

Interim report

January–June 2020

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

Klarna.

Table of contents.

- 3 Financial information**
- 4 About Klarna**
- 5 Highlights of the period**
- 12 To our shareholders**
- 14 Business overview**
- 20 Group and parent company financials**
- 31 Notes with accounting principles**
- 53 CEO's affirmation**
- 54 Auditor's review report**
- 55 Definitions and abbreviations**

Financial information

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

January–June 2020

Strong performance of the business over the period has delivered:

44%

Gross merchandise volume – YoY growth

215bn ₍₁₄₈₎

Gross merchandise volume – USD 22bn¹ (16)²

36%

Total net operating income – YoY growth

4,518m _(3,314)

Total net operating income – USD 466m (356)

22.3% _(13.3)

CET 1 ratio

¹ Klarna's results are reported in SEK. To arrive at USD values, the average exchange rates YTD have been used; 1 USD equals approximately 9.7 SEK for the first six months 2020.

² Klarna's results are reported in SEK. To arrive at USD values, the average exchange rates YTD have been used; 1 USD equals approximately 9.3 SEK for the first six months 2019.

About Klarna

We make shopping smooth. The uniqueness of Klarna's consumer offering, providing a healthier, simpler and smarter alternative to credit cards, is driving consumer adoption and loyalty to us and our retailers globally. This is further boosted by a strong brand and the offering of multiple services to smoothen the shopping experience - online and in store.

Klarna was founded in Sweden in 2005, and is since 2017 a fully licensed bank active in 17 core markets. We hold a post money valuation of USD 5.5bn (August 2019), which ranks us as the largest private fintech in Europe and one of the largest private fintechs globally.

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

With more than 200,000 retailers live with Klarna globally, we are the partner of choice. We are the most preferred payments provider among the top 100 highest grossing retailers in the US offering pay later options¹. H&M, Sephora, Ralph Lauren, IKEA, Zara, Expedia Group, Samsung, ASOS, One Peloton, Abercrombie & Fitch, Nike, Overstock, Timberland (VF Corporation) and AliExpress have all enabled Klarna's innovative shopping experience, allowing millions of consumers to benefit from increased control and joy.

Klarna is driving millions of referrals and traffic each month from owned channels to our retailers, as consumers are actively seeking out where they can shop with us. Revenues are generated from both retail partners and consumers, as well as new non-credit and affiliate services.

¹ U.S. Top 1000 Database, <https://www.digitalcommerce360.com/product/top-1000-database/>

Highlights from the period

- Klarna's rapid growth continues, and we have added more than **35,000 retailers**, or approximately **200 new per day**, to our already strong global retailer base of more than 200,000. Many retailers have recently expedited the development of their online offering as this has become the key engagement channel, and the investments we have made to create an elevated shopping experience have supported this demand. New retailers include **Sephora, Groupon, SHEIN, Nixon, Charlotte Tilbury, Vans, The North Face, Ted Baker, Timberland, Ralph Lauren, Club Monaco and Fender**.
- Across markets consumers continue to choose Klarna's innovative experience when shopping. We have added almost **14 million consumers**, with especially strong growth in the US and UK where the **number of consumers have grown with close to 550% and 120%** respectively compared to the same period last year. The accelerated retailer and consumer demand supports the strong **growth in gross merchandise volume and total net operating income of 44% and 36%** respectively YoY.
- Consumer preference and engagement continues to be high, and the number of **monthly active app users has increased by almost 2x to 12 million**, compared to the same period last year. We currently see approximately **45,000 app installs every day globally**, which is **3x as fast** compared to the same period last year. Our **app scores in iOS and Google Play continue to be strong, 4.5 and 4.7** respectively, and over 87% of consumers who have been in contact with our chat support would recommend Klarna.
- Our direct to consumer offering available in the Klarna app in US, Australia and Sweden allows consumers to shop at any retailer, and helps retailers and brands to be discovered, continues to grow in popularity. The service has resonated especially well in the US, where **monthly active users have increased by 4x** YoY, boosting the consumer acquisition rate and transaction volume. Since the launch in summer 2019, Klarna has been the fastest growing player in the US payment sector **outpacing our closest competitors with almost 1.5 million more app installs**².
- The general Klarna app available across all markets has been optimized further with a variety of new features to create an elevated and more transparent shopping experience. These include tailored inspiration and personalized shopping, wish lists that let you save the items you love and need, and the new 'My Klarna tab' that gives you quick access to information about your purchases, payments and deliveries.
- We launched **Vibe, the first global buy now, pay later shopper loyalty program** developed with direct input from consumers. The no-fee program is available to consumers in the US, and soon also in Germany, Australia, Sweden and the UK. This is the next phase in Klarna's efforts to evolve the shopping experience to deliver inspiration, convenience and even more value through curated rewards and benefits. During the first few weeks we had more

² Data from App Annie, June 1, 2019 - June 20, 2020

than **500 users enrolling** per week from a limited base as the program is not rolled out to all US users yet.

- We have expanded our banking offering by launching our own **savings accounts** with competitive rates in Sweden, which have seen immediate traction. We have also partnered with Raisin, a deposit marketplace, to further strengthen our presence on the German deposit market.
- The demand for a better way to shop and pay is growing rapidly across markets which is why we have launched in **Australia, Belgium and Spain** and seen immediate traction during the period. In Australia we partnered with The Commonwealth Bank of Australia (CBA) and launched leading with our direct to consumer offering through the Klarna app which has already been installed **250,000 times**. In Belgium we launched with retailers including H&M, A.S. Adventure and Omoda, and in Spain with Michael Kors and many more retailers are to go live soon. We are also seeing increased traction in **Canada** where we in partnership with PayBright have launched several new retailers including Sephora, Boohoo, Groupe Dynamite and TaylorMade. Planned expansion into new markets will continue at pace. New commercial offices across markets will be opened to work even closer with our retailers.
- We have continued to increasingly diversify revenue streams with new non-credit and affiliate services. We have already **enabled more than 40 million clicks to retail partners** this year, establishing ourselves as a true growth partner.
- Our **brand continues to grow in stature**, and awareness has been significantly boosted by a series of campaigns fuelling consumer and retailer demand. Following our partnership with Snoop Dogg, we partnered with Lady Gaga to drive awareness and market adoption resulting in aided brand awareness growth of 15% in growth markets. We reached **1.2 billion total global impressions and more than 540 million impressions via press**. In late June, we launched our biggest brand campaign in the US to date; 'Klarna: Swedish For Smoother Shopping' which aims to introduce US consumers to Klarna's shopping service and our newly optimized shopping app.
- In light of Covid-19, there have been changes in consumers' spending priorities and behaviors and a sharp shift from offline to online shopping. The attractiveness of our services opposed to credit cards has accelerated. Consumers have become more focused on transparency, cash flow and seek the increased financial flexibility and control that we offer. We also provide dedicated support to consumers who experience increased financial vulnerability during this period and focus on how we can be more flexible in how we engage with, and support, them.
- The migration of our geographically dispersed workforce to remote working occurred efficiently. It has been advantageous to be cloud technology based, and this combined with well-developed remote working capabilities across all competences, has meant we have maintained the highest level of availability, uptime, and resilience as well as employee engagement. Throughout this, our focus has been on the welfare of our employees, consumers and retail partners.

In the following pages, there are more detailed highlights from the first six months of 2020 focusing on three themes; consumer centricity, retail partner growth and growth in core markets.

An inspirational, convenient and value-adding product range ensures consumer acquisition, engagement and loyalty

Klarna's strategic investments ensure a continuous flow of new products and services, as well as enhancements and optimizations of current core products, helping consumers to shop smarter and manage their finances, and retailers to scale their business. The popularity of new and updated products play an important role in boosting the consumer and retail partner acquisition further. The card, the app and the In-store solution in combination with the core offering continue to build on the '**Klarna everywhere**' concept, enabling consumers to shop and pay with Klarna where, when and how they prefer.

The **Klarna app** powers the whole experience for consumers using our services and includes features that provide consumers with transparency, control and intuitive management of their purchases. During the period, we have further optimized the app across all markets. In the US, Sweden and Australia shoppers are able to use the app to shop at any retailer online, and the updated app also gives users across all markets access to exclusive deals and drops and the ability to create and share wish lists with friends and family. In line with our consumer friendly strategy and ambition to decrease our revenues related to late fees we are continuously updating existing features to meet our consumers' needs. These features include overview of all purchases with pictures, getting price drop notifications, delivery tracking, connecting other bank accounts and cards, friendly reminder push notifications on upcoming payments and a 24/7 chat function.

Newer app features get instant traction, one example being the newly launched loyalty program Vibe in the US, where we during the first few weeks had more than **500 users enrolling per week**, from a limited base as the program is not rolled out to all users yet. Additionally, the number of wish listed items have continued to rapidly increase, amounting to almost **3 million**.

Together these features create a smoother end to end shopping experience for the rapidly increasing number of monthly active app users, **amounting to 12 million, of which almost 1.2 million in the US alone**. We have approximately **45,000 installs every day globally**, which is **3x as fast** compared to the same period last year. The Klarna app is also **top-ranked** among shopping apps in all markets where it is available.

The **Installments** product, available in the US, UK and Spain, continues to gain traction among consumers across age groups who prefer not to hold credit cards or use revolving credit forms as consumers can have the payments automatically charged from their preferred debit card. The relevance of the Installments product increases as consumers recognise that credit cards are not a good financial tool, and this is an option that provides more flexibility without the hassle of a long-term commitment or interest. The product provides a payment choice that encourages more convenient online purchasing, and given the levels of uncertainty in current environment this can be a tool that helps consumers take control of their personal finances and even out their cash flow.

The **Klarna card** is currently available in Sweden and Germany and has with its smart, flexible and rewarding features including no fees, no added FX cost, instant purchase notifications and the possibility to pay with your phone continued to gain traction among consumers. Compared to the same period last year, the number of **issued cards to new users have doubled** and **volumes have increased by more than 250%**.

A preferred growth partner for retailers

Klarna's global expertise has proven to help retailers increase customer conversion rates and sales, by focusing on simplifying the checkout experience for consumers. Committed to support our retail partners in becoming more successful and relevant to their target customers makes Klarna the partner of choice. We are also driving millions of referrals and traffic each month from owned channels to our retailers and since January we have enabled more than **40 million clicks to retail partners**. In light of Covid-19, our offering is more relevant than ever as retailers have shifted their focus to a strong online presence to keep consumers served and engaged, and our investments in products and services have supported the demand.

Even if the current Covid-19 context has had most retailers focus on ecommerce, we now see how physical stores reopen and it will be even more important for our retailers to re-engage consumers and to bridge the gap between the digital and physical to provide a seamless customer experience across all channels and touchpoints. Klarna's **In-store** proposition is now live in ten markets and is resonating strongly with both retailers and consumers, especially as it enables contactless payment options which provide customers the safety and security they seek during these times. Despite the obvious challenges of Covid-19, volumes have **grown more than 75%** compared to the same period last year across more than **13,000 stores**. During the period we launched Klarna In-store in the US and partnered with leading retail brands such as Good American, Rue21 and Planet Blue to offer customers a seamless, personalized and engaging shopping experience also in store.

Our large and engaged retailer base continues to develop strongly with more than **35,000 new retailers** ranging from global enterprise brands to small and medium-sized businesses (SMB). Recent additions include partners from different verticals, such as beauty leaders, retail giants, outdoor specialists, and marketplaces. The acquisition of SMB retailers continues at a fast pace supported by our automatic onboarding solution. The number of new **SMB retailers has increased by 32%** compared to the same period last year.

Existing retail partners continue to strengthen their relationship with us by entering new markets and/or adding new products. Examples of retailers that have chosen to extend their partnership with us this year include H&M that launched in the US and Germany, AllSaints, Diesel, Farfetch, JD Group, Missguided, Made.com and Groupe Dynamite brands.

We continue to develop and enhance tools to help our retailers become more successful, one example being our 'Merchant portal' where we offer tools for them to effectively engage with their customers, efficiently manage their operations with us, and grow their business. We are also providing them with more opportunities to attract new consumers by taking advantage of Klarna's consumer network through for example publishing deals in our shop directory on our website or in the Klarna app.

We focus on **partner** collaborations to further grow the retail partner base. During the year, new and existing partnerships with key players across markets have been initiated and extended. Our partners include BigCommerce, WooCommerce, Stripe, Adyen, Shopify, Magento Commerce, Mollie, Apple Pay and Google Pay.

- We extended our partnerships with Shopify, BigCommerce, Magento Commerce, Commerce Cloud (Salesforce) and WooCommerce to Australia in connection with our recent launch in the market.
- We extended our partnership with Stripe with the go live of automatic onboarding in the US.
- We partnered with Vend in the US and the UK to provide boutique retailers software that gives consumers more flexible payment options, levelling the playing field for small businesses to compete with enterprise retail by offering Klarna's payments in store.

We provide **add-on services to partner-connected retailers** such as the marketing app we launched in Shopify's app store, which continues to see traction with **over 6,500 retailers** using it, and with reported **average order value growing by up to 25%**. The app is a tool that offers retailers cost-free targeted and tailored promotions through a simple integration. During the period, the app has gone live with WooCommerce and PrestaShop and will soon be available for BigCommerce retailers, too.

Continued momentum in all core markets

The **US** continues to grow at a rapid pace, and we currently have **more than 4,300 retailers** and so far almost **9 million consumers** have used our services. Consumers are shifting away from credit cards as the offerings are not aligned with consumers' needs or interests and this is where we can provide a healthier, more intuitive and smarter alternative. The Klarna app currently has **1.2 million monthly active users** and enables US consumers to shop at any retailer. The app is continuously being updated with new features to further elevate the shopping experience. The attractiveness of our offering towards retailers is also increasingly evident as we are gaining momentum in the beauty, fashion including athleisure and loungewear, footwear and outdoor verticals as well as with DTC brands. New retailers include **Sephora, Express, Aeropostal, Nautic, Revolve, FRWRD, Finish Line, Gymshark, Ralph Lauren, Club Monaco, Clarks, NTRWK, The North Face, MVMT, Timberland, Fender, Vans, Anine Bing, ROMWE, SHEIN, Groupe Dynamite Brands, ModCloth and the launch of H&M.**

The strong growth and traction of the pay later offering in **the UK** continues. **About 9.5 million consumers** have used Klarna's payment services, and the inflow of new consumers since April has averaged **more than 95,000 on a weekly basis**. The average aged consumer is 33 years old and it is the Gen X generation that spends most per order. Retailers across verticals choose us as their growth partner and we see great momentum within beauty, fashion, footwear, home, outdoor and electronics. New and existing retailers include **Charlotte Tilbury, Dune London, Footasylum, One peloton, River Island, ASOS, JD Sports, Gymshark, Made.com, Oliver Bonas, Missguided, Cult Beauty, Wayfair, In the Style, Samsung, Game, H&M and H&M Group brands**. We are also increasingly partnering with UK retailers to further integrate the experience between digital and physical stores as our full range of our products is available in store.

We hold a market leading position in the **DACH region**. Consumers continue to actively choose Klarna across verticals as volumes increase rapidly, also from the increasing adoption of the Klarna card. New innovative marketing campaigns to engage consumers have been launched and **unaided brand awareness continues to increase with 79% and 83%** in Germany and Austria respectively. The retailer acquisition continues at a rapid pace including new partners **Domino's Pizza, Medion, Gearbest.com, Snipes, Auto1, Hornbach, Weber, Longines, Zattoo, Douglas, About You and the successful launch of H&M in Germany.**

In the **Nordic region**, Klarna continues to dominate across verticals, and during the period we have seen sustained volume growth. Long held partnerships continue to scale to new markets outside the Nordic region, and through added products. New and existing Nordic retailers include **Barncancerfonden, ÖoB, Akademibokhandeln, Rusta, Svenskt Tenn, Nordic Wellness, Motonet, Tokmanni, Elkjøp, Vita, Mspa, Sparevinduer, Varner-Gruppen, Swappie, Skruvat, Outnorth, Jollyroom and H&M**. The focus on expanding the product range to become even more relevant across consumer touchpoints, e.g. through the app, the in-app shopping and the card, remains across the region, and the number of monthly app users across Sweden, Norway and Finland now amounts to almost **3.5 million** totally.

In **the Netherlands**, we have further strengthened our position, and now a majority of Dutch online shoppers have used Klarna's services. **More than 20,000 retailers** are now live including **Babypark, Girav, Betersport, Colourful Rebel, Startdelect and Toolmax**. As consumers increasingly use

Klarna we see higher engagement across channels and on Instagram we went from 600 to 20,000 followers during the period.

We have expanded our geographic footprint by launching our services in **Australia, Belgium** and **Spain**. In Australia, we launched by introducing Australian shoppers to the Klarna app, which enables them to shop and pay with Klarna at any online retailer, and it has already been installed **250,000 times**. In Belgium, we launched by introducing Pay in 21 days, which allows shoppers to buy online and pay once they've received the goods. We teamed up with retail partners, including **H&M, A.S. Adventure and Omoda** as their first step in the Belgian market. In Spain, introduced Pay in 3, allowing shoppers to split their purchase into three equal payments with no added interest together with **Michael Kors** with additional well-known brands to follow shortly.

To our shareholders

Dear Shareholders,

The first six months of 2020 have been unique in so many ways, and I doubt that anyone could have foreseen the magnitude, and the implications of Covid-19, and my thoughts go out to those who have suffered during this time. Nobody was prepared for all the ways Covid-19 would impact and transform our daily lives; but one thing we at Klarna are always prepared for is change. Constant change is in our DNA.

In the context of Covid-19 and the uncertainties it has unfortunately created for so many, a somewhat precautionary approach was necessary at times, including adjusting our credit policies globally. Despite this, we have seen accelerated growth and rapidly increasing demand for our services. Klarna has in fact never been more relevant, both by design but also because we are in a fortunate position as global innovators in e-commerce and retail. This is reflected in our strong growth and results across the board with year-on-year growth in volumes and operating revenues of 44% and 36% respectively. Additionally, we have welcomed more than 35,000 new retail partners, ranging from SMBs to global retail brands, and have an extremely exciting pipeline going live very shortly.

Supporting our retail partners during unprecedented challenges

During this period, we have seen big leaps in retail and payment innovation, where the transformed context forced strategic thinking and accelerated decision making that was often previously occupying retail brands for years. This kind of urgency gives you clarity of thought, decisiveness and focus. With our experience from working closely with the biggest global retailers for many years, we have been able to guide and support our partners, and supported in expediting the development of their online offering as it became their only customer engagement channel. Their resilience and ability to adapt and thrive is incredibly inspiring.

Offering a better, more transparent and intuitive end-to-end shopping experience

Over the last few years, we have seen how consumers are actively seeking increased financial flexibility but with the greater transparency, control and superior terms that we offer as opposed to credit cards. This is evident in the 14 million new consumers who have used Klarna's services during the period. During the spring, we have also seen an accelerated shift of consumers from offline to online shopping and how many new consumer demographics are turning to online shopping for the first time and frequent online shoppers have been using online to shop within new categories. In the US, we have a record breaking number of consumers shopping through the Klarna app and the monthly active app users have increased by 4x. These new behaviors are unlikely to revert back, trust is now established and consumers recognize the convenience and superior end-to-end shopping experience on offer.

Even if we are at a point when we have never had this much empowering technology at our fingertips there is still no 'one stop shopping service' to offer everything that consumers expect from an end-to-end shopping experience. Multiple companies or apps are trying to solve for singular parts of the journey - may it be inspirational content, payment alternatives, loyalty programs, discounts or delivery tracking - but none encompasses the whole shopping journey. This is why we at Klarna are on a mission to reshape shopping and have made some exciting updates to the Klarna app, offering consumers the desired and elevated shopping experience. We are now enabling consumers from the comfort of their homes to touch and try, explore, be inspired and create a dialogue with other shoppers. What we are delivering to consumers is clearly resonating, we have more than 12 million monthly active app users.

Becoming the world's favorite way to shop

While our consumer and retailer bases are growing rapidly, and we see an accelerated demand for our services, we can never become too content. We must continue to evolve everyday. Therefore we will keep investing in updating our products and services to meet and exceed our consumers' and retail partners' expectations. The continuous updates and optimizations of our products, in combination with our strong balance sheet and current all time low credit loss indicators in the US ensures that we are in a very strong position to meet the accelerated demand for a superior shopping experience globally.

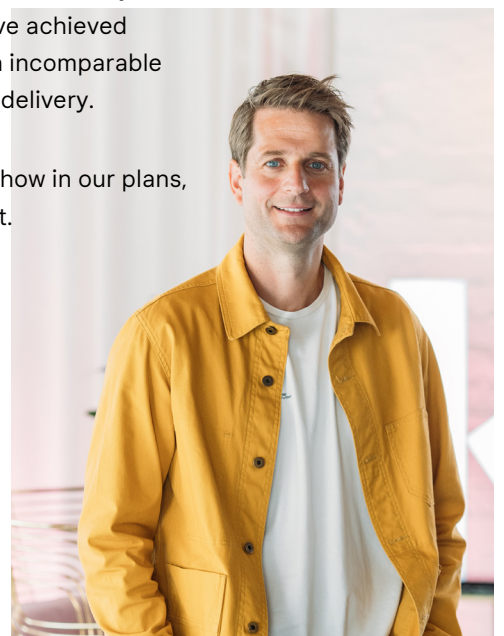
We will also continue to invest in our brand, and as it grows in stature, preference builds. We are increasingly driving consumer traffic and referrals to our retailers from our own channels as consumers globally continue to actively seek out where they can shop with us, and during the period we have generated more than 40 million clicks to retail partners.

At the heart of Klarna is our employees and I am very proud of how they have managed the shift to work from home and how we with dedicated efforts have seen continued high engagement, availability, resilience, hard work and passion to deliver a superior shopping experience for our consumers and retailers. As we are a company of more than 300 teams I want to dedicate a special thanks to all team leads who with creativity and focus have ensured that we all are tightly connected and keeping up the so important daily dialogues and knowledge sharing with our fellow colleagues.

Thanks to our millions of consumers around the world. Thank you for believing in us and appreciating what we do, we are still just at the beginning of the adventure and our focus on providing you with the best possible experience remains relentless. I also want to say thank you to our more than 200,000 retail partners. I am impressed by how extremely hard you are working in these difficult circumstances and proud of what we have achieved together. We have a continued razor focus on helping you by delivering an incomparable shopping service that sparks inspiration and supports all the way through delivery.

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

Sebastian Siemiatkowski
CEO and Co-founder



Business overview.

Business overview

The CEO of Klarna Bank AB (publ) hereby submits the report for the period January 1 – June 30, 2020. Klarna Bank AB (publ)'s parent company is Klarna Holding AB. This report presents the figures for Klarna Bank AB (publ) and its subsidiaries. The report has been prepared in thousands of Swedish kronor unless otherwise stated.

Information about the business

Klarna Bank AB (publ) is a registered bank and is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). 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's core mission is to provide consumers with an engaging shopping experience that helps them discover and purchase goods and services in a meaningful and smart way. We offer consumers a range of flexible payment options including card payments and direct banking, as well as our proprietary payment options, which include Pay in 14 days, Pay in 21 days or Pay in 30 days, purchase financing (Financing), as well as immediate settlement option (Pay now). The Installments product, available in the UK, the US and Spain, offers consumers a short-term (60 days or six weeks) installment plan with no interest. Our frictionless checkout experience smoothens the moment of purchase for consumers and they can also always feel safe with Klarna's Buyer's Protection, which ensures that they don't have to pay in the unlikely event that there is a problem with the purchase. We have expanded our banking offering by launching our own savings accounts with competitive rates in Sweden, which have seen immediate traction. We have also partnered with Raisin to further strengthen our presence on the German deposit market.

The Klarna app powers the shopping experience end-to-end, and is a shopping service for consumers through which they can enjoy inspiration, convenience and perks. The app provides consumers with personalized wish lists curated by shopping experts, personal shareable wish lists, daily new looks based on their preference, daily exclusive deals and drops from around the globe, fast checkout as well as other tools to take control over their personal finances. This includes overview of all purchases, price drop notifications, friendly reminders on purchases, 24/7 customer service through chat, financial overview, financial insights, delivery tracking and return reporting. In the US, Australia and Sweden, Klarna app users can also shop at any retailer. The Klarna card is currently available in Germany and Sweden. We are also increasingly available in physical stores across markets. Collectively, these services are referred to as the 'Klarna everywhere' concept, which ensures that consumers can choose how and when to pay for purchases with Klarna based on their own needs and preferences.

For retailers, we are a growth partner and the value proposition includes attracting new consumers from the Klarna consumer network to their websites to further increase sales. We also ensure that retailers can reduce working capital requirements by providing simple, safe, and cost-effective

payment solutions and consumer credit products across all e-commerce platforms as well as in physical stores. Our retail partner offering includes technology, credit risk handling, customer services and administration. With our services, retailers get an easy integration and onboarding to a fast and friction-free checkout solution where they get paid up front, meaning they can focus on what they do best. The Klarna Checkout is a conversion driving checkout solution optimized for desktop and mobile through which retailers can offer multiple payment options as well as a shipping service in one solution. We assume all the risk for both the consumer and the retailer.

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

Our brand continues to grow in stature, and awareness has been significantly boosted by a series of campaigns, which are fuelling consumer and retailer demand. In February, we launched the global "Get what you love" campaign in which we partnered with Lady Gaga and fashion stylist Bea Åkerlund for a Valentine's day campaign. During the campaign period, we reached 1.2 billion total global impressions and more than 540 million impressions via press. Additionally we have continued to create campaigns celebrating key communities including the LGBTQ+ and drag communities (Breakfast for Dinner virtual drag brunch series) and sneaker lovers (Sneakerheads campaign). In late June, we launched our biggest brand and marketing campaign in the US to date. The campaign, 'Klarna: Swedish For Smoother Shopping' aims to introduce US consumers to Klarna's shopping service and our newly updated and optimized shopping app.

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 when handling personal data. Maintaining that trust 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. We are also dedicated to helping our consumers when needs are changing. This is even more important in the current context, and we have increased our focus on how we can support consumers who experience increased financial vulnerability by finding appropriate solutions and by being more flexible in how we engage with them.

Business results

During the first half of 2020, we continued to grow rapidly both in new and core markets. The investments we have made in new and improved products and services to create an elevated shopping experience have supported this demand, which has increased rapidly during the period as consumers have to a larger extent turned to online shopping. Together, this drives the *Gross merchandise volume* which increased by 44% to SEK 215bn compared to the same period last

year, as well as the *Total net operating income*, which increased by 36% year-on-year resulting in SEK 4,518m at period-end.

Interest income grew by 22% year-on-year to SEK 1,591m, primarily driven by the continued popularity of the Financing product among consumers. *Interest expenses* grew to SEK -278m at period-end, due to continued rapid growth in general, as well as additional liquidity buffers to ensure business stability. The overall volume growth and the relative share of the Financing product have contributed to an increase in *Loans to the public* by 46% year-on-year, to SEK 32,975m. *Loans to the public* have been partly funded by the increase in *Deposits from the public*, which have increased by 56% year-on-year to SEK 23,687m, primarily driven by EUR deposits.

Commission income increased by 43% year-on-year to SEK 3,422m, driven by increased sales volumes and higher consumer activity across all markets but especially in the US and UK markets.

Klarna continued to actively manage down the share of late fees during the period. This is to a large extent supported by a significant increase in app usage adoption. The Klarna app is continuously being updated with new services to provide a superior end to end shopping experience for consumers, including features that help consumers keep track of their outstanding payments, and thereby enabling them to have increased control over their personal finances.

Total expenses before credit losses grew by 45% year-on-year. This is in line with plan as the commitment stands to further invest to deliver value in terms of brand awareness, a consumer-friendly product range and a system infrastructure that will enable us to grow and scale rapidly. During the period we have for example launched in three new markets, upgraded the Klarna app, launched a loyalty program and also continued to hire top talent across competences and markets, and the *average number of full-time equivalents* (FTEs) has increased by 44% compared to same period last year, amounting to 3,020. Together these efforts will facilitate further growth as we continue to expand in current markets with a focus on the US as well as move into new markets.

In light of the Covid-19 outbreak, we have seen significant changes in consumers' spending priorities and behaviors shifting from offline to online shopping, and many of our retailers are expediting the development of their online offering. As responsible and precautionary measures, we have decided to adjust our credit policies globally, and hold a reserve of SEK 127m related to uncertainties in how worsened macro-economic factors (e.g. unemployment) and future government support programs in the US and UK markets may impact credit losses, despite seeing strengthened payment behaviour during the period. This reserve has a negative impact on the period's *Operating profit*.

We are continuously monitoring relevant market development, ensuring that appropriate assessments on potential impacts are made on both the consumer and retail partner facing sides of the business. Shorter duration credits in combination with our diversified exposure to verticals and geographical markets, our consumer insights we have in our largest markets and the share of returning consumers lower our risk. Klarna's financial position is solid given the equity raises during 2019, a large liquidity buffer and access to deposit markets in both EUR and SEK.

With the continued growth and in particular the rapid expansion in newer markets, the share of new consumers increases. The share of first time Klarna consumers affects net credit losses, which is why new market entries are likely to entail higher credit loss rates during the initial phase. *Credit losses, net* amounted to SEK -1,194m for the period. Credit quality remains steady and at low levels in core markets and is steadily improving in newer markets. The average duration of Klarna's credit portfolio is ~45 days, meaning there is an ability to steer balance sheet growth and related risk.

Operating profit for the period was SEK -690m, compared to SEK -78m in 2019. *Net profit* recorded at SEK -552m, compared to SEK -84m in 2019.

Capital adequacy has strengthened compared to the same period last year due to equity raises in H2 2019 and Klarna is now at a CET1-ratio of 22.3%.

Branches abroad

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

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

Significant events during the period

Klarna Bank AB (publ) has added a reserve totalling SEK 127m 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 lease liabilities of SEK 190m in Klarna Bank AB (publ).

In June 2020, Klarna Bank AB (publ) received an unconditional shareholders' contribution of SEK 1,000m from Klarna Holding AB.

Future development

Klarna continues to develop as a global payments provider and shopping service by creating an elevated shopping experience, supporting retailer growth and driving consumer loyalty. Klarna continues to consolidate its leading position in the Nordics. Our offering resonates strongly with consumers and retailers across continental Europe ensuring continued strong growth in the DACH region, which is our largest market, as well as continued momentum in the UK. In addition, the US has strong momentum signing global brands and rapidly acquiring consumers through the shopping service offering in the Klarna app. Australia is gaining momentum and we see traction for our offering and the elevated shopping experience. Klarna will continue to grow by entering new markets, and by 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, which provides a platform for driving sustained preference and growth.

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

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

**Group
and parent
company
financials.**

Five Year Summary, Group

Amounts in SEkk	Jan - Jun 2020	Jan - Jun 2019	Jan - Jun 2018	Jan - Jun 2017	Jan - Jun 2016
Income statement					
Total net operating income	4,517,860	3,314,081	2,504,271	1,893,167	1,575,974
Operating profit	-689,954	-77,762	111,647	320,507	133,405
Net profit for the period	-551,758	-83,528	71,018	228,444	96,496
Balance sheet					
Loans to credit institutions	1,717,226	1,774,862	2,269,144	485,015	1,029,773
Loans to the public	32,975,358	22,638,909	15,234,766	9,735,650	6,693,105
All other assets	14,008,541	6,039,079	4,017,576	2,583,888	2,122,320
Total assets	48,701,125	30,452,850	21,521,486	12,804,553	9,845,198
Liabilities to credit institutions	2,540,836	466,264	341,704	483,532	25,281
Deposits from the public	23,686,973	15,217,700	10,555,645	6,190,265	5,044,872
All other liabilities	16,738,045	10,658,935	6,465,993	3,027,138	2,189,875
Total equity	5,735,271	4,109,951	4,158,144	3,103,618	2,585,170
Total liabilities and equity	48,701,125	30,452,850	21,521,486	12,804,553	9,845,198
Key ratios and figures¹					
Return on equity	-34.6%	-0.7%	8.7%	12.5%	6.0%
Return on assets	-3.5%	-0.2%	1.1%	2.2%	1.1%
Debt/equity ratio	7.0	6.1	3.9	3.4	2.7
Equity/assets ratio	11.8%	13.5%	19.3%	24.2%	26.3%
Cost/revenue ratio	88.8%	83.7%	81.1%	73.7%	78.9%
Own funds (Total capital)	8,019,930	4,490,839	2,746,026	2,398,316	1,805,003
Capital requirement	2,515,203	2,034,744	1,482,458	968,904	699,696
Total capital ratio	25.5%	17.7%	14.8%	19.8%	20.6%
Average number of full-time equivalents	3,020	2,112	1,626	1,331	1,352

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

Five Year Summary, Parent Company

Amounts in SEkk	Jan - Jun 2020	Jan - Jun 2019	Jan - Jun 2018	Jan - Jun 2017	Jan - Jun 2016
Income statement					
Total net operating income	3,970,248	3,196,866	2,119,047	1,865,908	1,408,727
Operating profit	-820,513	-35,536	-48,793	378,842	58,440
Net profit for the period	-640,167	-16,622	-38,108	336,993	45,584
Balance sheet					
Loans to credit institutions	889,729	1,232,913	1,645,456	200,830	763,806
Loans to the public	31,911,044	22,432,301	15,162,789	10,173,342	7,117,057
All other assets	14,418,697	5,613,827	3,556,748	2,130,116	1,690,128
Total assets	47,219,470	29,279,041	20,364,993	12,504,288	9,570,991
Liabilities to credit institutions	2,540,835	466,264	341,704	483,532	25,281
Deposits from the public	23,595,917	15,184,645	10,537,011	6,190,265	5,044,872
All other liabilities	15,612,867	9,900,117	5,905,530	2,931,203	2,140,986
Total equity	5,469,851	3,728,015	3,580,748	2,899,288	2,359,852
Total liabilities and equity	47,219,470	29,279,041	20,364,993	12,504,288	9,570,991
Key ratios and figures¹					
Return on equity	-36.7%	3.2%	0.2%	12.2%	0.2%
Return on assets	-3.6%	0.7%	-0.2%	2.6%	0.1%
Debt/equity ratio	7.2	6.3	4.1	3.5	2.8
Equity/assets ratio	11.6%	13.1%	18.2%	23.7%	25.3%
Cost/revenue ratio	92.6%	83.5%	86.3%	70.6%	81.9%
Own funds (Total capital)	5,770,992	4,075,296	3,782,985	3,109,676	2,584,827
Capital requirement	2,717,761	2,207,648	1,580,784	1,077,632	798,602
Total capital ratio	17.0%	14.8%	19.1%	23.1%	25.9%
Average number of full-time equivalents	2,564	1,439	1,038	894	936

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

Income Statement, Group

Amounts in SEKk	Note	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Interest income calculated according to the effective interest rate method	4	1,591,473	1,306,083	2,794,769
Interest expenses	5	-278,018	-157,333	-368,203
Net interest income		1,313,455	1,148,750	2,426,566
Commission income	6	3,421,689	2,388,338	5,232,181
Commission expenses		-243,809	-200,279	-476,023
Net result from financial transactions		-26,470	-31,061	-76,437
Other operating income		52,995	8,333	48,381
Total net operating income		4,517,860	3,314,081	7,154,668
General administrative expenses		-3,829,972	-2,630,341	-6,081,229
Depreciation, amortization and impairment of intangible and tangible assets	7	-183,379	-143,395	-299,271
Total operating expenses before credit losses		-4,013,351	-2,773,736	-6,380,500
Operating profit before credit losses, net		504,509	540,345	774,168
Credit losses, net	8	-1,194,463	-618,107	-1,862,817
Operating profit		-689,954	-77,762	-1,088,649
Income tax		138,196	-5,766	186,293
Net profit for the period		-551,758	-83,528	-902,356
Whereof attributable to:				
Shareholders of Klarna Bank AB (publ)		-559,162	-90,472	-916,588
Additional Tier 1 capital holders		7,404	6,944	14,232
Total		-551,758	-83,528	-902,356

Statement of Comprehensive Income, Group

Amounts in SEKk	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Net profit for the period	-551,758	-83,528	-902,356
Items that may be reclassified subsequently to the income statement:			
Exchange differences, foreign operations	-1,033	58,159	35,049
Other comprehensive income for the period, net after tax	-1,033	58,159	35,049
Total comprehensive income for the period	-552,791	-25,369	-867,307
Whereof attributable to:			
Shareholders of Klarna Bank AB (publ)	-560,195	-32,313	-881,539
Additional Tier 1 holders	7,404	6,944	14,232
Total	-552,791	-25,369	-867,307

Balance Sheet, Group

Amounts in SEkk	Note	30 Jun 2020	31 Dec 2019	30 Jun 2019
Assets				
Cash and balances with central banks		1,922,110	107,076	572
Treasury bills chargeable at central banks, etc.		5,301,093	2,510,606	2,496,413
Loans to credit institutions		1,717,226	1,907,129	1,774,862
Loans to the public	9	32,975,358	29,654,552	22,638,909
Bonds and other interest-bearing securities		2,081,274	1,833,567	-
Other shares and participations		135,687	20,081	20,081
Intangible assets		2,292,255	2,145,846	2,101,014
Tangible assets		999,921	892,654	796,212
Deferred tax assets		467,682	310,666	45,308
Other assets		581,498	337,071	357,289
Prepaid expenses and accrued income		227,021	148,312	222,190
Total assets		48,701,125	39,867,560	30,452,850
Liabilities				
Liabilities to credit institutions		2,540,836	4,939,524	466,264
Deposits from the public		23,686,973	12,287,653	15,217,700
Debt securities in issue	10	4,767,907	5,582,703	1,998,095
Deferred tax liabilities		81,278	76,411	115,498
Other liabilities	11	10,123,583	9,822,329	7,014,864
Accrued expenses and prepaid income		1,016,103	907,475	653,736
Provisions		150,181	357,674	278,617
Subordinated liabilities		598,993	598,325	598,125
Total liabilities		42,965,854	34,572,094	26,342,899
Equity				
Share capital		52,752	52,752	52,752
Other capital contributed		5,805,140	4,805,140	2,805,140
Reserves		224,788	225,821	248,931
Additional Tier 1 instruments		250,000	250,000	250,000
Retained earnings		-45,651	864,109	836,656
Net profit for the period		-551,758	-902,356	-83,528
Total equity		5,735,271	5,295,466	4,109,951
Total liabilities and equity		48,701,125	39,867,560	30,452,850

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 period</i>	-	-	-	-	-	-551,758	-551,758
<i>Exchange differences, foreign operations</i>	-	-	-1,033	-	-	-	-1,033
Total comprehensive income for the period	-	-	-1,033	-	-	-551,758	-552,791
Shareholders' contribution ¹	-	1,000,000	-	-	-	-	1,000,000
Additional Tier 1 instruments ²	-	-	-	-	-7,404	-	-7,404
Balance as at June 30, 2020	52,752	5,805,140	224,788	250,000	-45,651	-551,758	5,735,271
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	-	-	-	-	5	-	5
Transfer of previous year's net profit	-	-	-	-	105,224	-105,224	-
<i>Net profit for the period</i>	-	-	-	-	-	-83,528	-83,528
<i>Exchange differences, foreign operations</i>	-	-	58,159	-	-	-	58,159
Total comprehensive income for the period	-	-	58,159	-	-	-83,528	-25,369
Additional Tier 1 instruments ²	-	-	-	-	-6,944	-	-6,944
Balance as at June 30, 2019	52,752	2,805,140	248,931	250,000	836,656	-83,528	4,109,951
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	-	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, paid in June 2020.

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 instruments.

³ Group contribution from parent company Klarna Holding AB, not paid.

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 capital holders.

Cash Flow Statement, Group

Amounts in SEKk	Note	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Operating activities				
Operating profit		-689,954	-77,762	-1,088,649
Taxes paid		-17,863	-180,870	-286,084
<i>Adjustments for non-cash items in operating activities</i>				
Depreciation, amortization and impairment	7	183,379	143,395	299,271
Gain or loss from shares in unlisted companies		-	915	915
Provisions excluding credit losses		902	73,133	222,718
Provision for credit losses		236,335	61,313	651,791
Financial items including unrealized exchange rate effects		713	-66,184	-38,460
<i>Changes in the assets and liabilities of operating activities</i>				
Change in loans to the public		-3,603,319	-1,751,639	-9,345,613
Change in liabilities to credit institutions		-2,398,689	-951,791	3,521,470
Change in deposits from the public		11,399,320	635,931	-2,294,116
Change in other assets and liabilities		-3,424,247	2,891,561	5,926,842
Cash flow from operating activities¹		1,686,577	778,002	-2,429,915
Investing activities				
Investments in intangible assets		-184,771	-91,740	-234,059
Investments in tangible assets		-61,062	-56,238	-186,263
Sales of fixed assets		435	-	-
Investments in business combinations		-13,652	-979,077	-979,077
Investments and divestments in other shares and participations		-71,951	20,220	20,220
Cash flow from investing activities		-331,001	-1,106,835	-1,379,179
Financing activities				
Shareholder contribution received		1,000,000	-	-
Group contribution received		44,200	-	-
Debt securities in issue	10	-850,786	-	3,579,247
Lease liabilities		-62,797	-55,271	-104,863
Cash flow from financing activities		130,617	-55,271	3,474,384
Cash flow for the period		1,486,193	-384,104	-334,710
Cash and cash equivalents at the beginning of the period		1,618,008	1,917,407	1,917,407
Cash flow for the period		1,486,193	-384,104	-334,710
Exchange rate diff. in cash and cash equivalents		13,783	46,466	35,311
Cash and cash equivalents at the end of the period		3,117,984	1,579,769	1,618,008
Cash and cash equivalents include the following items				
Cash and balances with central banks		1,922,110	572	107,076
Loans to credit institutions ²		1,195,874	1,579,197	1,510,932
Cash and cash equivalents		3,117,984	1,579,769	1,618,008

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

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

Income Statement, Parent Company

Amounts in SEKk	Note	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Interest income calculated according to the effective interest rate method	4	1,595,190	1,292,357	2,777,230
Interest expenses	5	-276,884	-155,392	-364,173
Net interest income		1,318,306	1,136,965	2,413,057
Dividend received		-	126,609	126,609
Commission income	6	2,669,603	1,881,135	4,098,667
Commission expenses		-239,227	-190,417	-454,149
Net result from financial transactions		-21,891	-14,041	-68,988
Other operating income		243,457	256,615	649,802
Total net operating income		3,970,248	3,196,866	6,764,998
General administrative expenses		-3,162,332	-2,397,221	-5,561,234
Depreciation, amortization and impairment of intangible and tangible assets	7	-152,545	-101,172	-217,848
Other operating costs		-360,587	-172,058	-582,320
Total operating expenses before credit losses		-3,675,464	-2,670,451	-6,361,402
Operating profit before credit losses, net		294,784	526,415	403,596
Credit losses, net	8	-1,115,297	-561,951	-1,480,128
Operating profit		-820,513	-35,536	-1,076,532
Appropriations		-	-	151,100
Income tax		180,346	18,914	187,313
Net profit for the period		-640,167	-16,622	-738,119

Statement of Comprehensive Income, Parent Company

Amounts in SEKk	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Net profit for the period	-640,167	-16,622	-738,119
Items that may be reclassified subsequently to the income statement:			
Exchange differences, foreign operations	-2,588	-532	383
Other comprehensive income for the period, net after tax	-2,588	-532	383
Total comprehensive income for the period	-642,755	-17,154	-737,736

Balance Sheet, Parent Company

Amounts in SEkk	Note	30 Jun 2020	31 Dec 2019	30 Jun 2019
Assets				
Cash and balances with central banks		1,922,107	107,070	569
Treasury bills chargeable at central banks, etc.		5,301,093	2,510,606	2,496,413
Loans to credit institutions		889,729	1,192,327	1,232,913
Loans to the public	9	31,911,044	28,536,048	22,432,301
Bonds and other interest-bearing securities		2,081,274	1,833,567	-
Shares and participations in group companies		1,344,484	1,305,489	1,122,265
Other shares and participations		135,687	20,081	20,081
Intangible assets		638,498	524,607	465,053
Tangible assets		819,130	448,805	456,546
Deferred tax assets		433,902	233,832	32,802
Other assets		1,552,806	1,747,020	823,455
Prepaid expenses and accrued income		189,716	177,511	196,643
Total assets		47,219,470	38,636,963	29,279,041
Liabilities				
Liabilities to credit institutions		2,540,835	4,939,524	466,264
Deposits from the public		23,595,917	12,252,416	15,184,645
Debt securities in issue	10	4,577,395	5,534,267	1,998,095
Deferred tax liabilities		-	-	1,375
Other liabilities	11	9,393,131	8,946,400	6,336,976
Accrued expenses and prepaid income		908,002	990,174	549,810
Provisions		133,133	338,757	262,423
Subordinated liabilities		598,993	598,325	598,125
Total liabilities		41,747,406	33,599,863	25,397,713
Untaxed reserves		2,213	2,213	153,313
Equity				
Share capital		52,752	52,752	52,752
Reserve for development cost		509,859	390,209	353,849
Other reserves		-2,205	383	-532
Additional Tier 1 instruments		250,000	250,000	250,000
Retained earnings		5,299,612	5,079,662	3,088,568
Net profit for the period		-640,167	-738,119	-16,622
Total equity		5,469,851	5,034,887	3,728,015
Total liabilities and equity		47,219,470	38,636,963	29,279,041

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	-
Net profit for the period	-	-	-	-	-	-640,167	-640,167
Exchange differences, foreign operations	-	-	-2,588	-	-	-	-2,588
Total comprehensive income for the period	-	-	-2,588	-	-	-640,167	-642,755
Shareholders' contribution ¹	-	-	-	-	1,000,000	-	1,000,000
Reserve for development costs	-	119,650	-	-	-119,650	-	-
Merger result ²	-	-	-	-	85,123	-	85,123
Additional Tier 1 instruments ³	-	-	-	-	-7,404	-	-7,404
Balance as at June 30, 2020	52,752	509,859	-2,205	250,000	5,299,612	-640,167	5,469,851
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	-
Net profit for the period	-	-	-	-	-	-16,622	-16,622
Exchange differences, foreign operations	-	-	-532	-	-	-	-532
Total comprehensive income for the period	-	-	-532	-	-	-16,622	-17,154
Reserve for development costs	-	46,915	-	-	-46,915	-	-
Additional Tier 1 instruments ³	-	-	-	-	-6,944	-	-6,944
Balance as at June 30, 2019	52,752	353,849	-532	250,000	3,088,568	-16,622	3,728,015
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	-
Net profit for the year	-	-	-	-	-	-738,119	-738,119
Exchange differences, foreign operations	-	-	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	-	-	-	-	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, paid in June 2020.

² Merger result from the transfer of Klarna GmbH's business into Klarna Bank AB 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, not paid.

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

Cash Flow Statement, Parent Company

Amounts in SEKk	Note	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Operating activities				
Operating profit		-820,513	-35,536	-1,076,532
Taxes paid		-11,349	-42,404	-53,512
<i>Adjustments for non-cash items in operating activities</i>				
Depreciation, amortization and impairment	7	152,545	101,172	217,848
Gain or loss from shares in unlisted companies		-	915	915
Dividend received from subsidiaries		-	-126,609	-126,609
Provisions excluding credit losses		903	73,133	224,446
Provision for credit losses		416,127	14,538	323,411
Profit from merger		-12,820	-	-
Financial items including unrealized exchange rate effects		-3,917	-82,280	-42,438
<i>Changes in the assets and liabilities of operating activities</i>				
Change in loans to the public		-3,839,194	-1,634,162	-8,031,995
Change in liabilities to credit institutions		-2,398,689	-951,791	3,521,470
Change in deposits from the public		11,343,502	627,167	-2,305,063
Change in other assets and liabilities		-3,155,270	2,520,793	4,355,573
Cash flow from operating activities¹		1,671,325	464,936	-2,992,486
Investing activities				
Investments in intangible assets		-184,771	-91,740	-219,134
Investments in tangible assets		-9,308	-5,016	-13,797
Sales of fixed assets		269	-	-
Investments in subsidiaries		-	-	-48,555
Investments in business combinations		-13,652	-979,077	-979,077
Investments and divestments in other shares and participations		-71,951	20,220	20,220
Dividend received from subsidiaries		-	126,609	126,609
Cash flow from investing activities		-279,413	-929,004	-1,113,734
Financing activities				
Shareholder contribution received		1,000,000	-	-
Group contribution received		44,200	-	-
Debt securities in issue	10	-992,862	-	3,530,810
Lease liabilities		-35,028	-36,836	-74,408
Cash flow from financing activities		16,310	-36,836	3,456,402
Cash flow for the period		1,408,222	-500,904	-649,818
Cash and cash equivalents at the beginning of the period				
Cash flow for the period		1,408,222	-500,904	-649,818
Cash and cash equivalents from merger		943	-	-
Exchange rate diff. in cash and cash equivalents		4,924	32,191	29,331
Cash and cash equivalents at the end of the period		2,363,468	1,101,153	949,379
Cash and cash equivalents include the following items				
Cash and balances with central banks		1,922,107	569	107,070
Loans to credit institutions ²		441,361	1,100,584	842,309
Cash and cash equivalents		2,363,468	1,101,153	949,379

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

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

**Notes with
accounting
principles.**

Note 1 Corporate information

The Parent Company, Klarna Bank AB (publ), corp. ID 556737-0431, maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated financial interim report per June 30, 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 Business overview.

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

Note 2 Accounting and valuation principles

Basis for the preparation of the reports

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

The accounting principles and calculation methods applied in this report are identical to those applied in the Annual Report for 2019 except for the changes stated below.

Changed accounting principles

No 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

No changes in IFRS or IFRIC interpretations that have not yet come into effect are expected to have significant impact on the Group.

Note 3 Operating segments and income by geographical area

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

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

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

Group					
Jan - Jun 2020					
Operating segments	Sweden	DACH	Norway	Other¹	Total
Revenue	1,187,036	1,782,550	375,688	1,431,302	4,776,576
Gross profit	860,701	1,243,148	298,760	217,719	2,620,328
Geographical breakdown		Sweden	Germany	Other²	Total
Revenue		1,187,036	1,560,484	2,029,056	4,776,576
Non-current assets		1,023,291	2,130,091	138,794	3,292,176
Jan - Jun 2019					
Operating segments	Sweden	DACH	Norway	Other¹	Total
Revenue	1,034,661	1,324,477	394,562	746,963	3,500,663
Gross profit	759,782	931,775	304,354	283,457	2,279,368
Geographical breakdown		Sweden	Germany	Other²	Total
Revenue		1,034,661	1,177,636	1,288,366	3,500,663
Non-current assets		932,193	1,941,516	23,517	2,897,226

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

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

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

Reconciliation between total operating segments and income statement	Jan - Jun 2020	Jan - Jun 2019
Revenue		
Revenue - total operating segments	4,776,576	3,500,663
Interest income from central activities	45,772	1,812
Interest expenses	-278,018	-157,333
Net result from financial transactions	-26,470	-31,061
Total net operating income	4,517,860	3,314,081

Reconciliation between total operating segments and income statement	Jan - Jun 2020	Jan - Jun 2019
Gross profit		
Gross profit - total operating segments	2,620,328	2,279,368
Other general administrative expenses	-3,093,788	-2,204,126
Depreciation, amortization and impairment of intangible and tangible assets	-183,379	-143,395
Other interest expenses	-45,545	-10,500
Other result from financial transactions	12,430	891
Operating profit	-689,954	-77,762

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

Parent Company				
Jan - Jun 2020	Sweden	Germany	Other¹	Total
Interest income calculated according to the effective interest rate method	731,653	339,829	523,708	1,595,190
Commission income	653,235	796,640	1,219,728	2,669,603
Net result from financial transactions	334,253	-157,696	-198,448	-21,891
Other operating income	237,490	3,588	2,379	243,457
Total	1,956,631	982,361	1,547,367	4,486,359

Jan - Jun 2019	Sweden	Germany	Other¹	Total
Interest income calculated according to the effective interest rate method	605,026	206,810	480,521	1,292,357
Dividend received	126,609	-	-	126,609
Commission income	560,312	594,576	726,247	1,881,135
Net result from financial transactions	-43,642	356,733	-327,132	-14,041
Other operating income	254,579	-	2,036	256,615
Total	1,502,884	1,158,119	881,672	3,542,675

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

Parent Company		
External revenue split by income categories	Jan - Jun 2020	Jan - Jun 2019
Retailer	1,586,333	927,826
Consumer	2,380,341	2,040,528
Total	3,966,674	2,968,354

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

	Group		Parent Company	
	Jan - Jun 2020	Jan - Jun 2019	Jan - Jun 2020	Jan - Jun 2019
Loans to credit institutions	2,428	638	990	581
Loans to the public	1,545,702	1,304,268	1,550,894	1,290,599
Other interest income	43,343	1,177	43,306	1,177
Total	1,591,473	1,306,083	1,595,190	1,292,357

Note 5 Interest expenses

	Group		Parent Company	
	Jan - Jun 2020	Jan - Jun 2019	Jan - Jun 2020	Jan - Jun 2019
Interest bearing securities and chargeable treasury bills etc.	-37,972	-4,584	-37,972	-4,584
Liabilities to credit institutions	-21,543	-20,116	-21,166	-20,021
Deposits from the public	-113,689	-86,783	-113,689	-86,783
Debt securities in issue	-34,656	-13,658	-34,656	-13,658
Subordinated liabilities	-13,171	-12,132	-13,171	-12,132
Group companies	-38,731	-5,902	-38,731	-6,111
Other interest expenses	-18,256	-14,158	-17,499	-12,103
Total	-278,018	-157,333	-276,884	-155,392

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

Note 6 Commission income

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

Group					
Jan - Jun 2020	Sweden	DACH	Norway	Other¹	Total
Commission income	653,252	1,442,047	259,880	1,066,510	3,421,689
Jan - Jun 2019					
Commission income	560,313	1,100,480	261,560	465,985	2,388,338

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

Commission income split by product category	Jan - Jun 2020	Jan - Jun 2019
Retailer	2,501,882	1,587,410
Consumer	919,807	800,928
Total	3,421,689	2,388,338

Parent Company					
Jan - Jun 2020	Sweden	DACH	Norway	Other¹	Total
Commission income	653,235	901,612	259,880	854,876	2,669,603
Jan - Jun 2019					
Commission income	560,312	654,622	261,560	404,641	1,881,135

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

Commission income split by product category	Jan - Jun 2020	Jan - Jun 2019
Retailer	1,805,701	1,113,791
Consumer	863,902	767,344
Total	2,669,603	1,881,135

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

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

	Group		Parent Company	
	Jan - Jun 2020	Jan - Jun 2019	Jan - Jun 2020	Jan - Jun 2019
Amortization and depreciation				
Intangible assets	-86,514	-71,188	-71,685	-53,368
Tangible assets ¹	-96,865	-72,056	-80,860	-47,653
Total	-183,379	-143,244	-152,545	-101,021
Impairment				
Intangible assets	-	-151	-	-151
Total	-	-151	-	-151
Total depreciation, amortization and impairment of intangible and tangible assets	-183,379	-143,395	-152,545	-101,172

¹ From January 1, 2019, depreciation of leased assets is included in tangible assets. As of June 30, 2020, the depreciation of leased assets amounts to SEK 65m (57) in the Group and SEK 53m (36) in Klarna Bank AB (publ).

Note 8 Credit losses, net

Loan losses divided by class	Group		Parent Company	
	Jan - Jun 2020	Jan - Jun 2019	Jan - Jun 2020	Jan - Jun 2019
Loans to credit institutions				
Increase in provisions	-69	-53	-65	-10
Reversal of previous provisions	98	34	98	34
Total	29	-19	33	24
Loans to the public				
Realized loan losses	-1,367,711	-854,175	-1,106,897	-844,794
Allowances to cover realized loan losses	970,289	433,609	963,066	432,419
Recoveries on previous realized loan losses	409,584	311,417	407,726	311,417
Increase in provisions	-2,501,876	-1,406,960	-2,377,151	-1,350,261
Reversal of previous provisions	1,341,429	862,964	1,046,030	854,024
Total	-1,148,285	-653,145	-1,067,226	-597,195
Financial guarantees and commitments				
Increase in provisions	-48,157	-42,837	-49,735	-39,128
Reversal of previous provisions	1,950	77,894	1,631	74,348
Total	-46,207	35,057	-48,104	35,220
Total credit losses, net	-1,194,463	-618,107	-1,115,297	-561,951

Note 9 Loans to the public

	Group		Parent Company	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Loans to the public	34,785,865	31,300,571	33,505,794	29,797,162
Allowance for credit losses	-1,810,507	-1,646,019	-1,594,750	-1,261,114
Total	32,975,358	29,654,552	31,911,044	28,536,048

For the fair value amounts, see note 13.

Note 10 Debt securities in issue

	Group		Parent Company	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Senior unsecured bonds	3,917,952	3,450,758	3,917,952	3,450,758
Commercial papers	659,443	2,083,509	659,443	2,083,509
Other bonds	190,512	48,436	-	-
Total	4,767,907	5,582,703	4,577,395	5,534,267

For the fair value amounts, see note 13.

Note 11 Other liabilities

	Group		Parent Company	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Accounts payable	92,454	152,534	64,196	127,420
Personnel related taxes	49,939	62,129	43,679	37,895
Liabilities to group companies	3,648,701	4,340,522	3,882,726	4,507,681
Current tax liabilities	99,122	69,142	17,873	6,893
Liabilities to retailers	4,975,978	4,325,140	4,421,420	3,661,319
Derivatives	268,919	59,869	268,919	59,869
Lease liabilities	726,875	641,884	562,564	399,219
Other liabilities	261,595	171,109	131,754	146,104
Total	10,123,583	9,822,329	9,393,131	8,946,400

Klarna Bank AB (publ) has received a line of credit from its parent company Klarna Holding AB. The credit liability amounted to SEK 3,435,455k (4,126,636) as of June 30, 2020, and is included in Liabilities to group companies. The line of credit is ranked pari passu with all other unsecured indebtedness.

For the fair value amounts, see note 13.

Note 12 Pledged assets and contingent liabilities

	Group		Parent Company	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Pledged assets				
<i>Assets pledged for own liabilities</i>				
Pledged loans and receivables	8,272,958	8,358,790	8,148,443	8,288,185
Pledged treasury bills chargeable at central banks, etc., and pledged bonds and other interest-bearing securities	2,072,645	2,313,711	2,072,645	2,313,711
<i>Other pledged assets</i>	29,604	9,859	-	-
Total	10,375,207	10,682,360	10,221,088	10,601,896
Contingent liabilities and commitments				
<i>Contingent liabilities</i>				
Guarantees	469,001	483,315	62,707	434
<i>Commitments</i>	13,769,701	10,136,918	13,970,632	10,441,560
Total	14,238,702	10,620,233	14,033,339	10,441,994

Klarna Bank AB (publ) continually pledges parts of its Swedish receivables as collateral for liabilities to credit institutions which provides security for the Group's credit facility. The credit liability amounted to SEK 0k (2,157,060) as at June 30, 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 2,072,635k (2,298,059) as at June 30, 2020.

Note 13 Financial assets and liabilities at fair value

Group	30 Jun 2020			31 Dec 2019		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	1,922,110	1,922,110	-	107,076	107,076	-
Treasury bills chargeable at central banks, etc.	5,313,244	5,301,093	12,151	2,510,610	2,510,606	4
Loans to credit institutions	1,717,226	1,717,226	-	1,907,129	1,907,129	-
Loans to the public	32,975,358	32,975,358	-	29,654,552	29,654,552	-
Bonds and other interest-bearing securities	2,083,789	2,081,274	2,515	1,833,592	1,833,567	25
Other shares and participations	135,687	135,687	-	20,081	20,081	-
Other assets	38,581	38,581	-	24,479	24,479	-
Other assets (Currency forwards)	209,175	209,175	-	84,327	84,327	-
Prepaid expenses and accrued income	43,843	43,843	-	7,891	7,891	-
Total	44,439,013	44,424,347	14,666	36,149,737	36,149,708	29

Group	30 Jun 2020			31 Dec 2019		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Liabilities						
Liabilities to credit institutions	2,540,836	2,540,836	-	4,939,524	4,939,524	-
Deposits from the public	23,809,541	23,686,973	122,568	12,412,771	12,287,653	125,118
Debt securities in issue	4,729,930	4,767,907	-37,977	5,600,550	5,582,703	17,847
Other liabilities	9,661,991	9,661,991	-	9,613,734	9,613,734	-
Other liabilities (Currency forwards)	268,919	268,919	-	59,869	59,869	-
Accrued expenses and prepaid income	943,086	943,086	-	833,664	833,664	-
Subordinated liabilities	584,515	598,993	-14,478	607,048	598,325	8,723
Total	42,538,818	42,468,705	70,113	34,067,160	33,915,472	151,688

Parent Company	30 Jun 2020			31 Dec 2019		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	1,922,107	1,922,107	-	107,070	107,070	-
Treasury bills chargeable at central banks, etc.	5,313,244	5,301,093	12,151	2,510,610	2,510,606	4
Loans to credit institutions	889,729	889,729	-	1,192,327	1,192,327	-
Loans to the public	31,911,044	31,911,044	-	28,536,048	28,536,048	-
Bonds and other interest-bearing securities	2,083,789	2,081,274	2,515	1,833,592	1,833,567	25
Other shares and participations	135,687	135,687	-	20,081	20,081	-
Other assets	1,297,848	1,297,848	-	1,576,775	1,576,775	-
Other assets (Currency forwards)	209,175	209,175	-	84,327	84,327	-
Prepaid expenses and accrued income	21,978	21,978	-	45,165	45,165	-
Total	43,784,601	43,769,935	14,666	35,905,995	35,905,966	29

Parent Company	30 Jun 2020			31 Dec 2019		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Liabilities						
Liabilities to credit institutions	2,540,835	2,540,835	-	4,939,524	4,939,524	-
Deposits from the public	23,718,485	23,595,917	122,568	12,377,534	12,252,416	125,118
Debt securities in issue	4,539,418	4,577,395	-37,977	5,552,114	5,534,267	17,847
Other liabilities	9,022,281	9,022,281	-	8,830,226	8,830,226	-
Other liabilities (Currency forwards)	268,919	268,919	-	59,869	59,869	-
Accrued expenses and prepaid income	841,977	841,977	-	926,318	926,318	-
Subordinated liabilities	584,515	598,993	-14,478	607,048	598,325	8,723
Total	41,516,430	41,446,317	70,113	33,292,633	33,140,945	151,688

Fair value of treasury bills chargeable at central banks, etc., and bonds and other interest-bearing securities have been determined in terms of active market prices.

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

The calculation of fair value of deposits from the public is based on Level 2 input using observable market data. 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 14 Classification of financial assets and liabilities into valuation categories

Group	Mandatory at fair value through profit or loss	Amortized cost	Non-financial assets	Total
30 Jun 2020				
Assets				
Cash and balances with central banks	-	1,922,110	-	1,922,110
Treasury bills chargeable at central banks, etc.	-	5,301,093	-	5,301,093
Loans to credit institutions	-	1,717,226	-	1,717,226
Loans to the public	-	32,975,358	-	32,975,358
Bonds and other interest-bearing securities	-	2,081,274	-	2,081,274
Other shares and participations	135,687	-	-	135,687
Intangible assets	-	-	2,292,255	2,292,255
Tangible assets	-	-	999,921	999,921
Deferred tax assets	-	-	467,682	467,682
Other assets	209,175	38,581	333,742	581,498
Prepaid expenses and accrued income	-	43,843	183,178	227,021
Total	344,862	44,079,485	4,276,778	48,701,125

Group	Mandatory at fair value through profit or loss	Amortized cost	Non-financial liabilities	Total
30 Jun 2020				
Liabilities				
Liabilities to credit institutions	-	2,540,836	-	2,540,836
Deposits from the public	-	23,686,973	-	23,686,973
Debt securities in issue	190,512	4,577,395	-	4,767,907
Deferred tax liabilities	-	-	81,278	81,278
Other liabilities	268,919	9,661,991	192,673	10,123,583
Accrued expenses and prepaid income	-	943,086	73,017	1,016,103
Provisions	-	-	150,181	150,181
Subordinated liabilities	-	598,993	-	598,993
Total	459,431	42,009,274	497,149	42,965,854

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	Mandatory at fair value through profit or loss	Amortized cost	Non-financial assets	Total
30 Jun 2020				
Assets				
Cash and balances with central banks	-	1,922,107	-	1,922,107
Treasury bills chargeable at central banks, etc.	-	5,301,093	-	5,301,093
Loans to credit institutions	-	889,729	-	889,729
Loans to the public	142,885	31,768,159	-	31,911,044
Bonds and other interest-bearing securities	-	2,081,274	-	2,081,274
Shares and participations in group companies	-	-	1,344,484	1,344,484
Other shares and participations	135,687	-	-	135,687
Intangible assets	-	-	638,498	638,498
Tangible assets	-	-	819,130	819,130
Deferred tax assets	-	-	433,902	433,902
Other assets	209,175	1,297,848	45,783	1,552,806
Prepaid expenses and accrued income	-	21,978	167,738	189,716
Total	487,747	43,282,188	3,449,535	47,219,470

Parent Company	Mandatory at fair value through profit or loss	Amortized cost	Non-financial liabilities	Total
30 Jun 2020				
Liabilities				
Liabilities to credit institutions	-	2,540,835	-	2,540,835
Deposits from the public	-	23,595,917	-	23,595,917
Debt securities in issue	-	4,577,395	-	4,577,395
Other liabilities	268,919	9,022,281	101,931	9,393,131
Accrued expenses and prepaid income	-	841,977	66,025	908,002
Provisions	-	-	133,133	133,133
Subordinated liabilities	-	598,993	-	598,993
Total	268,919	41,177,398	301,089	41,747,406

Parent Company	Mandatory at fair value through profit or loss	Amortized cost	Non-financial assets	Total
31 Dec 2019				
Assets				
Cash and balances with central banks	-	107,070	-	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	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	-	12,252,416	-	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

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. This category includes investments in other shares and participations.

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

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

Group				
30 Jun 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	115,606	-	20,081	135,687
Other assets (Currency forwards)	-	209,175	-	209,175
Total	115,606	209,175	20,081	344,862
Financial liabilities				
Debt securities in issue	-	-	190,512	190,512
Other liabilities (Currency forwards)	-	268,919	-	268,919
Total	-	268,919	190,512	459,431

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				
30 Jun 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Loans to the public	-	-	142,885	142,885
Other shares and participations	115,606	-	20,081	135,687
Other assets (Currency forwards)	-	209,175	-	209,175
Total	115,606	209,175	162,966	487,747
Financial liabilities				
Other liabilities (Currency forwards)	-	268,919	-	268,919
Total	-	268,919	-	268,919

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

Note 15 Information on related parties

Group and Parent Company

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

During the period, 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.

Note 16 Capital adequacy and leverage ratio

Capital adequacy regulations

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

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

Common Equity Tier 1 capital

During the second quarter 2020, SEK 241,190m of Common Equity Tier 1 was added to the own funds of the consolidated situation of Klarna Bank AB (publ) through the issuance of ordinary shares in Klarna Holding AB.

Consolidated situation and methods for calculating minimum requirements

In accordance with the capital adequacy regulations, the consolidated situation is made up of Klarna Holding AB (Klarna Bank AB (publ)'s parent company) and its subsidiaries. All subsidiaries are fully consolidated. Klarna Bank AB (publ) is a registered bank under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). Klarna Bank AB (publ) uses the standardized method for calculating the minimum capital requirements for credit- as well as market risk and the alternative standardized approach for operational risk regarding Klarna Bank AB (publ) and its consolidated situation. The approval for calculating minimum capital requirement for operational risk using the alternative standardized approach was granted by 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 at the end of the second quarter 2020 (year-end 2019) amounts to SEK 4,075m (3,747) for Klarna Bank AB (publ) and SEK 3,809m (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 June 30, 2020 an amount of SEK 218m 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)	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Own funds, total risk exposure amount and total leverage ratio exposure				
Common Equity Tier 1 capital	6,993,845	7,439,312	4,921,999	4,570,245
Tier 1 capital	7,467,786	7,913,117	5,171,999	4,820,245
Own funds	8,019,930	8,448,158	5,770,992	5,418,570
Total risk exposure amount	31,440,032	26,445,453	33,972,007	28,793,937
Total leverage ratio exposure	45,047,395	38,528,570	44,822,016	38,928,014
Capital adequacy analysis				
Common Equity Tier 1 capital ratio	22.3%	28.1%	14.5%	15.9%
Tier 1 capital ratio	23.8%	29.9%	15.2%	16.7%
Total capital ratio	25.5%	31.9%	17.0%	18.8%
Leverage ratio	16.6%	20.5%	11.5%	12.4%
Combined buffer requirement incl. the requirements of 575/2013 Art. 92(1)(a)	7.1%	8.1%	7.1%	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	17.8%	20.0%	10.0%	7.7%
Exposure amounts for credit risk according to the standardized approach				
Credit risk including counterparty credit risk	47,551,033	37,738,242	47,408,013	38,022,698
of which: central governments or central banks	3,031,682	510,272	2,891,151	403,660
of which: regional governments or local authorities	2,689,556	2,265,154	2,689,556	2,265,154
of which: public sector entities	26,116	-	26,116	-
of which: multilateral development banks	1,662,135	234,782	1,662,135	234,782
of which: institutions	1,962,872	2,021,416	1,129,234	1,300,614
of which: corporates	2,738,200	1,593,025	4,520,981	3,392,568
of which: retail	30,931,661	27,617,719	28,978,360	26,533,365
of which: exposures in default	602,737	434,437	549,890	396,939
of which: covered bonds	2,081,274	1,633,589	2,081,274	1,633,589
of which: equity	135,687	20,081	1,480,172	1,325,570
of which: other items	1,689,113	1,407,767	1,399,144	536,457
Total exposure amount	47,551,033	37,738,242	47,408,013	38,022,698
Risk exposure amounts according to the standardized approach				
Credit risk including counterparty credit risk	29,712,803	25,212,408	30,814,882	26,345,704
of which: institutions	392,928	404,283	226,201	260,123
of which: corporates	2,659,431	1,516,407	4,442,211	3,325,694
of which: retail	23,198,746	20,713,290	21,733,770	19,900,024
of which: exposures in default	697,133	491,110	644,286	453,612
of which: covered bonds	208,127	163,359	208,127	163,359
of which: equity	165,809	50,203	1,510,294	1,355,692
of which: other items	2,390,629	1,873,756	2,049,993	887,200
Market risk	304,352	272,257	1,676,057	1,491,088
of which: foreign exchange risk	304,352	272,257	1,676,057	1,491,088
Operational risk	1,415,645	959,111	1,473,836	955,468
Credit valuation adjustments	7,232	1,677	7,232	1,677
Total risk exposure amount	31,440,032	26,445,453	33,972,007	28,793,937

	Consolidated situation		Klarna Bank AB (publ)	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Total minimum capital requirements				
Credit risk including counterparty credit risk	2,377,024	2,016,993	2,465,190	2,107,657
of which: institutions	31,434	32,343	18,096	20,810
of which: corporates	212,754	121,313	355,377	266,056
of which: retail	1,855,900	1,657,063	1,738,702	1,592,002
of which: exposures in default	55,771	39,289	51,543	36,289
of which: covered bonds	16,650	13,069	16,650	13,069
of which: equity	13,265	4,016	120,823	108,455
of which: other items	191,250	149,900	163,999	70,976
Market risk	24,348	21,781	134,085	119,287
of which: foreign exchange risk	24,348	21,781	134,085	119,287
Operational risk	113,252	76,729	117,907	76,437
Credit valuation adjustments	579	134	579	134
Total capital requirement	2,515,203	2,115,637	2,717,761	2,303,515
Own funds disclosure				
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts	9,081,566	8,840,376	5,857,892	4,857,892
Retained earnings	3,914	887,596	-590,652	274,521
Accumulated other comprehensive income (and other reserves)	224,240	225,268	509,380	392,318
Common Equity Tier 1 capital before regulatory adjustments	9,309,720	9,953,240	5,776,620	5,524,731
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	-498	-164	-498	-164
Intangible assets (net of related tax liability)	-2,215,477	-2,069,884	-638,498	-524,607
Losses for the current financial year	-520,643	-865,394	-640,167	-738,119
IFRS 9 transitional adjustments to CET1 Capital	420,743	421,514	424,542	308,404
Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	-2,315,875	-2,513,928	-854,621	-954,486
Common Equity Tier 1 (CET1) capital	6,993,845	7,439,312	4,921,999	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	217,569	217,433	-	-
Total Additional Tier 1 (AT1) capital instruments	473,941	473,805	250,000	250,000
Tier 1 capital	7,467,786	7,913,117	5,171,999	4,820,245
Tier 2 (T2) capital instruments				
Capital instruments and the related share premium accounts	-	-	598,993	598,325
Qualifying own funds instruments included in consolidated T2 issued by subsidiaries and held by third party	552,144	535,041	-	-
Total Tier 2 (T2) capital instruments	552,144	535,041	598,993	598,325
Own funds	8,019,930	8,448,158	5,770,992	5,418,570

Note 17 Significant events after the end of the reporting period

No significant events have occurred after the closing date.

CEO's affirmation

The CEO certifies that this interim report provides a fair overview of the Parent Company's and the Group's operations, their financial position and results, and describes material risks and uncertainties that the Parent Company and other companies in the Group are facing.

Stockholm, August 26, 2020

Sebastian Siemiatkowski
CEO

This report has been subject to review by the Company's auditors.

Further information

For more information, visit the Company website at www.klarna.com or contact:

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The information in this report is such that the subsidiary Klarna Bank AB (publ) is obliged to make public under the EU Market Abuse Regulation and the Securities Market Act. This information was submitted for publication, through the agency of the contact persons set out above, on August 27, 2020 at 08:00 a.m. CET.

THIS IS A TRANSLATION FROM THE SWEDISH ORIGINAL

Review report

Klarna Bank AB (publ), corporate identity number 556737-0431

Introduction

We have reviewed the condensed interim report for Klarna Bank AB (publ) as at June 30, 2020 and for the six months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410 *Review of Interim Financial Statements Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies regarding the Group, and in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies regarding the Parent Company.

Stockholm, August 26, 2020

Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant

Definitions and Abbreviations

App installs

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

Capital requirement

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

Common Equity Tier 1 capital

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

Cost/revenue ratio*

Total expenses before credit losses divided by total 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 for the reporting period.

Equity/assets ratio

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

Financing

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

Installments

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

Klarna Card

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 in 14, 21 or 30 days

Klarna's option to pay 14, 21 or 30 days after delivery, formerly known as Pay later.

Pay now

Klarna's product for immediate settlement.

Retailers

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

Return on assets*

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

Return on equity*

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

SMB

Small and medium-sized businesses.

Tier 1 capital

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

Tier 2 capital

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

Total capital ratio

Total capital as a percentage of risk exposure amounts.

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



Klarna.