



Annual report 2020

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

Klarna.

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¹ The formal annual report starts with the Report of the Board of Directors.

Financial information

The information is presented for the Klarna Bank Group, if not otherwise stated.

Full year 2020

Strong performance of the business over the year has delivered:

46% (32)¹

Gross merchandise volume² – YoY growth

USD 53bn ³(35)

Gross merchandise volume – SEK 484bn (332)

40% (31)

Total net operating income – YoY growth

USD 1,087m (753m)

Total net operating income – SEK 10,000m (7,155)

29.5% (28.1)

CET 1 ratio

¹All growth figures are based on SEK results figures.

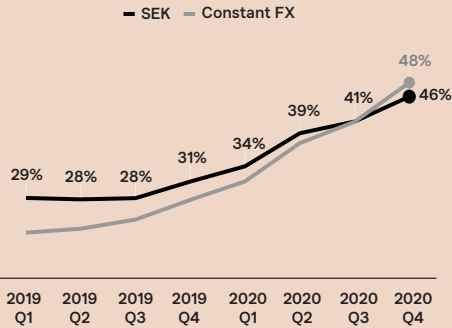
²Total monetary value of sold products and services through Klarna over a given period of time.

³Klarna's results are reported in SEK. To arrive at USD values, the average exchange rates for 2019 and 2020 have been used; 1 USD equals approximately 9.5 SEK for full year 2019, and 1 USD equals approximately 9.2 SEK for full year 2020.

Highlights of the year.

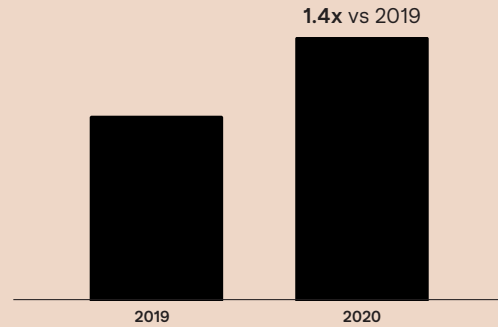
Accelerated growth

Year-on-year growth in gross merchandise volume (rolling 12 months).

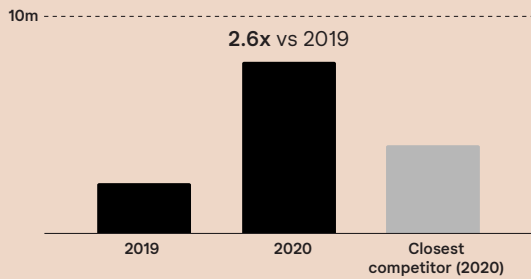


Active retailers globally

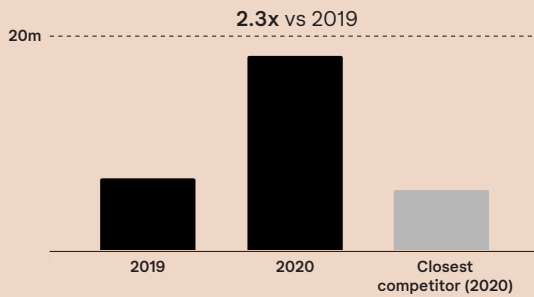
Growth in number of retailers with transactions during the last twelve months.



US app installs

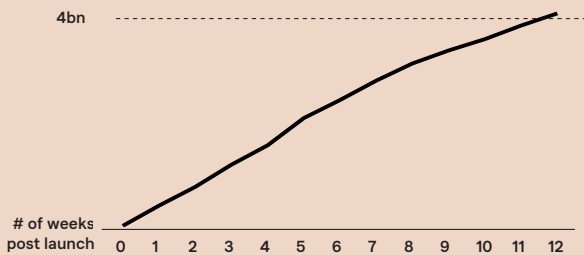


Global app installs



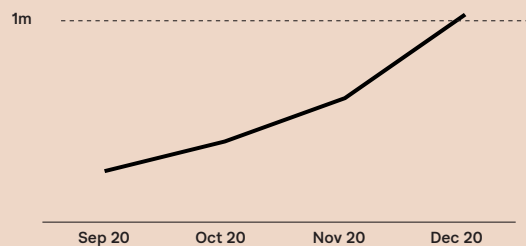
Savings account

Immediate traction for our savings accounts with competitive interest rates during the first 12 weeks in Sweden. Amount of SEK in deposit account.



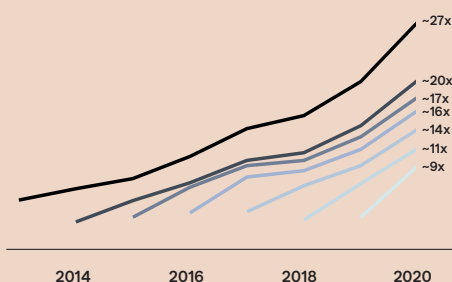
Vibe - Klarna loyalty program

The first loyalty program of its kind, rewarding consumers who pay on time. Launched in September. # of vibe members in the US.



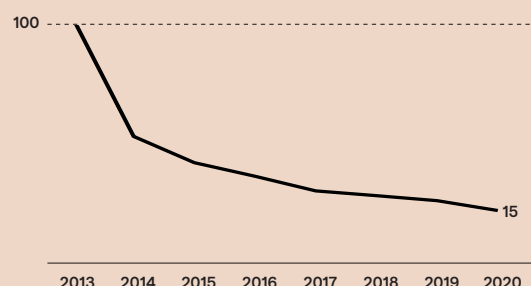
Average number of orders

Our most mature market, Sweden, showcases the strength of our offering and the frequency per cohort increases over time.



Managing down late fees

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



To our Shareholders

Dear Shareholders,

2020 will be forever remembered as the year Covid-19 changed everything we define as everyday life. This is a tragedy that sadly has impacted many, and I want to take the opportunity to share my condolences with everyone that has suffered and lost loved ones to the pandemic. Covid-19 has also had a huge impact on businesses big and small; everyone is simply trying to find their own way through this but I particularly feel for those whose livelihoods have been impacted over the last year. To our own Klarna employees, I am deeply impressed with how you have seamlessly managed the transition to new ways of working while continuing with the same engagement, passion and determination to deliver a superior experience for our consumers and retailers. Klarna always seeks to move at speed, but how our employees not only adapted but met the accelerated demand with ease has been quite remarkable. Together, we have maintained the high level of service that our consumers and partners have come to expect from us. This makes me very proud.

The last year has seen consumer expectations of how they bank, pay and shop grow, despite the limiting factors of the pandemic. More and more people are shopping online, across demographics, and in new retail sectors, gaining trust and confidence in the online marketplace. I cannot see how this will return to pre-pandemic levels now since this behaviour is so well established. But as we return to physical stores, consumers now more than ever expect a seamless convergence of online and in-store experience. Why should shopping in-store limit what a good shopping experience now looks like? Why shouldn't consumers be able to shop in person but pay in a way they do online that suits them better? These are challenges Klarna has *already* responded to. While we have supported our retailers to expedite their transition to online, we also accelerated the launch of new in-store services meeting evolving consumer expectations and supporting retail partners in creating a smooth experience across channels. Naturally our ambitions for 2021 are high: more products across more markets, continued innovation, and creating new ways for retailers to connect with consumers, building on our extensive shopper insight and technology. And all of this is on one platform and with one global partner - Klarna.

While the last decade was about the disruption of retail, I am convinced this decade will be about the disruption of retail banking and the credit card industry - and to the benefit of consumers. In the US alone, the Federal Reserve Bank of New York reported that credit card balances are \$108 billion lower than in 2019⁵, and the drop in the second quarter was the steepest in the history of the data (since 1999) - accelerating the structural shift from credit to debit despite the economic pressures of a pandemic. Consumers are demanding greater control of their finances, simplicity and flexibility, and this is driving both Klarna's ambitions for innovation, and our growth. In 2020, our volumes grew by 46% to USD 53bn, resulting in USD 1.1bn of net operating income for Klarna (+40%).

Our continued investment in innovation means we are now the preferred growth partner for more than 250,000 retailers, working with many of them across geographies as a truly global partner. In the US we have reached a

⁵<https://www.newyorkfed.org/microeconomics/hhdc>

record in shopping volume in the app, and an all-time high in monthly active app users. At the close of Q4, Klarna was ranked in the Top 10 most downloaded shopping apps in US app stores for the entire period, ensuring Klarna is a key competitive advantage for retailers to attract new consumers. As a result, thousands of new partners have joined Klarna, including Macy's, Sephora, Urban Outfitters, Lululemon and Etsy. We are now working with more top-100 US retailers than all our closest competitors combined, and the pipeline of new partners is strong.

Our offering is incredibly relevant and it is clearly resonating with our 87 million active consumers. The strength of the Klarna platform is powering our growth, but we can never be complacent. We must evolve every day and continue to raise the bar for the industry. We are strongly committed as a business to positively contribute to a more sustainable world. Klarna's own carbon neutrality for the last few years is a building block for an ambitious series of actions we will undertake in 2021. The global context we operate in continues to shift at a rapid pace and we are investing in key areas, including people, to further strengthen our capabilities and efficiencies, laying the foundation for continued growth. This year, more than 30% of our new hires were within engineering, reflecting our focus on innovation and anticipating consumer needs that have yet to crystallize. We will continue to build on our global offering at pace. In 2020 we launched our pay later services in four new markets, enabling retail partners to integrate with just one partner and platform across 17 global markets. Based on this, and our strong balance sheet and decreasing credit losses in relation to volume, I feel confident that we are in a very strong position to meet the accelerated demand in the coming years.

We believe that the value we create is directly linked to the problems that we can solve for our consumers. As we look forward, we see a tremendous opportunity to continue to serve our consumers in new and better ways by enabling them to shop, pay and bank in a convenient, transparent and intuitive way, saving them time and money, and liberating them from worry. Financial health is key to this ambition, and Klarnasense, our global platform to support mindful and healthy spending habits, will be developed to support even more consumers to shop wisely and sustainably, managing their finances with confidence. I want to thank the millions of consumers who believe in us, appreciate what we do and challenge us to never stop improving. We are still just at the beginning and our focus on providing you with the best possible experience remains relentless.

To our retail partners, this has been far from an easy year, and I am impressed by your resilience and immense adaptability, and what we have been able to accomplish together in challenging circumstances. At Klarna, we remain committed to helping you by connecting you to consumers, delivering a superior experience and supporting you in your growth ambitions every day.

To our shareholders, we are thankful for the confidence you continue to show in our ambitious plans, particularly during this period, and we are grateful for your continued support.

Sebastian Siemiatkowski,
CEO and Co-founder

Key achievements 2020

The year of 2020 was defined by Covid-19. The pandemic is a tragedy and has had wide-ranging impacts at a personal, national and economic level. Like everyone else Klarna had to adapt, but we have seen two clear changes: an acceleration in the structural shift of preference from credit to debit amongst consumers, and e-commerce becoming the increasingly dominant and at times, the only, engagement channel for retail.

Our ambitions for 2020 were naturally high: increase consumer preference by building the most consumer centric offering in the industry; grow our user base by enabling Klarna wherever and however consumers wish to shop and confirm our position as the preferred growth partner for retailers globally. We are pleased with the results - but most importantly - they establish a strong platform for continued growth in the year ahead.

- 87 million active consumers⁶ globally are now choosing Klarna for a healthier, simpler and smarter way to shop, pay and bank every day.
- For 250,000+ retailers including Macy's, Ralph Lauren, Sephora, Urban Outfitters, Etsy, North Face, Saks OFF 5TH, H&M and Lululemon, Klarna is the global partner of choice to connect them with consumers, drive loyalty and deliver growth.
- US growth continues to accelerate strongly, with more than 1 million new consumers joining Klarna each month in Q4, the Klarna app reaching record shopping volumes in December, and at the close of Q4 we were ranked among the Top 10 most downloaded shopping apps in US app stores for the entire period.
- Record gross merchandise volumes processed on the platform, USD 53bn (+46%), generating USD 1.1bn in Total net operating income (+40%), breaking the USD 1bn threshold for the first time.
- Credit losses as a percentage of total gross merchandise volume decreased across all major markets.
- Proven concept to expand to new markets; pay later offering live in four new markets Australia, Belgium, Spain, and Italy, and established presence in China to support Chinese retail partners scaling to a global consumer base.

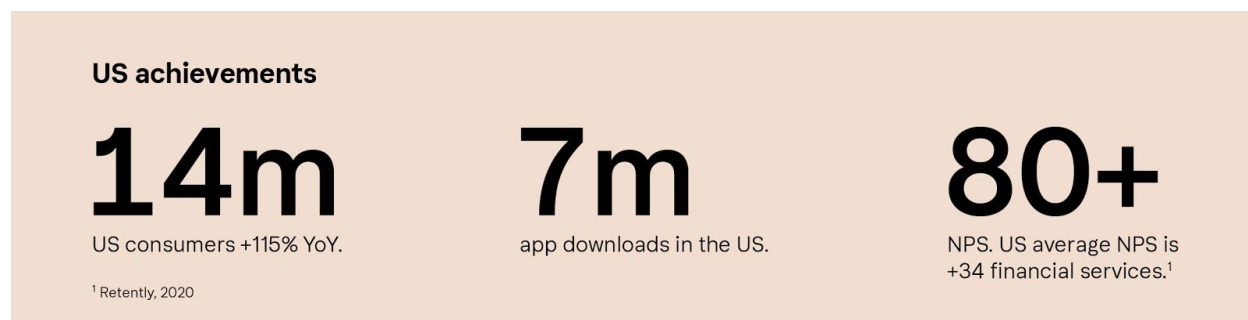
⁶ Defined as having used Klarna's services at least once the last 12 months.

Our commitment to consumers and retailers

Klarna is committed to helping consumers shop, pay and bank with ease. Our continued investment in flexible and innovative products under our trusted and engaging brand offers consumers convenience, inspiration and control.

Our global partnerships with retailers give consumers a superior shopping experience, while Klarna provides retailers with a smooth operating platform and enhanced customer acquisition which powers their growth. Covid-19 has forced retailers to quickly adapt to a transformed retail environment by moving to predominantly online channels but equally recognizing the importance of developing an in-store experience which meets evolving consumer expectations. The investment we have made in our offering has supported this demand. This has driven adoption of Klarna by a broader demographic of consumers as well as retailers across new vertical segments.

Investing for growth in smart and intuitive products



- The **Klarna app** powers the whole shopping journey, giving consumers inspiration, convenience and rewards. Continued investment in new functionality, such as price drop notifications and wish lists, is driving engagement and enabling consumers to make the best purchases for them, at the right time. The offering is clearly resonating: monthly active app users reached record levels of 18 million globally and 3.5 million in the US.
- **Vibe**, the first loyalty program of its kind in our industry, is now live in the US and Australia, and rewards consumers who pay for their goods on time, gaining one million members during the first three months.
- **Klarna in-store** is now live in 10 markets, enabling Klarna contactlessly for consumers while supporting multichannel retailers. US consumers can now shop in over 60,000 physical stores, while in Australia, Klarna is available in any store through the app.
- The **Klarna card** has seen strong volume growth of 137% in Sweden and Germany as it enables consumers to pay now or pay later with Klarna everywhere, with the added benefits of no fees, no added FX cost and instant purchase notifications. The popularity of the Klarna card is evident as Klarna users shift a larger portion of their everyday purchases to Klarna, and we have seen an increase of 160% in volumes after sign up.

- The integrated banking experience to manage purchases, payments and **savings** on one platform is now live in Sweden, and SEK 4bn was deposited through our new accounts within the first 12 weeks.

Empowering consumers with control and convenience

Consumers should have complete control of their finances, saving them time, money and worry. Our consumer-centric offering is empowering consumers to intuitively manage their purchases. To further expand our efforts within this area we have launched:

- The global platform **"KlarnaSense"**, encouraging more mindful shopping has resonated strongly with consumers and will be launched across markets starting in 2021.
- The **"Never Forget Test"**, highlighting the services and app features to pay on-time, incentivised by the opportunity to earn back any existing fees.
- **"Mission Zero"** (Nollmissionen), our commitment to reduce complaints to zero and increase transparency as customer satisfaction is a key driver of customer acquisition and retention. Complaints in Sweden have reduced by 50% since 2018. It will become a global platform in 2021.
- The global **"Consumer Council"**, allowing us to engage directly with consumers and their feedback is used to improve our products and drive customer satisfaction.

Why 87 million consumers chose Klarna

The global shift towards e-commerce continues and more than 87 million active consumers have used Klarna in 2020 as they look for a smarter way to shop, pay and bank. To find out even more about how Klarna supports consumers, we surveyed 7,100 UK Klarna consumers, and below are the three main reasons they chose to shop with Klarna.

Solutions that give consumers control over their personal finances

67% said they use us to spread the cost of a purchase into smaller, more manageable amounts.

Klarna offers various flexible payment solutions and app features that empower consumers to manage their finances and budget in a responsible manner.

Engaging features that make shopping smooth

48% said they use us to try on a few different sizes at home, and keep the one that fits best.

The Klarna app provides an end-to-end hassle-free shopping experience that helps consumers through every step. From discovering what they love to reporting a return, it allows consumers to try on their favorite items in the comfort of their home without having to part with any money before deciding what they want to keep.

Comfort and safety when shopping online

36% said they use us because of the additional protection it offers them when shopping online.

Knowing who to trust when shopping online can be hard. Earning consumers' trust has always been a top priority at Klarna and consumers can count on Klarna's Buyer Protection Policy, which states our commitment to supporting our consumers in finding the best solution in the unlikely event that there is a problem with their purchase, as well as in our capacity to fully authenticate retailers who integrate Klarna into their checkout processes.

Global partner of choice

22m

clicks from Klarna to retailers in the US (December 2020).

250k+

retail partners across verticals.

17

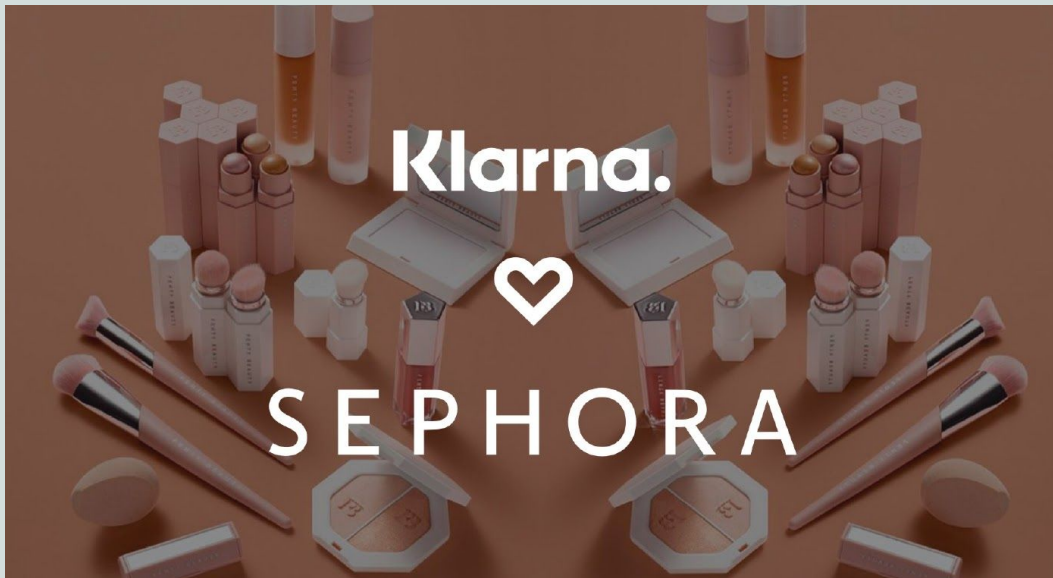
markets. 4 new in 2020 and growing.

Global retailers want global partners. One platform, across 17 markets, with 87 million active consumers makes Klarna the global partner of choice.

- Klarna has over 250,000 retailer partners live globally, including some of the top 100 highest grossing retailers in the US⁷; H&M, Macy's, Sephora, Ralph Lauren, Etsy, Urban Outfitters, IKEA, Samsung, One Peloton, Anthropologie, and Nike.
- The Klarna app has proven to be a key driver of customer acquisition for our retail partners, and in December alone we enabled 22 million monthly clicks to retailers in the US. As we continue to expand our omnichannel experience globally, our consumer base grows to the benefit of our retail partners.
- Investment in our brand continues to benefit our retail partners, with campaigns designed to engage consumers and drive preference and loyalty for Klarna. We reached 1.2 billion total global impressions by partnering with Lady Gaga and Bea Åkerlund for Valentine's day ("Get What You Love"). Sneaker lovers ("Sneakerheads") and gamers ("Playing for keeps") played to vertical sectors, while our "Clothes Love All" celebrated diversity and body positivity, reflecting our brand values.

⁷ Data: Digital Commerce 360, 2020

Klarna x Sephora



Smooth, fast set up across channels and markets

Sephora wanted to provide new levels of financial flexibility online, in-app and in-store across the US and Canada to help their clients shop more easily for the beauty brands and essentials they love. Klarna enabled Sephora to go live with new payment options across markets and channels in less than two months, making us the partner of choice across global markets, with Klarna launching across Sephora in Italy and Spain.

Meeting consumers needs, driving consumer purchases

"Being able to spread a payment over time is liberating for our clients. They can buy complimentary items that complete their collection, color palette, or skin care regime all at the same time, rather than split them over two or three transactions."

Carolyn Bojanowski, General Manager of E-commerce at Sephora US

Klarna drives retailer growth

Sephora launched with Klarna in May 2020, and has so far seen:

- +65% increase in average order value (AOV) in physical stores in North America.
- +36% increase in AOV on their mobile app in North America.
- +35% increase in AOV on their webstore in North America.

Strong base of more than 250,000 retail partner

Fashion

ANTHROPOLOGIE



EXPRESS

Abercrombie & Fitch

RIVER ISLAND

GOOD AMERICAN

ASOS

boohoo

Premium Fashion

Theory

bloomingdale's



★ macys

RALPH LAUREN

CALVIN KLEIN

FARFETCH

Shoes & Accessories

FINISH LINE



pandora®



DANIEL WELLINGTON

Beauty & Cosmetics

SEPHORA

BEAUTY BAY

bluemercury®
makeup · skincare · spa

ADOREBEAUTY

Charlotte Tilbury

BEAUTYCOUNTER®

Sports & Outdoors

GYMSHARK



SurfStitch

PELOTON®



HIBBETT
SPORTS



lululemon

Marketplace, Electronics & Entertainment

Etsy

NTWRK

AliExpress

GameStop
POWER TO THE PLAYERS®

dyson

Lenovo

LG

Fender®

SAMSUNG

ticketmaster

overstock.

Report from the Board of Directors.

Report of the Board of Directors

The Board and the CEO of Klarna Bank AB (publ) hereby submit the report for the period January 1 – December 31, 2020. Klarna Bank AB (publ)'s parent company is Klarna Holding AB (publ). This report presents the financial statements for Klarna Bank AB (publ) 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

Klarna Bank AB (publ) is an authorized bank and is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen).

Klarna is a leading global provider of innovative payments and shopping services and we continuously develop new products and services to elevate the entire shopping experience for consumers, which in turn drives value for our retail partners. At the core of everything we do is the focus to give our consumers the choice and control of how to shop and manage their personal finances in a sustainable way. Together our products and services build the 'Klarna everywhere' concept, enabling consumers to choose how, where and when to shop, pay and bank with Klarna, based on their own needs and preferences.

Our success to date is a result of the high degree of trust that has been built with consumers, retailers and partners in all markets. This trust is critical in the financial sector, and maintaining it requires that we operate with the highest ethical standards and strive 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. Klarna's personal data protection officer is responsible for ensuring that all personal details are handled in accordance with the General Data Protection Regulation (GDPR).

Klarna was founded in 2005 in Sweden, and has been a fully licensed bank since 2017, active in 17 markets.

Business results

Net operating income

In 2020 growth accelerated in both new and core markets. The step-change in e-commerce penetration globally, the structural shift from credit to debit combined with our attractive offering and enhanced features has driven this growth. As a result, gross merchandise volume increased by

46% YoY to SEK 484bn (USD 53bn) and Total net operating income increased by 40% YoY to SEK 10,000m (USD 1,087m) at period-end.

Merchant revenue increased by 57%, above the level of gross merchandise volume growth, as interest-free products in the US and the UK grew well ahead of the group average. Commission income grew at a lower pace by 47% YoY to SEK 7,673m (USD 834m) as we continued to actively manage down late fees in the Nordics. We intend to diversify our revenue streams with a particular focus on affiliate services as we become a key customer acquisition channel for retailers.

Growth in interest income (SEK 3,265m, USD 355m) of 17% YoY remained below that of total net operating income as consumer demand for our interest-free, shorter duration payment products outpaced other payment alternatives.

Interest expenses grew to SEK 601m (USD 65m) at period-end driven by our rapid growth of gross merchandise volume, as well as additional liquidity buffers to ensure business stability.

Operating expenses

We are committed to investing in expanding and enhancing our consumer-focused product offering and increased brand awareness, with a focus on the US and UK, and continued market expansion. This year we launched in four new markets: Australia in partnership with Commonwealth Bank of Australia (CBA), Belgium, Spain and Italy. Consequently, our operating expenses increased by 43% as we built scale in every market with the goal of becoming the clear global market leader. This expansion has required increased resources globally, with the average number of full-time equivalents (FTEs) increasing by 44% compared to the same period last year, to 3,238.

Net credit losses of SEK 2,531m (USD 275m) increased by 36%, slower than gross merchandise volume, showing continued improvement during the year. As a proportion of total gross merchandise volume losses fell across all our major markets, with the sharpest improvements in the US and the UK. We continue to build our global database and leverage our underwriting technology across markets, which allows us to simultaneously optimize acceptance rates for retailers and have a prudent approach towards our consumers, whilst driving a continuous improvement in relative losses on a market by market basis.

Liquidity and funding

Volume growth contributed to an increase in Loans to the public of 41% YoY to SEK 41,718m (USD 4,535m). Growth has been funded by the increase in Deposits from the public, which are primarily driven by EUR deposits.

The average duration of our credit portfolio is ~40 days. This means we can steer balance sheet growth and related risk quickly. In the context of the current macro environment, we maintain a reserve of SEK 70m as market conditions remain uncertain in light of Covid-19 and its related effects.

Capital adequacy has strengthened compared to the last year due to equity raises in H2 2020 and Klarna is now at a CET1-ratio of 29.5%, creating a strong capital position.

Branches abroad

Klarna Bank AB (publ) operates Klarna Bank AB UK branch.

Since June 2020, Klarna Bank AB (publ) operates Klarna Bank AB German branch.

Significant events during the period

Klarna Bank AB (publ) has added a reserve totalling SEK 70m during the period for potentially increased credit risk given the Covid-19 situation and its effect on macroeconomic factors.

On June 1, 2020, a cross border merger between Klarna GmbH and Klarna Bank AB (publ) was carried out. Klarna GmbH was merged into Klarna Bank AB, which is present in Germany through its German branch Klarna Bank AB German Branch. The merger resulted primarily in an increase in tangible assets of SEK 400m, an increase in equity of SEK 85m and in lease liabilities of SEK 190m in Klarna Bank AB (publ).

In June, November and December 2020, Klarna Bank AB (publ) received unconditional shareholders' contributions of SEK 1,000m, SEK 500m and SEK 1,000m respectively from Klarna Holding AB (publ).

Future development

Klarna continues to establish its position as a leading global payments provider and shopping service by creating an elevated shopping experience, supporting retailer growth and driving consumer engagement and loyalty. With a proven concept for market expansion, Klarna will continue to grow by entering new markets and continuing to diversify revenue streams, including expanding new non-credit and affiliate services. Klarna will further enhance the offering towards both retailers and consumers across markets, and following the successful launch of the savings accounts, Klarna will go further into establishing an integrated banking experience for consumers. By continuing to build global consumer-centric products that create an exciting shopping experience, Klarna will be able to offer services that are even more tailored to each consumer, therefore setting up a platform for driving sustained preference and growth for the future.

Risk management

Klarna is through its business activities subject to a number of different risks where credit risk is the most significant one. Other major risks are operational risk, liquidity risk and business 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 control functions that report to the CEO and the Board. The functions consist of Risk Control, Engineering Assurance and Compliance. 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 ensuring 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.

Corporate governance reports and Modern Slavery and Human trafficking reports

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

Klarna Bank AB (publ) has decided to report the Modern Slavery and Human trafficking report separated from the annual report. The 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 5,751,479,447 on Klarna Bank AB (publ)'s balance sheet at the disposal of the Annual General Meeting to be carried forward.

Additional Tier 1 instruments	250,000,000	SEK
Other reserves	-3,714,958	SEK
Retained earnings	6,678,728,243	SEK
Net profit for the year	-1,173,533,838	SEK
Total	5,751,479,447	SEK

**Group
and parent
company
financials.**

Five Year Summary, Group

Amounts in SEKk	2020	2019	2018	2017	2016
Income statement					
Total net operating income	10,000,104	7,154,668	5,450,781	4,158,045	3,289,503
Operating profit	-1,629,127	-1,088,649	160,910	523,987	168,300
Net profit for the year	-1,375,809	-902,356	105,224	345,613	113,427
Balance sheet					
Loans to credit institutions	2,614,447	1,907,129	2,367,631	1,211,778	1,234,684
Loans to the public	41,717,591	29,654,552	19,979,002	13,874,164	8,450,037
All other assets	17,463,216	8,305,879	5,513,199	3,901,290	2,397,103
Total assets	61,795,254	39,867,560	27,859,832	18,987,232	12,081,824
Liabilities to credit institutions	2,414,897	4,939,524	1,418,054	396,965	754,944
Deposits from the public	30,834,677	12,287,653	14,581,769	8,491,654	5,839,490
All other liabilities	22,221,717	17,344,917	7,717,750	6,065,083	2,870,025
Total equity	6,323,963	5,295,466	4,142,259	4,033,530	2,617,365
Total liabilities and equity	61,795,254	39,867,560	27,859,832	18,987,232	12,081,824
Key ratios and figures¹					
Return on equity	-28.0%	-23.1%	3.9%	15.8%	6.6%
Return on assets	-2.7%	-2.7%	0.4%	2.2%	1.1%
Debt/equity ratio	7.7	6.2	4.7	3.7	3.1
Equity/assets ratio	10.2%	13.3%	14.9%	21.2%	21.7%
Cost/revenue ratio	91.0%	89.2%	82.6%	75.4%	82.0%
Own funds (Total capital)	13,529,578	8,448,158	3,424,327	2,830,504	1,928,585
Capital requirement	3,391,228	2,115,637	1,820,881	1,244,297	820,138
Total capital ratio	31.9%	31.9%	15.0%	18.2%	18.8%
Average number of full-time equivalents	3,238	2,248	1,713	1,380	1,244

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

Five Year Summary, Parent Company

Amounts in SEkk	2020	2019	2018	2017	2016
Income statement					
Total net operating income	8,421,359	6,220,318	4,754,194	3,554,830	2,730,786
Operating profit	-1,374,193	-1,076,532	100,439	509,400	9,697
Net profit for the year	-1,173,534	-738,119	141,824	344,839	300
Balance sheet					
Loans to credit institutions	1,722,857	1,192,327	1,962,486	824,695	946,172
Loans to the public	38,025,289	28,536,048	19,850,726	13,739,439	8,838,723
All other assets	22,521,774	8,908,588	5,290,084	3,462,732	1,972,577
Total assets	62,269,920	38,636,963	27,103,296	18,026,866	11,757,472
Liabilities to credit institutions	2,386,007	4,939,524	1,418,054	396,965	754,944
Deposits from the public	30,681,663	12,252,416	14,557,478	8,475,892	5,839,490
All other liabilities	22,747,637	16,410,136	7,375,651	5,475,254	2,848,743
Total equity	6,454,613	5,034,887	3,752,113	3,678,755	2,314,295
Total liabilities and equity	62,269,920	38,636,963	27,103,296	18,026,866	11,757,472
Key ratios and figures¹					
Return on equity	-23.9%	-20.8%	2.8%	14.0%	0.3%
Return on assets	-2.3%	-2.2%	0.6%	2.3%	0.0%
Debt/equity ratio	7.8	6.4	4.9	3.8	3.3
Equity/assets ratio	10.4%	13.0%	14.3%	21.1%	20.2%
Cost/revenue ratio	92.3%	93.5%	82.7%	72.3%	85.0%
Own funds (Total capital)	7,278,158	5,418,570	4,174,815	3,892,400	2,540,564
Capital requirement	3,829,511	2,303,515	1,944,599	1,371,634	908,420
Total capital ratio	15.2%	18.8%	17.2%	22.7%	22.4%
Average number of full-time equivalents	2,672	1,493	1,089	900	851

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

Income Statement, Group

Amounts in SEKk	Note	2020	2019
Interest income calculated according to the effective interest rate method	5	3,264,747	2,794,769
Interest expenses	6, 7	-601,096	-368,203
Net interest income		2,663,651	2,426,566
Commission income	8	7,672,573	5,232,181
Commission expenses	9	-574,101	-476,023
Net result from financial transactions	10	92,140	-76,437
Other operating income		145,841	48,381
Total net operating income		10,000,104	7,154,668
General administrative expenses	7, 11, 12	-8,680,168	-6,081,229
Depreciation, amortization and impairment of intangible and tangible assets	7, 13	-418,249	-299,271
Total operating expenses before credit losses		-9,098,417	-6,380,500
Operating profit before credit losses, net		901,687	774,168
Credit losses, net	14	-2,530,814	-1,862,817
Operating profit		-1,629,127	-1,088,649
Income tax	15	253,318	186,293
Net profit for the year		-1,375,809	-902,356
Whereof attributable to:			
Shareholders of Klarna Bank AB (publ)		-1,390,691	-916,588
Additional Tier 1 capital holders		14,882	14,232
Total		-1,375,809	-902,356

Statement of Comprehensive Income, Group

Amounts in SEKk	2020	2019
Net profit for the year	-1,375,809	-902,356
Items that may be reclassified subsequently to the income statement:		
Exchange differences, foreign operations	-116,496	35,049
Other comprehensive income for the year, net after tax	-116,496	35,049
Total comprehensive income for the year	-1,492,305	-867,307
Whereof attributable to:		
Shareholders of Klarna Bank AB (publ)	-1,507,187	-881,539
Additional Tier 1 capital holders	14,882	14,232
Total	-1,492,305	-867,307

Balance Sheet, Group

Amounts in SEKk	Note	31 Dec 2020	31 Dec 2019
Assets			
Cash and balances with central banks		5,014,210	107,076
Treasury bills chargeable at central banks, etc.	19	5,219,426	2,510,606
Loans to credit institutions	20	2,614,447	1,907,129
Loans to the public	21	41,717,591	29,654,552
Bonds and other interest-bearing securities	22	1,609,770	1,833,567
Other shares and participations		20,081	20,081
Intangible assets	24	2,449,280	2,145,846
Tangible assets	7, 25	1,003,664	892,654
Deferred tax assets	15	643,879	310,666
Other assets	26, 27	1,140,244	337,071
Prepaid expenses and accrued income	28	362,662	148,312
Total assets		61,795,254	39,867,560
Liabilities			
Liabilities to credit institutions	29	2,414,897	4,939,524
Deposits from the public	30	30,834,677	12,287,653
Debt securities in issue	31	4,182,723	5,582,703
Deferred tax liabilities	15	75,998	76,411
Other liabilities	7, 27, 32	15,797,011	9,822,329
Accrued expenses and prepaid income	33	1,423,335	907,475
Provisions	34	143,530	357,674
Subordinated liabilities	35	599,120	598,325
Total liabilities		55,471,291	34,572,094
Equity			
Share capital		52,869	52,752
Other capital contributed		7,305,180	4,805,140
Reserves		109,325	225,821
Additional Tier 1 instruments		250,000	250,000
Retained earnings		-17,602	864,109
Net profit for the year		-1,375,809	-902,356
Total equity		6,323,963	5,295,466
Total liabilities and equity		61,795,254	39,867,560

Statement of Changes in Equity, Group

Amounts in SEKk	Share capital	Other capital contributed	Reserves ⁴	Additional Tier 1 instruments	Retained earnings	Net profit	Total equity
Balance as at January 1, 2020	52,752	4,805,140	225,821	250,000	864,109	-902,356	5,295,466
Transfer of previous year's net profit	-	-	-	-	-902,356	902,356	-
<i>Net profit for the year</i>	-	-	-	-	-	-1,375,809	-1,375,809
<i>Exchange differences, foreign operations</i>	-	-	-116,496	-	-	-	-116,496
Total comprehensive income for the year	-	-	-116,496	-	-	-1,375,809	-1,492,305
New share issue	117	-	-	-	-	-	117
Shareholders' contribution ¹	-	2,500,040	-	-	-	-	2,500,040
Restricted stock units	-	-	-	-	35,527	-	35,527
Additional Tier 1 instruments ²	-	-	-	-	-14,882	-	-14,882
Balance as at December 31, 2020	52,869	7,305,180	109,325	250,000	-17,602	-1,375,809	6,323,963

Amounts in SEKk	Share capital	Other capital contributed	Reserves ⁴	Additional Tier 1 instruments	Retained earnings	Net profit	Total equity
Balance as at January 1, 2019	52,752	2,805,140	190,772	250,000	738,371	105,224	4,142,259
Opening balance adjustment	-	-	-	-	4	-	4
Transfer of previous year's net profit	-	-	-	-	105,224	-105,224	-
<i>Net profit for the year</i>	-	-	-	-	-	-902,356	-902,356
<i>Exchange differences, foreign operations</i>	-	-	35,049	-	-	-	35,049
Total comprehensive income for the year	-	-	35,049	-	-	-902,356	-867,307
Group contribution ³	-	-	-	-	44,200	-	44,200
Tax effect group contribution	-	-	-	-	-9,458	-	-9,458
Shareholders' contribution ¹	-	2,000,000	-	-	-	-	2,000,000
Additional Tier 1 instruments ²	-	-	-	-	-14,232	-	-14,232
Balance as at December 31, 2019	52,752	4,805,140	225,821	250,000	864,109	-902,356	5,295,466

¹ Shareholders' contribution from parent company Klarna Holding AB (publ) through conversion of loans between Klarna Bank AB (publ) and Klarna Holding AB (publ).

² 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.

³ Group contribution from parent company Klarna Holding AB (publ), paid in 2020.

⁴ The reserves consist of exchange differences from foreign operations.

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

Income Statement, Parent Company

Amounts in SEKk	Note	2020	2019
Interest income calculated according to the effective interest rate method	4, 5	3,284,326	2,777,230
Interest expenses	6, 7	-603,751	-364,173
Net interest income		2,680,575	2,413,057
Dividend received	4	-	126,609
Commission income	4, 8	5,883,500	4,098,667
Commission expenses ¹	9	-1,309,092	-998,829
Net result from financial transactions	4, 10	20,161	-68,988
Other operating income	4	1,146,215	649,802
Total net operating income		8,421,359	6,220,318
General administrative expenses ¹	7, 11, 12	-6,703,922	-5,016,554
Depreciation, amortization and impairment of intangible and tangible assets	7, 13	-330,021	-217,848
Other operating costs		-742,987	-582,320
Total operating expenses before credit losses		-7,776,930	-5,816,722
Operating profit before credit losses, net		644,429	403,596
Credit losses, net	14	-2,004,786	-1,480,128
Impairment of financial assets		-13,836	-
Operating profit		-1,374,193	-1,076,532
Appropriations	16	-	151,100
Income tax	15	200,659	187,313
Net profit for the year		-1,173,534	-738,119

¹ The presentation of Commission expenses and General administrative expenses has been changed for 2020 and restated for 2019. For more information, see note 2, section 2.

Statement of Comprehensive Income, Parent Company

Amounts in SEKk	2020	2019
Net profit for the year	-1,173,534	-738,119
Items that may be reclassified subsequently to the income statement:		
Exchange differences, foreign operations	-4,098	383
Other comprehensive income for the year, net after tax	-4,098	383
Total comprehensive income for the year	-1,177,632	-737,736

Balance Sheet, Parent Company

Amounts in SEkk	Note	31 Dec 2020	31 Dec 2019
Assets			
Cash and balances with central banks		5,014,203	107,070
Treasury bills chargeable at central banks, etc.	19	5,219,426	2,510,606
Loans to credit institutions	20	1,722,857	1,192,327
Loans to the public	21	38,025,289	28,536,048
Bonds and other interest-bearing securities	22	1,609,770	1,833,567
Shares and participations in group companies	23	3,351,308	1,305,489
Other shares and participations		20,081	20,081
Intangible assets	24	771,505	524,607
Tangible assets	7, 25	804,880	448,805
Deferred tax assets	15	486,327	233,832
Other assets	26, 27	5,017,331	1,747,020
Prepaid expenses and accrued income	28	226,943	177,511
Total assets		62,269,920	38,636,963
Liabilities			
Liabilities to credit institutions	29	2,386,007	4,939,524
Deposits from the public	30	30,681,663	12,252,416
Debt securities in issue	31	3,997,212	5,534,267
Deferred tax liabilities	15	119	-
Other liabilities	7, 27, 32	16,701,696	8,946,400
Accrued expenses and prepaid income	33	1,305,763	990,174
Provisions	34	141,514	338,757
Subordinated liabilities	35	599,120	598,325
Total liabilities		55,813,094	33,599,863
Untaxed reserves	36	2,213	2,213
Equity			
Share capital		52,869	52,752
Reserve for development costs		650,264	390,209
Other reserves		-3,715	383
Additional Tier 1 instruments		250,000	250,000
Retained earnings		6,678,729	5,079,662
Net profit for the year		-1,173,534	-738,119
Total equity		6,454,613	5,034,887
Total liabilities and equity		62,269,920	38,636,963

Statement of Changes in Equity, Parent Company

Amounts in SEKk	Restricted equity			Non-restricted equity			Total equity
	Share capital	Reserve for development costs	Other reserves	Additional Tier 1 instruments	Retained earnings	Net profit	
Balance as at January 1, 2020	52,752	390,209	383	250,000	5,079,662	-738,119	5,034,887
Transfer of previous year's net profit	-	-	-	-	-738,119	738,119	-
<i>Net profit for the year</i>	-	-	-	-	-	-1,173,534	-1,173,534
<i>Exchange differences, foreign operations</i>	-	-	-4,098	-	-	-	-4,098
Total comprehensive income for the year	-	-	-4,098	-	-	-1,173,534	-1,177,632
New share issue	117	-	-	-	-	-	117
Shareholders' contribution ¹	-	-	-	-	2,500,040	-	2,500,040
Reserve for development costs	-	260,055	-	-	-260,055	-	-
Merger result ²	-	-	-	-	85,124	-	85,124
Restricted stock units	-	-	-	-	26,959	-	26,959
Additional Tier 1 instruments ³	-	-	-	-	-14,882	-	-14,882
Balance as at December 31, 2020	52,869	650,264	-3,715	250,000	6,678,729	-1,173,534	6,454,613

Amounts in SEKk	Restricted equity			Non-restricted equity			Total equity
	Share capital	Reserve for development costs	Other reserves	Additional Tier 1 instruments	Retained earnings	Net profit	
Balance as at January 1, 2019	52,752	306,934	-	250,000	3,000,603	141,824	3,752,113
Transfer of previous year's net profit	-	-	-	-	141,824	-141,824	-
<i>Net profit for the year</i>	-	-	-	-	-	-738,119	-738,119
<i>Exchange differences, foreign operations</i>	-	-	383	-	-	-	383
Total comprehensive income for the year	-	-	383	-	-	-738,119	-737,736
Group contribution ⁴	-	-	-	-	44,200	-	44,200
Tax effect group contribution	-	-	-	-	-9,458	-	-9,458
Shareholders' contribution ¹	-	-	-	-	2,000,000	-	2,000,000
Reserve for development costs	-	83,275	-	-	-83,275	-	-
Additional Tier 1 instruments ³	-	-	-	-	-14,232	-	-14,232
Balance as at December 31, 2019	52,752	390,209	383	250,000	5,079,662	-738,119	5,034,887

¹ Shareholders' contribution from parent company Klarna Holding AB (publ) through conversion of loans between Klarna Bank AB (publ) and Klarna Holding AB (publ).

² Merger result from the transfer of the wholly-owned subsidiary Klarna GmbH's business into Klarna Bank AB (publ) and its German branch.

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

⁴ Group contribution from parent company Klarna Holding AB (publ), paid in 2020.

Share capital: 157,348 shares (157,000), quota value 336 (336).

Cash Flow Statement

Amounts in SEkk	Note	Group		Parent Company	
		2020	2019	2020	2019
Operating activities					
Operating profit		-1,629,127	-1,088,649	-1,374,193	-1,076,532
Taxes paid		-150,858	-286,084	-	-53,512
<i>Adjustments for non-cash items in operating activities</i>					
Depreciation, amortization and impairment	7, 13	418,249	299,271	330,021	217,848
Gain or loss from shares in listed and unlisted companies		-	915	-	915
Impairment of shares in group companies		-	-	13,836	-
Dividend received from subsidiaries		-	-	-	-126,609
Provisions excluding credit losses		1,527	222,718	1,812	224,446
Provision for credit losses		631,229	651,791	582,155	323,411
Profit from merger		-	-	-12,820	-
Share-based payments		35,527	-	26,959	-
Financial items including unrealized exchange rate effects		-55,370	-38,460	-8,922	-42,438
<i>Changes in the assets and liabilities of operating activities</i>					
Change in loans to the public		-12,466,089	-9,345,613	-9,862,877	-8,031,995
Change in liabilities to credit institutions		-2,697,220	3,521,470	-2,698,740	3,521,470
Change in deposits from the public		18,562,508	-2,294,116	18,429,498	-2,305,063
Change in other assets and liabilities		4,934,236	5,926,842	3,808,189	4,355,573
Cash flow from operating activities¹		7,584,612	-2,429,915	9,234,918	-2,992,486
Investing activities					
Investments in intangible assets	24	-410,761	-234,059	-410,761	-219,134
Investments in tangible assets	25	-63,921	-186,263	-1,658	-13,797
Sales of fixed assets		3,723	-	264	-
Investments in subsidiaries	23	-	-	-1,265,002	-48,555
Investments in business combinations	44	-141,943	-979,077	-769,154	-979,077
Investments and divestments in other shares and participations		142,106	20,220	142,106	20,220
Dividend received from subsidiaries		-	-	-	126,609
Cash flow from investing activities		-470,796	-1,379,179	-2,304,205	-1,113,734
Financing activities					
New share issue		117	-	117	-
Group contribution received		44,200	-	44,200	-
Debt securities in issue	31	-1,458,368	3,579,247	-1,597,662	3,530,810
Lease liabilities	7	-137,368	-104,863	-73,370	-74,408
Cash flow from financing activities		-1,551,419	3,474,384	-1,626,715	3,456,402
Cash flow for the year		5,562,397	-334,710	5,303,998	-649,818
Cash and cash equivalents at the beginning of the year		1,618,008	1,917,407	949,379	1,569,866
Cash flow for the year		5,562,397	-334,710	5,303,998	-649,818
Cash and cash equivalents from merger		-	-	943	-
Exchange rate diff. in cash and cash equivalents		-265,939	35,311	-218,188	29,331
Cash and cash equivalents at the end of the year		6,914,466	1,618,008	6,036,132	949,379
Cash and cash equivalents include the following items					
Cash and balances with central banks		5,014,210	107,076	5,014,203	107,070
Loans to credit institutions ²		1,900,256	1,510,932	1,021,929	842,309
Cash and cash equivalents		6,914,466	1,618,008	6,036,132	949,379

¹ Cash flow from operating activities includes interest payments received and interest expenses paid, see note 41.

² Adjusted for non-cash items such as money in transfer.

**Notes with
accounting
principles.**

Note 1 Corporate information

The Parent Company, Klarna Bank AB (publ), Corp. ID 556737-0431, maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated financial statements for 2020 consist of the Parent Company (including branches in the United Kingdom and Germany) and its subsidiaries, which together make up the Group. The Group's business is described in the Report of the Board of Directors.

The parent company of Klarna Bank AB (publ) is Klarna Holding AB (publ), Corp. ID 556676-2356. Klarna Holding AB (publ) has its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden.

In accordance with the Annual Accounts Act chapter 6, 11§, Klarna Bank AB (publ) does not prepare a statutory sustainability report since an Environmental, Social and Governance report (ESG) that meets the legal reporting requirements is prepared by the parent company Klarna Holding AB (publ). Klarna Holding AB (publ) publishes the ESG report separated from the annual report. The ESG report has been submitted to the auditors at the same time as the annual report. The ESG report is available at Klarna's website: www.klarna.com

The consolidated financial statements and the Annual Report for Klarna Bank AB (publ) for the financial year 2020 were approved by the Board of Directors and the CEO on March 18, 2021. They will ultimately be adopted by Klarna Bank AB (publ)'s Annual General Meeting on May 20, 2021.

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) and the recommendation RFR 1 Supplementary Accounting Rules for Groups issued by the Swedish Financial Reporting Board have also been applied.

Parent Company

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

IASB has amended IFRS 3 Business Combinations to distinguish further if a purchase constitutes a business combination or the purchase of a group of assets. This amendment has not had any significant impact on the group's financial statements.

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 IAS 16 Property, Plant and Equipment for proceeds before intended use

- 3) Amendments to IAS 37 for the Costs of fulfilling a contract related to onerous contracts
- 4) Interest rate benchmark reform phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- 5) Amendments to references to the conceptual framework in IFRS standards
- 6) Amendments to IAS 1 in the classification of liabilities as current or non-current

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.

Changed presentation of Commission expenses for the Parent Company

The presentation of income and expenses has changed in the income statement for the Parent Company. In 2020, the Parent Company presents certain fees, which were previously reported as general administrative expenses within commission expenses, in order to provide more relevant information about the effects of transaction related expenses. The change has been applied for comparable figures to better illustrate the comparative trends between periods. The outcome is that the comparable figures for commission expenses have increased by SEK 545m in 2019 to SEK 999m and general administrative expenses have decreased by the same amount to SEK 5,017m.

The presentation is consistent with the Swedish Financial Supervisory Authority regulations (FFFS 2008:25) and the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL, 1995:1559).

3) Group consolidation principles

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

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

Subsidiaries

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

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 Bank AB (publ) is Swedish kronor.

Transactions and balance sheet items

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

Klarna provides retailers 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 retailer 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 and certain financial instruments.

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 and certain financial liabilities at fair value through profit or loss. These 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.

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 and for certain items in debt securities in issue and loans to the public.

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, retailer 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. At initial recognition, lifetime expected credit losses are considered as part of the gross carrying amount. Lifetime expected credit losses allowance is recognized in case of a deterioration and an appreciation in value in case of improvement to the extent of a subsequent change in the expected credit losses.

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. For quantitative information on the reported ECL amounts see note 21 Loans to the public.

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.

Macroeconomic model:

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. A macroeconomic model is used for consumer receivables with longer maturity even though the correlations between Klarna default rates and macroeconomic variables are low. The model is updated annually and 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 have 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 that are written off could still be subject to enforcement activities in order to attempt to recover the receivables due. For information on the written-off loans subject to enforcement activities, see note 21 Loans to the public.

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 retailer receivables. Hence, the loss allowance for retailer receivables is always measured at an amount equal to lifetime expected credit losses. The retailer receivables are, therefore, initially allocated to stage 2. The receivable will transfer into stage 3 if the

retailer is more than 90 days past due. The risk that the retailer would default is regularly analyzed, and 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.

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.

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).

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 24.

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
Leasehold improvements	The shorter of lease term and useful life

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.

Uncertain tax positions are measured on an ongoing basis and the method is determined by taking all known facts and circumstances into account.

22) Share-based payments

Employment related warrants

For share-based payment to employees settled with equity instruments (warrants), 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-market based vesting terms are recognized in the income statement and equity. Any related social security 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 security charges.

Where granted equity instruments are forfeited due to a failure by the employee to satisfy the vesting conditions, any expenses previously recognized in relation to such share-based payments are reversed effective from the date of the forfeiture.

More information about share-based payment transactions with employees is disclosed in note 11.

Non-employee related warrants

A share-based equity program has been put together for certain non-employees that will give them access to warrants in Klarna, based on their performance. The fair value of the equity instruments is calculated as per the grant date and the warrants vest at the end of the program. This means that the expense and a corresponding increase in equity are recognized over the entire vesting period. The cost is presented under general administrative expenses in the income statement.

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 based on management's experience and knowledge that affect how accounting principles are applied and what effect that has on the financial statements. The actual outcome may diverge from these estimates and assumptions. The estimates and assumptions that involve a considerable risk of significant adjustments in the carrying amounts for assets, liabilities, equity, revenue and costs 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 24. 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 2,449,280k (2,145,846), whereof goodwill amounts to SEK 1,429,144k (1,354,423) at the end of the year and are related to the cash-generating units of Sofort GmbH, BillPay GmbH, Klarna Bank AB (publ), Klarna Italy S.r.l. and Search Engine Marketing Sweden AB. See note 24 for further information on the measurement of goodwill and significant assumptions used in the annual impairment test.

Assessment of provisions

By the end of 2019, Klarna Bank AB (publ) had provisioned SEK 303m, 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). This was largely resolved in 2020, resulting in a release of most of the provision during the year. A residual provision of SEK 50m is being held for final claims with the Swedish Tax Agency. See note 34 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.

Losses carry-forward

The group assesses on an ongoing basis as well as at the end of the year the possibility of recognizing deferred tax assets related to loss carry-forwards. 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 3 Risk management

Risk management

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 purpose of risk management is to safeguard the Group's ability to continue as a going concern and manage volatility in financial performance.

Risk Governance

The basis for the risk management and internal control framework is the three lines of defense model. 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 11.

First line

The first line of defense refers to all risk management activities carried out by line management and staff. All risk owners are fully responsible for the risks, and the management of these, within their respective area of responsibility.

Second line

The second line of defense refers to the Group's independent Risk Control, Engineering Assurance and Compliance Functions, which report directly to the CEO and the Board.

The Risk Control, Engineering Assurance and Compliance Function are responsible for supporting the business and management in risk, security and compliance matters and for assisting in identifying, reporting and following up on risks, including not complying with external and internal rules.

Furthermore, the Risk Control, Engineering Assurance 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.

Third line

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 Internal Audit function is outsourced to Deloitte as appointed by the Board.

Risk Strategy

The Group's risk appetite is defined in the Risk and Credit policies and 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 monitoring of all defined tolerance limits for the Group's risks 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 text, figures and tables below are for the Group. However, the business activities and risks are mainly related to the Parent Company; Klarna Bank AB (publ).

Risk descriptions

The Group's risk taking is kept at a level consistent with the Group's strategy, capital and financial stability. The scope of acceptable risks is linked to the importance of the risk according to the Group's business model. Below are the Group's main risks along with the Group's management of the risks and an overview of the risk exposures and measurement.

Credit risk including concentration risk

Loan receivables credit risk

Definition

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.

Risk management

The Group's credit risk management is executed by various business units, with the required standards ensured by internal routines and policies. Once the risk appetite limits are defined by the Board and 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 credit assessments. Customer repayment performances as well as expected losses according to 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 consumer 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. See note 2 for the accounting principles related to the measurement of ECL.

Risk Exposure and Measurement

The Group is exposed to loan receivables credit risk through retail and corporate lending who choose to buy using the Group's payment products.

For applicant credit assessments, the Group's proprietary scoring model inputs consist of a number of purchase related data points, such as purchase amount and the specific retailer 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.

Credit quality of loans to credit institutions is assessed through analysis of rating grades. The majority of loans to credit institutions have credit ratings above BBB+ (Standard & Poor's) and are highly liquid and therefore the expected credit losses are assessed as immaterial.

For credit exposure to the public, provisions are made to cover for expected losses. For additional information on ECL, see note 2 Accounting and valuation principles, note 20 Loans to credit institutions and note 21 Loans to the public.

Credit risk	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Loan receivables, gross	46,348,526	33,207,797	41,362,660	30,989,579
Allowance for credit losses	-2,016,488	-1,646,116	-1,614,514	-1,261,204
Loan receivables, net carrying amount	44,332,038	31,561,681	39,748,146	29,728,375
of which: Loans to credit institutions	2,614,447	1,907,129	1,722,857	1,192,327
of which: Loans to the public	41,717,591	29,654,552	38,025,289	28,536,048

The carrying amount of the financial assets reflects the maximum exposure to credit risk. Parent Company loan receivables include loans measured at fair value through profit or loss and amounts to SEK 139,226k (0).

Credit risk concentrations

The following tables show the Group's and Klarna Bank AB (publ)'s credit risk exposure measured at amortized cost and significant credit risk concentrations:

Group, 31 Dec 2020					
Gross amounts	Stage 1	Stage 2	Stage 3	POCI	Total
Per region					
Sweden	9,017,571	499,212	236,348	-	9,753,131
DACH	15,068,918	890,815	484,340	5,480	16,449,553
Norway	2,184,548	197,193	53,542	-	2,435,283
Other	16,762,397	643,554	303,460	1,148	17,710,559
Total	43,033,434	2,230,774	1,077,690	6,628	46,348,526
Before due and per days past due					
Before due	38,451,427	940,097	289,210	-	39,680,734
≤30 days	4,582,007	171,486	155,931	1	4,909,425
>30-60 days	-	702,308	41,850	11	744,169
>60-90 days	-	318,350	30,676	34	349,060
>90 days	-	98,533	560,023	6,582	665,138
Total	43,033,434	2,230,774	1,077,690	6,628	46,348,526
Group, 31 Dec 2019					
Gross amounts	Stage 1	Stage 2	Stage 3	POCI	Total
Per region					
Sweden	7,835,688	459,732	167,711	-	8,463,131
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	10,218,869	701,654	378,301	314	11,299,138
Total	29,924,124	2,269,440	988,480	25,753	33,207,797
Before due and per days past due					
Before due	25,144,080	705,193	345,372	169	26,194,814
≤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	29,924,124	2,269,440	988,480	25,753	33,207,797

Parent Company, 31 Dec 2020					
Gross amounts	Stage 1	Stage 2	Stage 3	POCI	Total
Per region					
Sweden	8,989,186	500,293	236,348	-	9,725,827
DACH	14,702,551	731,053	465,176	-	15,898,780
Norway	2,165,242	197,193	53,542	-	2,415,977
Other	12,351,224	559,941	270,538	1,148	13,182,851
Total	38,208,203	1,988,480	1,025,604	1,148	41,223,435
Before due and per days past due					
Before due	33,774,707	797,336	306,197	-	34,878,240
≤30 days	4,433,496	146,436	155,911	-	4,735,843
>30-60 days	-	648,862	41,119	4	689,985
>60-90 days	-	299,162	25,274	2	324,438
>90 days	-	96,684	497,103	1,142	594,929
Total	38,208,203	1,988,480	1,025,604	1,148	41,223,435

Parent Company, 31 Dec 2019					
Gross amounts	Stage 1	Stage 2	Stage 3	POCI	Total
Per region					
Sweden	8,394,430	459,732	167,711	-	9,021,873
DACH	8,522,543	697,981	248,377	-	9,468,901
Norway	2,313,949	248,632	103,913	-	2,666,494
Other	8,957,127	589,358	285,512	314	9,832,311
Total	28,188,049	1,995,703	805,513	314	30,989,579
Before due and per days past due					
Before due	23,463,228	565,549	345,370	-	24,374,147
≤30 days	4,724,821	166,190	37,152	-	4,928,163
>30-60 days	-	749,375	25,543	-	774,918
>60-90 days	-	328,457	15,450	-	343,907
>90 days	-	186,132	381,998	314	568,444
Total	28,188,049	1,995,703	805,513	314	30,989,579

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

Retailer Credit Risk

Definition

The retailers that offer the Group's payment services also carry a credit risk. If a retailer 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 retailer or indemnities.

Risk Management

The Group works proactively with tracking, controlling and mitigating retailer credit risks. The Group has a Retailer Credit Risk function that, among other tasks, assesses retailers' creditworthiness before they are onboarded and allocates a risk class to each retailer based on the financial status of the retailer. Retailer credit risk assessments use external credit bureau data and internal data. If a retailer credit risk is deemed outside the

risk appetite, countermeasures may be taken to ensure that cooperation can continue under modified and acceptable terms.

Risk Exposure and Measurement

The Group uses an internal metric to estimate the risk exposure against a retailer. Based on the internal metric, the Group provisions for the contingent liabilities associated with retailer exposure based on the expected loss, defined as the retailer exposure multiplied by PD given by each retailer's individual Risk Rating.

Counterparty Credit Risk

Definition

The Group is also exposed to credit risk through the risk of default of counterparties. The risk arises due to the risk of default of counterparties for the derivative and repurchase agreements entered into by the Group to manage financial risks.

Risk Management

Counterparty credit risk is managed by selecting only high quality counterparties such as large Nordic and Global banks as derivative counterparties. In addition, netting and margining are used to minimize the exposure amounts per counterparty. The Treasury Function manages the risk with independent oversight by Risk Control.

Risk Exposure and Measurement

Exposure per counterparty is measured daily and margining performed to ensure the net exposure is below agreed limits.

Liquidity Portfolio

Definition

The Group is further exposed to credit risk through its liquidity portfolio. The credit risk arises due to the risk of default of the issuers of the securities the Group holds for liquidity management purposes.

Risk Management

Credit risk in the liquidity portfolio is managed by ensuring the level of securities held is in relation to the business need and by taking into account the creditworthiness of the counterparty. The Group controls the exposure by setting limits on the type of issuers whose securities can be purchased and the credit rating of those issuers. These limits are applied by the Treasury Function on an ongoing basis in managing the liquidity portfolio and independently controlled by Risk Control.

Risk Exposure and Measurement

The risk of securities in the liquidity portfolio is mitigated by only investing in government bonds, covered bonds, or debt securities issued by supranationals or Swedish municipalities with at least an investment grade rating or the Swedish central bank ("Riksbanken").

Credit quality of debt securities	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Treasury bills chargeable at central banks, etc., and bonds and other interest-bearing securities				
AAA ¹	5,206,949	3,574,785	5,206,949	3,574,785
AA+ ¹	1,622,247	769,388	1,622,247	769,388
Total	6,829,196	4,344,173	6,829,196	4,344,173

¹ According to rating from Standard & Poor's.

Interest rate risk

Definition

Interest rate risk refers to the current or prospective risk in the Group's economic value and earnings arising from adverse impacts due to movements in interest rates.

Risk Management

The Group manages the risk operationally through matching of asset and liability maturities. The Group further manages interest rate risk based on internal limits set by the Board. To comply with the internal limits the Group can adjust rates on its lending or enter into hedging instruments such as interest rate swaps. The Group measures and monitors interest rate risk on a continuous basis and manages the interest rate risk through matching of assets and liabilities maturities.

Risk Measurement and Exposure

Interest rate risk is measured as the change in economic value from applying an adverse movement in market interest rates. The measure economic value accounts for the discounted value of future cash flows for each significant currency. The Group applies six different stress scenarios to account for both parallel shifts and a rotation of the yield curve. The interest rate risk is defined as the worst outcome of these scenarios. This measure implied in 2020 an absolute risk for the Group of SEK 45,443k, corresponding to -0.72% of equity. In 2019, the same measure implied an absolute risk of SEK 86,338k, corresponding to -1.63% in equity.

Interest rate risk exposure

Group							Total
31 Dec 2020	SEK	EUR	USD	GBP	NOK	Other	Exposure
Change in Economic Value	28,185	-70,692	-4,392	252	126	1,078	-45,443

Group							Total
31 Dec 2019	SEK	EUR	USD	GBP	NOK	Other	Exposure
Change in Economic Value	-223,800	128,322	5,537	727	2,816	60	-86,338

Parent Company							Total
31 Dec 2020	SEK	EUR	USD	GBP	NOK	Other	Exposure
Change in Economic Value	28,186	-67,832	-943	252	126	1,124	-39,087

Parent Company							Total
31 Dec 2019	SEK	EUR	USD	GBP	NOK	Other	Exposure
Change in Economic Value	-223,799	102,143	4,059	728	2,816	68	-113,985

Currency risk

Definition

Currency risk arises from the adverse impact of currency variations on the balance sheet and earnings and is a result of the Group being active in markets with different currencies than the Group's functional currency.

Risk Management

Currency 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 2020, as a result of growth in markets outside Sweden.

Internal policies limit the fluctuations in exchange rates at Group level and the exposure is managed on a daily basis through the foreign exchange market.

Risk Measurement and Exposure

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

Group						
31 Dec 2020	EUR	GBP	NOK	USD	Other	Total exposure
Net position	65,251	18,156	23,113	26,160	8,160	140,840
Effect of 10% change versus the foreign currency	-6,525	-1,816	-2,311	-2,616	-816	-14,084

Group						
31 Dec 2019¹	EUR	GBP	NOK	USD	Other	Total exposure
Net position	125,258	18,093	17,419	83,681	2,431	246,882
Effect of 10% change versus the foreign currency	-12,526	-1,809	-1,742	-8,368	-243	-24,688

Parent Company						
31 Dec 2020	EUR	GBP	NOK	USD	Other	Total exposure
Net position	52,751	12,494	21,410	26,549	10,783	123,987
Effect of 10% change versus the foreign currency	-5,275	-1,249	-2,141	-2,655	-1,078	-12,398

Parent Company						
31 Dec 2019¹	EUR	GBP	NOK	USD	Other	Total exposure
Net position	125,294	18,086	17,420	83,735	2,429	246,964
Effect of 10% change versus the foreign currency	-12,529	-1,809	-1,742	-8,374	-243	-24,697

¹ Figures for 2019 have been changed due to updates in the calculation method.

A 10% change in the currency exchange rate (SEK) versus all foreign currencies would entail an effect of 1.02% on net income and -0.22% on equity for the Group.

Liquidity risk

Definition

Liquidity risk refers to the risk that the Group will not be able to meet its payment obligations on the date of maturity or finance new loans without the related cost increasing significantly. The main drivers of the risk are lending growth volatility and the inability to acquire funding at the expected price.

Risk Management

The Group has diversified financing sources including operating liabilities, bank financing, retail deposits, commercial papers and bonds (senior and subordinated). Liquidity risk is further mitigated by maintaining liquidity reserves in order to be able to manage imbalances in the duration. The Group pledges parts of its receivables as collateral for a committed credit facility from a financial institution.

The main liquidity measure is the Liquidity Coverage Ratio, defined in the EU's Commission Delegated Regulation.

Risk Measurement and Exposure

The Group has a regulatory requirement to maintain sufficient reserves of liquid assets to support a share (100% as of December 31, 2020) of estimated stressed liquidity net-outflows over 30 days. 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.

Unutilized credit facility for the Group at the end of the reporting period amounts to SEK 5,000,000k (2,844,010).

Funding sources

Group						
31 Dec 2020	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Financial liabilities						
Liabilities to credit institutions	2,087,480	327,417	-	-	-	2,414,897
Deposits from the public	13,582,805	5,072,506	4,936,123	7,243,243	-	30,834,677
Debt securities in issue ¹	549,746	1,847,367	198,856	1,586,754	-	4,182,723
Other liabilities ²	6,708,144	111,245	116,404	8,431,457	142,609	15,509,859
Accrued expenses and prepaid income	1,045,718	76,778	166,686	70,409	49	1,359,640
Subordinated liabilities ¹	-	-	-	-	599,120	599,120
Total	23,973,893	7,435,313	5,418,069	17,331,863	741,778	54,900,916

Group						
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	4,289,147	390,055	257,409	9,673,603
Accrued expenses and prepaid income	600,470	80,810	127,227	25,157	-	833,664
Subordinated liabilities ¹	2,582	452	-	-	595,291	598,325
Total	11,521,945	6,112,029	9,550,442	5,878,356	852,700	33,915,472

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 7.

Parent Company						
31 Dec 2020	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Financial liabilities						
Liabilities to credit institutions	2,058,589	327,418	-	-	-	2,386,007
Deposits from the public	13,443,515	5,064,605	4,930,785	7,242,758	-	30,681,663
Debt securities in issue ¹	549,745	1,847,368	198,856	1,401,243	-	3,997,212
Other liabilities ²	5,862,069	38,472	483,513	9,981,143	98,484	16,463,681
Accrued expenses and prepaid income	941,806	73,266	160,187	69,248	-	1,244,507
Subordinated liabilities ¹	-	-	-	-	599,120	599,120
Total	22,855,724	7,351,129	5,773,341	18,694,392	697,604	55,372,190

Parent Company						
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	2,967,492	4,803,993	2,950,785	1,530,146	-	12,252,416
Debt securities in issue ¹	898,137	1,187,550	1,752,000	1,696,580	-	5,534,267
Other liabilities ²	4,006,892	18,713	4,420,638	264,133	179,719	8,890,095
Accrued expenses and prepaid income	705,259	69,639	126,263	25,157	-	926,318
Subordinated liabilities ¹	2,582	452	-	-	595,291	598,325
Total	10,900,621	6,080,347	9,680,969	5,703,998	775,010	33,140,945

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 7.

Business risk

Definition

Business risk is the risk of negative impact on earnings due to changing market conditions or inappropriate business or strategic choices. Business risk is related to the Group's short and long-term ability to realize earnings.

Risk Management

The Group operates in markets that continuously change. Furthermore, business risk is inherent in the Group's operations due to short-term exogenous factors and exposure is as a consequence difficult to avoid or mitigate.

The Group routinely budgets or provisions for foreseeable losses due to changed market conditions. The Group's agile business model as well as overall balance sheet structure (short asset side) allows for fast mitigation and remediation in changed market conditions. The Group considers risks inherent in its strategic planning as part of its general risk management framework, and makes provisions for it in its general capital and liquidity planning.

Risk Measurement and Exposure

Risks related to strategy and earnings are evaluated on an ongoing basis over the year within the first line's strategy work.

Operational risk

Definition

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 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.

Risk Management

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 business critical products/services including their sub-processes in the business, identifying the main risks in these, deciding and implementing mitigation actions or 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 (New Product Approval Process).

Risk Measurement and Exposure

Each risk is assessed with both the impact and the likelihood on a five graded scale that together gives the risk a risk value, the impact is evaluated in four different aspects; financial, operational, reputational and strategic/regulatory. The risk exposure is monitored and reported on a regular basis, but at least quarterly, where all risks that are outside the risk appetite are escalated to either the management or to the board depending on the risk exposure. The assessment of capital requirement for operational risk is performed on a quarterly basis, the assessment is based on the total residual risk value and the average incident losses.

Capital adequacy

Definition

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.

Risk Management

The Board is responsible for the overall approval of the capital structure and setting the related risk appetite. Relevant capital planning contributes to the Group 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) applicable internal capital targets
- (iii) the level of capital required for counterparties to consider the Group a reliable partner and to provide efficient access to the funding market

Risk Measurement and Exposure

The Group's Finance and Risk Control Functions independently monitor capital adequacy on an on-going basis to ensure that regulatory 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 Operating segments and income by geographical area

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

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

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

Group				
2020				
Operating segments	Nordics	DACH	Other¹	Total
Revenue	4,319,442	4,044,273	2,666,508	11,030,223
Gross profit	3,192,489	2,848,676	311,849	6,353,014
Geographical breakdown	Sweden	Germany	Other²	Total
Revenue	2,695,804	3,555,613	4,778,806	11,030,223
Non-current assets	1,327,845	1,981,799	143,300	3,452,944
2019³				
Operating segments	Nordics	DACH	Other¹	Total
Revenue	3,939,278	2,930,172	1,190,564	8,060,014
Gross profit	2,962,691	2,032,184	-138,774	4,856,101
Geographical breakdown	Sweden	Germany	Other²	Total
Revenue	2,390,774	2,606,568	3,062,672	8,060,014
Non-current assets	984,006	2,023,210	31,284	3,038,500

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

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

³ Revenue and gross profit figures for 2019 have been updated due to changes in the internal reporting.

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

Reconciliation between total operating segments and income statement	2020	2019¹
Revenue		
Revenue - total operating segments	11,030,223	8,060,014
Interest income from central activities	86,079	15,317
Interest expenses	-601,096	-368,203
Other commissions	-607,242	-476,023
Net result from financial transactions	92,140	-76,437
Total net operating income	10,000,104	7,154,668

Reconciliation between total operating segments and income statement	2020	2019¹
Gross profit		
Gross profit - total operating segments	6,353,014	4,856,101
Other general administrative expenses	-6,932,726	-5,083,715
Depreciation, amortization and impairment of intangible and tangible assets	-418,249	-299,271
Other interest expenses	-112,630	-54,454
Other commissions	-607,242	-476,023
Other result from financial transactions	204,145	-6,329
Other credit losses	-115,439	-24,958
Operating profit	-1,629,127	-1,088,649

¹Figures for 2019 have been updated due to changes in the internal financial reporting.

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

Parent Company				
2020	Sweden	Germany	Other¹	Total
Interest income calculated according to the effective interest rate method	1,480,982	752,177	1,051,167	3,284,326
Commission income	1,358,659	1,905,671	2,619,170	5,883,500
Net result from financial transactions	-613,364	-1,465,825	2,099,350	20,161
Other operating income	1,128,459	8,194	9,562	1,146,215
Total	3,354,736	1,200,217	5,779,249	10,334,202

2019	Sweden	Germany	Other¹	Total
Interest income calculated according to the effective interest rate method	1,289,854	488,215	999,161	2,777,230
Dividend received	126,609	-	-	126,609
Commission income	1,162,632	1,293,215	1,642,820	4,098,667
Net result from financial transactions	182,437	-183,828	-67,597	-68,988
Other operating income	645,081	-	4,721	649,802
Total	3,406,613	1,597,602	2,579,105	7,583,320

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

Parent Company		
External customer revenue split by income categories	2020	2019
Retailer	4,225,460	2,116,609
Consumer	4,816,092	4,261,209
Total	9,041,552	6,377,818

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

	Group		Parent Company	
	2020	2019	2020	2019
Loans to credit institutions	3,689	1,728	1,349	1,494
Loans to the public	3,178,668	2,779,450	3,139,213	2,762,343
Other interest income	82,390	13,591	143,764	13,393
Total	3,264,747	2,794,769	3,284,326	2,777,230

Note 6 Interest expenses

	Group		Parent Company	
	2020	2019	2020	2019
Interest-bearing securities and chargeable treasury bills etc.	-94,142	-43,060	-94,142	-43,004
Liabilities to credit institutions	-46,906	-44,183	-46,471	-44,012
Deposits from the public	-263,496	-169,785	-263,496	-169,785
Debt securities in issue	-58,072	-31,801	-58,072	-31,801
Subordinated liabilities	-25,761	-24,514	-25,761	-24,514
Group companies	-95,881	-38,793	-101,608	-39,002
Other interest expenses	-16,838	-16,067	-14,201	-12,055
Total	-601,096	-368,203	-603,751	-364,173

All interest expenses are calculated using the effective interest rate method.

Note 7 Leases

	Group		Parent Company	
	2020	2019	2020	2019
Depreciation of right-of-use assets	-146,976	-116,699	-114,016	-73,871
of which: buildings	-143,289	-113,443	-111,927	-72,367
of which: cars	-2,782	-2,775	-1,205	-1,155
of which: other	-905	-481	-884	-349
Interest expense for lease liabilities	-12,881	-9,630	-10,709	-5,671
Total right-of-use lease cost	-159,857	-126,329	-124,725	-79,542
Expenses relating to short-term leases	-43,443	-34,512	-43,644	-10,641
Expenses relating to low-value assets	-2,847	-2,966	-2,732	-2,463
Total short-term and low value leases	-46,290	-37,478	-46,376	-13,104
Right-of-use assets and lease liabilities				
Carrying amount for right-of-use assets	772,486	655,350	601,517	416,515
of which: buildings	767,463	650,332	599,246	413,232
of which: cars	4,165	3,128	1,340	1,676
of which: other	858	1,890	931	1,607
Additions to right-of-use assets during the year ¹	253,417	50,270	263,489	69,798
Disposals during the year	-2,023	-	-	-
Revaluations during the year	33,980	-8,489	46,507	-
Currency translation difference during the year	-21,262	6,051	-10,979	-68
Lease liabilities	763,141	641,884	588,863	399,219

¹ On January 1, 2019, Klarna Bank AB UK branch acquired a leasing asset of SEK 42,608k from Klarna UK Limited, which in the Parent Company is disclosed as an addition to the right-of-use assets during the year. On group level, this is included in the opening balance.

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

Group, Maturity						
	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
31 Dec 2020						
Lease liabilities	42,672	42,618	88,401	455,828	133,622	763,141
31 Dec 2019						
Lease liabilities	32,194	31,455	60,817	398,826	118,592	641,884
Parent Company, Maturity						
	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
31 Dec 2020						
Lease liabilities	30,326	30,387	64,216	374,436	89,498	588,863
31 Dec 2019						
Lease liabilities	20,122	20,165	40,476	277,555	40,901	399,219

Note 8 Commission income

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

Group				
2020	Nordics	DACH	Other¹	Total
Commission income	2,210,677	3,224,043	2,237,853	7,672,573
2019	Nordics	DACH	Other¹	Total
Commission income	1,923,610	2,364,231	944,340	5,232,181

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

Group		
Commission income split by product category	2020	2019
Retailer	5,855,032	3,612,383
Consumer	1,817,541	1,619,798
Total	7,672,573	5,232,181

Parent Company				
2020	Nordics	DACH	Other¹	Total
Commission income	2,210,655	2,135,322	1,537,523	5,883,500
2019	Nordics	DACH	Other¹	Total
Commission income	1,923,566	1,424,237	750,864	4,098,667

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

Parent Company		
Commission income split by product category	2020	2019
Retailer	4,199,078	2,557,209
Consumer	1,684,422	1,541,458
Total	5,883,500	4,098,667

The opening balance of receivables connected to commission income amounted to SEK 688m (605) as of January 1, 2020, and the closing balance as of December 31, 2020, amounts to SEK 1,257m (688) for the Group. For Klarna Bank AB (publ) the opening balance was SEK 667m (516) and the closing balance amounts to SEK 1,013m (667). These receivables are included in Loans to the public, see note 21.

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

Note 9 Commission expenses

	Group		Parent Company	
	2020	2019	2020	2019
Commission to partners	-574,101	-476,023	-1,309,092	-998,829
Total	-574,101	-476,023	-1,309,092	-998,829

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

Note 10 Net result from financial transactions

	Group		Parent Company	
	2020	2019	2020	2019
Realized/unrealized fluctuations in exchange rates	60,290	-5,415	-8,731	2,034
Gains from financial instruments	12,373	1,229	10,625	1,229
Losses from financial instruments	-122,629	-71,336	-123,839	-71,336
Gain/loss sale from shares in listed and unlisted companies	142,106	-915	142,106	-915
Total	92,140	-76,437	20,161	-68,988

As of December 31, 2020, Klarna Bank AB (publ) had entered into currency forward contracts with the gross nominal amount of SEK 22,482,363k (10,854,895).

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 11 Employees and personnel costs

	Group		Parent Company	
	2020	2019	2020	2019
Average number of full-time equivalents	3,238	2,248	2,672	1,493
<i>Number of men</i>	<i>2,035</i>	<i>1,486</i>	<i>1,697</i>	<i>954</i>
<i>Number of women</i>	<i>1,203</i>	<i>762</i>	<i>975</i>	<i>539</i>
In Sweden	1,950	1,393	1,950	1,393
<i>Number of men</i>	<i>1,186</i>	<i>887</i>	<i>1,186</i>	<i>887</i>
<i>Number of women</i>	<i>764</i>	<i>506</i>	<i>764</i>	<i>506</i>
In the United Kingdom	123	100	123	100
<i>Number of men</i>	<i>80</i>	<i>67</i>	<i>80</i>	<i>67</i>
<i>Number of women</i>	<i>43</i>	<i>33</i>	<i>43</i>	<i>33</i>
In Germany ¹	780	554	599	-
<i>Number of men</i>	<i>561</i>	<i>415</i>	<i>431</i>	-
<i>Number of women</i>	<i>219</i>	<i>139</i>	<i>168</i>	-
In Norway	15	14	-	-
<i>Number of men</i>	<i>9</i>	<i>10</i>	-	-
<i>Number of women</i>	<i>6</i>	<i>4</i>	-	-
In the Netherlands	40	33	-	-
<i>Number of men</i>	<i>25</i>	<i>23</i>	-	-
<i>Number of women</i>	<i>15</i>	<i>10</i>	-	-
In Finland	16	16	-	-
<i>Number of men</i>	<i>8</i>	<i>8</i>	-	-
<i>Number of women</i>	<i>8</i>	<i>8</i>	-	-
In Austria	9	4	-	-
<i>Number of men</i>	<i>4</i>	<i>1</i>	-	-
<i>Number of women</i>	<i>5</i>	<i>3</i>	-	-
In the United States	241	134	-	-
<i>Number of men</i>	<i>119</i>	<i>75</i>	-	-
<i>Number of women</i>	<i>122</i>	<i>59</i>	-	-
In Australia	25	-	-	-
<i>Number of men</i>	<i>15</i>	-	-	-
<i>Number of women</i>	<i>10</i>	-	-	-
In Italy	26	-	-	-
<i>Number of men</i>	<i>21</i>	-	-	-
<i>Number of women</i>	<i>5</i>	-	-	-
In Spain	7	-	-	-
<i>Number of men</i>	<i>4</i>	-	-	-
<i>Number of women</i>	<i>3</i>	-	-	-
In Belgium	6	-	-	-
<i>Number of men</i>	<i>3</i>	-	-	-
<i>Number of women</i>	<i>3</i>	-	-	-

¹ In 2020 the employees in Klarna GmbH became employed by Klarna Bank AB German Branch.

Salaries, other remuneration, social security and pension expenses	Group		Parent Company	
	2020	2019	2020	2019
Salaries and other remuneration amounted to:				
Board and CEO ¹	-8,880	-8,470	-8,880	-8,470
Other employees	-1,995,518	-1,517,910	-1,515,285	-915,732
Total salaries and other remuneration	-2,004,398	-1,526,380	-1,524,165	-924,202
Statutory and contractual social security expenses	-720,041	-529,073	-653,623	-435,401
of which: pension expenses	-172,220	-136,491	-160,673	-127,677
Total salaries, other remuneration, social security and pension expenses	-2,724,439	-2,055,453	-2,177,788	-1,359,603

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

Group	31 Dec 2020		31 Dec 2019	
	Number at closing day	Percentage of men	Number at closing day	Percentage of men
Board members and senior management				
Group CEO and other members of senior management	7	86%	6	83%

The percentage of men in the board is 71% (83) at the end of the reporting period.

Group 2020					
Salaries and other remuneration to the board and senior management	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Michael Moritz, Chairman of the Board	-	-	-	-	-
Lise Kaae	-	-	-	-	-
Jonathan Kamaluddin ¹	-875	-	-	-	-875
Mikael Walther	-	-	-	-	-
Omid Kordestani	-	-	-	-	-
Sarah Smith	-	-	-	-	-
Sarah McPhee ¹	-500	-	-	-	-500
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-8,880	-	-30	-827	-9,737
Knut Frängsmyr, Deputy CEO	-6,351	-632	-3	-874	-7,860
Other members of senior management (5) ²	-22,976	-1,098	-87	-3,528	-27,689
Total	-39,582	-1,730	-120	-5,229	-46,661

¹ On December 23, 2020, the company's chairman Jonathan Kamaluddin and Sarah McPhee resigned from the board. Michael Moritz was appointed new Chairman of the Board.

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.

Group 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 9, 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.

Parent Company	31 Dec 2020		31 Dec 2019	
	Number at closing day	Percentage of men	Number at closing day	Percentage of men
Board members and senior management				
CEO and other members of senior management	7	86%	6	83%
Board members	7	71%	6	83%

Parent Company 2020					
Salaries and other remuneration to the board and senior management	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Michael Moritz, Chairman of the Board	-	-	-	-	-
Lise Kaae	-	-	-	-	-
Jonathan Kamaluddin ¹	-875	-	-	-	-875
Mikael Walther	-	-	-	-	-
Omid Kordestani	-	-	-	-	-
Sarah Smith	-	-	-	-	-
Sarah McPhee ¹	-500	-	-	-	-500
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-8,880	-	-30	-827	-9,737
Knut Frängsmyr, Deputy CEO	-6,351	-632	-3	-874	-7,860
Other members of senior management (5) ²	-22,976	-1,098	-87	-3,528	-27,689
Total	-39,582	-1,730	-120	-5,229	-46,661

¹ On December 23, 2020, the company's chairman Jonathan Kamaluddin and Sarah McPhee resigned from the board. Michael Moritz was appointed new Chairman of the Board.

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Parent Company 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 9, 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.

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

The Group 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 two formal meetings in 2020. 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% of an employee's total fixed remuneration for Identified staff and 200% 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

Restricted Stock Unit Program

Klarna's Restricted Stock Unit Program (the "RSU Program") was implemented in 2020.

The RSU Program is designed to provide incentives to the participants to deliver long-term shareholder returns. It is open to all employees and entails a gratuitous granting of Restricted Stock Units ("RSUs") in relation to shares in Klarna Bank AB. Each participant is granted a set number of RSUs at the grant date, which are on a four-year graded vesting schedule, where 25% of the shares vest annually. Should the participant end their employment within the group, the RSUs will forfeit.

The number of shares distributed to employees under the RSU Program is approved by the Board of Directors of Klarna Holding AB (publ).

The weighted average fair value at grant date was SEK 2,320 and was established in accordance with the International Private Equity and Venture Capital Guidelines ("IPEV Guidelines").

The company is, in accordance with certain countries' tax law, required to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount in cash to the tax authority on the employee's behalf. Such amounts are withheld in accordance with applicable laws, for example through deduction of salary.

Total expenses arising from RSU transactions recognized during the period as part of the employee benefit expenses were SEK 35,527k for the Group, SEK 26,959k for Klarna Bank AB (publ).

Warrants Program

In certain jurisdictions the Group offers share-based payments to employees consisting of warrants. The warrants are subject to graded vesting in four or five annual installments, corresponding to the maximum duration of the programs. No program may be settled in cash by the Group.

The total cost of share-based payment is allocated over the duration of warrant programs. The total expense for share-based payments for 2020 is SEK 54,019k (4,788).

The following table shows the granted and outstanding warrants and RSU at the beginning and end of the reporting period.

Group	Warrants		Restricted stock units	
	Number of warrants	Weighted average exercise price SEK	Number of RSUs	Weighted average exercise price SEK
January 1, 2020	407,228	1,000	-	-
Granted during the year	265,098	1,969	41,127	-
Vested during the year	-232,174	761	-	-
Forfeited during the year	-6,127	1,437	-591	-
December 31, 2020	434,025	1,564	40,536	-

Group	Warrants		Restricted stock units	
	Number of warrants	Weighted average exercise price SEK	Number of RSUs	Weighted average exercise price SEK
January 1, 2019	400,513	818	-	-
Granted during the year	40,346	2,050	-	-
Vested during the year	-	-	-	-
Forfeited during the year	-33,631	683	-	-
December 31, 2019	407,228	1,000	-	-

Remuneration to Group management team and Identified staff

Total amount entered as an expense for remuneration to the Group management team of 7 persons¹ (7) amounts to SEK 45,286k (51,622) and for Identified staff, 50 persons¹ (52), this sum amounts to SEK 94,786k (102,805), which aggregates to SEK 140,434k (154,427). Variable remuneration accounts for SEK 1,730k (3,010) of the Group management team figure paid to 3 (1) of its members and SEK 4,949k (4,159) of the Identified staff figure, paid to 10 (15) beneficiaries.

Total amount entered as an expense for remuneration to other employees is SEK 1,863,964k (1,371,953).

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:

2020	Value of variable remuneration			Number of beneficiaries		
	Group management team	Identified staff	Total	Group management team	Identified staff	Total
Paid as one off cash payments (relating to referral bonuses / gratifications / sales commission)	-1,730	-3,127	-4,857	3	10	13
Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits	-482	-1,594	-2,076	6	30	36
Outstanding deferred remuneration	-	-	-	-	-	-
Deferred remuneration awarded ¹	-	-	-	-	-	-
New sign-on bonus paid	-	-	-	-	-	-
Severance payments paid	-	-	-	-	-	-
Severance payments awarded ²	-	-	-	-	-	-
Total	-2,212	-4,721	-6,933	9	40	49

¹ There has been no risk adjustment reduction made to deferred remuneration awards during 2020.

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

2019	Value of variable remuneration			Number of beneficiaries		
	Group management team	Identified staff	Total	Group management team	Identified staff	Total
Paid as one off cash payments (relating to referral bonuses / gratifications / sales commission)	-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.

Note 12 Fees and reimbursement of expenses for auditors

	Group		Parent Company	
	2020	2019	2020	2019
<i>Ernst & Young AB</i>				
Audit engagement	-8,655	-7,228	-4,821	-4,092
Audit related services	-1,047	-614	-1,034	-425
Tax consultancy	-23	-	-23	-
Total	-9,725	-7,842	-5,878	-4,517
<i>P.G. Economides & Co Ltd</i>				
Audit engagement	-51	-14	-	-
Total	-51	-14	-	-

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

	Group		Parent Company	
	2020	2019	2020	2019
Amortization and depreciation				
Intangible assets	-194,294	-151,801	-164,647	-121,209
Tangible assets ¹	-206,592	-147,319	-165,374	-96,488
Total	-400,886	-299,120	-330,021	-217,697
Impairment				
Intangible assets	-17,363	-151	-	-151
Total	-17,363	-151	-	-151
Total depreciation, amortization and impairment of intangible and tangible assets	-418,249	-299,271	-330,021	-217,848

¹ Depreciation of leased assets is included in Tangible assets. See note 7, Leases, for additional information.

Note 14 Credit losses, net

Loan losses divided by class	Group		Parent Company	
	2020	2019	2020	2019
Loans to credit institutions				
Increase in provisions	-2,180	-672	-2,172	-155
Reversal of previous provisions	1,432	613	1,432	104
Total	-748	-59	-740	-51
Loans to the public				
Realized loan losses	-2,690,074	-1,858,103	-2,190,764	-1,799,163
Allowances to cover realized loan losses	1,510,473	765,695	1,082,442	759,239
Recoveries on previous realized loan losses	771,143	647,077	768,133	642,446
Increase in provisions	-6,282,384	-4,193,284	-5,018,599	-3,549,546
Reversal of previous provisions	4,200,342	2,759,393	3,410,569	2,445,502
Total	-2,490,500	-1,879,222	-1,948,219	-1,501,522
Financial guarantees and commitments				
Increase in provisions	-106,906	-104,630	-66,219	-26,431
Reversal of previous provisions	67,340	121,094	10,392	47,876
Total	-39,566	16,464	-55,827	21,445
Total credit losses, net	-2,530,814	-1,862,817	-2,004,786	-1,480,128

Note 15 Taxes

Income tax expense	Group		Parent Company	
	2020	2019	2020	2019
Current tax				
Tax expense for the year	-95,505	-106,439	-48,258	-
Adjustment of tax attributable to previous years	-552	-15,720	-	-15,055
Total	-96,057	-122,159	-48,258	-15,055
Deferred tax				
Deferred tax regarding temporary differences	349,375	308,452	248,917	202,368
Total	349,375	308,452	248,917	202,368
Reported tax expense	253,318	186,293	200,659	187,313

Effective tax rate	Group		Parent Company	
	2020	2019	2020	2019
Income before tax	-1,629,127	-1,088,649	-1,374,193	-925,432
Income tax calculated in accordance with national tax rates applicable in each country	376,351	191,777	286,294	198,043
Non-taxable revenues	3,214	4,434	152	27,816
Non-deductible expenses	-69,656	-15,608	-49,048	-11,638
Tax allocation reserve	-	33,242	-	-
Taxable income not booked over profit or loss	-36,423	-2,812	-36,423	-2,812
Deductible expenses not booked over profit or loss	20,099	21	7,934	-
Origination of unrecognized tax assets	-34,956	-	-	-
Effect of change in tax rate	-8,250	-9,041	-8,250	-9,041
Losses carried forward used this year	2,600	-	-	-
Adjustments of tax attributable to previous years	339	-15,720	-	-15,055
Reported tax expense	253,318	186,293	200,659	187,313
Effective tax rate	15.5%	17.1%	14.6%	20.2%

Deferred tax assets	Group		Parent Company	
	2020	2019	2020	2019
The balance comprises temporary differences attributable to:				
Losses carry-forward	538,268	234,830	476,730	232,800
Allowance for credit losses	70,914	56,368	-	-
Other	34,697	19,468	9,597	1,032
Total	643,879	310,666	486,327	233,832

Deferred tax liabilities	Group		Parent Company	
	2020	2019	2020	2019
The balance comprises temporary differences attributable to:				
Intangible assets	75,879	74,001	-	-
Untaxed reserves	-	474	-	-
Other	119	1,936	119	-
Total	75,998	76,411	119	-

The Swedish corporate tax rate has decreased from 22.0% 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.

Note 16 Appropriations

	Parent Company	
	2020	2019
Change in tax allocation reserve	-	151,100
Total	-	151,100

Note 17 Net result from categories of financial instruments

	Group		Parent Company	
	2020	2019	2020	2019
Financial instruments mandatory measured at fair value through profit or loss	-38,015	-55,691	-40,974	-55,691
Financial assets measured at amortized cost	8,373,222	6,125,859	8,269,668	5,973,948
Financial liabilities measured at amortized cost	-1,098,138	-817,255	-1,095,310	-791,405
Currency exchange gains/losses	128,864	-20,745	59,845	-13,296
Total	7,365,933	5,232,168	7,193,229	5,113,556

Note 18 Proposed treatment of unappropriated earnings

The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 5,751,479,447 on Klarna Bank AB (publ)'s balance sheet at the disposal of the Annual General Meeting to be carried forward.

Additional Tier 1 instruments	250,000,000 SEK
Other reserves	-3,714,958 SEK
Retained earnings	6,678,728,243 SEK
Net profit for the year	-1,173,533,838 SEK
Total	5,751,479,447 SEK

Note 19 Treasury bills chargeable at central banks, etc.

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
State and sovereigns	2,954,366	210,678	2,954,366	210,678
Municipalities and other public bodies	2,265,060	2,065,146	2,265,060	2,065,146
Other borrowers	-	234,782	-	234,782
Total	5,219,426	2,510,606	5,219,426	2,510,606
By currency				
- in SEK	5,219,426	2,510,606	5,219,426	2,510,606
Total	5,219,426	2,510,606	5,219,426	2,510,606

Note 20 Loans to credit institutions

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Loans to credit institutions	2,614,447	1,907,129	1,722,857	1,192,327
By currency				
- in SEK	532,018	174,927	529,460	173,977
- in EUR	1,136,350	1,001,128	866,666	633,784
- in USD	281,553	286,401	76,122	123,280
- in AUD	279,836	97,454	13,228	568
- in GBP	59,379	80,399	59,379	68,866
- in other currencies	325,311	266,820	178,002	191,852
Total	2,614,447	1,907,129	1,722,857	1,192,327

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

The loss allowance for loans to credit institutions at the end of the reporting period amounts to SEK 843k (97) for the Group and SEK 830k (90) for the Parent Company and is allocated to impairment stage 1. The Group has no purchased or originated credit-impaired assets (POCI) related to credit institutions.

Note 21 Loans to the public

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Loans to the public ¹	43,733,235	31,300,571	39,638,973	29,797,162
Allowance for credit losses	-2,015,644	-1,646,019	-1,613,684	-1,261,114
Total	41,717,591	29,654,552	38,025,289	28,536,048

¹ Parent Company loans to the public include the loan measured at fair value through profit or loss in amount SEK 139,226k (0).

The table below shows gross carrying amounts for loans to the public measured at amortized cost.

Group	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Gross carrying amount as at January 1, 2020¹	28,016,898	1,769,548	988,480	25,753	499,892	31,300,571
New assets originated or purchased	431,792,916	201,761	183,151	26,702	7,697,941	439,902,471
Assets derecognized or repaid (excl. write-offs)	-411,530,526	-5,262,195	-1,879,303	-19,527	-7,306,702	-425,998,253
Transfers to stage 1	3,281,538	-2,754,751	-526,787	-	-	-
Transfers to stage 2	-10,539,353	10,580,788	-41,435	-	-	-
Transfers to stage 3	-1,799,475	-2,759,950	4,559,425	-	-	-
Amounts written off	-40,433	-301,375	-2,305,233	-43,364	-34,184	-2,724,589
Other adjustments	1,236,578	1,326	2,738	17,064	-4,671	1,253,035
Gross carrying amount as at December 31, 2020	40,418,143	1,475,152	981,036	6,628	852,276	43,733,235

Group	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Allowance as at January 1, 2020¹	-685,542	-253,972	-631,331	-17,625	-57,549	-1,646,019
New assets originated or purchased	-2,525,088	-76,126	-87,488	-2,249	-224,468	-2,915,419
Assets derecognized or repaid (excl. write-offs)	2,754,430	651,170	635,833	9,134	148,953	4,199,520
Transfers to stage 1	-459,674	271,221	188,453	-	-	-
Transfers to stage 2	590,205	-613,398	23,193	-	-	-
Transfers to stage 3	33,848	999,081	-1,032,929	-	-	-
Impact on year end ECL from change in credit risk	-821,731	-1,219,645	-1,022,372	-16,180	-	-3,079,928
Changes to models and inputs used for ECL calculations	-11,236	-5,101	15,511	-	1,648	822
Amounts written off	6,805	41,560	1,399,642	30,156	32,310	1,510,473
Other adjustments	74,721	-94,193	-59,403	-5,692	-526	-85,093
Allowance as at December 31, 2020	-1,043,262	-299,403	-570,891	-2,456	-99,632	-2,015,644

¹ The table shows month over month movements.

Group	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Gross carrying amount as at January 1, 2019¹	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

Group	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Allowance as at January 1, 2019¹	-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	-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.

Parent Company	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Gross carrying amount as at January 1, 2020¹	26,995,632	1,651,817	805,513	314	343,886	29,797,162
New assets originated or purchased	292,101,953	191,044	171,143	524	6,062,595	298,527,259
Assets derecognized or repaid (excl. write-offs)	-275,331,112	-4,983,970	-1,815,235	-1,190	-5,717,715	-287,849,222
Transfers to stage 1	3,268,041	-2,741,319	-526,722	-	-	-
Transfers to stage 2	-9,992,124	10,033,518	-41,394	-	-	-
Transfers to stage 3	-1,795,147	-2,462,059	4,257,206	-	-	-
Amounts written off	-38,603	-295,036	-1,901,641	-1,453	-30,296	-2,267,029
Other adjustments	1,275,874	1,274	2,691	2,953	8,785	1,291,577
Gross carrying amount as at December 31, 2020	36,484,514	1,395,269	951,561	1,148	667,255	39,499,747

Parent Company	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Allowance as at January 1, 2020¹	-574,487	-182,707	-452,641	-11	-51,268	-1,261,114
New assets originated or purchased	-1,849,412	-67,805	-71,512	-48	-108,723	-2,097,500
Assets derecognized or repaid (excl. write-offs)	2,198,294	582,702	585,360	538	43,675	3,410,569
Transfers to stage 1	-457,189	268,799	188,390	-	-	-
Transfers to stage 2	488,078	-511,250	23,172	-	-	-
Transfers to stage 3	33,707	770,746	-804,453	-	-	-
Impact on year end ECL from change in credit risk	-687,797	-1,069,974	-970,711	-331	-	-2,728,813
Changes to models and inputs used for ECL calculations	-11,236	-5,101	15,511	-	-	-826
Amounts written off	6,672	37,112	1,009,695	542	28,421	1,082,442
Other adjustments	26,758	-21,001	-23,022	-1,095	-82	-18,442
Allowance as at December 31, 2020	-826,612	-198,479	-500,211	-405	-87,977	-1,613,684

¹ The table shows month over month movements.

Parent Company	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Gross carrying amount as at January 1, 2019¹	16,314,405	3,235,304	985,333	-	195,706	20,730,748
New assets originated or purchased	93,742,726	8,612,273	173,330	3,710	289,217	102,821,256
Assets derecognized or repaid (excl. write-offs)	-79,277,055	-10,909,816	-1,304,738	-1,965	-137,267	-91,630,841
Transfers to stage 1	8,736,057	-8,181,021	-555,036	-	-	-
Transfers to stage 2	-11,021,126	11,220,619	-199,493	-	-	-
Transfers to stage 3	-859,919	-2,255,621	3,115,540	-	-	-
Amounts written off	-32,809	-58,075	-1,525,506	-1,431	-	-1,617,821
Other adjustments	-606,647	-11,846	116,083	-	-3,770	-506,180
Gross carrying amount as at December 31, 2019	26,995,632	1,651,817	805,513	314	343,886	29,797,162

Parent Company	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Allowance as at January 1, 2019¹	-284,006	-158,219	-406,865	-	-30,932	-880,022
New assets originated or purchased	-1,044,086	-67,218	-17,271	-139	-24,025	-1,152,739
Assets derecognized or repaid (excl. write-offs)	1,175,337	537,470	683,543	19	3,600	2,399,969
Transfers to stage 1	-246,177	211,208	34,969	-	-	-
Transfers to stage 2	796,071	-821,834	25,763	-	-	-
Transfers to stage 3	214,709	920,293	-1,135,002	-	-	-
Impact on year end ECL from change in credit risk	-1,212,420	-871,536	-312,850	-	-	-2,396,806
Changes to models and inputs used for ECL calculations	-	1,085	-	-	-	1,085
Amounts written off	5,481	13,919	739,730	109	-	759,239
Other adjustments	20,604	52,125	-64,658	-	89	8,160
Allowance as at December 31, 2019	-574,487	-182,707	-452,641	-11	-51,268	-1,261,114

¹ The table shows month over month movements.

Loans with a contractual amount of SEK 721m (269) for the Group and SEK 377m (269) for the Parent Company that were written off during the year are still subject to enforcement activity.

For the fair value amounts, see note 38.

Note 22 Bonds and other interest-bearing securities

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Public bodies	-	200,000	-	200,000
Other borrowers	1,609,770	1,633,567	1,609,770	1,633,567
Total	1,609,770	1,833,567	1,609,770	1,833,567
- in SEK	1,609,770	1,833,567	1,609,770	1,833,567

For the fair value amounts, see note 38.

Note 23 Shares and participations in group companies

Parent Company	31 Dec 2020	31 Dec 2019
Participations in group companies	3,351,308	1,305,489

Parent Company			31 Dec 2020		31 Dec 2019	
Subsidiaries	No. of shares	Share	Book value	Equity	Book value	Equity
Analyzd Technologies Ltd., Cyprus, Corp. ID HE 273011	1,000	100%	16,547	16,464	16,547	-120
Ident Inkasso AB, Sweden, Corp. ID 596918-1158	50,000	100%	-	1,965	-	1,994
Klarna Australia Holding Pty Ltd., Australia, Corp. ID 635 651 722	5,000,000	100%	48,555	51,436	48,555	48,439
Klarna Austria GmbH, Austria, Corp. ID FN 387052w	1	100%	300	18,858	300	11,324
Klarna Belgium N.V., Belgium, Corp.ID 0741.431.277	61,500	100%	654	998	-	-
Klarna B.V., The Netherlands, Corp. ID 50315250	18,000	100%	173	33,690	173	21,418
Klarna Canada Limited, Canada, Corp.ID BC1268207	1	100%	-	-	-	-
Klarna Germany Holding GmbH, Germany, Corp. ID HRB 230268	25,000	100%	2,163,130	2,151,221	1,100,590	1,332,641
Klarna GmbH, Germany, Corp ID HRB 77353 ¹	-	0%	-	-	243	85,366
Klarna Inc., The United States, Corp. ID 99-0365994	10,000,000	100%	138,933	172,607	138,932	149,493
Klarna Italy S.r.l., Italy, Corp.ID 10232490960	14,248	100%	24,716	4,697	-	-
Klarna Norge AS, Norway, Corp. ID 995 515 164	10,000	100%	122	55,931	122	41,667
Klarna Oy, Finland, Corp. ID 2247127-6	2,500	100%	27	44,589	27	30,977
Klarna Spain S.L., Spain, Corp.ID B88639240	3,000	100%	31	890	-	-
Klarna UK Limited, The United Kingdom, Corp. ID 08706739	1	100%	-	12,651	-	13,910
Search Engine Marketing Sweden AB, Sweden, Corp. ID 556809-5946	1,800	100%	136,155	10,351	-	-
BillPay GmbH, Germany, Corp.ID HRB 122029 B	55,334	100%	821,965	293,194	-	-
Total			3,351,308		1,305,489	

¹ In 2020, Klarna Bank AB German branch acquired Klarna GmbH's assets and liabilities.

For the year ending December 31, 2020 the following subsidiary company was entitled to exemption from audit under section 479A of the Companies Act 2006, United Kingdom:
Klarna UK Limited (registered number 08706739)

For the fair value amounts, see note 38.

Group companies					
31 Dec 2020	Geographical area	Total net operating income	Operating profit	Taxes	Average no. of full-time equivalents
Analyzd Technologies Ltd.	Cyprus	17,352	17,341	-	-
BillPay GmbH	Germany	285,114	-48,366	-2,194	49
Ident Inkasso AB	Sweden	-5	-26	-3	-
Klarna Australia Holding Pty Ltd.	Australia	6,150	6,143	-1,503	-
Klarna Australia Pty Ltd.	Australia	67,471	-93,277	8,908	25
Klarna Austria GmbH	Austria	35,553	11,033	-2,816	9
Klarna B.V.	The Netherlands	92,659	16,830	-3,998	40
Klarna Belgium N.V.	Belgium	15,945	353	-116	6
Klarna Germany Holding GmbH	Germany	-252,932	-253,345	65,414	-
Klarna Inc.	The United States	2,248,564	45,481	-2,749	242
Klarna Italy S.r.l.	Italy	21,370	1,232	76	27
Klarna Spain S.L.	Spain	11,262	884	-221	7
Klarna UK Limited	The United Kingdom	-	-	-	-
Klarna Ltd.	Israel	36	-65	3	-
Klarna Norge AS	Norway	63,415	23,688	-5,217	15
Klarna Oy	Finland	50,926	19,182	-3,840	16
Klarna SPV GmbH	Germany	5,044	4,912	-1,191	-
Search Engine Marketing Sweden AB	Sweden	4,303	1,341	-287	-
Sofort GmbH	Germany	1,170,641	-551	-24	132

Group companies					
31 Dec 2019	Geographical area	Total net operating income	Operating profit	Taxes	Average no. of full-time equivalents
Analyzd Technologies Ltd,	Cyprus	-	-36	-	-
BillPay GmbH	Germany	333,275	19,950	-6,351	80
Ident Inkasso AB	Sweden	-17	91	-19	-
Klarna Australia Holding Pty Ltd.	Australia	3	3	-	-
Klarna Australia Pty Ltd.	Australia	221	-3	-	-
Klarna Austria GmbH ¹	Austria	24,865	10,815	-3,072	4
Klarna B.V.	The Netherlands	73,310	13,049	-3,139	33
Klarna Germany Holding GmbH	Germany	20,354	19,579	-6,168	-
Klarna GmbH	Germany	627,003	67,384	-19,375	355
Klarna Ltd.	Israel	63	87	-336	-
Klarna Norge AS	Norway	84,579	32,561	-7,168	14
Klarna Oy	Finland	57,930	23,566	-4,713	16
Klarna UK Limited ²	The United Kingdom	-	-	-238	-
Klarna Inc.	The United States	779,621	-37,770	7,571	134
Klarna SPV GmbH	Germany	-14	-142	-	-
Sofort GmbH	Germany	692,370	886	-205	119

¹ In 2019, Sofort Austria GmbH was merged with Klarna Austria GmbH.

² In 2019, Klarna Bank AB UK branch acquired Klarna UK Limited's assets and liabilities.

Note 24 Intangible assets

Group	Goodwill	Brands	Licenses	Capitalized development expenses	Other intangible assets	Total
Purchase value as at January 1, 2020	1,354,423	83,749	58,538	843,044	500,565	2,840,319
This year's purchase	-	-	1,017	384,138	25,606	410,761
Acquisitions of subsidiaries	129,906	-	-	41,932	-	171,838
This year's sales/disposals	-	-	-222	-1,683	-	-1,905
Currency translation difference	-55,185	-3,391	-250	-8,548	-14,132	-81,506
Purchase value as at December 31, 2020	1,429,144	80,358	59,083	1,258,883	512,039	3,339,507
Amortization as at January 1, 2020	-	-4,874	-50,707	-442,485	-118,568	-616,634
This year's amortization	-	-1,398	-4,648	-136,252	-51,996	-194,294
This year's sales/disposals	-	-	222	-	-	222
Currency translation difference	-	260	235	7,707	3,565	11,767
Amortization as at December 31, 2020	-	-6,012	-54,898	-571,030	-166,999	-798,939
Write-down as at January 1, 2020	-	-77,482	-	-357	-	-77,839
This year's write-down	-	-	-	-17,363	-	-17,363
Currency translation difference	-	3,136	-	778	-	3,914
Write-down as at December 31, 2020	-	-74,346	-	-16,942	-	-91,288
Carrying amount as at December 31, 2020	1,429,144	-	4,185	670,911	345,040	2,449,280

Group	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 is allocated to the following cash-generating units:	31 Dec 2020	31 Dec 2019
Operating segment DACH, originated from Sofort GmbH	933,055	972,435
Operating segment DACH, originated from BillPay GmbH	356,371	371,394
Search Engine Marketing Sweden AB ¹	110,587	-
Klarna Italy S.r.l.	18,537	-
Klarna Bank AB (publ), originated from Analyzd Technologies Ltd.	10,594	10,594
Total	1,429,144	1,354,423

¹ The goodwill amount is preliminary. For more information, see note 44.

Parent Company	Licenses	Capitalized development expenses	Other intangible assets	Total
Purchase value as at January 1, 2020	52,023	655,007	181,244	888,274
This year's purchase	1,017	384,138	25,606	410,761
Additions through merger	1,828	-	-	1,828
This year's sales/disposals	-	-269	-	-269
Currency translation difference	-76	-	-	-76
Purchase value as at December 31, 2020	54,792	1,038,876	206,850	1,300,518
Amortization as at January 1, 2020	-45,366	-259,509	-58,792	-363,667
This year's amortization	-4,614	-129,102	-30,931	-164,647
Additions through merger	-762	-	-	-762
Currency translation difference	63	-	-	63
Amortization as at December 31, 2020	-50,679	-388,611	-89,723	-529,013
Carrying amount as at December 31, 2020	4,113	650,265	117,127	771,505

Parent Company	Licenses	Capitalized development expenses	Other intangible assets	Total
Purchase value as at January 1, 2019	54,291	486,644	103,183	644,118
This year's purchase	1,832	165,929	51,374	219,135
Additions from business combinations	-	-	25,173	25,173
This year's sales/disposals	-	-	-152	-152
Reclassification	-4,100	2,434	1,666	-
Purchase value as at December 31, 2019	52,023	655,007	181,244	888,274
Amortization as at January 1, 2019	-40,552	-164,027	-37,880	-242,459
This year's amortization	-4,814	-95,482	-20,914	-121,210
This year's sales/disposals	-	-	2	2
Amortization as at December 31, 2019	-45,366	-259,509	-58,792	-363,667
Write-down January 1, 2019	-	-	-	-
This year's write-down	-	-	-151	-151
This year's sales/disposals	-	-	151	151
Write-down December 31, 2019	-	-	-	-
Carrying amount as December 31, 2019	6,657	395,498	122,452	524,607

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., BillPay GmbH, Search Engine Marketing Sweden AB and Klarna Italy S.r.l. 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.

The assumptions used in the goodwill impairment test have been prudent. 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 2020 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 2020 was 12.3% (9.7) 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.

Moreover, a sensitivity analysis was performed in order to verify the certainty of the test's result. The factors deemed most important for the result was the YoY growth rate of the operating segment's net revenues (especially the terminal growth rate), its gross margin, the YoY growth rate of indirect costs and the level of the discount rate. Stresses were performed individually and combined. When combining all of the stresses the recoverable amount was still well above the carrying amount. The result of the sensitivity analysis did not indicate any need of impairment charge.

The impairment test and the sensitivity analysis were performed in Q3 2020.

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

Note 25 Tangible assets

Group	Leasehold improvements	Equipment	Total
Purchase value as at January 1, 2020	184,507	196,715	381,222
This year's purchase	47,211	61,715	108,926
Acquisitions of subsidiaries	-	2	2
Subsidy received	-45,005	-	-45,005
This year's sales/disposals	-	-9,803	-9,803
Reclassification	-63,184	63,184	-
Currency translation difference	-5,648	-8,281	-13,929
Purchase value as at December 31, 2020	117,881	303,532	421,413
Depreciation as at January 1, 2020	-5,548	-138,370	-143,918
This year's depreciation	-21,771	-37,845	-59,616
Acquisitions of subsidiaries	-	-2	-2
This year's sales/disposals	-	8,017	8,017
Reclassification	5,683	-5,683	-
Currency translation difference	1,449	3,835	5,284
Depreciation as at December 31, 2020	-20,187	-170,048	-190,235
Carrying amount as at December 31, 2020¹	97,694	133,484	231,178

Group	Leasehold improvements	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, 2019¹	178,959	58,345	237,304

¹Leases are recognized as right-of-use assets and are included in Tangible assets in the Balance sheet. On December 31, 2020, the right-of-use assets amount to SEK 772,486k (655,350), which are disclosed in note 7, Leases.

Parent Company	Leasehold improvements	Equipment	Total
Purchase value as at January 1, 2020	-	125,303	125,303
This year's purchase	25,005	21,658	46,663
Additions through merger	187,176	48,274	235,450
Subsidy received	-45,005	-	-45,005
This year's sales/disposals	-	-2,502	-2,502
Reclassification	-63,184	63,184	-
Currency translation difference	-3,959	-5,024	-8,983
Purchase value as at December 31, 2020	100,033	250,893	350,926
Depreciation as at January 1, 2020	-	-93,013	-93,013
This year's depreciation	-19,240	-32,118	-51,358
Additions through merger	-	-7,650	-7,650
This year's sales/disposals	-	2,200	2,200
Reclassification	5,683	-5,683	-
Currency translation difference	596	1,662	2,258
Depreciation as at December 31, 2020	-12,961	-134,602	-147,563
Carrying amount as at December 31, 2020¹	87,072	116,291	203,363

Parent Company	Equipment	Total
Purchase value as at January 1, 2019	110,533	110,533
This year's purchase	13,797	13,797
Acquisition of subsidiaries	973	973
Purchase value as at December 31, 2019	125,303	125,303
Depreciation as at January 1, 2019	-69,935	-69,935
This year's depreciation	-22,617	-22,617
Acquisition of subsidiaries	-461	-461
Depreciation as at December 31, 2019	-93,013	-93,013
Carrying amount as at December 31, 2019¹	32,290	32,290

¹Leases are recognized as right-of-use assets and are included in Tangible assets in the Balance sheet. On December 31, 2020, the right-of-use assets amount to SEK 601,517k (416,515), which are disclosed in note 7, Leases.

Note 26 Other assets

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Receivables from group companies	-	-	4,576,667	1,568,646
Current tax assets	189,543	138,973	53,655	74,926
VAT receivables	21,632	38,703	-	10,992
Derivatives	341,203	84,327	341,203	84,327
Cost to obtain a contract	522,698	50,589	6,803	-
Other receivables	65,168	24,479	39,003	8,129
Total	1,140,244	337,071	5,017,331	1,747,020

For more information on derivatives, see note 27. For the fair value amounts, see note 38.

Note 27 Derivatives

Derivatives held for trading

Group 31 Dec 2020			
	Fair value		Total gross nominal amount
	Positive	Negative	
Foreign exchange derivatives			
Currency forwards	341,203	-418,336	22,482,363
Total	341,203	-418,336	22,482,363

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

Parent Company 31 Dec 2020			
	Fair value		Total gross nominal amount
	Positive	Negative	
Foreign exchange derivatives			
Currency forwards	341,203	-418,336	22,482,363
Total	341,203	-418,336	22,482,363

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

Note 28 Prepaid expenses and accrued income

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Accrued interest	96	3,320	72,259	38,525
Accrued transaction-related income	151,173	6,640	65,548	6,640
Other accrued income	10,006	5,716	3,307	5,716
Prepaid licenses	76,225	86,027	72,199	85,873
Prepaid marketing	117,247	17,561	13,630	16,404
Other prepaid expenses	7,915	29,048	-	24,353
Total	362,662	148,312	226,943	177,511

For the fair value amounts, see note 38.

Note 29 Liabilities to credit institutions

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Liabilities to credit institutions	2,414,897	4,939,524	2,386,007	4,939,524
By currency				
- in SEK	1,858,573	4,488,906	1,858,574	4,488,906
- in EUR	228,730	-	200,017	-
- in NOK	-	244,350	-	244,350
- in USD	327,594	186,933	327,416	186,933
- in other currencies	-	19,335	-	19,335
Total	2,414,897	4,939,524	2,386,007	4,939,524

For the fair value amounts, see note 38. For maturity analysis of financial liabilities, see note 40.

Note 30 Deposits from the public

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Private individuals	30,240,723	11,420,928	30,087,710	11,385,691
Companies	593,954	866,725	593,953	866,725
Total	30,834,677	12,287,653	30,681,663	12,252,416
By currency				
- in SEK	6,322,367	2,119,141	6,322,367	2,119,141
- in EUR	24,140,360	9,968,505	24,116,022	9,953,914
- in other currencies	371,950	200,007	243,274	179,361
Total	30,834,677	12,287,653	30,681,663	12,252,416

For the fair value amounts, see note 38. For maturity analysis of financial liabilities, see note 40.

Note 31 Debt securities in issue

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Senior unsecured bonds	2,301,006	3,450,758	2,301,006	3,450,758
Commercial papers	1,696,206	2,083,509	1,696,206	2,083,509
Other bonds	185,511	48,436	-	-
Total	4,182,723	5,582,703	3,997,212	5,534,267

In January 2020, Klarna Bank AB (publ) issued a second tranche of an existing loan of SEK 400m under the Medium Term Notes program. The notes have a final maturity in June 2021 and pay interest on a quarterly basis. The loan was listed on Nasdaq Stockholm in December 2019.

In February 2020, Klarna Bank AB (publ) issued a second tranche of an existing loan of SEK 300m under the Medium Term Notes program. The notes have a final maturity in August 2022 and pay interest on a quarterly basis. The loan was listed on Nasdaq Stockholm in November 2019.

For the fair value amounts, see note 38. For maturity analysis of financial liabilities, see note 40.

Note 32 Other liabilities

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Accounts payable	237,993	152,534	147,661	127,420
Personnel related taxes	106,057	62,129	93,936	37,895
Liabilities to group companies	7,987,182	4,340,522	10,054,980	4,507,681
Current tax liabilities	77,432	69,142	42,704	6,893
Liabilities to retailers	5,650,051	4,325,140	5,157,873	3,661,319
Derivatives	418,336	59,869	418,336	59,869
Lease liabilities	763,141	641,884	588,863	399,219
Other liabilities	556,819	171,109	197,343	146,104
Total	15,797,011	9,822,329	16,701,696	8,946,400

Klarna Bank AB (publ) has received a line of credit from its parent company Klarna Holding AB (publ). The credit liability amounted to SEK 7,842,976k (4,126,636) as of December 31, 2020 and is included in Liabilities to group companies. The line of credit is ranked pari passu with all other unsecured indebtedness.

For more information on derivatives, see note 27. For the fair value amounts, see note 38. For maturity analysis of financial liabilities, see note 40.

Note 33 Accrued expenses and prepaid income

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Accrued personnel related expenses	385,523	257,229	349,749	193,325
Accrued commissions to partners	167,698	86,149	166,279	78,860
Accrued interest	131,138	56,638	131,138	264,469
Accrued expenses for outsourced functions	92,680	63,855	76,063	51,275
Accrued expenses for consultants	45,493	24,097	43,724	20,118
Accrued distribution costs	14,207	26,828	14,009	26,828
Accrued scoring costs	79,273	41,029	60,729	36,902
Accrued marketing costs	171,332	94,857	102,886	76,782
Accrued IT related costs	82,675	44,940	74,564	44,679
Other accrued expenses	190,911	138,046	225,038	133,081
Other prepaid income	62,405	73,807	61,584	63,855
Total	1,423,335	907,475	1,305,763	990,174

For the fair value amounts, see note 38. For maturity analysis of financial liabilities, see note 40.

Note 34 Provisions

Group	Pensions and other post-employment obligations	Restructuring reserve	Pending legal issues and tax litigations	Other provisions	Total
Provisions as at January 1, 2020	-	774	302,888	1,340	305,002
Acquisitions	103	-	-	-	103
New provisions	-	10	1,812	-	1,822
Amounts used	-	-718	-254,632	-546	-255,896
Other adjustments	-4	-8	-	-29	-42
Provisions as at December 31, 2020	99	58	50,068	765	50,989

Provisions for financial guarantees and commitments	Stage 1	Stage 2	Stage 3	Total
Provisions as at January 1, 2020	45,206	1,782	5,684	52,672
New provisions	69,330	8,249	1,678	79,257
Reversed provisions	-37,709	-9,257	-15,472	-62,438
Transfers to stage 1	2,522	-2,522	-	-
Transfers to stage 2	-4,903	4,903	-	-
Transfers to stage 3	-60	-13,798	13,858	-
Impact on year end ECL from change in credit risk	100	12,581	9,357	22,038
Changes to models and inputs used for ECL calculations	-13,692	13,041	6,262	5,611
Other adjustments	-	249	-4,848	-4,599
Provisions as at December 31, 2020	60,794	15,228	16,519	92,541

Group	Pensions and other post-employment obligations	Restructuring reserve	Pending legal issues and tax litigations	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

For the Group the total provisions at the end of the year 2020 including the provisions for financial guarantees and commitments amount to SEK 143,530k (357,674). The restructuring reserve relates to the closure of the Tel Aviv office in Israel.

Parent Company	Pending legal issues and tax litigations	Total
Provisions as at January 1, 2020	302,887	302,887
New provisions	1,812	1,812
Amounts used	-254,631	-254,631
Provisions as at December 31, 2020	50,068	50,068

Provisions for financial guarantees and commitments	Stage 1	Stage 2	Stage 3	Total
Provisions as at January 1, 2020	35,870	-	-	35,870
New provisions	48,287	8,200	1,668	58,155
Reversed provisions	-8,344	-693	-1,355	-10,392
Transfers to stage 1	1,229	-1,229	-	-
Transfers to stage 2	-2,024	2,024	-	-
Transfers to stage 3	-	-11,119	11,119	-
Impact on year end ECL from change in credit risk	-1,224	4,813	-1,196	2,393
Changes to models and inputs used for ECL calculations	-14,126	13,041	6,262	5,177
Other adjustments	243	-	-	243
Provisions as at December 31, 2020	59,911	15,037	16,498	91,446

Parent Company	Pending legal issues and tax litigations	Total
Provisions as at January 1, 2019	168,156	168,156
New provisions	224,446	224,446
Amounts used	-89,714	-89,714
Other adjustments	-1	-1
Provisions as at December 31, 2019	302,887	302,887

Provisions for financial guarantees and commitments	Stage 1	Stage 2	Stage 3	Total
Provisions as at January 1, 2019	51,019	2,677	1,994	55,690
New provisions	26,431	-	-	26,431
Reversed provisions	-10,639	-	-	-10,639
Changes to models and inputs used for ECL calculations	-30,941	-2,677	-1,994	-35,612
Provisions as at December 31, 2019	35,870	-	-	35,870

For Klarna Bank AB (publ) the total provisions at the end of the year 2020 including the provisions for financial guarantees and commitments amounting to SEK 141,514k (338,757).

By the end of 2019, Klarna Bank AB (publ) had provisioned SEK 303m, 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). This was largely resolved in 2020, resulting in a release of most of the provision during the year. A residual provision of SEK 50m is being held for final claims with the Swedish Tax Agency.

Note 35 Subordinated liabilities

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Subordinated note, nominal value	600,000	600,000	600,000	600,000
Transaction expenses	-3,811	-4,567	-3,811	-4,567
Accrued interest	2,931	2,892	2,931	2,892
Total	599,120	598,325	599,120	598,325

On June 20, 2016, Klarna Bank AB (publ) issued SEK 300m of subordinated notes due 2026. The notes have a floating coupon rate corresponding to STIBOR 3M plus 4.5% per annum. The interest is paid on a quarterly basis. 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 of subordinated notes due 2028. The notes have a floating coupon rate corresponding to STIBOR 3M plus 3.5% per annum. The interest is paid on a quarterly basis. The notes were allocated to a limited number of large Nordic investors and the first call date is July 5, 2023.

For the fair value amounts, see note 38. For maturity analysis of financial liabilities, see note 40.

Note 36 Untaxed reserves

	Parent Company	
	31 Dec 2020	31 Dec 2019
Additional depreciation	2,213	2,213
Total	2,213	2,213

Note 37 Pledged assets and contingent liabilities

	Group		Parent Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Pledged assets				
<i>Assets pledged for own liabilities</i>				
Pledged loans and receivables	9,248,248	8,358,790	9,080,933	8,288,185
Pledged treasury bills chargeable at central banks, etc., and pledged bonds and other interest-bearing securities	1,714,570	2,313,711	1,714,570	2,313,711
<i>Other pledged assets</i>	25,812	9,859	-	-
Total	10,988,630	10,682,360	10,795,503	10,601,896
Contingent liabilities and commitments				
<i>Contingent liabilities</i>				
Guarantees	40,327	483,315	40,327	434
<i>Commitments</i>	16,396,546	10,136,918	17,099,677	10,441,560
Total	16,436,873	10,620,233	17,140,004	10,441,994

Parts of the Swedish receivables are continuously pledged as collateral for liabilities to credit institutions which provides security for the Group's credit facility. The credit liability amounted to SEK 0k (2,157,060) as at December 31, 2020.

Treasury bills chargeable at central banks, etc., and bonds and other interest-bearing securities pledged for own liabilities contain securities pledged as collateral in repurchase agreements. Associated liabilities amounted to SEK 1,714,572k (2,298,059) as at December 31, 2020.

Commitments contain undrawn part of irrevocable consumer credit line amounted to SEK 10,780,554k (6,383,300) and commitment to refund consumers in case of returns to a defaulted retailer amounted to SEK 5,615,992k (3,753,618) as at December 31, 2020.

Note 38 Financial assets and liabilities at fair value

Group	31 Dec 2020			31 Dec 2019		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	5,014,210	5,014,210	-	107,076	107,076	-
Treasury bills chargeable at central banks, etc.	5,231,819	5,219,426	12,393	2,510,610	2,510,606	4
Loans to credit institutions	2,614,447	2,614,447	-	1,907,129	1,907,129	-
Loans to the public	41,717,591	41,717,591	-	29,654,552	29,654,552	-
Bonds and other interest-bearing securities	1,617,383	1,609,770	7,613	1,833,592	1,833,567	25
Other shares and participations	20,081	20,081	-	20,081	20,081	-
Other assets	65,169	65,169	-	24,479	24,479	-
Other assets (Currency forwards)	341,203	341,203	-	84,327	84,327	-
Prepaid expenses and accrued income	157,882	157,882	-	7,891	7,891	-
Total	56,779,785	56,759,779	20,006	36,149,737	36,149,708	29

Group	31 Dec 2020			31 Dec 2019		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Liabilities						
Liabilities to credit institutions	2,413,280	2,414,897	-1,617	4,939,524	4,939,524	-
Deposits from the public	30,931,098	30,834,677	96,421	12,412,771	12,287,653	125,118
Debt securities in issue	4,186,765	4,182,723	4,042	5,600,550	5,582,703	17,847
Other liabilities	15,091,523	15,091,523	-	9,613,734	9,613,734	-
Other liabilities (Currency forwards)	418,336	418,336	-	59,869	59,869	-
Accrued expenses and prepaid income	1,359,640	1,359,640	-	833,664	833,664	-
Subordinated liabilities	605,457	599,120	6,337	607,048	598,325	8,723
Total	55,006,099	54,900,916	105,183	34,067,160	33,915,472	151,688

Parent Company	31 Dec 2020			31 Dec 2019		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	5,014,203	5,014,203	-	107,070	107,070	-
Treasury bills chargeable at central banks, etc.	5,231,819	5,219,426	12,393	2,510,610	2,510,606	4
Loans to credit institutions	1,722,857	1,722,857	-	1,192,327	1,192,327	-
Loans to the public	38,025,289	38,025,289	-	28,536,048	28,536,048	-
Bonds and other interest-bearing securities	1,617,383	1,609,770	7,613	1,833,592	1,833,567	25
Other shares and participations	20,081	20,081	-	20,081	20,081	-
Other assets	4,615,669	4,615,669	-	1,576,775	1,576,775	-
Other assets (Currency forwards)	341,203	341,203	-	84,327	84,327	-
Prepaid expenses and accrued income	137,696	137,696	-	45,165	45,165	-
Total	56,726,200	56,706,194	20,006	35,905,995	35,905,966	29

Parent Company	31 Dec 2020			31 Dec 2019		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Liabilities						
Liabilities to credit institutions	2,384,390	2,386,007	-1,617	4,939,524	4,939,524	-
Deposits from the public	30,778,084	30,681,663	96,421	12,377,534	12,252,416	125,118
Debt securities in issue	4,001,254	3,997,212	4,042	5,552,114	5,534,267	17,847
Other liabilities	16,045,345	16,045,345	-	8,830,226	8,830,226	-
Other liabilities (Currency forwards)	418,336	418,336	-	59,869	59,869	-
Accrued expenses and prepaid income	1,244,507	1,244,507	-	926,318	926,318	-
Subordinated liabilities	605,457	599,120	6,337	607,048	598,325	8,723
Total	55,477,373	55,372,190	105,183	33,292,633	33,140,945	151,688

Treasury bills chargeable at central banks, etc., bonds and other interest-bearing securities and repurchase agreements within liabilities to credit institutions are valued in terms of the active market prices.

Carrying amount 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. Deposits from the public are grouped into maturity buckets and thereafter the net present value is calculated based on the remaining maturity and the corresponding interest rate.

Fair value on liabilities in terms of issued debt securities and subordinated liabilities have been determined with regards to observable market prices from external markets when possible. If no observable market prices are available, the fair value is calculated based on commonly accepted valuation techniques.

Note 39 Classification of financial assets and liabilities into valuation categories

Group	Mandatory at fair value through profit or loss	Amortized cost	Non-financial assets	Total
31 Dec 2020				
Assets				
Cash and balances with central banks	-	5,014,210	-	5,014,210
Treasury bills chargeable at central banks, etc.	-	5,219,426	-	5,219,426
Loans to credit institutions	-	2,614,447	-	2,614,447
Loans to the public	-	41,717,591	-	41,717,591
Bonds and other interest-bearing securities	-	1,609,770	-	1,609,770
Other shares and participations	20,081	-	-	20,081
Intangible assets	-	-	2,449,280	2,449,280
Tangible assets	-	-	1,003,664	1,003,664
Deferred tax assets	-	-	643,879	643,879
Other assets	341,203	65,169	733,872	1,140,244
Prepaid expenses and accrued income	-	157,882	204,780	362,662
Total	361,284	56,398,495	5,035,475	61,795,254

Group	Mandatory at fair value through profit or loss	Amortized cost	Non-financial liabilities	Total
31 Dec 2020				
Liabilities				
Liabilities to credit institutions	-	2,414,897	-	2,414,897
Deposits from the public	-	30,834,677	-	30,834,677
Debt securities in issue	185,511	3,997,212	-	4,182,723
Deferred tax liabilities	-	-	75,998	75,998
Other liabilities	418,336	15,091,523	287,152	15,797,011
Accrued expenses and prepaid income	-	1,359,640	63,695	1,423,335
Provisions	-	-	143,530	143,530
Subordinated liabilities	-	599,120	-	599,120
Total	603,847	54,297,069	570,375	55,471,291

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

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

Parent Company			Non-financial assets and shares and participations in group companies	
31 Dec 2020	Mandatory at fair value through profit or loss	Amortized cost		Total
Assets				
Cash and balances with central banks	-	5,014,203	-	5,014,203
Treasury bills chargeable at central banks, etc.	-	5,219,426	-	5,219,426
Loans to credit institutions	-	1,722,857	-	1,722,857
Loans to the public	139,226	37,886,063	-	38,025,289
Bonds and other interest-bearing securities	-	1,609,770	-	1,609,770
Shares and participations in group companies	-	-	3,351,308	3,351,308
Other shares and participations	20,081	-	-	20,081
Intangible assets	-	-	771,505	771,505
Tangible assets	-	-	804,880	804,880
Deferred tax assets	-	-	486,327	486,327
Other assets	341,203	4,615,669	60,459	5,017,331
Prepaid expenses and accrued income	-	137,696	89,247	226,943
Total	500,510	56,205,684	5,563,726	62,269,920

Parent Company			Non-financial liabilities	
31 Dec 2020	Mandatory at fair value through profit or loss	Amortized cost		Total
Liabilities				
Liabilities to credit institutions	-	2,386,007	-	2,386,007
Deposits from the public	-	30,681,663	-	30,681,663
Debt securities in issue	-	3,997,212	-	3,997,212
Deferred tax liabilities	-	-	119	119
Other liabilities	418,336	16,045,345	238,015	16,701,696
Accrued expenses and prepaid income	-	1,244,507	61,256	1,305,763
Provisions	-	-	141,514	141,514
Subordinated liabilities	-	599,120	-	599,120
Total	418,336	54,953,854	440,904	55,813,094

Parent Company			Non-financial assets and shares and participations in group companies	
31 Dec 2019	Mandatory at fair value through profit or loss	Amortized cost		Total
Assets				
Cash and balances with central banks	-	107,070	-	107,070
Treasury bills chargeable at central banks, etc.	-	2,510,606	-	2,510,606
Loans to credit institutions	-	1,192,327	-	1,192,327
Loans to the public	-	28,536,048	-	28,536,048
Bonds and other interest-bearing securities	-	1,833,567	-	1,833,567
Shares and participations in group companies	-	-	1,305,489	1,305,489
Other shares and participations	20,081	-	-	20,081
Intangible assets	-	-	524,607	524,607
Tangible assets	-	-	448,805	448,805
Deferred tax assets	-	-	233,832	233,832
Other assets	84,327	1,576,775	85,918	1,747,020
Prepaid expenses and accrued income	-	45,165	132,346	177,511
Total	104,408	35,801,558	2,730,997	38,636,963

Parent Company			Non-financial liabilities	
31 Dec 2019	Mandatory at fair value through profit or loss	Amortized cost		Total
Liabilities				
Liabilities to credit institutions	-	4,939,524	-	4,939,524
Deposits from the public	-	12,252,416	-	12,252,416
Debt securities in issue	-	5,534,267	-	5,534,267
Other liabilities	59,869	8,830,226	56,305	8,946,400
Accrued expenses and prepaid income	-	926,318	63,856	990,174
Provisions	-	-	338,757	338,757
Subordinated liabilities	-	598,325	-	598,325
Total	59,869	33,081,076	458,918	33,599,863

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 2019 and 2020.

Group				
31 Dec 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	-	-	20,081	20,081
Other assets (Currency forwards)	-	341,203	-	341,203
Total	-	341,203	20,081	361,284
Financial liabilities				
Debt securities in issue	-	-	185,511	185,511
Other liabilities (Currency forwards)	-	418,336	-	418,336
Total	-	418,336	185,511	603,847

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

Parent Company				
31 Dec 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Loans to the public	-	-	139,226	139,226
Other shares and participations	-	-	20,081	20,081
Other assets (Currency forwards)	-	341,203	-	341,203
Total	-	341,203	159,307	500,510
Financial liabilities				
Other liabilities (Currency forwards)	-	418,336	-	418,336
Total	-	418,336	-	418,336

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

Movements in Level 3

The following tables show a reconciliation of the opening and closing balances of Level 3 financial assets and liabilities which are recorded at fair value.

Group	Financial assets		Financial liabilities	
		Other shares and participations		Debt securities in issue ²
Balance as at January 1, 2020		20,081		-
Gain/loss in income statement ¹		-		-1,749
of which: unrealized gain/loss		-		-1,749
Issuances		-		188,057
Impact of foreign exchange movements		-		-797
Balance as at December 31, 2020		20,081		185,511

Group	Financial assets		Financial liabilities	
		Other shares and participations		Debt securities in issue
Balance as at January 1, 2019		41,217		-
Gain/loss in income statement ¹		-915		-
of which: unrealized gain/loss		-		-
Sales		-20,221		-
Balance as at December 31, 2019		20,081		-

¹ Fair value gains and losses recognized in the income statement are included in Net result from financial transactions.

² The value of debt securities in issue has been established using evaluation models.

Parent Company	Financial assets	
	Other shares and participations	Loans to the public ²
Balance as at January 1, 2020	20,081	-
Gain/loss in income statement ¹	-	-1,210
of which: unrealized gain/loss	-	-1,210
Purchases	-	142,208
Impact of foreign exchange movements	-	-1,773
Balance as at December 31, 2020	20,081	139,225

Parent Company	Financial assets	
	Other shares and participations	Loans to the public
Balance as at January 1, 2019	41,217	-
Gain/loss in income statement ¹	-915	-
of which: unrealized gain/loss	-	-
Sales	-20,221	-
Balance as at December 31, 2019	20,081	-

¹ Fair value gains and losses recognized in the income statement are included in Net result from financial transactions.

² The value of loans to the public has been established using evaluation models.

Note 40 Maturity analysis for financial assets and liabilities

Group	31 Dec 2020			31 Dec 2019		
	Expected to be recovered or settled:			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	2,416,829	-	2,416,829	2,759,196	2,236,807	4,996,003
Deposits from the public	23,680,218	7,314,837	30,995,055	10,480,638	1,945,934	12,426,572
Debt securities in issue	2,623,522	1,599,578	4,223,100	3,855,524	1,798,057	5,653,581
Other liabilities	6,935,793	8,574,066	15,509,859	9,026,139	647,464	9,673,603
Accrued expenses and prepaid income	1,289,182	70,458	1,359,640	808,507	25,157	833,664
Subordinated liabilities	24,016	731,824	755,840	6,040	780,720	786,760
Total	36,969,560	18,290,763	55,260,323	26,936,044	7,434,139	34,370,183

Parent Company	31 Dec 2020			31 Dec 2019		
	Expected to be recovered or settled:			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	2,387,937	-	2,387,937	2,759,196	2,236,807	4,996,003
Deposits from the public	23,527,689	7,314,352	30,842,041	10,445,400	1,945,934	12,391,334
Debt securities in issue	2,623,522	1,414,067	4,037,589	3,855,524	1,749,621	5,605,145
Other liabilities	6,384,054	10,079,627	16,463,681	4,068,460	4,821,636	8,890,096
Accrued expenses and prepaid income	1,175,259	69,248	1,244,507	901,161	25,157	926,318
Subordinated liabilities	24,016	731,824	755,840	6,040	780,720	786,760
Total	36,122,477	19,609,118	55,731,595	22,035,781	11,559,875	33,595,656

Parent Company						
Contractual undiscounted cash flows						
31 Dec 2020	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Loans to credit institutions	1,700,926	21,931	-	-	-	1,722,857
Loans to the public	8,078,357	15,167,700	6,599,553	10,483,740	605,548	40,934,898
Total assets	9,779,283	15,189,631	6,599,553	10,483,740	605,548	42,657,755
Liabilities to credit institutions	191,800	1,868,024	328,113	-	-	2,387,937
Deposits from the public	4,737,170	8,276,300	10,514,219	7,314,352	-	30,842,041
Debt securities in issue	-	557,184	2,066,338	1,414,067	-	4,037,589
Total liabilities	4,928,970	10,701,508	12,908,670	8,728,419	-	37,267,567

Parent Company						
Contractual undiscounted cash flows						
31 Dec 2019	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Loans to credit institutions	1,192,327	-	-	-	-	1,192,327
Loans to the public ¹	7,882,377	9,513,953	7,012,037	7,279,328	2,009,815	33,697,510
Total assets	9,074,704	9,513,953	7,012,037	7,279,328	2,009,815	34,889,837
Liabilities to credit institutions	22,200	2,298,060	438,936	2,236,807	-	4,996,003
Deposits from the public	1,471,418	1,508,282	7,465,700	1,945,934	-	12,391,334
Debt securities in issue	-	895,959	2,959,565	1,749,621	-	5,605,145
Total liabilities	1,493,618	4,702,301	10,864,201	5,932,362	-	22,992,482

¹ Loans to the public undiscounted cash flows breakdown for 2019 has been restated by reclassifying SEK 7,882,377k from the Maximum 3 months to the Payable on demand category due to updated presentation of the receivables maturity.

Of the treasury bills chargeable at central banks, etc., SEK 507,770k (446,790) have a remaining maturity of up to one year. Of the bonds and other interest-bearing securities, SEK 377,000k (683,250) have a remaining maturity of up to one year.

Note 41 Interest received and paid

	Group		Parent Company	
	2020	2019	2020	2019
Interest payments received	3,082,872	2,304,254	3,080,604	2,289,024
Interest expenses paid	-328,303	-312,073	-326,148	-308,185

Note 42 Information on related parties

Group and Parent Company

The following are defined as related parties: all companies within the Klarna Holding AB (publ) Group, shareholders in Klarna Holding AB (publ) with significant influence, board members of Klarna Holding AB (publ) 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 remuneration has been paid to the CEO, Board of directors and other management personnel. The following transactions have taken place with related parties:

2020	Klarna Holding	Subsidiaries
Related parties - revenues and expenses		
Interest income	-	61,422
Interest expenses	-95,881	-5,727
Services sold, sales	-	1,127,376
Services purchased	-	-1,886,858
Dividend received	-	-

31 Dec 2020	Klarna Holding	Subsidiaries
Related parties - assets and liabilities		
Loan receivables	-	4,183,160
Other receivables	-	1,021,632
Loan liabilities	7,987,182	2,053,053
Other liabilities	77	86,245

2019	Klarna Holding	Subsidiaries
Related parties - revenues and expenses		
Interest income	-	42,924
Interest expenses	-38,793	-209
Services sold, sales	-	647,542
Services purchased	-	-1,488,182
Dividend received	-	126,609

31 Dec 2019	Klarna Holding	Subsidiaries
Related parties - assets and liabilities		
Loan receivables	-	1,725,920
Other receivables	-	439,992
Loan liabilities	4,340,522	161,032
Other liabilities	105	213,852

In 2019, Klarna Holding AB (publ) gave a group contribution of SEK 44,200k to Klarna Bank AB (publ). There has been no such contribution during 2020.

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

For information about transactions with the Board of Directors, CEO, and senior management, see note 11.

Note 43 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 (CRD) 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 2020, SEK 5.6bn of Common Equity Tier 1 was added to the own funds of the consolidated situation of Klarna Holding AB (publ) through a capital raise exercise in September.

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

Subordinated liabilities

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

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

Consolidated situation and methods for calculating minimum requirements

In accordance with the capital adequacy regulations, the consolidated situation is made up of Klarna Holding AB (publ) (Klarna Bank AB (publ)'s parent company) 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 2020 amounts to SEK 5,552m (3,747) for Klarna Bank AB (publ) and SEK 4,883m (3,438) 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 Capital adequacy 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. 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 IFRS 9 model, which prolonged the period of application.

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, 2020 an amount of SEK 207m Additional Tier 1 capital and SEK 552m 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		Klarna Bank AB (publ)	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Own funds, total risk exposure amount and total leverage ratio exposure				
Common Equity Tier 1 capital	12,514,158	7,439,312	6,429,038	4,570,245
Tier 1 capital	12,978,002	7,913,117	6,679,038	4,820,245
Own funds	13,529,578	8,448,158	7,278,158	5,418,570
Total risk exposure amount	42,390,354	26,445,453	47,868,892	28,793,937
Total leverage ratio exposure	62,564,979	38,528,570	65,442,688	38,928,014
Capital adequacy analysis				
Common Equity Tier 1 capital ratio	29.5%	28.1%	13.4%	15.9%
Tier 1 capital ratio	30.6%	29.9%	13.9%	16.7%
Total capital ratio	31.9%	31.9%	15.2%	18.8%
Leverage ratio	20.7%	20.5%	10.2%	12.4%
Combined buffer requirement incl. the requirements of 575/2013 Art, 92(1)(a)	7.0%	8.1%	7.0%	8.2%
of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5%
of which: countercyclical buffer requirement	0.1%	1.1%	0.1%	1.2%
Common Equity Tier 1 capital available to meet buffers	24.8%	20.0%	8.7%	7.7%
Exposure amounts for credit risk according to the standardized approach				
Credit risk including counterparty credit risk	60,876,486	37,738,242	63,340,973	38,022,698
of which: central governments or central banks	6,039,522	510,272	5,881,912	403,660
of which: regional governments or local authorities	2,238,974	2,265,154	2,238,974	2,265,154
of which: public sector entities	26,052	-	26,052	-
of which: multilateral development banks	2,140,206	234,782	2,140,206	234,782
of which: institutions	2,999,050	2,021,416	2,101,546	1,300,614
of which: corporates	4,101,853	1,593,025	8,144,030	3,392,568
of which: retail	38,419,101	27,617,719	35,294,967	26,533,365
of which: exposures in default	529,264	434,437	549,145	396,939
of which: covered bonds	1,609,770	1,633,589	1,609,770	1,633,589
of which: equity	20,081	20,081	3,385,226	1,325,570
of which: other items	2,752,613	1,407,767	1,969,145	536,457
Total exposure amount	60,876,486	37,738,242	63,340,973	38,022,698
Risk exposure amounts according to the standardized approach				
Credit risk including counterparty credit risk	38,019,317	25,212,408	41,891,483	26,345,704
of which: institutions	599,810	404,283	420,309	260,123
of which: corporates	4,014,407	1,516,407	8,070,733	3,325,694
of which: retail	28,814,326	20,713,290	26,471,225	19,900,024
of which: exposures in default	634,380	491,110	654,261	453,612
of which: covered bonds	160,977	163,359	160,977	163,359
of which: equity	50,203	50,203	3,415,347	1,355,692
of which: other items	3,745,214	1,873,756	2,698,631	887,200
Market risk	2,114,861	272,257	3,771,325	1,491,088
of which: foreign exchange risk	2,114,861	272,257	3,771,325	1,491,088
Operational risk	2,252,092	959,111	2,202,000	955,468
Credit valuation adjustments	4,084	1,677	4,084	1,677
Total risk exposure amount	42,390,354	26,445,453	47,868,892	28,793,937

	Consolidated situation		Klarna Bank AB (publ)	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Total minimum capital requirements				
Credit risk including counterparty credit risk	3,041,545	2,016,993	3,351,320	2,107,657
of which: institutions	47,985	32,343	33,625	20,810
of which: corporates	321,153	121,313	645,659	266,056
of which: retail	2,305,146	1,657,063	2,117,698	1,592,002
of which: exposures in default	50,750	39,289	52,341	36,289
of which: covered bonds	12,878	13,069	12,878	13,069
of which: equity	4,016	4,016	273,228	108,455
of which: other items	299,617	149,900	215,891	70,976
Market risk	169,189	21,781	301,705	119,287
of which: foreign exchange risk	169,189	21,781	301,705	119,287
Operational risk	180,167	76,729	176,159	76,437
Credit valuation adjustments	327	134	327	134
Total capital requirement	3,391,228	2,115,637	3,829,511	2,303,515
Own funds disclosure				
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts	14,892,742	8,840,376	7,358,049	4,857,892
Retained earnings	-11,226	887,596	-738,535	274,521
Accumulated other comprehensive income (and other reserves)	109,166	225,268	648,275	392,318
Common Equity Tier 1 capital before regulatory adjustments	14,990,682	9,953,240	7,267,789	5,524,731
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	-780	-164	-780	-164
Intangible assets (net of related tax liability)	-1,915,967	-2,069,884	-308,829	-524,607
Losses for the current financial year	-1,266,487	-865,394	-1,061,451	-738,119
IFRS 9 transitional adjustments to CET1 Capital	706,710	421,514	532,309	308,404
Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	-2,476,524	-2,513,928	-838,751	-954,486
Common Equity Tier 1 (CET1) capital	12,514,158	7,439,312	6,429,038	4,570,245
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	207,472	217,433	-	-
Total Additional Tier 1 (AT1) capital instruments	463,844	473,805	250,000	250,000
Tier 1 capital	12,978,002	7,913,117	6,679,038	4,820,245
Tier 2 (T2) capital instruments				
Capital instruments and the related share premium accounts	-	-	599,120	598,325
Qualifying own funds instruments included in consolidated T2 issued by subsidiaries and held by third party	551,576	535,041	-	-
Total Tier 2 (T2) capital instruments	551,576	535,041	599,120	598,325
Own funds	13,529,578	8,448,158	7,278,158	5,418,570

Note 44 Business combinations

Search Engine Marketing Sweden AB, 2020

On December 4, 2020, Klarna Bank AB (publ) acquired Search Engine Marketing Sweden AB ("SEMSAB"), a company offering Google Comparison Shopping Services, product feed management and shopping ad bid management under the brand names "Shoptail" and "Sementail". The service will be integrated as part of Klarna's service offering.

The total purchase consideration was SEK 136m. The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 111m has been recorded to goodwill, SEK 20m to acquired intangible assets, SEK 4m million to deferred tax liabilities and SEK 9m to other net assets. The purchase price allocation is considered preliminary at the end of the period.

The goodwill represents synergies that are expected to arise as a result of the operations acquired.

Close Brothers Retail Finance, 2019

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

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

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

Note 45 Significant events after the end of the reporting period

On February 5, 2021, Klarna Bank AB (publ) issued a senior unsecured bond in the principal amount of SEK 1bn.

No other significant events have occurred after the closing date.

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.

Consumer

An individual, company or governmental entity using our services.

Cost/revenue ratio*

Total expenses before credit losses divided by total net operating income.

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.

Klarna Card

Volume: Total monetary value of sold products and services with Klarna Card.

Klarna In-store

Klarna's product for physical stores allows retailers to offer our alternative payment methods wherever they get in direct contact with their 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 now

Klarna's product for immediate settlement.

POCI

Purchased or originated credit-impaired assets.

Retailers

Klarna's e-commerce customers, formerly known as merchants.

Return on assets*

Net profit 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 profit 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.

RSU

Klarna's Restricted Stock Unit Program for employees, implemented in 2020.

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 18, 2021

Michael Moritz
Chairman of the Board

Mikael Walther
Board member

Lise Kaae
Board member

Sarah Smith
Board member

Andrew Young
Board member

Omid Kordestani
Board member

Sebastian Siemiatkowski
CEO and Board member

Our audit report was submitted on _____, 2021
Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant



Klarna.

Auditor's report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Klarna Bank AB (publ) for the 2020. The annual accounts and consolidated accounts of the company are included on pages 13-111 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

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

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

Key Audit Matters

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

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

Provision for expected credit losses

Detailed disclosures and description of the area are provided in the annual report and consolidated accounts. Credit risk exposures and its management are described in Note 3 from page 43. The Group's reported expected credit losses are specified in Note 21. Disclosures regarding the Parent Company can be found in notes 3 and 21. For the relevant accounting principles for the Group, see Note 2, section 12 on page 36. Of note 2 it can be seen that the Parent Company's accounting principles regarding credit granting and provisions for expected loan losses are in accordance with the Group's accounting principles.

<i>Description</i>	<i>How our audit addressed this key audit matter</i>
<p>As of December 31, 2020, lending to the public amounted to SEK 41 718 M (38 025) in the Group (the Parent Company), which represents 68 (61) % of total assets. The total credit risk exposure, including off-balance sheet commitments, amounts to SEK 44 332 M (39 748). Provisions for expected loan losses for lending to the public amount to SEK 2 016 (1 615) million and are based on model-based calculations.</p> <p>The loss reserve shall be valued in a manner that reflects an objective and probability-weighted amount determined by evaluating a range of possible outcomes and based on past events, current conditions and forecasts for future economic conditions. The provision requires the Bank to make assessments and assumptions of, for example, criteria for identifying a significant increase in credit risk and methods for calculating expected credit losses. Given the complexity of the calculation and that it requires the Bank to make judgments and assumptions, the valuation of the reserve for expected credit losses has been assessed as a key audit matter.</p>	<p>We have evaluated whether the Bank's assessment of the probability of default, loss given default, exposure at default and expected credit loss including a significant increase in credit risk is in accordance with IFRS 9.</p> <p>We have gained an understanding of and tested the design of key controls in the credit process, such as how credits are registered. We have tested controls for completeness in loading input data. We have also tested controls related to analysis and approval of model changes and credit loss levels.</p> <p>We have tested that the underlying data used in the calculation is complete and correct. We have reviewed and evaluated the outcome of model validations that have been performed. We have examined and assessed the assumptions and parameters used in the model and for a selection of segments tested actual loan losses compared to expected loan losses. We have examined the calculation for expected loan losses by making an independent control calculation of the provisioning based on the underlying data and assumptions used in the model. We have examined the bank's own analysis of credit losses and underlying model documentation.</p> <p>We have also examined that the information provided in the financial reports regarding credit risk is appropriate.</p>

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-12. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

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

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the

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

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

Auditor's responsibility

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Klarna Bank AB (publ) for the year 2020 and the proposed appropriations of the company's profit or loss.

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

Basis for opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among

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

Auditor's responsibility

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

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

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

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

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

Ernst & Young AB, Jakobsbergsgatan 24, 111 24 Stockholm, was appointed auditor of Klarna Bank AB (publ) by the general meeting of the shareholders on May 20, 2020 and has been the company's auditor since the May 25, 2016.

Stockholm March 26, 2021

Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant