Annual report 2019

Klarna Holding AB
(Corp.ID 556676-2356)

Klarna.

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[1] The audited annual report starts with the Report of the Board of Directors.

Financial information

All numbers are in SEK and the information is presented for the Klarna Holding Group up until the Report of the Board of Directors, if not otherwise stated.

Full year 2019

32%

Gross merchandise volume[1] – YoY growth

332bn (252)

Gross merchandise volume – USD 35bn[2] (29)

32%

Total operating revenue, net – YoY growth

7,202m (5,450)

Total operating revenue, net – USD 758m (626)

28.1% (10.8)

CET 1 ratio

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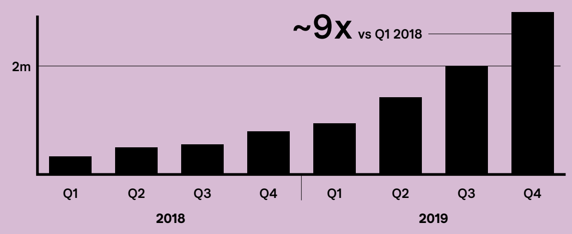
[1] Total monetary value of sold products and services through Klarna over a given period of time.

[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 9.5 SEK for full year 2019, and 1 USD equals approximately 8.7 SEK for full year 2018.

Business highlights

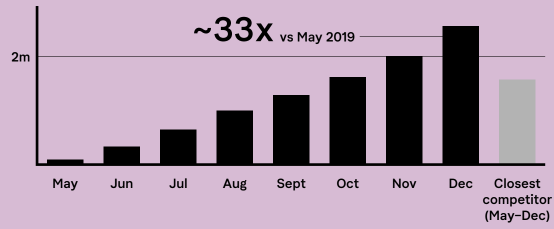
Global app installs

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



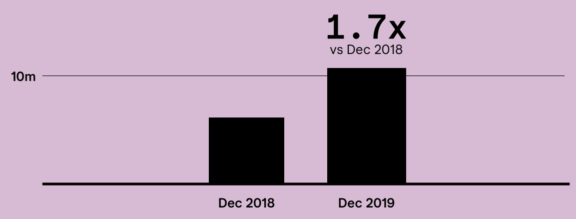
US app installs

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



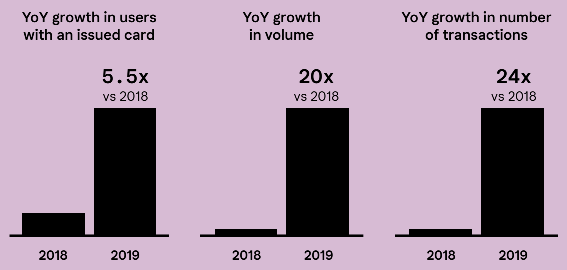
Global monthly active app users

Number of unique app users per month.



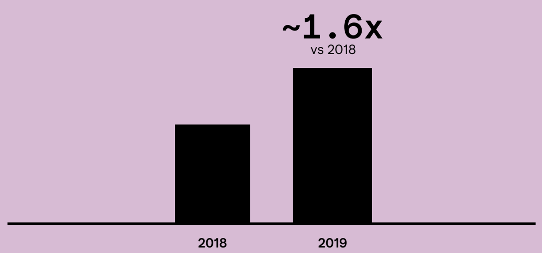
Klarna card

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.



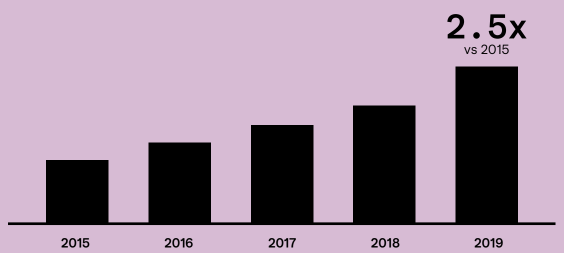
Merchants

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



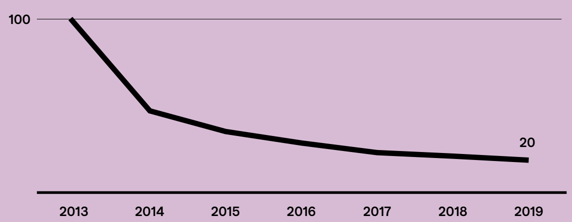
Consumer volumes

Volume per active consumer and year in Sweden.



Late fees

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



About Klarna

Klarna makes shopping smoooth. 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 globally[1] with more than 200,000 live with us, and we are the most preferred payments 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.

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[1] For more information, see page 9.

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 our 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	6	3
Klarna.	Competitor 1	Competitor 2

FARFETCH, asos, H&M, D&G Dolce & Gabbana, Michael Kors, boohoo, VF, ticketmaster, PrettyLittleThing, Sephora, TOMS, Marchesa, Timberland, Topshop Topman, Lenovo, Abercrombie & Fitch Co., dyson, Sonos, Gymshark, River Island, Expedia, Beauty Bay, Good American, A.P.C., Air France, overstock, Lulus, AliExpress, Dr. Martens, Bose, MVMT, Lunya

Data: Digital Commerce 360, 2018

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, Fahrad.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%. 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 over 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 parallelity 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

Report of the Board of Directors

Report of the Board of Directors

The Board and the CEO of Klarna Holding AB hereby submits the report for the period January 1 – December 31, 2019. This report presents the financial statements for Klarna Holding AB and consolidated financial statements for the company and its subsidiaries. The annual accounts have been prepared in thousands of Swedish kronor unless otherwise stated.

Information about the business
The company’s subsidiary Klarna Bank AB (publ) is a registered bank and is under the supervision of the Swedish Financial Supervisory Authority (Sw. 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 32% year-on-year resulting in SEK 7,202m 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

The company's subsidiary, Klarna Bank AB (publ), operates Klarna Bank AB UK branch in the United Kingdom.

Significant events during the period

On April 25, 2019, the annual general meeting of Klarna Holding AB resolved to issue up to 30,516 shares. Registration of the new shares occurred during July 2019.

During the first half of 2019 63,050 new shares were subscribed to by exercise of warrants. Registration of the new shares occurred during July 2019.

On August, 6, 2019, the company's subsidiary 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 August 9, 2019, the Board of Directors of Klarna Holding AB by virtue of the authorization registered with the Swedish Companies Registration Office (Sw. Bolagsverket) on May 3, 2019, resolved to issue up to 1,976,368 shares. Registration of the new shares occurred during August 2019.

On September 24, 2019, the company’s subsidiary 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.

On October 29, 2019, the Board of Directors of Klarna Holding AB by virtue of the authorization registered with the Swedish Companies Registration Office (Sw. Bolagsverket) on May 3, 2019, resolved to issue up to 4,400 shares. The new shares were registered on December 3, 2019.

In November 2019, a total of 198,778 shares were subscribed to by exercise of warrants. Registration of the new shares occurred during December 2019.

On December 10, 2019, the Board of Directors of Klarna Holding AB resolved to issue 83,612 warrants. The new warrants were registered on January 16, 2020.

In Q4 2019, rulings were made in Swedish courts on the company’s subsidiary 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. See note 30 for further information.

Future development

Klarna continues to develop the ‘smoooth’ 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

Klarna is through its business activities subject to a number of different risks, including credit risk, market risk, liquidity risk, business risk and operational 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.

ESG and corporate governance reports
In accordance with the Annual Accounts Act chapter 6, 11§, Klarna Holding AB has decided to report the Environmental, Social and Governance report (ESG) separated from the annual report. The ESG report has been submitted to the auditors at the same time as the annual report. The ESG report is available at Klarna’s website: **www.klarna.com**

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

Proposed treatment of unappropriated earnings
The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 9,682,948,181 on Klarna Holding AB´s balance sheet at the disposal of the Annual General Meeting to be carried forward.

Additional Tier 1 instruments	256,372,091	SEK
Retained earnings	9,382,361,163	SEK
Net income for the year	44,214,927	SEK
Total	9,682,948,181	SEK

Group financials

Five Year Summary, Group

Amounts in SEKk	2019	2018	2017	2016	2015
Income statement					
Total operating revenues, net	7,202,195	5,450,475	4,158,025	3,289,510	2,581,768
Operating income	-1,044,433	158,510	522,701	168,057	169,900
Net income for the year	-867,599	103,352	344,606	113,239	127,212
Balance sheet					
Loans to credit institutions	1,913,242	2,721,841	1,248,933	1,234,724	499,823
Loans to the public	29,654,552	19,979,002	13,874,164	8,450,037	6,104,075
All other assets	8,321,071	5,515,097	3,901,702	2,400,008	2,151,092
Total assets	**39,888,865**	**28,215,940**	**19,024,799**	**12,084,769**	**8,754,990**
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	13,006,499	7,371,972	5,894,655	2,698,415	1,567,855
Total equity	9,655,189	4,844,145	4,241,525	2,791,920	2,518,882
Total liabilities and equity	**39,888,865**	**28,215,940**	**19,024,799**	**12,084,769**	**8,754,990**
Key ratios and figures[1]					
Return on equity	-14.4%	3.5%	14.9%	6.3%	7.5%
Return on assets	-2.5%	0.4%	2.2%	1.1%	1.6%
Debt/equity ratio	3.7	4.2	3.4	2.9	2.5
Equity/assets ratio	24.2%	17.2%	22.3%	23.1%	28.8%
Cost/revenue ratio	88.6%	82.7%	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.

Income Statement, Group

Amounts in SEKk	Note	2019	2018
Interest income calculated according to the effective interest rate method	4	2,794,769	2,033,517
Interest expenses	5, 6	-329,410	-232,015
Net interest income		**2,465,359**	**1,801,502**
Commission income	7	5,232,181	3,999,394
Commission expenses	8	-476,023	-328,870
Net result from financial transactions	9	-67,706	-27,405
Other operating income		48,384	5,854
Total operating revenues, net		**7,202,195**	**5,450,475**
General administrative expenses	6, 10, 11	-6,084,540	-4,351,652
Depreciation, amortization and impairment of intangible and tangible assets	6, 12	-299,271	-154,746
Total expenses before credit losses		**-6,383,811**	**-4,506,398**
Operating income before credit losses, net		**818,384**	**944,077**
Credit losses, net	13	-1,862,817	-785,567
Operating income		**-1,044,433**	**158,510**
Income tax	14	176,834	-55,158
Net income for the year		**-867,599**	**103,352**
Whereof attributable to:			
Shareholders of Klarna Holding AB		-865,394	103,086
Non-controlling interests		-2,205	266
Total		**-867,599**	**103,352**

Statement of Comprehensive Income, Group

Amounts in SEKk	2019	2018
Net income for the year	**-867,599**	**103,352**
Items that may be reclassified subsequently to the income statement:		
Exchange differences, foreign operations	35,049	66,444
Other comprehensive income for the year, net after tax	**35,049**	**66,444**
Total comprehensive income for the year	**-832,550**	**169,796**
Whereof attributable to:		
Shareholders of Klarna Holding AB	-830,415	169,048
Non-controlling interests	-2,135	748
Total	**-832,550**	**169,796**

Balance Sheet, Group

Amounts in SEKk	Note	31 Dec 2019	31 Dec 2018
Assets			
Cash and balances with central banks		107,076	331
Treasury bills chargeable at central banks, etc.	16	2,510,606	3,084,314
Loans to credit institutions	17	1,913,242	2,721,841
Loans to the public	18	29,654,552	19,979,002
Bonds and other interest-bearing securities	19	1,833,567	-
Other shares and participations		20,081	41,217
Intangible assets	20	2,145,846	2,006,084
Tangible assets	6, 21	892,654	80,602
Deferred tax assets	14	310,666	47,508
Other assets	22, 23	352,263	109,202
Prepaid expenses and accrued income	24	148,312	145,839
Total assets		**39,888,865**	**28,215,940**
Liabilities			
Liabilities to credit institutions	25	4,939,524	1,418,054
Deposits from the public	26	12,287,653	14,581,769
Debt securities in issue	27	5,582,703	1,996,905
Deferred tax liabilities	14	76,411	117,633
Other liabilities	6, 23, 28	5,483,289	3,887,025
Accrued expenses and prepaid income	29	908,097	533,261
Provisions	30	357,674	239,588
Subordinated liabilities	31	598,325	597,560
Total liabilities		**30,233,676**	**23,371,795**
Equity			
Share capital		2,278	1,986
Other capital contributed		8,838,098	3,164,734
Reserves		225,268	190,289
Additional Tier 1 instruments		506,372	505,738
Retained earnings		887,597	818,196
Net income for the year		-865,394	103,086
Non-controlling interests		60,970	60,116
Total equity		**9,655,189**	**4,844,145**
Total liabilities and equity		**39,888,865**	**28,215,940**

Statement of Changes in Equity, Group

Amounts in SEKk	Share capital	Other capital contributed	Reserves[2]	Additional Tier 1 instruments	Retained earnings	Net income	Total equity excl. non-controlling interests	Non-controlling interests	Total equity
Balance as at January 1, 2019	1,986	3,164,734	190,289	505,738	818,196	103,086	4,784,029	60,116	4,844,145
Opening balance adjustment	-	-	-	634	-630	-	4	-	4
Transfer of previous year's net income	-	-	-	-	103,086	-103,086	-	-	-
Net income for the year	-	-	-	-	-	*-865,394*	*-865,394*	*-2,205*	*-867,599*
Exchange differences, foreign operations	-	-	*34,979*	-	-	-	*34,979*	*70*	*35,049*
Total comprehensive income for the year	-	-	*34,979*	-	-	*-865,394*	*-830,415*	*-2,135*	*-832,550*
New share issue	292	5,668,775	-	-	-	-	5,669,067	-	5,669,067
Share warrants	-	4,589	-	-	-	-	4,589	-	4,589
Share-based payments	-	-	-	-	4,788	-	4,788	-	4,788
Additional Tier 1 instruments[1]	-	-	-	-	-31,856	-	-31,856	-35	-31,891
Changes in non-controlling interests	-	-	-	-	-5,987	-	-5,987	3,024	-2,963
Balance as at December 31, 2019	2,278	8,838,098	225,268	506,372	887,597	-865,394	9,594,219	60,970	9,655,189

[1] 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 issued instruments.

[2] The reserves consist of exchange differences from foreign operations.

Amounts in SEKk	Share capital	Other capital contributed	Reserves[2]	Additional Tier 1 instruments	Retained earnings	Net income	Total equity excl. non-controlling interests	Non-controlling interests	Total equity
Balance as at January 1, 2018	**1,967**	**2,979,011**	**124,328**	**250,000**	**541,613**	**344,606**	**4,241,525**	**-**	**4,241,525**
Impact of adopting IFRS 9	-	-	-	-	-69,246	-	**-69,246**	-	**-69,246**
Impact of adopting IFRS 15	-	-	-	-	21,447	-	**21,447**	-	**21,447**
Restated opening balance	**1,967**	**2,979,011**	**124,328**	**250,000**	**493,814**	**344,606**	**4,193,726**	**-**	**4,193,726**
Transfer of previous year's net income	-	-	-	-	344,606	-344,606	**-**	-	**-**
Net income for the year	*-*	*-*	*-*	*-*	*-*	*103,086*	***103,086***	*266*	***103,352***
Exchange differences, foreign operations	*-*	*-*	*65,961*	*-*	*-*	*-*	***65,961***	*482*	***66,444***
Total comprehensive income for the year	***-***	***-***	***65,961***	***-***	***-***	***103,086***	***169,047***	***748***	***169,795***
New share issue	19	185,840	-	-	-	-	**185,859**	-	**185,859**
Share warrants	-	-117	-	-	-	-	**-117**	-	**-117**
Share-based payments	-	-	-	-	7,700	-	**7,700**	-	**7,700**
Additional Tier 1 instruments[1]	-	-	-	256,370	-18,803	-	**237,567**	-34	**237,533**
Changes in non-controlling interests	-	-	-	-632	-9,121	-	**-9,753**	59,402	**49,649**
Balance as at December 31, 2018	**1,986**	**3,164,734**	**190,289**	**505,738**	**818,196**	**103,086**	**4,784,029**	**60,116**	**4,844,145**

[1] 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 issued instruments.

[2] The reserves consist of exchange differences from foreign operations.

Cash Flow Statement, Group

Amounts in SEKk	Note	2019	2018
Operating activities			
Operating income		-1,044,433	158,510
Taxes paid		-310,318	-98,965
Adjustments for non-cash items in operating activities			
Depreciation, amortization and impairment	6, 12	299,271	154,746
Gain or loss from shares in unlisted companies		915	-
Gain or loss from change in non-controlling interests		-8	-
Share-based payments		4,788	7,700
Provisions excluding credit losses		222,718	146,601
Provision for credit losses		651,791	166,485
Financial items including unrealized exchange rate effects		-61,729	-27,794
Changes in the assets and liabilities of operating activities			
Change in loans to the public		-9,345,613	-6,255,744
Change in liabilities to credit institutions		3,521,470	1,021,089
Change in deposits from the public		-2,294,116	6,090,115
Change in other assets and liabilities		-100,562	-638,444
Cash flow from operating activities[1]		**-8,455,826**	**724,299**
Investing activities			
Investments in intangible assets	20	-234,059	-259,678
Investments in tangible assets	21	-186,263	-53,490
Sales of fixed assets		-	671
Investments in subsidiaries		-	-50
Investments in business combinations	39	-979,077	-
Divestment of shares in subsidiaries		-	49,650
Investments and divestments of other shares and participations		20,220	-41,217
Cash flow from investing activities		**-1,379,179**	**-304,114**
Financing activities			
New share issue		5,669,067	185,859
Share warrants		4,589	-117
Additional Tier 1 instruments		-	250,890
Debt securities in issue	27	3,579,247	-
Subordinated liabilities	31	-	297,750
Change in non-controlling interests		-1,468	-
Lease liabilities	6	-104,863	-
Cash flow from financing activities		**9,146,572**	**734,382**
Cash flow for the year		**-688,433**	**1,154,567**
Cash and cash equivalents at the beginning of the year		**2,271,616**	**1,080,256**
Cash flow for the year		-688,433	1,154,567
Exchange rate diff. in cash and cash equivalents		40,938	36,793
Cash and cash equivalents at the end of the year		**1,624,121**	**2,271,616**
Cash and cash equivalents include the following items:			
Cash and balances with central banks		107,076	331
Loans to credit institutions[2]		1,517,045	2,271,285
Cash and cash equivalents		**1,624,121**	**2,271,616**

[1] Cash flow from operating activities includes interest payments received and interest expenses paid, see note 36.

[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 Holding AB, Corp. ID 556676-2356, 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 and its subsidiaries, which together make up the Group. The Group's business is described in the Report of the Board of Directors.

The consolidated financial statements and the Annual Report for Klarna Holding AB for the financial year 2019 were approved by the Board of Directors and the CEO on March 25, 2020. They will ultimately be adopted by Klarna Holding AB's Annual General Meeting on May 20, 2020.

Note 2 Accounting and valuation principles

1) Basis for the preparation of the reports

Group

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

Parent Company

The Parent Company, Klarna Holding AB, prepares the annual accounts in accordance with the Annual Accounts Act (ÅRL, 1995:1554). The accounting recommendation for legal entities RFR 2 amended by the Swedish Financial Reporting Board has also been applied. The Group's accounting principles are also applicable for the Parent Company unless otherwise described in this note or the notes for the parent.

The preparation of reports in accordance with IFRS requires the use of a number of estimates for accounting purposes. The areas which involve a high degree of assessment or complexity and which are of considerable importance for the annual accounts are presented in section 26.

2) Changed accounting principles

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

IFRS 16 Leases

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

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. The practical expedients for short-term contracts and low value assets are used. Furthermore, the practical expedient of not separating non-lease components from lease components is applicable for car leases.

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. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019, was 1.43%. 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. In the implementation of IFRS 16 estimates and assumptions have been used concerning, for example, prolongation and termination options and interest rates.

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.

3) Group consolidation principles

The consolidated accounts are presented according to the acquisition method and comprise of Klarna Holding AB and its subsidiaries. The companies are consolidated as from the date when control is transferred to Klarna and consolidation comes to an end when Klarna no longer has control.

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

Subsidiaries

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

The financial statements of subsidiaries are reported in the consolidated financial statements as of the acquisition date and until the time when a controlling interest no longer exists.

Business combinations

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

The cost of the business combination comprises the fair value of all assets, liabilities and issued equity instruments provided as payment for the net assets in the subsidiary. Any surplus due to the cost of the business combination exceeding the identifiable net assets on the acquisition balance sheet is recognized as goodwill in the Group's balance sheet. Acquisition-related costs are recognized in the income statement when they arise. The subsidiary's financial reports are included in the consolidated accounts starting on the acquisition date.

The purchase price allocation identifies assets and liabilities that are not reported in the acquired company, such as trademarks and customer contracts. Identified intangible assets that have been identified when making the purchase price allocation are amortized over the estimated useful life. Goodwill and strong trademarks are considered to have an indefinite useful life and are therefore tested annually for impairment, or whenever there is any indication of impairment. Consideration that is contingent upon the outcome of future events is valued at fair value and the change in value is recognized in the income statement.

4) Foreign currency translation

Presentation currency and functional currency
The financial statements are prepared in Swedish kronor, which is the presentation currency of the Group. The functional currency is the currency of the primary economic environment in which an entity operates. Different entities within the Group therefore have different functional currencies. The functional currency for Klarna Holding AB is Swedish kronor.

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

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

5) Interest and commissions

Revenues are recognized in accordance with the effective interest method or when identified performance obligations have been fulfilled. The Group's revenues and expenses are reported after elimination of intragroup transactions. The product offerings from which revenues are recognized do not differ in any significant way between geographical markets.

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

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

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

Fees related to debt securities in issue, deposits from the public, subordinated liabilities and liabilities to credit institutions are recognized as interest expenses.

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

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

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

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

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

6) Net result from financial transactions

The net result from financial transactions comprises realized and unrealized changes in fair value of derivatives, realized and unrealized exchange rate effects as well as impairment and gains and losses from sales of shares.

7) General administrative expenses

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

8) Credit losses, net

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

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

9) Cash and balances with central banks

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

(i) the central bank is domiciled, and

(ii) the balance is readily available at any time.

10) Financial assets and liabilities – classification and reporting

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

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

Financial instruments are classified into various categories based on both Klarna's business model to manage its financial assets and the characteristics of the cash flows of the financial assets. Financial instruments are classified into the following categories:

Financial assets and liabilities at amortized cost

Klarna classifies and measures its financial assets at amortized cost if both of the following conditions are met:

(i) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

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

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

Financial assets and liabilities at fair value through profit or loss

This category has two subcategories:

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

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

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

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

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

(i) the financial asset is held within a business model with the objective of both: collecting contractual cash flows and selling financial assets, and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

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

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

11) Financial assets and liabilities - measurement
For financial assets and liabilities measured at fair value the Group uses different methods to determine the fair value. The methods are divided into three 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.

12) Impairment of financial assets, financial guarantees and commitments

Klarna is recording allowances for expected credit losses (ECL) for all loans and other financial assets not measured at fair value through profit or loss. Klarna calculates allowances for:

(i) Loans to the public
(ii) Loans to credit institutions
(iii) Financial guarantees and commitments

Treasury bills chargeable at central banks, bonds and other interest bearing securities have been evaluated for impairment. The expected credit losses have been assessed as immaterial due to the features of the assets. This is also applicable for the majority of the loans to credit institutions which have strong credit ratings and are highly liquid.

Equity instruments are not subject to impairment under IFRS 9.

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

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

The loss given default (LGD) component is dependent on geographical region, merchant type, days past due and, in some cases, recoveries from the sale of non-performing portfolios. These PD and LGD estimates are obtained for each of the segment permutations, which is used to calculate the ECL on a collective basis. Since collateral is not held as security, it is not part of the ECL calculations.

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

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

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

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

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

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

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

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

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

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

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

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

Effective Interest Rate (EIR):
The effective interest rate is determined based on the product type. It discounts the estimated future cash payments through the expected life of the financial instrument to net present value. Calculating the effective interest rate, all financial terms of the financial instrument as well as all corresponding fees are considered. For products that do not charge any interest or fees that constitute as loan servicing fees the effective interest rate

is determined to be 0%. For products that do charge interest or fees that are to be included in the effective interest rate, the EIR is approximated as a yearly interest rate.

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

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

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

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

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

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

13) Repurchase agreements

Treasury bills and other interest bearing securities sold under agreements to repurchase at a specified future date are not derecognized from the balance sheet as Klarna retains substantially all of the risks and rewards of ownership. Assets under repurchase agreements are transferred to the counterpart and the counterpart has the right to sell or re-pledge the assets. Such securities are kept on the balance sheet and pledged as collateral for own liabilities when the securities have been transferred and cash consideration has been received. Payment received is recognized under liabilities to credit institutions. The difference between the sale and repurchase price is accrued over the life of the agreement using the effective interest rate.

14) Offsetting financial transactions

Financial assets and liabilities are subject to offset and the net amount reported in the balance sheet when there is a legal right to offset transactions and an intention to settle net or realize the asset and settle the liability simultaneously.
Financial assets and liabilities from repurchase agreements are subject to netting agreements but, since transferred asset continues to be recognized, the asset and the associated liability have not been offset.

15) Derivative instruments

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

The Group does not apply hedge accounting.

16) Borrowing

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

17) Leasing

At inception of the contract, Klarna assesses whether a contract is, or contains, a lease. This approach has been applied 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, the consideration in the contract is allocated 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.

A right-of-use asset and a lease liability are recognized 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 re-measurement of the lease liability.

The lease liability is initially measured at the present value of the remaining lease payments that are not paid at the commencement date, discounted using Klarna Group's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest rate method. It is re-measured when there is any change in future lease payments arising, for example, from a change in an index, 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.

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.

Before 2019, leasing agreements were classified as operational leasing. Lease payments for these agreements were expensed linearly over the lease term.

18) Intangible assets

Goodwill

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

Brand names

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

Capitalized development expenses and licenses

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

Impairment

Goodwill and other intangible assets with indefinite useful life are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that impairment may have occurred. The impairment charge is calculated as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or cash generating unit, where the value in use is determined as the present value of expected future cash flows. Disclosures on performed impairment test are provided in note 20.

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

19) Tangible assets

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

The following useful life periods are applied:

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

An assessment of an asset's residual value and useful life is made annually. When the residual value is less than the carrying amount an impairment loss is recognized in the income statement.

20) Participations in subsidiaries

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

21) Tax

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

22) Share-based payments

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

23) Pensions

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

24) Group contribution

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

25) Cash flow statement

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

26) Important estimations and assumptions for accounting purposes

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

Assessment of and impairment requirements for financial assets, financial guarantees and commitments
For financial assets that are measured at amortized cost or fair value through other comprehensive income as well as for loan commitments and financial guarantees the impairment requirements of IFRS 9 are applied. See section 12 above for impairment of financial assets, financial guarantees and commitments. Any assessments and assumptions used for the impairment calculations are subject to regular checks and follow-up. During 2019 the Group has enhanced its re-calibrating parameters of the IFRS 9 models and in some cases, changing methodology. These updates aim to give a better estimation of ECLs for the Group.

Impairment requirements for goodwill and other intangible assets
The Group tests on a yearly basis if there is an impairment requirement for goodwill and other intangible assets with indefinite useful life, in accordance with the accounting principle described in note 20. This is tested by estimating the recoverable value, in other words, the highest of the realizable value and the value in use. If the recoverable value is lower than the carrying amount, the asset is written down.

The Group's intangible assets amounts to SEK 2,145,846k (2,006,084), whereof goodwill amounts to SEK 1,354,423k (1,327,865) at the end of the year and are related to the cash-generating units of Sofort GmbH, BillPay GmbH and Klarna Bank AB (publ). See note 20 for disclosure of performed impairment tests.

Assessment of provisions
Klarna Holding AB's subsidiary Klarna Bank AB (publ) has provisioned SEK 303m (168), net of payments, as a consequence of differences of opinions between Klarna Bank AB (publ) and the Swedish Tax Agency regarding the historical handling of VAT of Klarna Bank AB (publ). The original provisioning was adjusted during 2019 due to rulings from Swedish courts. A few uncertainties remain, however the provisioning represents a likely final outcome. See note 30 for provisions.

Assessment of leases
When Klarna accounts for lease contracts estimates and assumptions have been made concerning, for example, prolongation and termination options, as well as interest rates.

Note 3 Risk management

General
Risk is defined as the possibility of a negative deviation from an expected financial outcome. The Group is through its business activities subject to a number of different risks, including credit risk, market risk, liquidity risk, business risk and operational risk.

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

The purpose of risk management is to safeguard the Group's long term survival, manage volatility in financial performance, and increase value for the owners by ensuring efficient risk management. The basis for the risk management and internal control framework is the three lines of defense model. The first line of defense refers to all risk management activities carried out by line management and staff. All 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 the Group's independent Risk Control and Compliance Functions, which report directly to the CEO and the Board. To ensure independence, these functions are not involved in business operations.

Risk Control has the responsibility to monitor, control, analyze and report risks in the business.

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

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

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

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

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

Credit risk
Credit risk, defined as the risk of default on debt, includes the risk that the Group realizes a loss due to not having its receivables repaid, due to either a counterpart's inability or unwillingness to fulfill its obligations. The Group is mainly exposed to credit risk from four sources:

(i) lending to individual consumers/members of the public/companies who choose to buy using the Group's payment products
(ii) exposure to merchants defaulting/bankruptcy who the Group partners with and processes payments for
(iii) directly lending to merchants
(iv) exposure to credit institutions as well as investments in financial assets like treasury bills

The Group is exposed to credit risk in the following regions:

(i) Nordics (Sweden, Norway, Finland, Denmark)
(ii) DACH (Germany, Austria, Switzerland)
(iii) the Netherlands
(iv) the United Kingdom
(v) the United States

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

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

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

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

The Group's credit risk appetite is defined by region and product and approved by Management and the Board. This is monitored regularly by teams in the finance and product business units.

The total lending credit exposure for the Group amounts to SEK 31,567,794k (22,700,843), out of which SEK 29,654,552k (19,979,002) is lent to the public and SEK 1,913,242k (2,721,841) is lent to credit institutions. For credit exposure to the public and credit institutions, provisions are made to cover for expected losses.

Credit risk	31 Dec 2019	31 Dec 2018
Loan receivables, gross	33,213,910	23,641,114
Allowance for credit losses	-1,646,116	-940,271
Loan receivables, net carrying amount	**31,567,794**	**22,700,843**
of which: Loans to credit institutions	1,913,242	2,721,841
of which: Loans to the public	29,654,552	19,979,002

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

Credit risk concentrations

The following tables show the Group's credit risk exposure and significant credit risk concentrations:

31 Dec 2019					
Gross amounts	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Per region					
Sweden	7,835,738	459,732	167,711	-	**8,463,181**
DACH	9,555,618	859,422	338,555	25,439	**10,779,034**
Norway	2,313,949	248,632	103,913	-	**2,666,494**
Other	10,224,932	701,654	378,301	314	**11,305,201**
Total	**29,930,237**	**2,269,440**	**988,480**	**25,753**	**33,213,910**
Before due and per days past due					
Before due	25,150,193	705,193	345,372	169	**26,200,927**
≤30 days	4,780,044	169,826	37,152	2	**4,987,024**
>30-60 days	-	823,220	25,543	6	**848,769**
>60-90 days	-	373,326	15,450	-	**388,776**
>90 days	-	197,875	564,963	25,576	**788,414**
Total	**29,930,237**	**2,269,440**	**988,480**	**25,753**	**33,213,910**

31 Dec 2018					
Gross amounts	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Per region					
Sweden	6,855,144	1,188,929	296,612	-	**8,340,685**
DACH	5,750,736	1,513,010	373,698	14,517	**7,651,961**
Norway	1,429,190	396,957	92,622	-	**1,918,769**
Other	5,001,671	456,085	271,943	-	**5,729,699**
Total	**19,036,741**	**3,554,981**	**1,034,875**	**14,517**	**23,641,114**
Before due and per days past due					
Before due	16,837,452	2,302,460	97,059	-	**19,236,971**
≤30 days	2,191,821	591,940	125,144	-	**2,908,905**
>30-60 days	2,255	408,955	52,793	-	**464,003**
>60-90 days	1,453	195,037	35,649	-	**232,139**
>90 days	3,760	56,589	724,230	14,517	**799,096**
Total	**19,036,741**	**3,554,981**	**1,034,875**	**14,517**	**23,641,114**

For additional information on allowances on Loans to the public, see note 18.

The merchants that offer the Group's payment services also carry a credit risk. If a merchant closes down or becomes insolvent, there is a risk that the Group will be unable to offset any subsequent returns from consumers – which the Group guarantees on behalf of the consumers - against payments due from the Group to the merchant or indemnities. The Group works proactively with tracking, controlling and mitigating such merchant credit risks including by using a longer payment delay on settlement payments towards merchants, as contractually agreed upon, or by entering into an insurance program. The Group has a Merchant Credit Risk function that, among other tasks, assesses merchants' credit worthiness before they are onboarded. The financial status of the Group's largest merchant credit risks are also manually tracked. Merchant credit risk assessments use external credit bureau data and internal data. If a merchant credit risk is deemed outside the risk appetite, counter measures are taken to ensure that cooperation can continue under modified and acceptable terms.

The Group is further exposed to credit risk through its bank counterparty exposure. Klarna's single bank counterparty exposures should be in relation to the business need (e.g. payment disbursement) and take into account the credit worthiness of the single counterpart. Klarna controls the exposure by setting exposure limits based on the bank rating and individual limits for particular counterparts which are monitored by the Treasury Function and independently controlled by Risk Control.

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

Credit quality of debt securities	31 Dec 2019	31 Dec 2018
Treasury bills chargeable at central banks, etc., and bonds and other interest bearing securities		
AAA[1]	3,574,785	1,668,839
AA+[1]	769,388	1,415,475
Total	**4,344,173**	**3,084,314**

[1] According to rating from Standard & Poor's.

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

The Group uses the standardized method for calculating capital requirements for credit risk. See note 38, Capital adequacy and leverage ratio, for details of the calculation of credit risks.

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

Market risk

Market risk is defined as the risk that the value of, or expected future cash flow from the Group's assets and liabilities, will decline as a result of market conditions.

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

The methods for managing market risk are described in the Risk Policy as well as in separate instructions.

Interest rate risk

Interest rate risk is the sensitivity of earnings or economic value of assets and liabilities held for non-trading purposes to changes in interest rates. It is further defined as the risk of decreased market values of the Group's interest-bearing assets due to mismatches in repricing of assets and liabilities (value risk), or the risk of net interest return being negatively affected by changes in general interest rates (earnings risk).

A parallel shift in market interest rates of 100 bps implies an absolute interest risk of SEK 44,670k given discounting of future cash flows at the risk free interest rate for each significant currency. This effect corresponds to 0.46% of equity. In 2018, the parallel shift in market interest rates was stressed by 200 bps implying an absolute interest rate of SEK 182,707k given discounting of future cash flow at the risk rate of each significant currency. This effect corresponded to 3.77% of equity.

The Group's interest income amounts to SEK 2,794,769k (2,033,517) and interest expenses amount to SEK 329,410k (232,015) which results in a net interest income of SEK 2,465,359k (1,801,502).

Currency risk

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

The Group is exposed to translation risk which arises at revaluation of earnings, shareholders' equity and receivables of foreign subsidiaries and is primarily a result of revaluation of balance sheet items nominated in currencies other than the Group's reporting currency. Translation risks are monitored on a continuous basis.

The Group is also exposed to transaction risk which is the exchange rate risk associated with the time delay between entering into a contract and settling it and primarily arises when Klarna Bank AB (publ) grants credit in currencies other than the reporting currency. The risk is mitigated by matching the lending assets with liabilities in the same currency, either by matching foreign currency assets with foreign currency loans or by entering into foreign exchange contracts. Lending in a currency other than the reporting currency has been continuously increasing during 2019, as a result of growth in markets outside Sweden. For 2019, exchange rate gain for the Group related to transaction risk is SEK 3,316k (-1,210).

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

Currency exposure 31 Dec 2019	AUD	CHF	EUR	GBP	NOK	USD	Other	Total exposure
Net position	48,527	37,552	203,361	55,452	32,013	68,567	24,646	**470,118**
Effect of 10% change versus the foreign currency	-4,853	-3,755	-20,336	-5,545	-3,201	-6,857	-2,465	**-47,012**

31 Dec 2018	AUD	CHF	EUR	GBP	NOK	USD	Other	Total exposure
Net position	98	10,993	152,148	11,984	20,898	42,329	25,258	**263,708**
Effect of 10% change versus the foreign currency	-10	-1,099	-15,215	-1,198	-2,090	-4,233	-2,526	**-26,371**

A 10% change in the currency exchange rate (SEK) versus all foreign currencies would entail an effect of 2.90% on net income and 0.49% on equity for the Group.

The follow-up of all defined tolerance limits for market risk is reported at least quarterly to the Board by the Risk Control function. Any limit breaches are escalated in line with the defined escalation process.

The Group uses the standardized method for calculating capital requirements for market risk.

Liquidity risk

Liquidity risk is defined as the risk of the Group not being able to fund increases in lending assets and meet obligations as they become due.

The total sum of the Group's liabilities in each category are detailed in the below duration analysis. The Group has five main financing sources: operating liabilities, bank financing, retail deposits, commercial papers and bonds (senior and subordinated). The Group pledges parts of its receivables as collateral for financing from a counterpart bank. The methods for managing liquidity risk are described in the Risk Policy as well as in separate instructions.

The main liquidity measure is the Liquidity Coverage Ratio, defined in the EU's Commission Delegated Regulation. The Group monitors and forecasts its Liquidity Coverage Ratio on a daily basis to ensure that its portfolio of high quality liquid assets is sufficient to meet the requirements.

The follow-up of all defined tolerance limits for liquidity risk is reported at least quarterly to the Board by the Risk Control Function. Any limit breaches are escalated in line with the defined escalation process.

Unutilized credit facility for the Group at the end of the reporting period amounts to SEK 2,844,010k (3,834,425).

Funding sources

31 Dec 2019	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Financial liabilities						
Liabilities to credit institutions	2,320,259	-	431,283	2,187,982	-	**4,939,524**
Deposits from the public	2,998,139	4,808,583	2,950,785	1,530,146	-	**12,287,653**
Debt securities in issue[1]	898,137	1,187,550	1,752,000	1,745,016	-	**5,582,703**
Other liabilities[2]	4,702,358	34,634	72,396	385,823	138,995	**5,334,206**
Accrued expenses and prepaid income	600,895	81,007	127,227	25,157	-	**834,286**
Subordinated liabilities[1]	2,582	452	-	-	595,291	**598,325**
Total	**11,522,370**	**6,112,226**	**5,333,691**	**5,874,124**	**734,286**	**29,576,697**

31 Dec 2018	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Financial liabilities						
Liabilities to credit institutions	21,000	-	-	1,397,054	-	**1,418,054**
Deposits from the public	3,638,149	3,570,337	4,741,655	2,631,628	-	**14,581,769**
Debt securities in issue[1]	283	-	-	-	1,996,622	**1,996,905**
Other liabilities	3,719,530	42	36	1	644	**3,720,253**
Accrued expenses and prepaid income	302,525	64,697	112,195	19,662	-	**499,079**
Subordinated liabilities[1]	2,659	-	-	-	594,901	**597,560**
Total	**7,684,146**	**3,635,076**	**4,853,886**	**4,048,345**	**2,592,167**	**22,813,620**

[1] Interest is included in the amounts for Debt securities in issue and Subordinated liabilities.

[2] Lease liabilities are included in the amounts for Other liabilities. For lease maturity information, see note 6.

Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, from people and systems, or from external events.

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

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

The follow-up of all defined tolerance limits for operational risk is reported at least quarterly to the Board by the Risk Control Function. The report also includes the status of operational risk management and relevant key risk indicators. Any limit breaches are escalated in line with a predefined escalation process.

The Group uses the standardized method for calculating capital requirements for operational risk.

Capital

The Group's own funds provide the capacity to absorb unexpected losses that are not possible to avoid or mitigate, and ensure that at all points in time a sufficient buffer of financial resources exists to meet regulatory requirements.

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

(i) the minimum capital required by laws and regulations, including capital buffers
(ii) the owners' required rate of return and effective capital management
(iii) the level of capital required for counterparts to consider the Group a reliable partner and to provide efficient access to the funding market

The Group's additional capital required under Pillar II, and the resulting total capital requirement, is assessed through the Group's Internal Capital Adequacy Process and Internal Liquidity Adequacy Assessment Process (ICLAAP). See note 38 for details on the Group's capital requirement under Pillar I and Pillar II, and on the Group's capital adequacy.

The Group's Finance and Risk Control Functions independently monitor capital adequacy on an on-going basis to ensure that capital requirements and Board limits on capitalization are not breached. Any limit breaches are escalated, and the Group's Financial Recovery Plan provides executive management with a wide range of actions to deploy in case of capital stress.

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

	2019	2018
Loans to credit institutions	1,728	669
Loans to the public	2,779,450	2,032,118
Other interest income	13,591	730
Total	**2,794,769**	**2,033,517**

Note 5 Interest expenses

	2019	2018
Liabilities to credit institutions	-44,183	-44,179
Deposits from the public	-169,785	-122,067
Debt securities in issue	-31,801	-21,063
Subordinated liabilities	-24,514	-17,500
Other interest expenses	-59,127	-27,206
Total	**-329,410**	**-232,015**

All interest expenses are calculated using the effective interest method.

Note 6 Leases

	2019
Depreciation of right-of-use assets	-116,699
of which: buildings	-113,443
of which: cars	-2,775
of which: other	-481
Interest expense for lease liabilities	-9,630
Total right-of-use lease cost	**-126,329**
Expenses relating to short-term leases	-34,512
Expenses relating to low-value assets	-2,966
Right-of-use assets and lease liabilities	
Carrying amount for right-of-use assets	655,350
of which: buildings	650,332
of which: cars	3,128
of which: other	1,890
Additions to right-of-use assets during the year	50,270
Revaluations during the year	-8,489
Currency translation difference during the year	6,051
Lease liabilities	641,884

The right-of-use assets are included in Tangible assets and the lease liabilities are included in Other liabilities in the balance sheet.

Maturity	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Lease liabilities	32,194	31,455	60,817	398,826	118,592	641,884

Note 7 Commission income

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.

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

2019	Sweden	DACH	Norway	Other[1]	Total
Commission income	1,162,677	2,364,231	531,657	1,173,616	**5,232,181**

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	2019	2018
Merchant	3,612,383	2,610,369
Consumer	1,619,798	1,389,025
Total	**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 18.

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

Note 8 Commission expenses

	2019	2018
Commission to partners	-476,023	-328,870
Total	**-476,023**	**-328,870**

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

Note 9 Net result from financial transactions

	2019	2018
Realized/unrealized fluctuations in exchange rates	3,316	-1,210
Gains from financial instruments	1,229	215
Losses from financial instruments	-71,344	-26,410
Gain/loss sale of shares in subsidiaries	8	-
Gain/loss sale from shares in unlisted companies	-915	-
Total	**-67,706**	**-27,405**

As of December 31, 2019, Klarna Bank AB (publ) had entered into currency forward contracts with the gross nominal amount of SEK 10,854,895k (4,393,471).

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

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

Note 10 Employees and personnel costs

	2019	2018
Average number of full-time equivalents	2,248	1,713
Number of men	*1,486*	*1,104*
Number of women	*762*	*609*
In Sweden	1,393	1,089
Number of men	*887*	*680*
Number of women	*506*	*409*
In the United Kingdom	100	45
Number of men	*67*	*32*
Number of women	*33*	*13*
In Norway	14	9
Number of men	*10*	*7*
Number of women	*4*	*2*
In Germany	554	437
Number of men	*415*	*306*
Number of women	*139*	*131*
In the Netherlands	33	26
Number of men	*23*	*18*
Number of women	*10*	*8*
In Finland	16	12
Number of men	*8*	*5*
Number of women	*8*	*7*
In Israel	-	15
Number of men	-	*11*
Number of women	-	*4*
In Austria	4	7
Number of men	*1*	*3*
Number of women	*3*	*4*
In the United States	134	73
Number of men	*75*	*42*
Number of women	*59*	*31*

Salaries, other remuneration, social security and pension expenses	2019	2018
Salaries and other remuneration amounted to:		
Board and CEO	-10,345	-9,406
Other employees	-1,517,910	-1,038,909
Total salaries and other remuneration	**-1,528,255**	**-1,048,315**
Statutory and contractual social security expenses	-529,073	-413,711
of which: pension expenses	-136,491	-110,030
Total salaries, other remuneration, social security and pension expenses	**-2,057,328**	**-1,462,026**

Board members and senior management	31 Dec 2019 Number at closing day	31 Dec 2019 Percentage of men	31 Dec 2018 Number at closing day	31 Dec 2018 Percentage of men
Group CEO and other members of senior management	6	83%	8	88%

The percentage of men in the board is 83% (86) at the end of the reporting period.

2019

Salaries and other remuneration to the board and senior management	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Jonathan Kamaluddin, Chairman of the Board	-875	-1,023	-	-	-1,898
Niklas Savander[1]	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-1,000	-	-	-	-1,000
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-8,470	-	-4	-797	-9,271
Knut Frängsmyr, Deputy CEO	-6,673	-	-4	-797	-7,474
Other members of senior management (5)[2]	-29,120	-3,010	-75	-2,672	-34,877
Total	**-46,138**	**-4,033**	**-83**	**-4,266**	**-54,520**

[1] On September 6, 2019, the company's director Niklas Savander resigned from the board of directors.

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

2018

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

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

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

Remuneration
The rules on remuneration are found in the Swedish Banking and Financing Act (2004:297) and the Swedish Financial Supervisory Authority's regulations (FFFS 2011:1) regarding remuneration systems in credit institutions, securities companies and fund management companies licensed to conduct discretionary portfolio management (below "the remuneration rules").

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

The information below follows the provisions of the disclosure rules.

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

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

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

The Remuneration Committee has held no formal meetings in 2019. It has handled matters within its responsibility on an ongoing basis through correspondence between the committee members with the formal decisions not covered by its delegation authority being reported to and documented by the Board at the closest following Board meeting.

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

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

Remuneration structure

The Group applies the following general principles on remuneration:

(i) remuneration shall be set on an individual basis, based on experience, competence and performance

(ii) remuneration shall not be discriminating

(iii) remuneration shall be competitive, but not counterproductive to the Group's long term interests and capability to generate positive results throughout a full economic cycle.

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

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

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

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

Share-based payments

In certain jurisdictions the Group offers share-based payments to employees consisting of warrants. The warrants are subject to graded vesting in five annual installments, corresponding to the maximum duration of the programs. No program may be settled in cash by the Group. In total 407,228 (400,513) warrants are considered share-based payments. The weighted average exercise price is as follows: for warrants outstanding at the beginning of the year: SEK 817.57 (770.07); granted during the year: SEK 2,050.00 (963.00); forfeited during the year SEK 683.10 (0); outstanding at the end of the year: SEK 1,000.47 (817.57). All such warrants have an exercise price between SEK 963 (470) and 2,050 (1,175). The value of granted warrants has been established using the Black Scholes model.

The total cost of share-based payment is allocated over the duration of warrant programs. The total expense for share-based payments for 2019 is SEK 4,788k (7,700).

Remuneration to Group management team and Identified staff

Total amount entered as an expense for remuneration to the Group management team of 7 persons[1] (9) amounts to SEK 51,622k (52,992) and for Identified staff, 52 persons[1] (79), this sum amounts to SEK 102,805k (110,170), which aggregates to SEK 154,427k (163,162). Variable remuneration accounts for SEK 3,010k (4,386) of the Group management team figure paid to 1 (5) of its members and SEK 4,159k (14,864) of the Identified staff figure, paid to 15 (21) beneficiaries.

Total amount entered as an expense for remuneration to other employees is SEK 1,371,953k (885,153).

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

The tables below present variable remuneration paid and awarded:

2019	**Value of variable remuneration**			**Number of beneficiaries**		
Type of variable remuneration	**Group management team**	**Identified staff**	**Total**	**Group management team**	**Identified staff**	**Total**
Paid as one off cash payments (relating to referral bonuses/gratifications/sales commission)	38	858	**896**	1	15	**16**
Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits	3,055	3,371	**6,426**	7	36	**43**
Outstanding deferred remuneration	800	909	**1,709**	2	9	**11**
Deferred remuneration awarded[1]	-	116	**116**	-	1	**1**
New sign-on bonus paid	-	-	**-**	-	-	**-**
Severance payments paid	-	-	**-**	-	-	**-**
Severance payments awarded[2]	-	-	**-**	-	-	**-**
Total	**3,893**	**5,254**	**9,147**	**10**	**61**	**71**

[1] There has been no risk adjustment reduction made to deferred remuneration awards during 2019.

[2] There was no severance payment awarded to Group management or Identified staff.

One employee has been remunerated more than EUR 1m.

2018	**Value of variable remuneration**			**Number of beneficiaries**		
Type of variable remuneration	**Group management team**	**Identified staff**	**Total**	**Group management team**	**Identified staff**	**Total**
Paid as one off cash payments (relating to referral bonuses/gratifications/sales commission)	443	9,098	**9,541**	4	15	**19**
Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits	1,589	-623[3]	**966**	7	36	**43**
Outstanding deferred remuneration	1,237	1,818	**3,055**	3	11	**14**
Deferred remuneration awarded[1]	-	1,732	**1,732**	-	10	**10**
New sign-on bonus paid	2,381	3,702	**6,083**	1	4	**5**
Severance payments paid	-	3,167	**3,167**	-	2	**2**
Severance payments awarded[2]	-	3,167	**3,167**	-	2	**2**
Total	**5,650**	**22,061**	**27,711**	**15**	**80**	**95**

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

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

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

One employee has been remunerated more than EUR 1m.

Note 11 Fees and reimbursement of expenses for auditors

	2019	2018
Ernst & Young AB		
Audit engagement	-7,453	-4,641
Audit related services	-614	-682
Tax consultancy	-	-154
Other services	-	-826
Total	**-8,067**	**-6,303**
P.G. Economides & Co Ltd		
Audit engagement	-14	-80
Total	**-14**	**-80**

Note 12 Depreciation, amortization and impairment of intangible and tangible assets

	2019	2018
Amortization and depreciation		
Intangible assets	-151,801	-107,345
Tangible assets[1]	-147,319	-35,140
Total	**-299,120**	**-142,485**
Impairment		
Intangible assets	-151	-12,261
Total	**-151**	**-12,261**
Total depreciation, amortization and impairment of intangible and tangible assets	**-299,271**	**-154,746**

[1] From January 1, 2019, depreciation of leased assets is included in Tangible assets. See note 6, Leases, for additional information.

Note 13 Credit losses, net

Loan losses divided by class	2019	2018
Loans to credit institutions		
Increase in provisions	-672	-39
Reversal of previous provisions	613	-
Total	-59	-39
Loans to the public		
Realized loan losses	-1,858,103	-1,135,168
Allowances to cover realized loan losses	765,695	566,952
Recoveries on previous realized loan losses	647,077	516,086
Increase in provisions	-4,193,284	-1,716,003
Reversal of previous provisions	2,759,393	1,057,311
Total	-1,879,222	-710,822
Financial guarantees and commitments		
Increase in provisions	-104,630	-92,201
Reversal of previous provisions	121,094	17,495
Total	16,464	-74,706
Total credit losses, net	-1,862,817	-785,567

Note 14 Taxes

Income tax expense	2019	2018
Current tax		
Tax expense for the year	-115,898	-95,630
Adjustment of tax attributable to previous years	-15,720	-3,916
Total	**-131,618**	**-99,546**
Deferred tax		
Deferred tax regarding temporary differences	308,452	44,388
Total	**308,452**	**44,388**
Reported tax expense	**176,834**	**-55,158**

Effective tax rate	2019	2018
Income before tax	-1,044,433	158,510
Income tax calculated in accordance with national tax rates applicable in each country	182,317	-55,375
Non-taxable revenues	4,435	2,368
Non-deductible expenses	-15,608	-11,639
Reversal of tax allocation reserve	33,242	1,386
Taxable income not booked over profit or loss	-2,812	-10,933
Deductible expenses not booked over profit or loss	21	21,223
Effect of change in tax rate	-9,041	-891
Adjustment of tax attributable to previous years	-15,720	-1,297
Reported tax expense	**176,834**	**-55,158**
Effective tax rate	**16.9%**	**34.8%**

Deferred tax assets	31 Dec 2019	31 Dec 2018
The balance comprises temporary differences attributable to:		
Losses carry-forward	234,830	37,895
Allowance for credit losses	56,368	368
Other	19,468	9,245
Total	**310,666**	**47,508**

Deferred tax liabilities	31 Dec 2019	31 Dec 2018
The balance comprises temporary differences attributable to:		
Intangible assets	74,001	81,968
Untaxed reserves	474	33,729
Other	1,936	1,936
Total	**76,411**	**117,633**

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

Losses carry-forward

Deferred tax assets attributable to losses carry-forward are reported only if it is probable that they will be used towards taxable profits in the foreseeable future.

Note 15 Net result from categories of financial instruments

	2019	2018
Financial instruments mandatory measured at fair value through profit or loss	-55,699	-48,711
Financial assets measured at amortized cost	6,125,859	5,306,792
Financial liabilities measured at amortized cost	-778,462	-569,727
Currency exchange gains/losses	-12,015	21,307
Total	**5,279,683**	**4,709,661**

Note 16 Treasury bills chargeable at central banks, etc.

	31 Dec 2019	31 Dec 2018
Swedish central bank	-	400,044
State and sovereigns	210,678	1,333,077
Municipalities and other public bodies	2,065,146	1,351,193
Other borrowers	234,782	-
Total	**2,510,606**	**3,084,314**
By currency		
- in SEK	2,510,606	1,751,237
- in EUR	-	1,127,379
- in NOK	-	205,698
Total	**2,510,606**	**3,084,314**

Of the treasury bills chargeable at central banks, etc., SEK 446,790k (3,084,314) have a remaining maturity up to one year. For the fair value amounts, see note 33.

Note 17 Loans to credit institutions

	31 Dec 2019	31 Dec 2018
Loans to credit institutions	1,913,242	2,721,841
By currency		
- in SEK	174,988	891,583
- in EUR	1,007,180	1,290,381
- in USD	286,401	157,026
- in AUD	97,424	255
- in GBP	80,399	164,705
- in other currencies	266,850	217,891
Total	**1,913,242**	**2,721,841**

All loans to credit institutions are payable on demand. For the fair value amounts, see note 33.

The loss allowance for loans to credit institutions at the end of the reporting period amounts to SEK 97k (39) and is allocated to impairment stage 1. The Group has no purchased or originated credit-impaired assets (POCI) related to credit institutions.

Note 18 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 loans to the public	**29,654,552**	**19,979,002**

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Gross carrying amount as at January 1, 2019[1]	**16,314,861**	**3,270,428**	**1,034,875**	**14,517**	**284,553**	**20,919,234**
New assets originated or purchased	100,931,504	8,650,875	175,944	37,980	378,314	**110,174,617**
Assets derecognized or repaid (excl. write-offs)	-84,914,488	-11,119,537	-1,364,737	-22,649	-159,204	**-97,580,615**
Transfers to stage 1	8,752,764	-8,197,703	-555,061	-	-	-
Transfers to stage 2	-11,485,773	11,685,295	-199,522	-	-	-
Transfers to stage 3	-862,265	-2,447,262	3,309,527	-	-	-
Amounts written off	-33,803	-60,006	-1,529,574	-4,533	-	**-1,627,916**
Other adjustments	-685,902	-12,542	117,028	438	-3,771	**-584,749**
Gross carrying amount as at December 31, 2019	**28,016,898**	**1,769,548**	**988,480**	**25,753**	**499,892**	**31,300,571**

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Allowance as at January 1, 2019[1]	**-286,664**	**-162,578**	**-450,495**	**-8,077**	**-32,418**	**-940,232**
New assets originated or purchased	-1,459,050	-74,572	-18,305	-139	-34,340	**-1,586,406**
Assets derecognized or repaid (excl. write-offs)	1,470,746	568,419	711,790	545	9,120	**2,760,620**
Transfers to stage 1	-247,635	212,444	35,191	-	-	-
Transfers to stage 2	998,025	-1,023,800	25,775	-	-	-
Transfers to stage 3	216,030	1,072,402	-1,288,432	-	-	-
Impact on year end ECL from change in credit risk[2]	-1,384,579	-895,156	-314,678	-12,466	-	**-2,606,879**
Changes to models and inputs used for ECL calculations	-	1,085	-	-	-	**1,085**
Amounts written off	5,527	14,200	743,396	2,572	-	**765,695**
Other adjustments	2,058	33,584	-75,573	-60	89	**-39,902**
Allowance as at December 31, 2019	**-685,542**	**-253,972**	**-631,331**	**-17,625**	**-57,549**	**-1,646,019**

[1] The table shows month over month movements.

[2] The new impairment model implemented in the end of 2018 captures more gradual increases in ECL for Pay in 14 days/Pay in 30 days resulting in a higher increase in credit risk already in stage 1 compared to previous year, even though a significant increase in credit risk has not yet occurred.

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

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

[1] The table shows month over month movements.

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

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

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

For the fair value amounts, see note 33.

Note 19 Bonds and other interest-bearing securities

	31 Dec 2019	31 Dec 2018
Public bodies	200,000	-
Other borrowers	1,633,567	-
Total	**1,833,567**	**-**
- in SEK	1,833,567	-

Of the bonds and other interest-bearing securities, SEK 683,250k (0) have a remaining maturity of up to one year. For the fair value amounts, see note 33.

Note 20 Intangible assets

	Goodwill	Brands	Licenses	Capitalized development expenses	Other intangible assets	Total
Purchase value as at January 1, 2019	1,327,865	82,094	61,189	670,910	401,055	2,543,113
This year's purchase	-	-	1,921	165,930	66,208	234,059
Additions from business combinations	-	-	-	-	25,173	25,173
This year's sales/disposals	-	-	-2	-	-152	-154
Reclassification	-	-	-4,709	2,434	2,275	-
Currency translation difference	26,558	1,655	139	3,770	6,006	38,128
Purchase value as at December 31, 2019	1,354,423	83,749	58,538	843,044	500,565	2,840,319
Amortization as at January 1, 2019	-	-2,730	-44,753	-334,192	-79,053	-460,728
This year's amortization	-	-2,089	-5,885	-104,879	-38,948	-151,801
This year's sales/disposals	-	-	2	-	2	4
Currency translation difference	-	-55	-71	-3,414	-569	-4,109
Amortization as at December 31, 2019	-	-4,874	-50,707	-442,485	-118,568	-616,634
Write-down as at January 1, 2019	-	-75,951	-	-350	-	-76,301
This year's write-down	-	-	-	-	-151	-151
This year's sales/disposals	-	-	-	-	151	151
Currency translation difference	-	-1,531	-	-7	-	-1,538
Write-down as at December 31, 2019	-	-77,482	-	-357	-	-77,839
Carrying amount as at December 31, 2019	1,354,423	1,393	7,831	400,202	381,997	2,145,846

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

Goodwill is allocated to the following cash-generating units:	31 Dec 2019	31 Dec 2018
Klarna Bank AB (publ), originated from Analyzd Technologies Ltd.	10,594	10,594
Operating segment DACH, originated from BillPay GmbH	371,394	364,054
Operating segment DACH, originated from Sofort GmbH	972,435	953,217
Total	1,354,423	1,327,865

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

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

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

Expected future cash flows for the cash-generating units are based on forecasts for the first 3-5 years. The most important factors for the impairment test are the growth rate of revenues, gross margin, the growth rate of indirect costs and the level of the discount rate. These parameters are based on internal assessments of the cash-generating units' development. A long term growth rate is applied for years after the first 3-5-year period. The long term growth rate used in the cash flow forecast for 2019 is 2% (2). The expected cash flows have been discounted to present value using a discount rate that is based on the risk-free interest rate and a company specific risk adjustment. The discount rate used for 2019 was 9.7% (8.9) before tax. The results of the impairment test showed that the recoverable amount is larger than the carrying amount with a good margin and that there was consequently no need for an impairment charge. A sensitivity analysis has been performed with changes in the most important factors of the impairment test. The result of the sensitivity analysis did not indicate any need of impairment charge. The impairment test was performed in Q3 2019.

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

Note 21 Tangible assets

	Investments in rented facilities	Equipment	Total
Purchase value as at January 1, 2019	**29,266**	**163,748**	**193,014**
This year's purchase	153,706	32,557	**186,263**
This year's sales/disposals	-	-53	**-53**
Reclassification	818	-818	-
Currency translation difference	717	1,281	**1,998**
Purchase value as at December 31, 2019	**184,507**	**196,715**	381,222
Depreciation as at January 1, 2019	**-3,673**	**-108,739**	-112,412
This year's depreciation	-1,493	-29,128	**-30,621**
This year's sales/disposals	-	53	**53**
Reclassification	-256	256	-
Currency translation difference	-126	-812	**-938**
Depreciation as at December 31, 2019	**-5,548**	**-138,370**	**-143,918**
Carrying amount as at December 31, 2019[1]	**178,959**	**58,345**	237,304

[1] From January 1, 2019, leases are recognized as right-of-use assets, and are included in Tangible assets in the Balance sheet. On December 31, 2019, the right-of-use assets amount to SEK 655,350k (0), which are disclosed in note 6, Leases.

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

Note 22 Other assets

	31 Dec 2019	31 Dec 2018
Current tax assets	153,828	31,515
VAT receivables	38,703	24,114
Derivatives	84,327	24,074
Other receivables	75,405	29,499
Total	**352,263**	**109,202**

For more information on derivatives, see note 23. For the fair value amounts, see note 33.

Note 23 Derivatives

Derivatives held for trading

31 Dec 2019			
	Fair value		Total gross
Foreign exchange derivatives	**Positive**	**Negative**	**nominal amount**
Currency forwards	84,327	-59,869	10,854,895
Total	**84,327**	**-59,869**	**10,854,895**

31 Dec 2018			
	Fair value		Total gross
Foreign exchange derivatives	**Positive**	**Negative**	**nominal amount**
Currency forwards	24,074	-14,947	4,393,471
Total	**24,074**	**-14,947**	**4,393,471**

Note 24 Prepaid expenses and accrued income

	31 Dec 2019	31 Dec 2018
Accrued interest	3,320	1,095
Other accrued income	12,356	8,010
Prepaid rent	4,966	16,510
Prepaid insurance	2,059	1,518
Prepaid licenses	86,027	39,774
Other prepaid expenses	39,584	78,932
Total	**148,312**	**145,839**

For the fair value amounts, see note 33.

Note 25 Liabilities to credit institutions

	31 Dec 2019	31 Dec 2018
Liabilities to credit institutions	4,939,524	1,418,054
By currency		
- in SEK	4,488,906	438,741
- in NOK	244,350	790,505
- in USD	186,933	179,839
- in other currencies	19,335	8,969
Total	**4,939,524**	**1,418,054**

For the fair value amounts, see note 33. For maturity analysis of financial liabilities, see note 35.

Note 26 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 33. For maturity analysis of financial liabilities, see note 35.

Note 27 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 is 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 33. For maturity analysis of financial liabilities, see note 35.

Note 28 Other liabilities

	31 Dec 2019	31 Dec 2018
Accounts payable	152,534	24,457
Personnel related taxes	62,129	33,388
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	172,591	43,570
Total	**5,483,289**	**3,887,025**

For more information on derivatives, see note 23. For the fair value amounts, see note 33. For maturity analysis of financial liabilities, see note 35.

Note 29 Accrued expenses and prepaid income

	31 Dec 2019	31 Dec 2018
Accrued personnel related expenses	257,759	193,587
Accrued commissions to partners	86,149	51,839
Accrued interest	56,638	56,118
Accrued expenses for outsourced functions	63,855	38,633
Accrued expenses for consultants	24,097	28,752
Accrued distribution costs	26,828	16,712
Accrued scoring costs	41,029	17,176
Accrued marketing costs	94,857	5,529
Accrued IT related costs	44,940	12,666
Other accrued expenses	138,138	85,777
Other prepaid income	73,807	26,472
Total	**908,097**	**533,261**

For the fair value amounts, see note 33. For maturity analysis of financial liabilities, see note 35.

Note 30 Provisions

	Restructuring reserve	Pending legal issues and tax litigations	Commitments and guarantees	Other provisions	Total
Provisions as at January 1, 2019	1,084	170,017	-	1,148	172,249
New provisions	-	224,446	-	171	224,617
Amounts used	-450	-89,714	-	-	-90,164
Unused amounts, reversed	-	-1,899	-	-	-1,899
Other adjustments	140	38	-	21	199
Provisions as at December 31, 2019	774	302,888	-	1,340	305,002

Provisions for financial guarantees and commitments	Stage 1	Stage 2	Stage 3	Total
Provisions as at January 1, 2019	59,167	4,742	3,429	67,339
New provisions	89,557	1,518	2,266	93,341
Reversed provisions	-62,456	-17,350	-3,878	-83,684
Transfers to stage 1	1,207	-1,207	-	-
Transfers to stage 2	-29,163	29,163	-	-
Transfers to stage 3	-1,134	-34,434	35,568	-
Impact on year end ECL from change in credit risk	-32	6	7,944	7,918
Changes to models and inputs used for ECL calculations	-30,941	-2,677	-1,995	-35,613
Other adjustments	19,001	22,021	-37,650	3,372
Provisions as at December 31, 2019	45,206	1,782	5,684	52,672

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

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

The total provisions at the end of the year 2019 including the provisions for financial guarantees and commitments amount to SEK 357,674k (239,588).

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

Klarna Bank AB (publ) has provisioned SEK 303m (168), net of payments, as a consequence of differences of opinions between Klarna Bank AB (publ) and the Swedish Tax Agency regarding the historical handling of VAT of Klarna Bank AB (publ). The original provisioning was adjusted during 2019 due to rulings from Swedish courts. A few uncertainties remain, however the provisioning represents a likely final outcome.

On October 14, 2019, the Supreme Administrative court ruled in favor of Klarna Bank AB (publ)'s position in one of the disputes with the Swedish Tax Agency regarding VAT. On October 18, 2019, the Court of Appeals ruled in the other dispute. This ruling was not unequivocally in favor of the position of the Swedish Tax Agency, but it was unquestionably less favorable for Klarna Bank AB (publ). However, the outcome was not unexpected and relatively in line with the amounts already provisioned.

Note 31 Subordinated liabilities

	31 Dec 2019	31 Dec 2018
Subordinated note, nominal value	600,000	600,000
Transaction expenses	-4,567	-5,099
Accrued interest	2,892	2,659
Total	**598,325**	**597,560**

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

For the fair value amounts, see note 33. For maturity analysis of financial liabilities, see note 35.

Note 32 Pledged assets and contingent liabilities

	31 Dec 2019	31 Dec 2018
Pledged assets		
Assets pledged for own liabilities		
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	-
Other pledged assets	9,859	9,474
Total pledged assets	**10,682,360**	**6,654,557**
Contingent liabilities and commitments		
Contingent liabilities		
Guarantees	483,315	523,952
Commitments	10,136,918	4,463,600
Total contingent liabilities and commitments	**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 amounts 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 amount to SEK 2,298,059k (0) as at December 31, 2019.

Note 33 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	1,913,242	1,913,242	-	2,721,841	2,721,841	-
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	24,815	24,815	-	29,499	29,499	-
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	**36,156,186**	**36,156,157**	**29**	**25,888,907**	**25,889,372**	**-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	5,274,337	5,274,337	-	3,705,306	3,705,306	-
Other liabilities (Currency forwards)	59,869	59,869	-	14,947	14,947	-
Accrued expenses and prepaid income	834,286	834,286	-	499,079	499,079	-
Subordinated liabilities	607,048	598,325	8,723	607,374	597,560	9,814
Total	**29,728,385**	**29,576,697**	**151,688**	**22,784,096**	**22,813,620**	**-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 34 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	-	1,913,242	-	**1,913,242**
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	24,815	243,121	**352,263**
Prepaid expenses and accrued income	-	7,891	140,421	**148,312**
Total	**104,408**	**36,051,749**	**3,732,708**	**39,888,865**

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	5,274,337	149,083	**5,483,289**
Accrued expenses and prepaid income	-	834,286	73,811	**908,097**
Provisions	-	-	357,674	**357,674**
Subordinated liabilities	-	598,325	-	**598,325**
Total	**59,869**	**29,516,828**	**656,979**	**30,233,676**

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	-	2,721,841	-	**2,721,841**
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	29,499	55,629	**109,202**
Prepaid expenses and accrued income	-	9,094	136,745	**145,839**
Total	**65,291**	**25,824,081**	**2,326,568**	**28,215,940**

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	3,705,306	166,772	**3,887,025**
Accrued expenses and prepaid income	-	499,079	34,182	**533,261**
Provisions	-	-	239,588	**239,588**
Subordinated liabilities	-	597,560	-	**597,560**
Total	**14,947**	**22,798,673**	**558,175**	**23,371,795**

The following table shows the financial assets and liabilities measured at fair value, divided into the three valuation levels. For description of the fair value levels, see note 2, Accounting and valuation principles, section 11. No transfers between levels have been made during 2018 and 2019.

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 assets	**-**	**84,327**	**20,081**	**104,408**
Financial liabilities				
Other liabilities (Currency forwards)	-	59,869	-	**59,869**
Total liabilities	**-**	**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 assets	**-**	**24,074**	**41,217**	**65,291**
Financial liabilities				
Other liabilities (Currency forwards)	-	14,947	-	**14,947**
Total liabilities	**-**	**14,947**	**-**	**14,947**

Note 35 Maturity analysis for financial liabilities

	31 Dec 2019 Expected to be recovered or settled:			31 Dec 2018 Expected to be recovered or settled:		
Contractual undiscounted cash flows	**Within 12 months**	**After 12 months**	**Total**	**Within 12 months**	**After 12 months**	**Total**
Liabilities to credit institutions	2,759,196	2,236,807	**4,996,003**	21,000	1,415,884	**1,436,884**
Deposits from the public	10,480,638	1,945,934	**12,426,572**	12,045,307	2,701,481	**14,746,788**
Debt securities in issue	3,855,524	1,798,057	**5,653,581**	25,531	2,019,378	**2,044,909**
Other liabilities	4,809,388	524,818	**5,334,206**	3,719,608	645	**3,720,253**
Accrued expenses and prepaid income	809,129	25,157	**834,286**	479,416	19,663	**499,079**
Subordinated liabilities	6,040	780,720	**786,760**	23,131	774,975	**798,106**
Total	**22,719,915**	**7,311,493**	**30,031,408**	**16,313,993**	**6,932,026**	**23,246,019**

Note 36 Interest received and paid

	2019	2018
Interest payments received	2,304,254	1,927,845
Interest expenses paid	-273,287	-281,920

Note 37 Information on related parties

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

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

For information about transactions with the board of directors, CEO and senior management, see note 10.

Note 38 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 capital adequacy regulations, the consolidated situation is made up of the Parent Company Klarna Holding AB and its subsidiaries. All subsidiaries are fully consolidated in the Group. 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 the 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) amounts to SEK 3,747m (2,868) for Klarna Bank AB (publ) and SEK 3,438m (2,702) for the consolidated situation. Klarna thereby has sufficient capital to cover for 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 lll 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	Consolidated situation 31 Dec 2018	Klarna Bank AB (publ) 31 Dec 2019	Klarna Bank AB (publ) 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	4,570,245	3,327,255
Tier 1 capital	7,913,117	2,922,833	4,820,245	3,577,255
Own funds	8,448,158	3,424,327	5,418,570	4,174,815
Total risk exposure amount	26,445,453	22,761,017	28,793,937	24,307,481
Total leverage ratio exposure	38,528,570	26,601,364	38,928,014	26,977,302
Capital adequacy analysis				
Common Equity Tier 1 capital ratio	28.1%	10.8%	15.9%	13.7%
Tier 1 capital ratio	29.9%	12.8%	16.7%	14.7%
Total capital ratio	31.9%	15.0%	18.8%	17.2%
Leverage ratio	20.5%	11.0%	12.4%	13.3%
Combined buffer requirement incl. the requirements of 575/2013 Art. 92(1)(a)	8.1%	7.9%	8.2%	7.9%
of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5%
of which: countercyclical buffer requirement	1.1%	0.9%	1.2%	0.9%
Common Equity Tier 1 capital available to meet buffers	20.0%	2.9%	7.7%	5.8%
Exposure amounts for credit risk according to the standardized approach				
Credit risk including counterparty credit risk	37,738,242	26,318,195	38,022,698	26,819,130
of which: central governments or central banks	510,272	1,789,504	403,660	1,777,849
of which: regional governments or local authorities	2,265,154	1,152,300	2,265,154	1,151,045
of which: multilateral development banks	234,782	-	234,782	-
of which: institutions	2,021,416	2,356,109	1,300,614	2,172,375
of which: corporates	1,593,025	1,710,590	3,392,568	2,467,731
of which: retail	27,617,719	18,442,671	26,533,365	17,327,700
of which: exposures in default	434,437	589,544	396,939	577,667
of which: covered bonds	1,633,589	-	1,633,589	-
of which: equity	20,081	41,217	1,325,570	1,163,482
of which: other items	1,407,767	236,258	536,457	181,281
Total exposure amount	**37,738,242**	**26,318,195**	**38,022,698**	**26,819,130**
Risk exposure amounts according to the standardized approach				
Credit risk including counterparty credit risk	25,212,408	17,138,774	26,345,704	18,064,760
of which: institutions	404,283	602,536	260,123	562,621
of which: corporates	1,516,407	1,633,421	3,325,694	2,402,905
of which: retail	20,713,290	13,832,004	19,900,024	12,995,775
of which: exposures in default	491,110	691,987	453,612	680,107
of which: covered bonds	163,359	-	163,359	-
of which: equity	50,203	71,339	1,355,692	1,193,604
of which: other items	1,873,756	307,488	887,200	229,747
Market risk	272,257	252,714	1,491,088	1,367,388
of which: foreign exchange risk	272,257	252,714	1,491,088	1,367,388
Operational risk	959,111	5,369,394	955,468	4,875,197
Credit valuation adjustments	1,677	135	1,677	135
Total risk exposure amount	**26,445,453**	**22,761,017**	**28,793,937**	**24,307,481**

	Consolidated situation		Klarna Bank AB (publ)	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Total minimum capital requirements				
Credit risk including counterparty credit risk	2,016,993	1,371,102	2,107,657	1,445,181
of which: institutions	32,343	48,203	20,810	45,010
of which: corporates	121,313	130,674	266,056	192,232
of which: retail	1,657,063	1,106,560	1,592,002	1,039,662
of which: exposures in default	39,289	55,359	36,289	54,409
of which: covered bonds	13,069	-	13,069	-
of which: equity	4,016	5,707	108,455	95,488
of which: other items	149,900	24,599	70,976	18,380
Market risk	21,781	20,217	119,287	109,391
of which: foreign exchange risk	21,781	20,217	119,287	109,391
Operational risk	76,729	429,551	76,437	390,016
Credit valuation adjustments	134	11	134	11
Total capital requirement	**2,115,637**	**1,820,881**	**2,303,515**	**1,944,598**
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	4,857,892	2,857,892
Retained earnings	887,596	817,882	274,521	195,463
Accumulated other comprehensive income (and other reserves)	225,268	190,603	392,318	426,517
Independently reviewed interim profits	-	103,086	-	141,824
Common Equity Tier 1 capital before regulatory adjustments	**9,953,240**	**4,278,291**	**5,524,731**	**3,621,697**
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	-164	-80	-164	-80
Intangible assets (net of related tax liability)	-2,069,884	-1,924,116	-524,607	-401,659
Losses for the current financial year	-865,394	-	-738,119	-
IFRS 9 transitional adjustments to CET1 Capital	421,514	98,150	308,404	107,298
Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	**-2,513,928**	**-1,826,046**	**-954,486**	**-294,441**
Common Equity Tier 1 (CET1) capital	**7,439,312**	**2,452,244**	**4,570,245**	**3,327,255**
Additional Tier 1 (AT1) capital instruments				
Capital instruments and the related share premium accounts	256,372	256,372	250,000	250,000
of which: classified as equity under applicable accounting standards	256,372	256,372	250,000	250,000
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**	**250,000**	**250,000**
Tier 1 capital	**7,913,117**	**2,922,833**	**4,820,245**	**3,577,255**
Tier 2 (T2) capital instruments				
Capital instruments and the related share premium accounts	-	-	598,325	597,560
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**	**598,325**	**597,560**
Own funds	**8,448,158**	**3,424,327**	**5,418,570**	**4,174,815**

Note 39 Business combinations

On September 13, 2018, the subsidiary 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 40 Significant events after the end of the reporting period

On February 29, 2020, the Board of Directors of Klarna Holding AB, by virtue of the authorization registered with the Swedish Companies Registration Office (Sw. Bolagsverket) on November 7, 2019, resolved to issue up to 107,397 shares. The shares were registered on March 9, 2020, and have increased equity with SEK 240m.

In light of the recent events related to the Corona-virus (Covid-19) where social distancing and other restrictions have been imposed in several of our markets, Klarna is continuously monitoring relevant developments and ensuring that all appropriate assessments on the potential impact are made on both the consumer and merchant facing sides of the business across all markets globally. At this point it is difficult to reliably project the effect of the current situation, however Klarna's financial standing is robust given the equity raises during 2019 and the current liquidity buffer.

We, as all other financial institutions, are supported by measures provided from regulators. The Swedish Financial Supervisory Authority has for example lowered the countercyclical capital buffer rate requirement for banks from 2.5% to 0% which reduces the capital requirement.

No other significant events have occurred after the closing date.

Parent company financials

Income Statement, Parent Company

Amounts in SEKk	Note	2019	2018
Income from group companies	4	8	472,382
Other income		3	-
Administrative expenses	5, 6	-3,311	-2,094
Operating income		**-3,300**	**470,288**
Income from financial items			
Other interest income and similar items		47,524	129
Financial expenses		-7	-434
Income after financial items		**44,217**	**469,983**
Appropriations	7	-	116
Income tax	8	-2	-
Net income for the year		**44,215**	**470,099**

Statement of Comprehensive Income, Parent Company

Amounts in SEKk	2019	2018
Net income for the year	44,215	470,099
Total comprehensive income for the year	**44,215**	**470,099**

Balance Sheet, Parent Company

Amounts in SEKk	Note	31 Dec 2019	31 Dec 2018
Assets			
Financial non-current assets			
Shares and participations in group companies	10	5,325,554	3,278,391
Receivables	11	4,250,406	179,499
Total financial non-current assets		**9,575,960**	**3,457,890**
Current assets			
Receivables	11	105,308	169,499
Prepaid expenses and accrued income		105	-
Cash and bank balances		6,063	354,159
Total current assets		**111,476**	**523,658**
Total assets		**9,687,436**	**3,981,548**
Equity			
Share capital		2,278	1,986
Additional Tier 1 instruments		256,372	256,370
Retained earnings		9,382,362	3,251,772
Net income for the year		44,215	470,099
Total equity		**9,685,227**	**3,980,227**
Liabilities			
Current liabilities			
Other liabilities		1,482	643
Accrued expenses and prepaid income	12	727	678
Total current liabilities		**2,209**	**1,321**
Total equity and liabilities		**9,687,436**	**3,981,548**

Statement of Changes in Equity, Parent Company

	Restricted equity	Non-restricted equity				
Amounts in SEKk	**Share capital**	**Share premium reserve**	**Additional Tier 1 instruments**	**Retained earnings**	**Net income**	**Total equity**
Balance as at January 1, 2019	**1,986**	**3,099,086**	**256,370**	**152,686**	**470,099**	**3,980,227**
Opening balance adjustment	-	-	2	-2	-	-
Transfer of previous year's net income	-	-	-	470,099	-470,099	-
Net income for the year	-	-	-	-	*44,215*	*44,215*
Total comprehensive income for the year	-	-	-	-	***44,215***	***44,215***
New share issue	292	5,668,775	-	-	-	**5,669,067**
Share warrants	-	-	-	4,589	-	**4,589**
Share-based payments	-	-	-	4,788	-	**4,788**
Additional Tier 1 instruments	-	-	-	-17,659	-	**-17,659**
Balance as at December 31, 2019	**2,278**	**8,767,861**	**256,372**	**614,501**	**44,215**	**9,685,227**
Balance as at January 1, 2018	**1,967**	**2,913,246**	**-**	**150,576**	**7**	**3,065,796**
Transfer of previous year's net income	-	-	-	7	-7	-
Net income for the year	-	-	-	-	*470,099*	*470,099*
Total comprehensive income for the year	-	-	-	-	***470,099***	***470,099***
New share issue	19	185,840	-	-	-	**185,859**
Share warrants	-	-	-	-117	-	**-117**
Share-based payments	-	-	-	7,700	-	**7,700**
Additional Tier 1 instruments	-	-	256,370	-5,480	-	**250,890**
Balance as at December 31, 2018	**1,986**	**3,099,086**	**256,370**	**152,686**	**470,099**	**3,980,227**

Share capital: 22,783,379 shares (19,860,100), quota value 0.1 (0.1).

Cash Flow Statement, Parent Company

Amounts in SEKk	Note	2019	2018
Operating activities			
Operating income		-3,300	470,288
Financial items, net		24,173	-
Adjustments for non-cash items in operating activities			
Result from divestment of shares in group companies		-	-470,098
Gain or loss from change in non-controlling interests		-8	-
Group contribution, not received		-	-2,284
Taxes paid		-14,777	-1
Changes in the assets and liabilities of operating activities			
Change in other assets and liabilities		-6,031,999	-166,839
Cash flow from operating activities		**-6,025,911**	**-168,934**
Investing activities			
Investments in subsidiaries	10	-	-50
Divestment of shares in subsidiaries		-	49,650
Cash flow from investing activities		**-**	**49,600**
Financing activities			
New share issue		5,669,067	185,859
Share warrants		4,589	-117
Additional Tier 1 instruments		-	250,890
Change in non-controlling interests		-1,468	-
Cash flow from financing activities		**5,672,188**	**436,632**
Cash flow for the year		**-353,723**	**317,298**
Cash and cash equivalents at the beginning of the year		**354,159**	**37,155**
Cash flow for the year		-353,723	317,298
Exchange rate diff. in cash and cash equivalents		5,627	-294
Cash and cash equivalents at the end of the year		**6,063**	**354,159**
Cash and cash equivalents include the following items:			
Cash and bank balances		6,063	354,159
Cash and cash equivalents		**6,063**	**354,159**

Notes, Parent Company

Notes 1-3 in the Group apply to the Parent Company as well, with the exception that the Parent Company has chosen not to adopt IFRS 9 "Financial instruments" which is in accordance with the Swedish accounting recommendation, RFR 2, amended by the Swedish Financial Reporting Board.

Note 4 Income from group companies

	2019	2018
Result from divestment of shares in group companies	8	470,098
Group contribution received from group companies	-	2,284
Total	**8**	**472,382**

Note 5 Employees and personnel costs

Salaries, other remuneration and social security expenses	2019	2018
Board and CEO	-1,875	-1,325
Total salaries and remuneration	**-1,875**	**-1,325**

Klarna Holding AB has no employees. However, the basic fee to the board of directors is accounted for in Klarna Holding AB.

Board members and senior management	31 Dec 2019 Number at closing day	31 Dec 2019 Percentage of men	31 Dec 2018 Number at closing day	31 Dec 2018 Percentage of men
CEO and other members of senior management	2	100%	2	100%
Board members	6	83%	7	86%

2019 Salaries and remuneration to the board and CEO	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Jonathan Kamaluddin, Chairman of the Board	-875	-1023	-	-	**-1,898**
Niklas Savander[1]	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-1,000	-	-	-	**-1,000**
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-8,470	-	-4	-797	**-9,271**
Knut Frängsmyr, Deputy CEO	-6,673	-	-4	-797	**-7,474**
Total	**-17,018**	**-1,023**	**-8**	**-1,594**	**-19,643**

[1] On September 6, 2019, the company's director Niklas Savander resigned from the board.

2018 Salaries and remuneration to the board and CEO	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Jonathan Kamaluddin, Chairman of the Board	-775	-1,048	-	-	**-1,823**
Niklas Adalberth[1]	-	-	-	-	-
Niklas Savander[1]	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-550	-	-	-	**-550**
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-6,248	-	-3	-782	**-7,033**
Knut Frängsmyr, Deputy CEO	-6,576	-316	-3	-770	**-7,665**
Total	**-14,149**	**-1,364**	**-6**	**-1,552**	**-17,071**

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

Note 6 Expenses by expense type

	2019	2018
Audit fees to Ernst & Young AB	-225	-267
Other costs	-3,086	-1,827
Total	**-3,311**	**-2,094**

Note 7 Appropriations

	2019	2018
Change in tax allocation reserve	-	116
Total	**-**	**116**

Note 8 Income tax expense

Current tax	2019	2018
Tax expense for the year	-2	-
Total current tax	**-2**	**-**
Reported tax expense	**-2**	**-**

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

	2019	2018
Income before tax	44,217	470,099
Income tax calculated in accordance with national tax rate	-9,462	-103,422
Non-taxable revenues	1	103,422
Deductible expenses not booked over the Profit and Loss	9,459	-
Reported tax expense	**-2**	**-**
Effective tax rate	**0.0%**	**0.0%**

Note 9 Proposed treatment of unappropriated earnings

The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 9,682,948,181 on Klarna Holding AB's balance sheet at the disposal of the Annual General Meeting to be carried forward.

Additional Tier 1 instruments	256,372,091	SEK
Retained earnings	9,382,361,163	SEK
Net income for the year	44,214,927	SEK
Total	**9,682,948,181**	**SEK**

Note 10 Shares and participations in group companies

			31 Dec 2019	31 Dec 2018
Participations in group companies			5,325,554	3,278,391
Group companies	**No. of shares**	**Share**	**Book value**	**Book value**
Klarna Bank AB (publ), Sweden, Corp. ID 556737-0431	152,607	97%	4,822,126	2,777,926
Klarna Midco AB, Sweden, Corp. ID 559146-5132	521,390	91%	503,428	500,465
Total			**5,325,554**	**3,278,391**

During 2018 Klarna Holding AB divested shares in Klarna Bank AB (publ) to Klarna Midco AB.

The Klarna Group operates according to a centralized business model where Klarna Bank AB (publ), being the owner of the majority of the Group's assets, risks as well as the strategic and key value driving functions, is the principal (central entrepreneur) of the Group. Klarna Inc. conducts the Group's business on the US market, Sofort GmbH and BillPay GmbH provide online payment solutions complementing Klarna's business. All other companies of the Group are either providers of auxiliary services or pure holding companies.

Note 11 Receivables

	31 Dec 2019	31 Dec 2018
Non-current		
Receivables from group companies	4,250,406	179,499
Total	**4,250,406**	**179,499**
Current		
Receivables from group companies	90,116	167,601
Other receivables	15,192	1,898
Total	**105,308**	**169,499**
Total receivables	**4,355,714**	**348,998**

Note 12 Accrued expenses and prepaid income

	31 Dec 2019	31 Dec 2018
Accrued personnel related expenses	530	481
Audit fees	197	197
Total	**727**	**678**

Note 13 Contingent liabilities

The subsidiary 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 facilities. The credit liability amounts to SEK 2,157,060k (417,741) as of December 31, 2019. Klarna Holding AB acts as a guarantor for Klarna Bank AB (publ)'s outstanding liability regarding this credit facility.

Note 14 Information on related parties

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

The following transactions have taken place with related parties:

A group contribution of SEK 44,200k has been given to Klarna Bank AB (publ).

Klarna Holding AB has a non-current receivable of SEK 4,250,406k (179,499k) and current receivable of SEK 90,116k (167,601k) from Klarna Bank AB (publ).

For information about transactions with the Board of directors, CEO and senior management, see note 5.

Definitions and Abbreviations

App installs
Number of installments of the 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 of the year.

ECL
Expected credit loss.

Equity/assets ratio
Equity adjusted for untaxed reserves as a percentage of total assets at the end of the year.

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.

POCI
Purchased or originated credit-impaired assets.

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

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

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

Stockholm, March 25, 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

Our audit report was submitted on April 2, 2020

Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant

Klarna.

Auditor's report

To the general meeting of the shareholders of Klarna Holding AB, corporate identity number 556676-2356

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Klarna Holding AB for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 13-93 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Klarna Holding AB for the year 2019 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

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

Stockholm April 2, 2020

Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant