contributed	Reserves ⁴	Additional Tier 1 instruments	Retained earnings	Net income	Total equity
Balance as at January 1, 2019	52,752	2,805,140	190,772	250,000	738,371	105,224	4,142,259
Opening balance adjustment	-	-	-	-	4	-	4
Transfer of previous year's net income	-	-	-	-	105,224	-105,224	-
<i>Net income for the year</i>	-	-	-	-	-	<i>-902,356</i>	<i>-902,356</i>
<i>Exchange differences, foreign operations</i>	-	-	<i>35,049</i>	-	-	-	<i>35,049</i>
Total comprehensive income for the year	-	-	35,049	-	-	-902,356	-867,307
Group contribution ¹	-	-	-	-	44,200	-	44,200
Tax effect group contribution	-	-	-	-	-9,458	-	-9,458
Shareholders' contribution ²	-	2,000,000	-	-	-	-	2,000,000
Additional Tier 1 instruments ³	-	-	-	-	-14,232	-	-14,232
Balance as at December 31, 2019	52,752	4,805,140	225,821	250,000	864,109	-902,356	5,295,466
Balance as at January 1, 2018	52,752	2,805,140	124,328	250,000	455,697	345,613	4,033,530
Impact of adopting IFRS 9	-	-	-	-	-69,246	-	-69,246
Impact of adopting IFRS 15	-	-	-	-	21,447	-	21,447
Restated opening balance	52,752	2,805,140	124,328	250,000	407,898	345,613	3,985,731
Transfer of previous year's net income	-	-	-	-	345,613	-345,613	-
<i>Net income for the year</i>	-	-	-	-	-	<i>105,224</i>	<i>105,224</i>
<i>Exchange differences, foreign operations</i>	-	-	<i>66,444</i>	-	-	-	<i>66,444</i>
Total comprehensive income for the year	-	-	66,444	-	-	105,224	171,668
Group contribution ¹	-	-	-	-	-2,284	-	-2,284
Tax effect group contribution	-	-	-	-	501	-	501
Additional Tier 1 instruments ³	-	-	-	-	-13,357	-	-13,357
Balance as at December 31, 2018	52,752	2,805,140	190,772	250,000	738,371	105,224	4,142,259

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

² Shareholders' contribution from parent company Klarna holding AB, not paid

³ Amounts in Additional Tier 1 instruments column consist of issued instruments, while amounts in Retained earnings column consist of interest on and cost of issuance of these instruments.

⁴ The reserves consist of exchange differences from foreign operations.

Equity is in its entirety attributable to the shareholders of Klarna Bank AB (publ) and its additional tier 1 holders.

Cash Flow Statement, Group

Amounts in SEKK	Note	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Operating activities					
Operating income		-1,010,887	49,263	-1,088,649	160,910
Taxes paid		-105,214	-61,375	-286,084	-98,965
<i>Adjustments for non-cash items in operating activities</i>					
Depreciation, amortization and impairment	7	155,877	72,312	299,271	154,746
Gain or loss from shares in unlisted companies		-	-	915	-
Provisions excluding credit losses		149,585	70,359	222,718	146,601
Provision for credit losses		590,478	39,152	651,791	166,485
Financial items including unrealized exchange rate effects		27,724	7,575	-38,460	-28,130
<i>Changes in the assets and liabilities of operating activities</i>					
Change in loans to the public		-7,593,974	-4,736,514	-9,345,613	-6,255,744
Change in liabilities to credit institutions		4,473,261	1,076,350	3,521,470	1,021,089
Change in deposits from the public		-2,930,047	4,026,124	-2,294,116	6,090,115
Change in other assets and liabilities		3,035,280	-667,653	5,926,842	-463,924
Cash flow from operating activities¹		-3,207,917	-124,407	-2,429,915	893,183
Investing activities					
Investments in intangible assets		-142,319	-137,283	-234,059	-259,678
Investments in tangible assets		-130,025	-45,880	-186,263	-53,490
Sales of fixed assets		-	14	-	671
Investments in business combinations	19	-	-	-979,077	-
Investments and divestments in other shares and participations		-	-13,004	20,220	-41,217
Cash flow from investing activities		-272,344	-196,153	-1,379,179	-353,714
Financing activities					
Debt securities in issue	13	3,579,247	-	3,579,247	-
Subordinated liabilities		-	297,750	-	297,750
Lease liabilities		-49,592	-	-104,863	-
Cash flow from financing activities		3,529,655	297,750	3,474,384	297,750
Cash flow for the period		49,394	-22,810	-334,710	837,219
Cash and cash equivalents at the beginning of the period		1,579,769	1,923,825	1,917,407	1,043,101
Cash flow for the period		49,394	-22,810	-334,710	837,219
Exchange rate diff. in cash and cash equivalents		-11,155	16,392	35,311	37,087
Cash and cash equivalents at the end of the period		1,618,008	1,917,407	1,618,008	1,917,407
Cash and cash equivalents include the following items					
Cash and balances with central banks		107,076	331	107,076	331
Loans to credit institutions ²		1,510,932	1,917,076	1,510,932	1,917,076
Cash and cash equivalents		1,618,008	1,917,407	1,618,008	1,917,407

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

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

Notes with accounting principles

Note 1 Corporate information

The Parent Company, Klarna Bank AB (publ), 556737-0431, maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated financial statements for 2019 consist of the Parent Company (including a branch in the United Kingdom) and its subsidiaries, which together make up the Group. The Group's business is described in the Comments from the Board of Directors.

Note 2 Accounting and valuation principles

Basis for the preparation of the reports

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The financial statements for both the Group and the Parent Company have also been prepared in accordance with the applicable regulations in the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL, 1995:1559), the Swedish Financial Supervisory Authority regulations (FFFS 2008:25) and the Swedish Financial Reporting Board's recommendations (RFR 1 Supplementary Accounting Rules for Groups and RFR 2 Accounting for Legal Entities).

The accounting principles and calculation methods applied in this report are identical to those applied in the Annual Report for 2018 except for the changes stated below.

Changed accounting principles

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

IFRS 16 Leases

The standard replaces IAS 17 Leases and requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. At the inception of a contract Klarna assesses whether a contract is, or contains, a lease. Klarna has applied this approach to contracts entered into, or changed, on or after January 1, 2019. At inception or on reassessment of a contract that contains a lease component Klarna allocates the consideration in the contract to each lease component on the basis of their relative stand-alone price. However, for the leases of vehicles Klarna has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Klarna recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for initial costs, incentive payments, restoration obligations and lease payments before the commencement date. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the remaining lease payments which are not paid at the commencement date, discounted using Klarna Group's incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019, was 1.43% for the Group and 1.12% for Klarna Bank AB (publ).

The lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is any change in future lease payments arising, for example, from a change in an index or changes in Klarna's assessment or estimations on the usage of extension, termination or purchase options or the amount expected to be payable under a residual value guarantee. Subsequently, a corresponding adjustment to the carrying amount of the right-of-use asset is made. Lease payments included in the measurement of the lease liability are fixed payments, variable lease payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase option, if applicable. In the

implementation of IFRS 16 estimates and assumptions have been used concerning, for example, prolongation and termination options and interest rates.

Klarna has elected not to recognize right-of-use assets and liabilities for short-term leases and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight line basis over the lease term.

When implementing IFRS 16, Klarna chose to use the modified retrospective approach where the amount of the right of use assets and prepayments equals the amount of the lease liabilities. This has resulted in a right of use asset, included in tangible assets, of SEK 438m, a reduction of prepaid expenses of SEK 19m and a lease liability, included in other liabilities, of SEK 419m for the Group. Klarna Bank AB (publ) does also report according to IFRS 16 which has resulted in a right of use asset of SEK 135m, a reduction of prepaid expenses of SEK 17m and a lease liability of SEK 118m. Under IFRS 16 depreciation and interest expenses are recognized in the income statement instead of recognizing lease expenses as general administrative expenses. The right of use assets consist mainly of office space and car lease contracts.

IFRS 16 has not had any significant impact on the financial statements and capital ratios.

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

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

- 1) IFRS 17 Insurance Contracts
- 2) Amendments to IFRS 3 Business Combinations
- 3) Amendments to IAS 1 Presentation of financial statements
- 4) Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- 5) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- 6) Amendments to References to the Conceptual Framework in IFRS Standards

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

Note 3 Operating segments and income by geographical area

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

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

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

Jul - Dec 2019					
Operating segments	Sweden	DACH	Norway	Other¹	Total
Revenue	1,099,648	1,552,285	400,567	1,030,828	4,083,328
Gross profit	818,682	1,018,687	306,684	-69,209	2,074,844
Geographical breakdown		Sweden	Germany	Other²	Total
Revenue		1,099,648	1,377,707	1,605,973	4,083,328
Non-current assets		984,006	2,023,210	31,284	3,038,500
Jul - Dec 2018					
Operating segments	Sweden	DACH	Norway	Other¹	Total
Revenue	976,199	1,216,511	366,361	529,619	3,088,690
Gross profit	718,922	897,941	367,938	165,534	2,150,335
Geographical breakdown		Sweden	Germany	Other²	Total
Revenue		976,199	1,086,991	1,025,500	3,088,690
Non-current assets		452,850	1,627,352	6,484	2,086,686

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

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

Jan - Dec 2019					
Operating segments	Sweden	DACH	Norway	Other¹	Total
Revenue	2,134,309	2,876,762	795,129	1,777,791	7,583,991
Gross profit	1,578,464	1,950,461	611,038	214,249	4,354,212
Geographical breakdown	Sweden	Germany	Other²	Total	
Revenue	2,134,309	2,555,344	2,894,338	7,583,991	
Non-current assets	984,006	2,023,210	31,284	3,038,500	

Jan - Dec 2018					
Operating segments	Sweden	DACH	Norway	Other¹	Total
Revenue	1,872,801	2,230,189	679,937	925,569	5,708,496
Gross profit	1,422,898	1,604,533	626,453	341,185	3,995,069
Geographical breakdown	Sweden	Germany	Other²	Total	
Revenue	1,872,801	1,996,533	1,839,162	5,708,496	
Non-current assets	452,850	1,627,352	6,484	2,086,686	

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

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

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

Reconciliation between total operating segments and income statement	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Revenue				
Revenue - total operating segments	4,083,328	3,088,690	7,583,991	5,708,496
Interest income from central activities	13,506	1,051	15,317	1,399
Interest expenses	-210,870	-127,690	-368,203	-232,144
Net result from financial transactions	-45,376	-15,541	-76,437	-26,970
Total operating revenues, net	3,840,588	2,946,510	7,154,668	5,450,781

Reconciliation between total operating segments and income statement	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Gross profit				
Gross profit - total operating segments	2,074,844	2,150,335	4,354,212	3,995,069
Other general administrative expenses	-2,879,607	-2,027,318	-5,083,722	-3,676,912
Depreciation, amortization and impairment of intangible and tangible assets	-155,877	-72,312	-299,271	-154,746
Other interest expenses	-43,954	1,099	-54,454	-1,726
Other result from financial transactions	-6,293	-2,541	-5,414	-775
Operating income	-1,010,887	49,263	-1,088,649	160,910

Note 4 Interest income calculated according to the effective interest rate method

	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Loans to credit institutions	1,090	369	1,728	669
Loans to the public	1,475,182	1,094,914	2,779,450	2,032,118
Other interest income	12,415	697	13,591	730
Total	1,488,687	1,095,980	2,794,769	2,033,517

Note 5 Interest expenses

	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Liabilities to credit institutions	-24,067	-25,611	-44,183	-44,179
Deposits from the public	-83,002	-68,704	-169,785	-122,067
Debt securities in issue	-18,143	-11,150	-31,801	-21,063
Subordinated liabilities	-12,382	-11,254	-24,514	-17,500
Group companies	-32,892	-129	-38,793	-129
Other interest expenses	-40,384	-10,842	-59,127	-27,206
Total	-210,870	-127,690	-368,203	-232,144

All interest expenses are calculated using the effective interest method.

Note 6 Commission income

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

Jul - Dec 2019	Sweden	DACH	Norway	Other ¹	Total
Commission income	602,363	1,263,751	270,097	707,633	2,843,844

Jul - Dec 2018	Sweden	DACH	Norway	Other ¹	Total
Commission income	559,479	1,036,847	258,533	324,083	2,178,942

Jan - Dec 2019	Sweden	DACH	Norway	Other ¹	Total
Commission income	1,162,677	2,364,231	531,657	1,173,616	5,232,181

Jan - Dec 2018	Sweden	DACH	Norway	Other ¹	Total
Commission income	1,057,697	1,910,351	476,034	555,312	3,999,394

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

Commission income split by product category	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Merchant	2,024,974	1,410,703	3,612,383	2,610,369
Consumer	818,870	768,239	1,619,798	1,389,025
Total	2,843,844	2,178,942	5,232,181	3,999,394

The opening balance of receivables connected to commission income amounted to SEK 605m (388) as of January 1, 2019, and the closing balance as of December 31, 2019, amounts to SEK 688m (605) for the Group. These receivables are included in Loans to the public, see note 10.

All commission income arises from financial instruments measured at amortized cost.

Note 7 Depreciation, amortization and impairment of intangible and tangible assets

	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Amortization and depreciation				
Intangible assets	-80,613	-54,804	-151,801	-107,345
Tangible assets ¹	-75,264	-14,870	-147,319	-35,140
Total	-155,877	-69,674	-299,120	-142,485
Impairment				
Intangible assets	-	-2,638	-151	-12,261
Total	-	-2,638	-151	-12,261
Total depreciation, amortization and impairment of intangible and tangible assets	-155,877	-72,312	-299,271	-154,746

¹ From January 1, 2019, depreciation of leased assets is included in tangible assets. As of December 31, 2019, the depreciation of leased assets amounted to SEK 117m in the Group and SEK 74m in Klarna Bank AB (publ).

Note 8 Credit losses, net

Loan losses divided by class	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Loans to credit institutions				
Increase in provisions	-619	-39	-672	-39
Reversal of previous provisions	579	-	613	-
Total	-40	-39	-59	-39
Loans to the public				
Realized loan losses	-1,003,928	-692,011	-1,858,103	-1,135,168
Allowances to cover realized loan losses	332,086	455,272	765,695	566,952
Recoveries on previous realized loan losses	335,660	282,930	647,077	516,086
Increase in provisions	-2,786,324	-1,074,177	-4,193,284	-1,716,003
Reversal of previous provisions	1,896,429	653,491	2,759,393	1,057,311
Total	-1,226,077	-374,495	-1,879,222	-710,822
Financial guarantees and commitments				
Increase in provisions	-61,793	-62,906	-104,630	-92,201
Reversal of previous provisions	43,200	13,145	121,094	17,495
Total	-18,593	-49,761	16,464	-74,706
Total credit losses, net	-1,244,710	-424,295	-1,862,817	-785,567

Note 9 Loans to credit institutions

	31 Dec 2019	31 Dec 2018
Loans to credit institutions	1,907,129	2,367,631
By currency		
- in SEK	174,927	705,674
- in EUR	1,001,128	1,122,081
- in USD	286,401	157,026
- in AUD	97,424	255
- in GBP	80,399	164,705
- in other currencies	266,850	217,890
Total	1,907,129	2,367,631

All loans to credit institutions are payable on demand. For the fair value amounts, see note 16.
The loss allowance for loans to credit institutions at the end of the reporting period amounts to SEK 97k (39).

Note 10 Loans to the public

	31 Dec 2019	31 Dec 2018
Loans to the public	31,300,571	20,919,234
Allowance for credit losses	-1,646,019	-940,232
Total	29,654,552	19,979,002

All loans and receivables are collectively assessed for impairment. For the fair value amounts, see note 16.

Note 11 Other assets

	31 Dec 2019	31 Dec 2018
Current tax assets	138,973	31,434
VAT receivables	38,703	24,114
Derivatives	84,327	24,074
Other receivables	75,068	27,682
Total	337,071	107,304

For the fair value amounts, see note 16.

Note 12 Deposits from the public

	31 Dec 2019	31 Dec 2018
Private individuals	11,420,928	13,825,440
Companies	866,725	756,329
Total	12,287,653	14,581,769
By currency		
- in SEK	2,119,141	4,423,930
- in EUR	9,968,505	9,988,255
- in USD	6,582	2,560
- in other currencies	193,425	167,024
Total	12,287,653	14,581,769

For the fair value amounts, see note 16.

Note 13 Debt securities in issue

	31 Dec 2019	31 Dec 2018
Senior unsecured bonds	3,450,758	1,996,905
Commercial papers	2,083,509	-
Other bonds	48,436	-
Total	5,582,703	1,996,905

In October 2019, Klarna Bank AB (publ) launched a SEK 5,000m commercial paper program. As of December 31, 2019 the outstanding amount was SEK 1,930m and EUR 15m.

In November 2019, Klarna Bank AB (publ) issued SEK 1,100m under the Medium Term Notes program. The notes have a final maturity in August 2022 and pay interest on a quarterly basis. It was listed on Nasdaq Stockholm in November 2019.

In December 2019, Klarna Bank AB (publ) issued SEK 600m under the Medium Term Notes program. The notes have a final maturity in June 2021 and pay interest on a quarterly basis. It was listed on Nasdaq Stockholm in December 2019.

For the fair value amounts, see note 16.

Note 14 Other liabilities

	31 Dec 2019	31 Dec 2018
Accounts payable	152,534	24,457
Personnel related taxes	62,129	33,388
Liabilities to group companies	4,340,522	347,100
Current tax liabilities	69,142	125,529
Liabilities to merchants	4,325,140	3,645,134
Derivatives	59,869	14,947
Lease liabilities	641,884	-
Other liabilities	171,109	42,926
Total	9,822,329	4,233,481

Klarna Bank AB (publ) has received a line of credit from its parent company Klarna Holding AB. The credit liability amounted to SEK 4,126,636k (0) as of December 31, 2019, and is included in Liabilities to group companies. The line of credit is ranked pari passu with all other unsecured indebtedness.

For the fair value amounts see note 16.

Note 15 Pledged assets and contingent liabilities

	31 Dec 2019	31 Dec 2018
Pledged assets		
<i>Assets pledged for own liabilities</i>		
Pledged loans and receivables	8,358,790	6,645,083
Pledged treasury bills chargeable at central banks, etc., and pledged bonds and other interest-bearing securities	2,313,711	-
<i>Other pledged assets</i>	9,859	9,474
Total	10,682,360	6,654,557
Contingent liabilities and commitments		
<i>Contingent liabilities</i>		
Guarantees	483,315	523,952
<i>Commitments</i>	10,136,918	4,463,600
Total	10,620,233	4,987,552

Klarna Bank AB (publ) continually pledges parts of its Swedish receivables as collateral for liabilities to credit institutions which provides security for the Group's credit facility. The credit liability amounted to SEK 2,157,060k (417,741) as at December 31, 2019.

Treasury bills chargeable at central banks, etc., and bonds and other interest-bearing securities pledged for own liabilities contain securities pledged as collateral in repurchase agreements. Associated liabilities amounted to SEK 2,298,059k (0) as at December 31, 2019.

Note 16 Financial assets and liabilities at fair value

	31 Dec 2019			31 Dec 2018		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	107,076	107,076	-	331	331	-
Treasury bills chargeable at central banks, etc.	2,510,610	2,510,606	4	3,083,849	3,084,314	-465
Loans to credit institutions	1,907,129	1,907,129	-	2,367,631	2,367,631	-
Loans to the public	29,654,552	29,654,552	-	19,979,002	19,979,002	-
Bonds and other interest-bearing securities	1,833,592	1,833,567	25	-	-	-
Other shares and participations	20,081	20,081	-	41,217	41,217	-
Other assets	24,479	24,479	-	27,682	27,682	-
Other assets (Currency forwards)	84,327	84,327	-	24,074	24,074	-
Prepaid expenses and accrued income	7,891	7,891	-	9,094	9,094	-
Total	36,149,737	36,149,708	29	25,532,880	25,533,345	-465

	31 Dec 2019			31 Dec 2018		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Liabilities						
Liabilities to credit institutions	4,939,524	4,939,524	-	1,418,054	1,418,054	-
Deposits from the public	12,412,771	12,287,653	125,118	14,533,365	14,581,769	-48,404
Debt securities in issue	5,600,550	5,582,703	17,847	2,005,971	1,996,905	9,066
Other liabilities	9,613,734	9,613,734	-	4,051,762	4,051,762	-
Other liabilities (Currency forwards)	59,869	59,869	-	14,947	14,947	-
Accrued expenses and prepaid income	833,664	833,664	-	498,401	498,401	-
Subordinated liabilities	607,048	598,325	8,723	607,374	597,560	9,814
Total	34,067,160	33,915,472	151,688	23,129,874	23,159,398	-29,524

Treasury bills chargeable at central banks, etc., and bonds and other interest-bearing securities are valued in terms of the active market prices.

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

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

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

Note 17 Classification of financial assets and liabilities into valuation categories

31 Dec 2019	Mandatory at fair value through profit or loss	Amortized cost	Non-financial assets	Total
Assets				
Cash and balances with central banks	-	107,076	-	107,076
Treasury bills chargeable at central banks, etc.	-	2,510,606	-	2,510,606
Loans to credit institutions	-	1,907,129	-	1,907,129
Loans to the public	-	29,654,552	-	29,654,552
Bonds and other interest-bearing securities	-	1,833,567	-	1,833,567
Other shares and participations	20,081	-	-	20,081
Intangible assets	-	-	2,145,846	2,145,846
Tangible assets	-	-	892,654	892,654
Deferred tax assets	-	-	310,666	310,666
Other assets	84,327	24,479	228,265	337,071
Prepaid expenses and accrued income	-	7,891	140,421	148,312
Total	104,408	36,045,300	3,717,852	39,867,560

31 Dec 2019	Mandatory at fair value through profit or loss	Amortized cost	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	-	4,939,524	-	4,939,524
Deposits from the public	-	12,287,653	-	12,287,653
Debt securities in issue	-	5,582,703	-	5,582,703
Deferred tax liabilities	-	-	76,411	76,411
Other liabilities	59,869	9,613,734	148,726	9,822,329
Accrued expenses and prepaid income	-	833,664	73,811	907,475
Provisions	-	-	357,674	357,674
Subordinated liabilities	-	598,325	-	598,325
Total	59,869	33,855,603	656,622	34,572,094

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

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

Financial assets and liabilities - measurement

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

Level 1

Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets. For example, this category could include investments in discount papers where direct tradable price quotes exist.

Level 2

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

Level 3

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

The following table shows the financial assets and liabilities measured at fair value, divided into the three valuation levels. No transfers between levels have been made during 2019 and 2018.

31 Dec 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	-	-	20,081	20,081
Other assets (Currency forwards)	-	84,327	-	84,327
Total	-	84,327	20,081	104,408
Financial liabilities				
Other liabilities (Currency forwards)	-	59,869	-	59,869
Total	-	59,869	-	59,869

31 Dec 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	-	-	41,217	41,217
Other assets (Currency forwards)	-	24,074	-	24,074
Total	-	24,074	41,217	65,291
Financial liabilities				
Other liabilities (Currency forwards)	-	14,947	-	14,947
Total	-	14,947	-	14,947

Note 18 Capital adequacy and leverage ratio

Capital adequacy regulations

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

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

Common Equity Tier 1 capital

During the second and third quarter SEK 1,067m and SEK 4,411m of Common Equity Tier 1 capital were added to the own funds of the consolidated situation of Klarna Bank AB (publ) through the issuance of ordinary shares in Klarna Holding AB.

Additional Tier 1 capital

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

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

Subordinated liabilities

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

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

Consolidated situation and methods for calculating minimum requirements

In accordance with the capital adequacy regulations, the consolidated situation is made up of Klarna Holding AB (Klarna Bank AB (publ)'s parent company) and its subsidiaries. All subsidiaries are fully consolidated. Klarna Bank AB (publ) is a registered bank under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). Klarna Bank AB (publ) uses the standardized method for calculating the minimum capital requirements for credit- as well as market risk and the alternative standardized approach for operational risk regarding Klarna Bank AB (publ) and its consolidated situation. The approval for calculating minimum capital requirement for operational risk using the alternative standardized approach was granted by Finansinspektionen in December 2019. All regulated activities under the banking license are conducted in Klarna Bank AB (publ).

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

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

The internally 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, as well as the combined buffer requirements. The internally assessed required capital as of year-end 2019 (year-end 2018) amounted to SEK 3,438m (2,702) for the consolidated situation of Klarna Bank AB (publ). Klarna thereby has sufficient capital to cover for the internally assessed required capital under Pillar I, including combined buffer requirements, and Pillar II.

Capital adequacy disclosure

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

IFRS 9 transitional adjustments

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

Excess subsidiary capital deduction

In accordance with Article 85 and 87 of CRR Klarna Bank AB (publ)'s Tier 1 and Tier 2 Capital can only be included in the capital base of Klarna Holding Group with the share required to cover the minimum capital requirements of Klarna Bank AB (publ) and its subsidiaries. As of December 31, 2019 an amount of SEK 217m Additional Tier 1 capital and SEK 535m Tier 2 capital instruments issued by Klarna Bank AB (publ) were included in the Own funds of Klarna Holding Group.

Capital adequacy information	Consolidated situation	
	31 Dec 2019	31 Dec 2018
Own funds, total risk exposure amount and total leverage ratio exposure		
Common Equity Tier 1 capital	7,439,312	2,452,244
Tier 1 capital	7,913,117	2,922,833
Own funds	8,448,158	3,424,327
Total risk exposure amount	26,445,453	22,761,017
Total leverage ratio exposure	38,528,570	26,601,364
Capital adequacy analysis		
Common Equity Tier 1 capital ratio	28.1%	10.8%
Tier 1 capital ratio	29.9%	12.8%
Total capital ratio	31.9%	15.0%
Leverage ratio	20.5%	11.0%
Combined buffer requirement incl. the requirements of 575/2013 Art. 92(1)(a)	8.1%	7.9%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	1.1%	0.9%
Common Equity Tier 1 capital available to meet buffers	20.0%	2.9%
Exposure amounts for credit risk according to the standardized approach		
Credit risk including counterparty credit risk	37,738,242	26,318,195
of which: central governments or central banks	510,272	1,789,504
of which: regional governments or local authorities	2,265,154	1,152,300
of which: multilateral development banks	234,782	-
of which: institutions	2,021,416	2,356,109
of which: corporates	1,593,025	1,710,590
of which: retail	27,617,719	18,442,671
of which: exposures in default	434,437	589,544
of which: covered bonds	1,633,589	-
of which: equity	20,081	41,217
of which: other items	1,407,767	236,258
Total exposure amount	37,738,242	26,318,195
Risk exposure amounts according to the standardized approach		
Credit risk including counterparty credit risk	25,212,408	17,138,774
of which: institutions	404,283	602,536
of which: corporates	1,516,407	1,633,421
of which: retail	20,713,290	13,832,004
of which: exposures in default	491,110	691,987
of which: covered bonds	163,359	-
of which: equity	50,203	71,339
of which: other items	1,873,756	307,488
Market risk	272,257	252,714
of which: foreign exchange risk	272,257	252,714
Operational risk	959,111	5,369,394
Credit valuation adjustments	1,677	135
Total risk exposure amount	26,445,453	22,761,017

	Consolidated situation	
	31 Dec 2019	31 Dec 2018
Total minimum capital requirements		
Credit risk including counterparty credit risk	2,016,993	1,371,102
of which: institutions	32,343	48,203
of which: corporates	121,313	130,674
of which: retail	1,657,063	1,106,560
of which: exposures in default	39,289	55,359
of which: covered bonds	13,069	-
of which: equity	4,016	5,707
of which: other items	149,900	24,599
Market risk	21,781	20,217
of which: foreign exchange risk	21,781	20,217
Operational risk	76,729	429,551
Credit valuation adjustments	134	11
Total capital requirement	2,115,637	1,820,881
Own funds disclosure		
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	8,840,376	3,166,720
Retained earnings	887,596	817,882
Accumulated other comprehensive income (and other reserves)	225,268	190,603
Independently reviewed interim profits	-	103,086
Common Equity Tier 1 capital before regulatory adjustments	9,953,240	4,278,291
Common Equity Tier 1 capital: regulatory adjustments		
Additional value adjustments	-164	-80
Intangible assets (net of related tax liability)	-2,069,884	-1,924,116
Losses for the current financial year	-865,394	-
IFRS 9 transitional adjustments to CET1 Capital	421,514	98,150
Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	-2,513,928	-1,826,046
Common Equity Tier 1 (CET1) capital	7,439,312	2,452,244
Additional Tier 1 (AT1) capital instruments		
Capital instruments and the related share premium accounts	256,372	256,372
of which: classified as equity under applicable accounting standards	256,372	256,372
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	217,433	214,216
Total Additional Tier 1 (AT1) capital instruments	473,805	470,588
Tier 1 capital	7,913,117	2,922,833
Tier 2 (T2) capital instruments		
Qualifying own funds instruments included in consolidated T2 issued by subsidiaries and held by third party	535,041	501,494
Total Tier 2 (T2) capital instruments	535,041	501,494
Own funds	8,448,158	3,424,327

Note 19 Business combinations

On September 13, 2018, Klarna Bank AB (publ) entered into an agreement to acquire the operations of Close Brothers Retail Finance from Close Brothers Group plc. The acquisition was consummated on January 1, 2019. The consideration amounted to SEK 979m and was paid in cash. In the purchase price allocation, which is based on Klarna's accounting policies, SEK 998m is recognized as loans to the public, net. The gross amount is SEK 1,032m. Other assets and liabilities related to the loan portfolio are also part of the agreement. The acquisition aims to significantly strengthen Klarna's position in the UK market for retail financing and will enable accelerated growth and expansion of the consumer offering.

Close Brothers Retail Finance	Purchase Price Allocation
Loans to the public	998,133
Intangible assets	25,173
Other assets	4,775
Other liabilities	-49,004
Net identifiable assets and liabilities	979,077
Goodwill	-
Consideration	979,077

From the acquisition until December 31, 2019, Close Brothers Retail Finance's loan portfolio contributed by SEK 191,110k to the Group's total operating revenues, net. The total effect on the Group's net result is not identifiable since the personnel and indirect costs of Close Brothers Retail Finance are highly integrated to and not separable from other parts of Klarna's organization.

Note 20 Significant events after the end of the reporting period

No significant events have occurred after the closing date.

Parent company financials

Income Statement, Parent Company

Amounts in SEKk	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Interest income calculated according to the effective interest rate method	1,484,873	1,082,357	2,777,230	2,009,547
Interest expenses	-208,781	-128,646	-364,173	-232,929
Net interest income	1,276,092	953,711	2,413,057	1,776,618
Dividend received	-	261,487	126,609	261,487
Commission income	2,217,533	1,707,357	4,098,667	3,105,760
Commission expenses	-263,732	-180,709	-454,149	-313,159
Net result from financial transactions	-54,947	-29,203	-68,988	-10,233
Other operating income	393,186	259,681	649,802	270,898
Total operating revenue, net	3,568,132	2,972,324	6,764,998	5,091,371
General administrative expenses	-3,164,013	-2,335,201	-5,561,234	-4,045,704
Depreciation, amortization and impairment of intangible and tangible assets	-116,675	-39,183	-217,848	-84,135
Other operating costs	-410,262	-63,994	-582,320	-138,290
Total expenses before credit losses	-3,690,950	-2,438,378	-6,361,402	-4,268,129
Operating income before credit losses, net	-122,818	533,946	403,596	823,242
Credit losses, net	-918,178	-384,714	-1,480,128	-722,803
Operating income	-1,040,996	149,232	-1,076,532	100,439
Appropriations	151,100	6,300	151,100	6,300
Income tax	168,399	24,400	187,313	35,085
Net income for the period	-721,497	179,932	-738,119	141,824

Statement of Comprehensive Income, Parent Company

Amounts in SEKk	Jul - Dec 2019	Jul - Dec 2018	Jan - Dec 2019	Jan - Dec 2018
Net income for the period	-721,497	179,932	-738,119	141,824
Items that may be reclassified subsequently to the income statement:				
Exchange differences, foreign operations	916	-	383	-
Other comprehensive income for the period, net after tax	916	-	383	-
Total comprehensive income for the period	-720,581	179,932	-737,736	141,824

Balance Sheet, Parent Company

Amounts in SEKk	31 Dec 2019	31 Dec 2018
Assets		
Cash and balances with central banks	107,070	304
Treasury bills chargeable at central banks, etc.	2,510,606	3,084,314
Loans to credit institutions	1,192,327	1,962,486
Loans to the public	28,536,048	19,850,726
Bonds and other interest-bearing securities	1,833,567	-
Shares and participations in group companies	1,305,489	1,122,265
Other shares and participations	20,081	41,217
Intangible assets	524,607	401,659
Tangible assets	448,805	40,598
Deferred tax assets	233,832	32,313
Other assets	1,747,020	417,641
Prepaid expenses and accrued income	177,511	149,773
Total assets	38,636,963	27,103,296
Liabilities		
Liabilities to credit institutions	4,939,524	1,418,054
Deposits from the public	12,252,416	14,557,478
Debt securities in issue	5,534,267	1,996,905
Deferred tax liabilities	-	1,341
Other liabilities	8,946,400	3,948,320
Accrued expenses and prepaid income	990,174	454,365
Provisions	338,757	223,847
Subordinated liabilities	598,325	597,560
Total liabilities	33,599,863	23,197,870
Untaxed reserves	2,213	153,313
Equity		
Share capital	52,752	52,752
Reserve for development cost	390,209	306,934
Other reserves	383	-
Additional Tier 1 instruments	250,000	250,000
Retained earnings	5,079,662	3,000,603
Net income for the year	-738,119	141,824
Total equity	5,034,887	3,752,113
Total liabilities and equity	38,636,963	27,103,296

Definitions and Abbreviations

App installs

Number of installments of Klarna App. Information from App Store Connect and Google Play Console.

Capital requirement

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

Common Equity Tier 1 capital

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

Cost/revenue ratio*

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

Debt/equity ratio

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

Equity/assets ratio

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

Financing

Klarna's account product, formerly known as Slice it.

Installments

Klarna's short-term installment plan product, formerly known as Pay in 3 or 4, offers consumers a short-term (60 days in the UK or 6 weeks in the US) installment plan with no interest.

Klarna Card

Issued cards: number of users with issued cards.
Volume: Total monetary value of sold products and services with Klarna Card.
Transactions: Total transactions on sold products and services with Klarna Card.

Merchants

Klarna's e-commerce customers.

Monthly active app users

Number of unique authenticated app (web+native) users per calendar month. Information from internal estimates.

Own funds (Total capital)

The sum of Tier 1 capital and Tier 2 capital.

Pay in 14 days/Pay in 30 days

Klarna's option to pay 14 or 30 days after delivery, formerly known as Pay later.

Pay now

Klarna's product for immediate settlement.

Return on assets*

Net income for the last 12 months as a percentage of average total assets. The calculation of average total assets is based on opening and closing balances for the last 12 months.

Return on equity*

Operating income for the last 12 months as a percentage of average equity adjusted for untaxed reserves. The calculation of average equity is based on opening and closing balances for the last 12 months.

SMB

Small and medium-sized businesses.

Tier 1 capital

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

Tier 2 capital

Subordinated liabilities, which are eligible for inclusion in the total capital.

Total capital ratio

Total capital as a percentage of risk exposure amounts.

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

Board of Directors' affirmation

The Board of Directors certifies that this annual financial statement release provides a fair overview of the Parent Company's and the Group's operations, their financial position and result, and describes material risks and uncertainties that the Parent Company and other companies in the Group are facing.

Stockholm, February 24, 2020

Jonathan Kamaluddin
Chairman of the Board

Mikael Walther
Board member

Sarah McPhee
Board member

Andrew Young
Board member

Michael Moritz
Board member

Sebastian Siemiatkowski
CEO and Board member

This report has not been subject to review by the Company's auditors.

Further information

For more information visit the Company website at www.klarna.com

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The information in this report is such that Klarna Bank AB (publ) is obliged to make public under the EU Market Abuse Regulation and the Securities Market Act. This information was submitted for publication, through the agency of the contact persons set out above, on February 26, 2020 at 08:00 a.m CET.

Future calendar events

The annual report will become public on the Company's website during April 27-30, 2020.



Klarna.