

Publication of information concerning capital adequacy and liquidity management

25 February 2021

In accordance with Regulation (EU) 575/2013 and the Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2014:12) on regulatory requirements and capital buffers, this information is presented on a quarterly basis on Klarna's website, www.klarna.com

Klarna's capital requirements are set out in Regulation (EU) 575/2013 and Directive (EU) 36/2013 as well as in the Directive's national implementation regulations. This capital requirement consists of minimum capital requirements for credit, market and operational risk, internally assessed capital requirement and regulatory capital buffers.

The information is presented for Klarna Bank AB (publ) (556737-0431) and its consolidated situation as of December 31, 2020.

Summary of capital adequacy information		
SEKk	Klarna Holding 31 Dec 2020	Klarna Bank AB 31 Dec 2020
Own funds		
Common Equity Tier 1 capital	12,514,158	6,429,038
Additional Tier 1 capital	463,844	250,000
Tier 2 capital	551,576	599,120
Own funds	13,529,578	7,278,158
Risk exposure amount		
Credit risk according to standardized approach	38,019,317	41,891,483
Market risk according to standardized approach	2,114,861	3,771,325
Operational risk according to alternative standardized approach	2,252,092	2,202,000
Credit valuation adjustment	4,084	4,084
Total risk exposure amount	42,390,354	47,868,892
Capital adequacy analysis		
Common Equity Tier 1 capital ratio	29.5%	13.4%
Tier 1 capital ratio	30.6%	13.9%
Total capital ratio	31.9%	15.2%
Combined buffer requirement incl. the requirements of 575/2013 Art. 92(1)(a)	7.0%	7.0%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	0.1%	0.1%
Common Equity Tier 1 available to meet buffer requirement, less minimum capital requirement.	24.8%	8.7%
Leverage ratio		
Tier 1 capital	12,978,002	6,679,038
Total Leverage ratio exposure amount	62,564,979	65,442,688
Leverage ratio	20.7%	10.2%

Capital requirements for credit risk per exposure class, standardized approach

SEKk

Klarna Holding

Exposure class	Exposure amount	Risk weighted exposure amount	Capital requirement
Central governments or central banks	6,039,522	0	0
Regional governments or local authorities	2,238,974	0	0
Public sector entities	26,052	0	0
Multilateral development banks	2,140,206	0	0
Institutions	2,999,050	599,810	47,985
Corporates	4,101,853	4,014,407	321,153
Retail	38,419,101	28,814,326	2,305,146
Exposures in default	529,264	634,380	50,750
Covered bonds	1,609,770	160,977	12,878
Equity	20,081	50,203	4,016
Other items	2,752,613	3,745,214	299,617
Total	60,876,486	38,019,317	3,041,545

Capital requirements for credit risk per exposure class, standardized approach

SEKk

Klarna Bank AB

Exposure class	Exposure amount	Risk weighted exposure amount	Capital requirement
Central governments or central banks	5,881,912	0	0
Regional governments or local authorities	2,238,974	0	0
Public sector entities	26,052	0	0
Multilateral development banks	2,140,206	0	0
Institutions	2,101,546	420,309	33,625
Corporates	8,144,030	8,070,733	645,659
Retail	35,294,967	26,471,225	2,117,698
Exposures in default	549,145	654,261	52,341
Covered bonds	1,609,770	160,977	12,878
Equity	3,385,226	3,415,347	273,228
Other items	1,969,145	2,698,631	215,891
Total	63,340,973	41,891,483	3,351,320

Internally assessed capital requirement

As of December 31, 2020, the internally assessed capital requirement for the consolidated situation amounted to SEK 4.9bn and for Klarna Bank AB (publ) to SEK 5.6bn, comprising the minimum capital requirement under Pillar I, the capital requirement for risks managed under Pillar II and the combined buffer requirements.

Sources of funding

As of December 31, 2020, Klarna's business was funded by deposits from the public, debt securities in issue, operational liabilities, subordinated debt and liabilities to credit institutions.

Liquidity reserve

As of December 31, 2020, Klarna's liquidity reserve amounted to SEK 10.1bn and consisted of high-quality liquid assets.

IFRS 9 Transitional adjustments

From January 1, 2018 Klarna applies the transitional rules in accordance with article 473(a) of the European Union regulation no 575/2013 in order to phase in the effect on capital when applying IFRS 9. The capital adequacy calculations are adjusted with a dynamic and two static amounts over a period spanning 5 years. From June 2020 the transitional rules also have taken into account the effects of Covid-19 on the IFRS9 model, which prolonged the period of application.

Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9		Klarna Holding			
		SEKk	31 Dec 2020	30 Sep 2020	30 Jun 2020
Available capital (amounts)					
Common Equity Tier 1 (CET1) capital	12,514,158	12,573,662	6,993,845	7,189,416	
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	11,807,447	12,109,375	6,573,102	6,756,871	
Tier 1 capital	12,978,002	13,061,473	7,467,786	7,674,754	
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	12,271,291	12,597,186	7,047,043	7,242,209	
Total capital	13,529,578	13,649,871	8,019,930	8,236,647	
Total capital as if IFRS 9 transitional arrangements had not been applied	12,822,867	13,185,584	7,599,187	7,804,102	
Risk exposure amounts					
Total risk exposure amount	42,390,354	34,077,910	31,440,032	27,236,996	
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	41,683,643	33,613,623	31,019,289	26,804,451	
Capital ratios (as percentage of total risk exposure amount)					
CET1	29.5%	36.9%	22.3%	26.4%	
CET1 as if IFRS 9 transitional arrangements had not been applied	28.3%	36.0%	21.2%	25.2%	
Tier 1	30.6%	38.3%	23.8%	28.2%	
Tier 1 as if IFRS 9 transitional arrangements had not been applied	29.4%	37.5%	22.7%	27.0%	
Total capital	31.9%	40.1%	25.5%	30.2%	
Total capital as if IFRS 9 trans. Arrangements had not been applied	30.8%	39.2%	24.5%	29.1%	
Leverage ratio					
Total Leverage ratio exposure amount	62,564,979	58,030,311	45,047,395	43,719,236	
Leverage ratio	20.7%	22.5%	16.6%	17.6%	
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	19.8%	21.9%	15.8%	16.6%	

Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9		Klarna Bank AB			
SEKk	31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020	
Available capital (amounts)					
Common Equity Tier 1 (CET1) capital	6,429,038	4,810,577	4,921,999	4,214,113	
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	5,896,730	4,365,228	4,497,458	3,851,416	
Tier 1 capital	6,679,038	5,060,577	5,171,999	4,464,113	
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	6,146,730	4,615,228	4,747,458	4,101,416	
Total capital	7,278,158	5,659,558	5,770,992	5,062,750	
Total capital as if IFRS 9 transitional arrangements had not been applied	6,745,850	5,214,209	5,346,451	4,700,053	
Risk exposure amounts					
Total risk exposure amount	47,868,892	36,403,578	33,972,007	30,438,698	
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	47,336,584	35,958,229	33,547,466	30,076,001	
Capital ratios (as percentage of total risk exposure amount)					
CET1	13.4%	13.2%	14.5%	13.8%	
CET1 as if IFRS 9 transitional arrangements had not been applied	12.5%	12.1%	13.4%	12.8%	
Tier 1	13.9%	13.9%	15.2%	14.7%	
Tier 1 as if IFRS 9 transitional arrangements had not been applied	13.0%	12.8%	14.2%	13.6%	
Total capital	15.2%	15.5%	17.0%	16.6%	
Total capital as if IFRS 9 trans. arrangements had not been applied	14.3%	14.5%	15.9%	15.6%	
Leverage ratio					
Total Leverage ratio exposure amount	62,442,688	13,016,473	44,822,016	44,142,693	
Leverage ratio	10.2%	8.8%	11.5%	10.1%	
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	9.3%	8.1%	10.7%	11.7%	

Disclosure of information regarding capital adequacy and capital ratios

The table below is prepared in accordance with FFFS 2014:12 Chapter 8 Paragraph 3 and Regulation (EU) 1423/2013 Annex IV.

Own funds disclosure			Regulation (EU) No 575/2013
SEKk	Klarna Holding	Klarna Bank AB	Article reference
Common Equity Tier 1 (CET1) capital: instruments and reserves			
Capital instruments and the related share premium accounts	14,892,742	7,358,049	26(1), 27, 28, 29
of which: Share capital	2,451	52,869	26(3)
of which: Share premium	14,890,291	7,305,180	26(3)
Retained earnings	-11,226	-738,535	26(1)(c)

Accumulated other comprehensive income (and other reserves)	109,166	648,275	26(1)
Independently reviewed interim profits			26(2)
Common Equity Tier 1 capital before regulatory adjustments	14,990,682	7,267,789	

Common Equity Tier 1 (CET1) capital: regulatory adjustments

Additional value adjustments	-780	-780	34,105
Intangible assets (net of related tax liability)	-1,915,967	-308,829	36(1)(b), 37
Losses for the current financial year	-1,266,487	-1,061,451	36(1)(a)
IFRS 9 transitional adjustments to CET1 Capital	706,710	532,309	473a(8)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,476,524	-838,751	
Common Equity Tier 1 (CET1) capital	12,514,158	6,429,038	

Additional Tier 1 (AT1) capital: instruments

Capital instruments and the related share premium accounts	256,372	250,000	51,52
of which: classified as equity under applicable accounting standards	256,372	250,000	
Qualifying AT1 capital included in the consolidated Tier 1 capital issued by subsidiaries and held by third parties	207,472		85,86
Additional Tier 1 (AT1) capital before regulatory adjustments	463,844	250,000	

Additional Tier 1 (AT1) capital: regulatory adjustments

Total regulatory adjustments to Additional Tier 1 (AT1) capital			
Additional Tier 1 (AT1) capital instruments	463,844	250,000	
Tier 1 capital (T1 = CET1 + AT1)	12,978,002	6,679,038	

Tier 2 (T2) capital: instruments and provisions

Capital instruments and the related share premium accounts		599,120	62,63
Qualifying own funds instruments included in the consolidated Tier 2 capital issued by subsidiaries and held by third party	551,576		87,88
Tier 2 (T2) capital before regulatory adjustment	551,576	599,120	

Tier 2 (T2) capital: regulatory adjustments

Total regulatory adjustments to Tier 2 (T2) capital			
Tier 2 (T2) capital instruments	551,576	599,120	
Own funds (TC = T1 + T2)	13,529,576	7,278,158	
Total risk exposure amount	42,390,354	47,868,892	

Capital ratios and buffers (as percentage of total risk exposure amount)

Common Equity Tier 1	29.5%	13.4%	92(2)(a)
Tier 1	30.6%	13.9%	92(2)(b)
Total capital	31.9%	15.2%	92(2)(c)
Institution specific buffer requirement (CET1 requirement in accordance with article 92(1)(a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer)	7.0%	7.0%	CRD 128, 129, 130, 131, 133
of which: capital conservation buffer requirement	2.5%	2.5%	
of which: countercyclical buffer requirement	0.1%	0.1%	
Common Equity Tier 1 available to meet buffer requirement, less minimum capital requirement.	24.8%	8.7%	CRD 128

**Amounts below the thresholds for deduction
(before risk-weighting)**

Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	20,081	20,081	36(1)(i), 45, 48
Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38(3) are met)	661,741	486,327	36(1)(c), 38, 48