

Publication of information concerning capital adequacy and liquidity management

26 November 2020

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

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

The information is presented for Klarna Bank AB (publ) (556737-0431) and its consolidated situation as of September 30, 2020.

Summary of capital adequacy information	Consolidated situation	Klarna Bank AB
SEKk	30 Sep 2020	30 Sep 2020
Own funds		
Common Equity Tier 1 capital	12,573,662	4,810,577
Additional Tier 1 capital	487,811	250,000
Tier 2 capital	588,398	598,981
Own funds	13,649,871	5,659,558
Risk exposure amount		
Credit risk according to standardized approach	32,382,960	33,178,407
Market risk according to standardized approach	276,339	1,747,665
Operational risk according to alternative standardized approach	1,415,645	1,473,836
Credit valuation adjustment	2,966	3,670
Total risk exposure amount	34,077,910	36,403,578
Capital adequacy analysis		
Common Equity Tier 1 capital ratio	36.9%	13.2%
Tier 1 capital ratio	38.3%	13.9%
Total capital ratio	40.1%	15.5%
Combined buffer requirement incl. the requirements of 575/2013 Art. 92(1)(a)	7.1%	7.1%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	0.1%	0.1%
Common Equity Tier 1 available to meet buffer requirement, less minimum capital requirement.	32.4%	8.7%
Leverage ratio		
Tier 1 capital	13,061,473	5,060,577
Total Leverage ratio exposure amount	58,030,311	57,381,376
Leverage ratio	22.5%	8.8%

Capital requirements for credit risk per exposure class, standardized approach

SEKk

Consolidated situation

Exposure class	Exposure amount	Risk weighted exposure amount	Capital requirement
Central governments or central banks	7,882,429	0	0
Regional governments or local authorities	3,887,926	0	0
Public sector entities	26,127	0	0
Multilateral development banks	2,046,298	0	0
Institutions	2,477,088	497,742	39,819
Corporates	2,977,123	2,903,620	232,290
Retail	32,852,489	24,639,367	1,971,149
Exposures in default	485,522	541,352	43,308
Covered bonds	1,966,349	196,635	15,731
Equity	20,081	50,203	4,016
Other items	2,791,166	3,554,041	284,323
Total	57,412,598	32,382,960	2,590,637

Capital requirements for credit risk per exposure class, standardized approach

SEKk

Klarna Bank AB

Exposure class	Exposure amount	Risk weighted exposure amount	Capital requirement
Central governments or central banks	7,641,798	0	0
Regional governments or local authorities	3,887,926	0	0
Public sector entities	26,127	0	0
Multilateral development banks	2,046,298	0	0
Institutions	1,355,526	273,429	21,874
Corporates	4,806,197	4,736,674	378,934
Retail	31,162,500	23,371,875	1,869,750
Exposures in default	450,269	506,099	40,488
Covered bonds	1,966,349	196,635	15,731
Equity	1,364,566	1,394,688	111,575
Other items	1,988,241	2,699,007	215,921
Total	56,695,796	33,178,407	2,654,273

Internally assessed capital requirement

As of September 30, 2020, the internally assessed capital requirement for the consolidated situation amounted to SEK 4.1bn and for Klarna Bank AB (publ) to SEK 4.3bn, comprising the minimum capital requirement under Pillar I, the capital requirement for risks managed under Pillar II and the combined buffer requirements.

Sources of funding

As of September 30, 2020, Klarna's business was funded by deposits from the public, debt securities in issue, operational liabilities, subordinated debt and liabilities to credit institutions.

Liquidity reserve

As of September 30, 2020, Klarna's liquidity reserve amounted to SEK 15.4bn and consisted of high-quality liquid assets.

IFRS 9 Transitional adjustments

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

SEKk	Consolidated situation			
	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019
Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9				
Available capital (amounts)				
Common Equity Tier 1 (CET1) capital	12,573,662	6,993,845	7,189,416	7,439,312
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	12,109,375	6,573,102	6,756,871	7,017,798
Tier 1 capital	13,061,473	7,467,786	7,674,754	7,913,117
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	12,597,186	7,047,043	7,242,209	7,491,603
Total capital	13,649,871	8,019,930	8,236,647	8,448,159
Total capital as if IFRS 9 transitional arrangements had not been applied	13,185,584	7,599,187	7,804,102	8,026,644
Risk exposure amounts				
Total risk exposure amount	34,077,910	31,440,032	27,236,996	26,445,452
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	33,613,623	31,019,289	26,804,451	26,023,938
Capital ratios (as percentage of total risk exposure amount)				
CET1	36.9%	22.3%	26.4%	28.1%
CET1 as if IFRS 9 transitional arrangements had not been applied	36.0%	21.2%	25.2%	27.0%
Tier 1	38.3%	23.8%	28.2%	29.9%
Tier 1 as if IFRS 9 transitional arrangements had not been applied	37.5%	22.7%	27.0%	28.8%
Total capital	40.1%	25.5%	30.2%	31.9%
Total capital as if IFRS 9 trans. Arrangements had not been applied	39.2%	24.5%	29.1%	30.8%
Leverage ratio				
Total Leverage ratio exposure amount	58,030,311	45,047,395	43,719,236	38,528,570
Leverage ratio	22.5%	16.6%	17.6%	20.5%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	21.9%	15.8%	16.6%	19.4%

SEKk	Klarna Bank AB			
	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019
Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9				
Available capital (amounts)				
Common Equity Tier 1 (CET1) capital	4,810,577	4,921,999	4,214,113	4,570,245
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	4,365,228	4,497,458	3,851,416	4,261,842

Tier 1 capital	5,060,577	5,171,999	4,464,113	4,820,245
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	4,615,228	4,747,458	4,101,416	4,511,842
Total capital	5,659,558	5,770,992	5,062,750	5,418,570
Total capital as if IFRS 9 transitional arrangements had not been applied	5,214,209	5,346,451	4,700,053	5,110,166
Risk exposure amounts				
Total risk exposure amount	36,403,578	33,972,007	30,438,698	28,793,937
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	35,958,229	33,547,466	30,076,001	28,485,533
Capital ratios (as percentage of total risk exposure amount)				
CET1	13.2%	14.5%	13.8%	15.9%
CET1 as if IFRS 9 transitional arrangements had not been applied	12.1%	13.4%	12.8%	15.0%
Tier 1	13.9%	15.2%	14.7%	16.7%
Tier 1 as if IFRS 9 transitional arrangements had not been applied	12.8%	14.2%	13.6%	15.8%
Total capital	15.5%	17.0%	16.6%	18.8%
Total capital as if IFRS 9 trans. arrangements had not been applied	14.5%	15.9%	15.6%	17.9%
Leverage ratio				
Total Leverage ratio exposure amount	13,016,473	44,822,016	44,142,693	38,928,014
Leverage ratio	8.8%	11.5%	10.1%	12.4%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	8.1%	10.7%	10.7%	12.3%

Disclosure of information regarding capital adequacy and capital ratios

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

Own funds disclosure				Regulation (EU) No 575/2013
SEKk	Consolidated situation	Klarna Bank AB	Article reference	
Common Equity Tier 1 (CET1) capital: instruments and reserves				
Capital instruments and the related share premium accounts	14,725,743	5,857,892	26(1), 27, 28, 29	
of which: Share capital	2,441	52,752	26(3)	
of which: Share premium	14,723,302	5,805,140	26(3)	
Retained earnings	-9,332	-658,480	26(1)(c)	
Accumulated other comprehensive income (and other reserves)	236,874	575,216	26(1)	
Independently reviewed interim profits			26(2)	
Common Equity Tier 1 capital before regulatory adjustments	14,953,285	5,774,629		
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments	-507	-507	34, 105	
Intangible assets (net of related tax liability)	-2,278,686	-696,270	36(1)(b), 37	
Losses for the current financial year	-564,717	-712,622	36(1)(a)	
IFRS 9 transitional adjustments to CET1 Capital	464,287	445,349	473a(8)	

Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,379,624	-964,051	
Common Equity Tier 1 (CET1) capital	12,573,662	4,810,577	
Additional Tier 1 (AT1) capital: instruments			
Capital instruments and the related share premium accounts	256,372	250,000	51, 52
of which: classified as equity under applicable accounting standards	256,372	250,000	
Qualifying AT1 capital included in the consolidated Tier 1 capital issued by subsidiaries and held by third parties	231,439		85, 86
Additional Tier 1 (AT1) capital before regulatory adjustments	487,811	250,000	
Additional Tier 1 (AT1) capital: regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 (AT1) capital			
Additional Tier 1 (AT1) capital instruments	487,811	250,000	
Tier 1 capital (T1 = CET1 + AT1)	13,061,472	5,060,577	
Tier 2 (T2) capital: instruments and provisions			
Capital instruments and the related share premium accounts		598,981	62, 63
Qualifying own funds instruments included in the consolidated Tier 2 capital issued by subsidiaries and held by third party	588,399		87, 88
Tier 2 (T2) capital before regulatory adjustment	588,399	598,981	
Tier 2 (T2) capital: regulatory adjustments			
Total regulatory adjustments to Tier 2 (T2) capital			
Tier 2 (T2) capital instruments	588,399	598,981	
Own funds (TC = T1 + T2)	13,649,871	5,659,558	
Total risk exposure amount	34,077,910	36,403,578	

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

Common Equity Tier 1	36.9%	13.2%	92(2)(a)
Tier 1	38.3%	13.9%	92(2)(b)
Total capital	40.1%	15.5%	92(2)(c)
Institution specific buffer requirement (CET1 requirement in accordance with article 92(1)(a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer)	7.1%	7.1%	CRD 128, 129, 130, 131, 133
of which: capital conservation buffer requirement	2.5%	2.5%	
of which: countercyclical buffer requirement	0.1%	0.1%	
Common Equity Tier 1 available to meet buffer requirement, less minimum capital requirement.	32.4%	8.7%	CRD 128

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

Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	20,081	20,081	36(1)(i), 45, 48
Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38(3) are met)	508,588	473,847	36(1)(c), 38, 48