

Risk management and Capital Adequacy Report

Pillar 3 Report 2021

Klarna Holding (Corp. ID 556676-2356)



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1. Introduction

This Risk Management and Capital Adequacy Report 2021 is made according to the regulatory disclosure requirements set out in the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms as amended by Regulation (EU) 2019/876 (the Capital Requirements Regulation or CRR II) Part Eight and the Swedish Financial Supervisory Authority (SFSA) regulation FFFS 2014:12 and where applicable, the European Banking Authority's (EBA) guidelines EBA/GL/2016/11. Information in this report pertains to the conditions for Klarna Consolidated Situation with parent company Klarna Holding (Corp. ID 556676-2356) as of 31st December 2021, if not otherwise stated. The disclosure is made annually in conjunction with the publication of Klarna's Annual Report on Klarna's website (www.klarna.com). Unless otherwise stated, all figures have been rounded to the nearest million Swedish kronor. Disclosures on changes are based on exact values. In addition, for computational reasons, there may be rounding differences to the exact mathematical values in tables and references.

The Parent Company, Klarna Holding (publ), Corp. ID 556676-2356, maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated financial statements for 2021 consist of the Parent Company and its subsidiaries, which together make up the Group.

Governance arrangements

The disclosures regarding the Board of Directors in accordance with CRR Article 435 are published at Klarna's website:

<https://www.klarna.com/international/about-us/corporate-governance/the-board/>

2. Statement on risk management and risk declaration

2.1 Risk declaration pursuant to CRR Art 435(1)(e)

The Board of Directors of Klarna Bank AB (publ) and the Board's Audit, Compliance and Risk Committee (ACRC) exercise oversight over the risk management of the Klarna Group. The ACRC and the Board are satisfied that Klarna's risk management framework, as described below, is adequate for Klarna's risk profile and strategy.

Operationally, Klarna has adopted a "three lines of defense" framework for risk management. The first line of defense refers to all risk management activities carried out by line management and staff. All risk owners are fully responsible for the risks, and the management of these, within their respective area of responsibility.

The second line of defense consists of the independent Risk Control, Engineering Assurance and Compliance functions which ensure timely information to the ACRC and the Board. These functions 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.

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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. This includes regular evaluation of Klarna's framework for risk management and yearly review of the control functions in the second line of defense. Internal audit reports directly to the Board of directors. The Board has appointed Deloitte as internal auditors.

Klarna is, through its business activities, subject to a number of different risks, including credit risk, market risk, liquidity risk, business risk and operational risk. Risk Control has the responsibility to independently monitor, control, analyze and report risks in the business.

Credit risk arises naturally in the course of Klarna's business. Klarna's proprietary scorecards allow it to control the level of credit risk taken on in the underwriting process. Risk build-up in the credit portfolio is adequately provisioned for and monitored through forward-looking and retrospective indicators.

Klarna's payment infrastructure automatically processes a large volume of transactions on a daily basis. These transaction flows combined with the rapid growth of the company result in operational risk management being a high priority area for the company. Klarna as a consequence has a comprehensive and detailed operational risk assessment process in place to identify, control and mitigate risks, including a process for approving new or significantly changed products, processes and systems. A robust incident management process ensures that any incidents that arise are contained with minimum loss for the company and its stakeholders.

The nature of Klarna's business gives rise to substantial in and outbound cash flows and thus a liquidity risk. Klarna actively manages its liquidity risk exposure and sources of liquidity on an on-going basis to ensure that Klarna will always have the ability to meet regulatory requirements and to fulfill its commitments as they fall due. Klarna invests in financial instruments for regulatory liquidity management purposes, and exclusively in high credit quality sovereign and municipal government securities of short maturities and with an active secondary market.

Market risk in the form of currency mismatches arise in the course of Klarna's business and are actively hedged to reduce exposure. Furthermore, Klarna's business gives rise to Interest Rate Risk in the Banking Book (IRRBB) related to the sensitivity of earnings or Economic Value of Assets and Liabilities held for non-trading purposes to changes in interest rates which refers to the current or prospective risk in Klarna's capital and earnings arising from adverse movements in interest rates. To manage this risk, Klarna can adjust rates on its lending or enter into hedging instruments such as interest rate swaps.

As a final protection against losses arising from business and funding activities Klarna maintains capital buffers. Internal stress tests show that Klarna's own funds are sufficient to withstand a recession with resulting credit losses, as well as operational losses from potential significant incidents. This is done through the Internal Capital Adequacy and Liquidity Assessment Process (ICLAAP), supervised by Risk Control.

2.2 Risk declaration pursuant to CRR Art 435(1)(f)

Klarna pursues a strategy characterized by growth through product innovation in new and current markets. Klarna's risk profile is, as a consequence, determined both by reductions in risk driven by incremental improvements in underwriting and operations in its existing markets, and by increased risk exposure through new markets and products. Klarna strives to at all times be sufficiently capitalized in order to support its growth strategy and to absorb losses.

To enable this strategy, the risk appetite limits approved by Klarna's Board support risk taking in core business activities, specifically regarding credit risk where the high volume of originated loans require a high tolerance for losses in relation to the stock of loans outstanding at any given moment. Parallel to this, Klarna strives to minimize non-core risk taking in supporting functions and processes.

Table 1: Key Metrics, consolidated Klarna Holding level

SEK m	31 Dec 2021	31 Dec 2020
Available capital (amounts)		
1 Common Equity Tier 1 (CET1)	19,373	12,514
2 Tier 1	19,713	12,978
3 Total capital	19,855	13,530
Risk-weighted assets (amounts)		
4 Total risk-weighted assets	61,836	42,390
Capital ratios as a percentage of total risk-weighted assets		
5 Common Equity Tier 1 ratio (%)	31.3%	29.5%
6 Tier 1 ratio (%)	31.9%	30.6%
7 Total capital ratio (%)	32.1%	31.9%
Leverage ratio		
8 Total leverage ratio exposure measure	105,225	62,565
9 Leverage ratio (%) (row 2 / row 8)	18.7%	20.7%
Liquidity Coverage Ratio		
10 Total liquidity buffer	26,627	10,084
11 Total net liquidity outflows	3,079	2,290
12 LCR ratio (%)	865%	440%

3. Risk management and risk organization

3.1 Risk management

Risk management is central in the Group's operating model and underpins all activities conducted throughout the organization. The purpose of risk management is to protect Klarna's long-term survival, manage volatility in the financial performance, promote operational resiliency and excellence as well as enable informed decision-making.

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The Group’s risk management governance model imposes a risk-aware culture combined with control structures enforced by independent control functions. The risk strategy is a natural extension of the business model that focuses on selection, monitoring and mitigation of the material risks that Klarna are exposed to.

3.2 Risk Governance

The Group operates a financial services industry standard three lines of defense model for risk management and control. The model allocates responsibilities of activities among teams or functions in three independent lines as outlined below:

The ultimate responsibility for risk management rests with the **Board of Directors**, which sets Klarna’s risk strategy and principles and approves policies. It also oversees and promotes a sound risk culture involving an awareness and understanding of risk across the organization. The Board is supported by the Audit, Compliance and Risk Committee (ACRC) in performing these and related duties.



The **Executive Management**, consisting of the CEO and the executive team, is responsible for implementing the strategy and principles. It approves instructions based on policies. It is supported by the Audit, Compliance, and Operational Risk Committee (ACORC).

Business Line Management, consisting of Domain and Accountable Leads in the first line of defense, owns and manages risk within their area of responsibility. They approve routines based on instructions and policies that ensure that controls are performed.

The functions **Risk Control, Compliance and Engineering Assurance**, in the second line of defense, controls risk. More specifically, Risk Control establishes risk frameworks and provides independent advice, analysis and oversight, as well as conducts risk reporting and training for management and staff. Compliance makes sure Klarna adheres to external rules and regulations and reports on compliance risks. Engineering Assurance is responsible for frameworks, oversight and reporting on Information and Communications Technology (ICT) and security risk management.

Internal Audit, in the third line of defense, provides risk assurance through independent periodic reviews of governance structures and control systems. This includes regular evaluation of Klarna’s framework for risk management and a yearly review of the control functions in the second line of defense. Internal audit reports directly to the Board of directors.

3.3 Risk Strategy and Appetite

The Group's risk strategy is set out by the Board and outlines the nature of risks that the business is exposed to, its willingness to take these risks and how they are managed. It is formed through Klarna's business plan, established by the executive team and approved by the Board, the *Risk Policy*, which forms the basis of the Group's risk management framework, the *Credit Policy* which sets out Klarna's credit strategy and the Group ICLAAP.

The risk appetite framework outlined in the *Risk Policy* reflects the Group's willingness to take and limit exposures. The appetite is set by the Board and reviewed and updated regularly, at least on an annual basis. The annual review is an integral part of the annual planning process at Klarna, ensuring alignment of the business strategy, planned business activities and the Group's risk exposures.

The Group's risk appetite approach commences with an assessment of Klarna's risk capacity, the maximum level of risk Klarna is able to assume, and continues with the level of aggregate risk appetite that the Board is willing to accept. Tolerance limits are set on metrics and individual risk exposures and levels towards limits are monitored and reported to senior management and the Board on a monthly basis.

The Group's risk appetite is defined in the Risk and Credit policies and is supported by limits for specific risk areas. The Board and Management also issue written policies and instructions for managing all identified risks, which are complemented by detailed routine descriptions within the organization.

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

4. Capital adequacy

The following sections present the composition of Klarna's own funds and the regulatory capital requirements and regulatory capital buffers which it covers. The section also explains Klarna's own internal methods and assessment of the amount of capital needed to cover the risks Klarna is exposed to. Klarna is subject to capital requirements on two levels of its organization – that of Klarna Bank AB (excluding subsidiaries) and Klarna Group (consolidated), and therefore the capital requirements and own funds are presented for both levels.

4.1 Klarna's capital requirement

4.1.1 Components of Klarna's capital requirements

Klarna shall always maintain a capitalization adequate for its risk and business model. Furthermore, Klarna shall be able to maintain a capital that fulfills regulatory minimum requirements on capitalization and composition of capital, even under adverse conditions.

Klarna's risk based capital requirement consists of the following components:

1. Pillar 1 minimum regulatory requirement for credit, credit valuation adjustment, market and operational risk.
2. Pillar 2 capital requirement for the risks Klarna is exposed to, but which are not covered, or not sufficiently covered, by Pillar 1.

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3. Capital conservation buffer: A buffer of 2.5% of the institution's risk-weighted exposure, intended to allow institutions to remain as a going concern in a deep financial crisis.
4. Countercyclical capital buffer: A buffer of 0-2.5% intended to ensure that sufficient capital is built up during favourable business conditions. Communicated quarterly by each national regulator and intended to ensure that institutions build up sufficient capital reserves during those parts of the credit cycle.
5. Any potential Pillar 2 guidance as communicated by the regulators. Additional capital communicated by the regulator designed to cover risks not covered by other requirements above and to ensure the bank can absorb losses during a financial shock.
6. Furthermore, the internal capital stress test run in ICLAAP determines Klarna's potential need for a forward looking internal capital buffer on top of the requirements outlined above.

Klarna is also required to comply with the minimum leverage requirement of 3% that comes into effect in June 2021 and potentially a Pillar 2 leverage requirement and guidance, as determined by the SFSA.

Table 2: Components of CET1, Tier 1 and Own funds requirements for Klarna Group AB and Klarna Bank AB

2021YE, SEKm	Klarna Group			Klarna Bank		
	CET1	Tier 1	Own funds	CET1	Tier 1	Own funds
REA	-	-	61,836	-	-	69,647
Pillar 1 requirement	2,783	3,710	4,947	3,134	4,179	5,572
Credit risk	2,651	3,535	4,714	2,943	3,924	5,232
CVA	0	1	1	0	1	1
Market risk	30	39	52	92	122	163
Operational risk	101	135	180	99	132	176
Pillar 2 requirement	0	0	482	0	0	481
Credit concentration risk	-	-	377	-	-	376
IRRBB	-	-	105	-	-	104
Operational risk	-	-	-	-	-	-
Buffer requirement	1,575	1,575	1,575	1,771	1,771	1,771
CCoB	1,546	1,546	1,546	1,741	1,741	1,741
CCyB	29	29	29	30	30	30
Total regulatory capital requirement	4,358	5,285	7,004	4,905	5,949	7,823
Available capital	19,373	19,713	19,855	19,170	19,420	19,722

Table 3: Klarna Group AB Capital adequacy 2020-2021

% of Risk Exposure Amount	Klarna Group		Klarna Bank AB	
	2021	2020	2021	2020
CET1 Ratio	31.3%	29.5%	27.5%	13.4%
Tier 1 Ratio	31.9%	30.6%	27.9%	14.0%

Total Capital Ratio	32.1%	31.9%	28.3%	15.2%
Own funds requirements				
Pillar 1 requirement	8.0%	8.0%	8.0%	8.0%
Pillar 2 requirement	0.8%	-	0.7%	-
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%
Countercyclical buffer	0.1%	0.1%	0.1%	0.1%
Total regulatory capital requirement	11.3%	10.6%	11.2%	10.6%

4.1.2 Regulatory capital buffers

Two regulatory capital buffers apply to Klarna, the capital conservation buffer of 2.5% and the countercyclical buffer. On top of the capital requirements and the regulatory buffers, the SFSA can decide that Klarna needs to hold a Pillar 2 guidance amount on top of the regulatory capital requirement. During March/April most countries lowered their CCyB rates to 0% as a response to the current Covid-19 situation.

Table 4: Countercyclical buffer rates and exposures over time

	2021 YE		2020 YE	
	Buffer rate	Weight*	Buffer rate	Weight*
Sweden	0.0%	28.5%	0.0%	30.2%
<i>Rate active from</i>	<i>16 Mar '20</i>		<i>16 Mar '20</i>	
Norway	1.0%	4.7%	1.0%	4.8%
<i>Rate active from</i>	<i>13 Mar '20</i>		<i>13 Mar '20</i>	
United Kingdom	0.0%	12.0%	0.0%	11.7%
<i>Rate active from</i>	<i>24 Mar '20</i>		<i>24 Mar '20</i>	
Denmark	0.0%	0.3%	0.0%	0.6%
<i>Rate active from</i>	<i>12 Mar '20</i>		<i>12 Mar '20</i>	
Other markets	0.0%	54.5%	0.0%	52.8%

*Relevant exposure as part of total credit risk exposure

4.2 Capital regulatory environment

4.2.1 Current regulations

Capital adequacy refers to the ability of an institution's own funds to cover the risk it is exposed to. Within the EU the capital adequacy requirements are contained in the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR), both implemented in 2014. These regulations are based on the global capital adequacy standards Basel II and III, and define minimum

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requirements for total own funds in relation to risk-weighted exposure amounts (Pillar 1), rules for the Internal Capital Adequacy Process and Internal Liquidity Adequacy Assessment Process (ICLAAP) (Pillar 2) and rules for disclosures on risk, capital adequacy etc. (Pillar 3).

The key capital adequacy regulations applicable for Klarna are the CRD and the CRR, which implements the Basel III accords in the European Union. The CRR contains provisions regarding eligible own funds and minimum capital requirements. This regulation, and lower level EU rules adopted pursuant to it, are directly binding to Klarna.

In addition to the minimum capital requirement, Klarna also needs sufficient own funds to cover for capital buffers, Pillar 2 requirements and Pillar 2 guidance, as defined in the CRD and implemented into national law through the Swedish Capital Buffers Act (Sw. *Lag (2014:966) om kapitalbuffertar*) together with the regulations issued by the SFSA, *Finansinspektionens föreskrifter om tillsynskrav och kapitalbuffertar (FFFS 2014:12)*, *Finansinspektionens föreskrifter om kontracykliskt buffertvärde (FFFS 2014:33)* and the so-called SFSA Capital requirements memorandum.¹

The EU and its member states have adopted the so-called Bank Package which includes revisions of the CRR (CRR II), CRD (CRD V) and Banking Resolution and Recovery Directive (BRRD II) which partly implements the final revisions of the Basel III framework.

- The Bank package came into force in June 2021, however as a response to the Covid-19 crisis in spring 2020 some parts were implemented earlier (December 2020), and other parts were postponed further than June 2021.
- Late 2020 the SFSA published changes in its relevant regulations and updated the SFSA Capital requirements memorandum in relation to the implementation of the Bank Package²,

4.2.2 Coming regulations

In December 2017 the Basel Committee (BCBS) published the final version of the Basel framework, the completion of Basel 3 or sometimes called Basel 4, which was complemented with the Fundamental Review of the Trading Book (FRTB) in 2019. Both Basel 4 and the FRTB were intended to be implemented in national law by the 1st of January 2022. Some parts of these frameworks will be implemented in EU law in the so-called Bank Package. As a response to the Covid-19 crisis, the Governors and Heads of Supervision (GHOS) decided to postpone for one year the implementation of the remaining parts of the Basel 4 framework to 1st of January 2023. Some of the BCBS standards that were not included in the EU Bank Package, and the parts that were not implemented yet, are expected to be adopted into future EU prudential regulation. There is still uncertainty regarding the exact EU implementation, but the anticipated impact would not be expected to increase the capital need for Klarna.

4.3 Own funds

Common Equity Tier 1 capital

¹ SFSA Memorandum FI Dnr 20-20990

² SFSA Memorandum FI dnr 20-20990 (Replacing FI Dnr 14-6258 of 8 Sep 2014)

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During 2021, total SEK 6.9 bn of Common Equity Tier 1 was added to the own funds of Klarna Holding (publ), mainly through equity raise of USD 1,640mn.

Additional Tier 1 capital

Klarna Bank AB (publ) issued, in May 2017, SEK 250m in additional Tier 1 capital instruments. They have a floating coupon rate corresponding to STIBOR 3M plus 5.75% per annum. The securities were offered to a limited number of large Nordic investors and the first call date is May 26, 2022.

Klarna Holding issued, in November 2018, EUR 25m in additional Tier 1 capital instruments. They have a fixed-to-floating coupon rate corresponding to 6.625% per annum. The floating interest rate is EURIBOR 3M plus 6.2277% per annum. The securities were offered to a limited number of large Nordic investors and the first call date is November 15, 2023.

Subordinated liabilities

On June 20, 2016, Klarna Bank AB (publ) issued SEK 300m subordinated notes which were redeemed on the first call date in June 2021.

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

The table below illustrates the composition of Klarna Group AB and Klarna Bank AB own funds.

Table 5: Composition of own funds, Klarna Group AB

SEKm	Klarna Group AB		Klarna Bank AB	
	2021	2020	2021	2020
Paid up capital instruments	3	2	65	53
Share premium	32,235	14,890	26,301	7,305
CET1 Capital Instrument	32,237	14,893	26,366	7,358
Previous years' earnings	-1,649	-11	-2,427	-739
Profit or loss eligible of current year	-7,017	-1,266	-6,046	-1,061
Retained earnings	-8,666	-1,278	-8,473	-1,800
Accumulated other comprehensive income	324	109	-8	-4
Other reserves		0	1,059	652
Prudent valuation adjustments (AVA)	-1	-1	-1	-1
Intangible assets	-6,176	-1,987	-773	-309
Associated deferred tax liabilities	226	71	0	0
IFRS 9 Transitional arrangements	1,436	707	1,001	532
Deferred tax assets	-8	0	0	0
CET1 Capital	19,373	12,514	19,170	6,429
AT1 Capital instruments	340	464	250	250
Tier 1 Capital	19,713	12,978	19,420	6,679

Tier 2 Capital instruments	142	552	301	599
Own Funds	19,855	13,530	19,722	7,278

Following the issuances of AT1 and T2 capital instruments during the last couple of years, Klarna's own funds has a composition of CET1, AT1 and Tier 2 capital that is efficient for Klarna's capital need in relation to both its business model and the requirements set in CRR Article 92.

In accordance with Article 85 and 87 of CRR Klarna Bank's Tier 1 and Tier 2 capital can only be included in the own funds of Klarna Group AB with the share required to cover the minimum capital requirements of Klarna Bank AB and its subsidiaries. As of December 31, 2021 an amount of SEK 340m Additional Tier 1 capital and SEK 142m Tier 2 capital instruments issued by Klarna Group AB and its subsidiaries were included in the own funds.

4.4 Regulatory minimum capital requirements

The approach for determining Klarna's Pillar 1 capital is defined in the CRR, according to which Klarna is required to hold capital for credit risk, CVA, market risk and operational risk.

Table 6: Summary: Pillar 1 Capital requirements

Pillar 1 Capital Requirement SEKm	Klarna Group AB		Klarna Bank AB	
	2021	2020	2021	2020
Credit risk	4,714	3,042	5,233	3,351
CVA	0	0	0	0
Market risk	52	169	163	302
Operational risk	180	180	176	176
Total	4,947	3,391	5,572	3,830

4.4.1 Credit risk

Klarna applies the standardized method for calculating the risk exposure amount for credit risk in accordance with Part three, Title II, Chapter 2 of the CRR. Klarna is also required to hold capital to cover for counterparty credit risk (CCR) for the derivative exposures in its banking book (FX swap) book. Klarna uses the mark-to-market method as per CRR Article 274 to calculate this capital charge. Credit risk constitutes 95% of Klarna's REA and amounted to SEK 59 billion 2021.

4.4.2 Credit Value Adjustment

Credit valuation adjustment (CVA) is an adjustment to the mid-market valuation of the exposure towards a counterparty, required by the CRR. The adjustment reflects the current market value of the credit risk of the counterparty to the bank. Since Klarna's exposure towards counterparties is small, the CVA was SEK 9m in REA per year-end 2021.

4.4.3 Market risk

Klarna applies the standardized method for calculating the capital requirement for market risk, in accordance with the CRR, Part 3, Title IV, Chapter 3. Under this method, Pillar 1 capital requirements

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are estimated for position risk, currency risk and commodities risk. Of these, Klarna is only exposed to currency risk in the banking book.

4.4.4 Operational risk

Klarna uses the alternative standardized method (ASA), in accordance with CRR, Part 3, Title III, Chapter 3, for calculating the capital requirement for operational risk in Pillar 1. The ASA was first applied at the end of December 2019 after receiving approval by the SFSA.

4.5. Internally assessed capital need

The objective of the Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process (combined known as ICLAAP) is to ensure that Klarna clearly and correctly identifies, assesses and manages all risks to which it is exposed. The process considers the financial resources required to cover those risks, 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 Board sets a policy governing the ICLAAP. The Board also sets limits and targets for Klarna's capital levels to ensure a sound margin to regulatory requirements and sufficient capitalisation to support Klarna's business plan.

The internally assessed capital need under Pillar 2 should cover all risks Klarna is exposed to that are not, or not sufficiently, covered by Pillar 1. The internally assessed required capital is based on the minimum capital requirement (Pillar 1) and additional capital required for other risks as determined as part of the ICLAAP (Pillar 2) as well as the combined buffer requirements.

The internally assessed required capital as of year-end 2021 amounts to SEK 8,229m (5,552m) for Klarna Bank AB (publ) and SEK 7,225m (4,883m) for Klarna Holding. Klarna thereby has sufficient capital to cover for required capital under Pillar 1, including combined buffer requirements, and Pillar 2.

Klarna's internal capital assessment is divided into two different assessments:

1. Pillar 2 requirement
2. Internal capital buffer

Klarna's internally assessed capital need covers credit risk, credit concentration risk, market risk, including interest rate risk in the banking book, operational risk, business risk. Klarna does not have any pension risk since Klarna does not have any defined benefit pension plans. The total internally assessed capital add-on amounts to SEK 703 million (393).

Klarna is permitted to also hold Tier 1 and Tier 2 capital to cover the Pillar 2 capital requirement. The proportion of Additional Tier 1 and Tier 2 capital may not exceed that permitted for Pillar 1 capital. Accordingly, the proportions should be at least 3/4 covered by Tier 1 and of the Tier 1 capital, 3/4 should be CET1 capital. Regulatory buffers and any potential Pillar 2 guidance should be covered by CET1 capital.

The composition of the type of capital required is illustrated in the table below.

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Table 7: Minimum type of capital required for each component

	Pillar 1 Req.	Buffers	Pillar 2 Req.	Pillar 2 Guidance
CET 1	56.3%	100%	56.3%	100%
Additional Tier 1	18.8%		18.8%	
Tier 2	25.0%		25.0%	
	100%	100%	100%	100%

The exposure weighted requirement for CET1 and Tier 1 capital is 62.2% and 75.5% respectively, and the available type of capital to cover is 97.6% CET1 and 99.3% Tier 1. Klarna has a sufficient proportion of CET1 and Tier 1 capital to cover the requirements.

4.5.1 Stress test and internal buffers

As stipulated in the CRD and in the EBA/GL/2018/04, Klarna completes stress scenarios that test Klarna's capital ability to withstand shocks including mitigating controls. Should additional capital be required within the stressed scenarios, Klarna would add an internal buffer to cover that capital need.

4.6. Leverage ratio

In parallel with the risk based capital requirement Klarna also has a leverage ratio requirement. The minimum leverage ratio requirement of 3% became binding when CRR II came into force in June 2021. In addition to the minimum requirement, a Pillar 2 Requirement and a Pillar 2 guidance on leverage ratio could be imposed as well.

Table 8: Leverage ratio and requirement

Leverage ratio SEKm	Klarna Group AB		Klarna Bank AB	
	2021	2020	2021	2020
Total exposure amount*	105,225	62,565	108,774	65,443
Tier 1 amount*	19,713	12,978	19,420	6,679
Leverage ratio	18.7%	20.7%	17.9%	10.2%
Minimum Requirement	3%	3%	3%	3%

*Transitional definition

5. Credit risk

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

- Lending to consumers who choose to buy using Klarna's payment methods. This is the most significant source of credit risk for Klarna.

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- Exposure to merchants that Klarna partners with and processes payments for. These exposures are primarily off-balance sheet in the form of contingent liabilities. If a merchant closes down or becomes insolvent, there is a risk that Klarna will potentially be unable to offset any subsequent returns from consumers against payments due from Klarna to the merchant. On-balance exposures mainly consist of merchant trade receivables.
- Exposure towards third party payment service providers who acquire payments on Klarna's behalf.
- Exposure to credit institutions, governments and municipalities. This includes investments for the liquidity portfolio and derivative and repurchase agreements entered into to manage financial risk.

A key aspect of Klarna's credit risk is the quick turnover of the loan portfolio and that it primarily consists of short term and well diversified consumer credits with a small average loan size.

5.1 Credit risk management

Klarna has a robust approach to credit risk management. It is founded in the three lines of defense model (see section 3.3) and supported by internal policies, instructions and routines. Klarna's credit risk appetite and associated limits are decided by the Board and cover aspects such as acceptable loss levels, the composition of the credit portfolio, its diversification and concentration. The Board's credit risk appetite limits sets the outer limits within which the organization must operate. The limits are translated into more granular operational limits used in Klarna's underwriting. Risk Control, within the second line of defence, is responsible for the continuous independent monitoring and reporting of the Board's credit risk appetite limits and for the escalation of breaches.

Consumer credit risk management

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

Klarna's reporting of consumer credit risks focuses on metrics such as payment rates, delinquency rates and provisions as well as total loss rates experienced on the portfolio over time. Management and the Board receive reporting on credit risk on a regular basis.

Merchant credit risk management

Klarna works proactively with tracking, controlling and mitigating merchant credit risks including by using a longer payment delay on settlement payments towards merchants, as contractually agreed upon, or by entering into insurance programs. Klarna has a Merchant Credit Risk function that, among other tasks, assesses merchants' credit worthiness before they are onboarded. The financial status of the Klarna's largest merchant credit risks is also tracked on an individual basis. Merchant credit risk assessments are based on external credit bureau data and internal data. If a merchant's

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credit risk is deemed outside the risk appetite, counter measures are taken to ensure that cooperation can continue under modified and acceptable terms.

Other credit risk management

Klarna manages exposures towards third party payment service providers, credit institutions, governments and municipalities by selecting high quality counterparties, setting exposure limits based on bank ratings and individual limits for particular counterparties.

5.2 Credit risk exposures and capital need

The table below displays the gross and net carrying amount of on-balance loan receivables.

Table 9: Loan receivables - Klarna Group AB

SEKm		
Creditrisk	31 Dec 2021	31 Dec 2020
Loan receivables, gross	71,491	46,717
Allowance for credit losses	-3,609	-2,016
Loan receivables, net carrying amount	67,882	44,701
of which: Loans to credit institutions	5,048	2,620
of which: Loans to the public	62,085	41,718

5.2.1 Regulatory capital requirement for credit risk

The Pillar 1 minimum capital requirement for credit risk is based on the standardised approach according to prudential requirements as defined in CRR.

The table below displays average and year-end 2021 and 2020 exposure values per exposure classes, net of loan loss provisions and including credit conversion factor for off-balance sheet exposures according to CRR. The average risk weight displays how the exposures are weighted according to the prudential requirements. Retail exposures are the most significant exposures for Klarna with an average risk weight of 75%. Klarna's Pillar 1 requirement for credit risk has grown from SEK 3bn in 2020 to SEK 4.7bn in 2021 largely in line with growth of aggregate exposures.

Table 10: Credit risk exposure value and risk exposure amount (REA) according to the standardised approach in CRR - average and at 31 December

Exposureclass	2021					2020				
	Exposure average	Exposure	Risk weight average	Pillar 1 REA	Pillar 1 req.	Exposure average	Exposure	Risk weight average	REA	Pillar 1 req.
Central governments or central banks	15,606	17,110	0%	0	0	4,478	6,040	0%	0	0
Regional governments or local authorities	3,378	3,874	0%	0	0	3,086	2,239	0%	0	0

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Public sector entities	20	0	0%	0	0	40	26	0%	0	0
Multilateral development banks	3,054	4,877	0%	0	0	1,668	2,140	0%	0	0
Institutions	3,910	6,220	20%	1,253	100	2,620	2,999	20%	600	48
Corporates	5,596	6,369	99%	6,296	504	2,859	4,102	98%	4,014	321
Retail	48,424	58,554	75%	43,916	3,513	32,236	38,419	75%	28,814	2,305
Exposures in default	634	732	104%	762	61	560	529	120%	634	51
Covered bonds	1,296	1,133	10%	113	9	2,117	1,610	10%	161	13
Equity	907	792	150%	1,185	95	49	20	250%	50	4
Non-credit risk items	4,383	4,926	109%	5,394	432	2,212	2,753	136%	3,745	300
Total	87,208	104,589	56%	58,919	4,714	51,925	60,876	62%	38,018	3,042

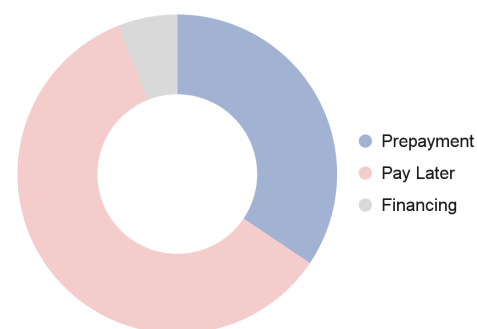
The credit risk of derivative transactions was calculated according to the mark-to-market method until June 2021 according to CRR2; and the fulfillment of requirement according to art. 273.2 which was then replaced by the Original Exposure Method (OEM).

Credit default risk is included in the Pillar 1 capital requirement. As a part of ICLAAP, Klarna uses internal Pillar 2 capital models for credit risk which take into account historical and stressed credit losses, exposures, internal metrics, quantitative and qualitative factors, risk mitigations and external benchmarks as deemed appropriate. The outcome of these methods is used to validate that the level of capital held under Pillar 1 is sufficient.

Concentration risk arises when exposures are less than perfectly diversified over obligors, industry sectors, geographic markets or other risk drivers, and the resulting correlation of obligor behavior creates an increased risk of worst case losses. As this risk is not reflected in Pillar 1 capital requirements, Klarna sets aside additional capital for this under Pillar 2.

5.3 Product breakdown

Klarna's consumer credit portfolio is characterized by fast growth and issuance of loans with short average duration. A large share of the assets are originated and repaid intra-month and thus do not appear on the balance sheet in a month on month comparison. As a consequence credit risk is to a large extent incurred by new origination. This, combined with the ability to adjust underwriting criteria, gives Klarna control over both the credit quality and the size of the balance sheet.



The graph displays the split of total volume in 2021 per payment method.

Pay Later consists of four alternatives depending on market preferences, usually the consumer can choose to pay within 30 days without interest but payment terms can be longer.

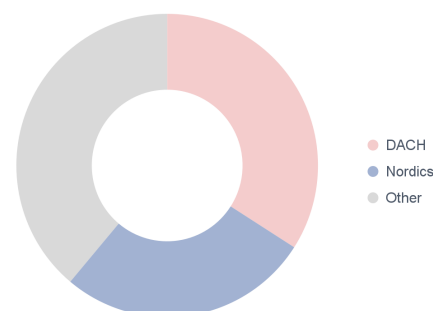
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Financing is for the consumer who wants to pay over time in installments. It is a fixed part payment or flexible where the customer at his own pace determines how much is to be paid each month (though with a fixed minimum amount).

Prepayment options are for the consumers who want to pay for the goods directly at point of purchase. These are not consumer credit products but can carry short term credit risk due to the time lag between purchase initiation and settlement.

5.4 Credit concentration and geographical breakdown

Klarna's consumer credit portfolio is geographically diversified in more than 19 countries as of year-end 2021. Germany and Sweden combined constitute more than 48% of the portfolio but the fast growing new markets US and UK are contributing to increased diversification along with smaller established and growing markets. Within Klarna the countries are further grouped into regions such as Nordics (Sweden, Norway, Finland, Denmark), DACH (Germany, Austria, Switzerland) and others.



Large exposures towards single counterparties are monitored closely by the relevant business units. These arise mainly from financial counterparties for liquidity and risk management purposes (see Section 5.6) and transactions with third party payment service providers who acquire payments on Klarna's behalf. Concentrations towards large counterparties, geographical locations and industries are monitored closely and included in the internally assessed capital need as described in section 5.2.1.

5.5 Past due exposures, provisions and credit losses

Consumer credit losses are driven by different factors and the main aspects can be divided into:

- Consumers are unable to meet their obligations as a result of personal financial difficulties.
- Consumers who never intended to meet their obligations (1st party fraud).
- Identity theft and fraud which are managed alongside credit losses and are an everyday consequence of digital lending.

As stated before, Klarna has control of the credit quality by underwriting every transaction in real-time using proprietary scoring models that naturally adapt to a deterioration in credit quality in the client base.

Provisions

While it is never possible to foresee the exact loss level in advance, a credit institution can forecast loss rates with a reasonable level of confidence. These loss rates are referred to as Expected Credit Losses (ECL) and are generally seen as the cost equivalent for doing business and are widely used as a means for provisioning for credit losses.

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Klarna makes provisions to cover for expected credit losses (ECL) in line with the IFRS 9 framework for loans to the public, loans to credit institutions and financial guarantees and commitments and groups its financial assets and off-balance sheet items into stages within the scope of the IFRS 9 impairment requirements.³

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

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

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

An exposure is considered in default when the asset has been 90 days or more past due without any payments, has entered debt collection or is classified as fraudulent. Whether the default criteria are met is determined by analyzing historical payment patterns and assessing whether there is no realistic expectation of recovery.

The tables below display performing and non-performing exposures measured at amortized cost and allocated to stages according to IFRS9, for year-end 2021 and 2020 for comparison. Stage 3 balances are mainly built up by the consumer credit portfolio. Simplified Approach balances are built up by on-balance merchant counterparty credit risk portfolio. Klarna measures the consumer credit NPL (non-performing loan) rate as a key metric and tracks development towards the internal management and board limit. During 2021 Klarna continued to strengthen the controls to improve the NPL ratio given the strong focus on expansion after a period of stringent consumer lending during the Covid pandemic in 2020. Note that the table below includes all on-balance exposures allocated to stage 3 according to IFRS9⁴ and are therefore not relevant for the calculated NPL ratio. FINREP provides a more detailed overview of the performing and non-performing exposures and is presented in the Appendices 8-10.

Table 11: Performing and non-performing exposures, gross exposure per 31 December 2021

SEKm	Klarna Holding Group					Simplified Approach	Total
	Dayspastdue	Stage1	Stage2	Stage3	POCI		
Beforedue	59,064,110	1,344,284	28,069	27	837,832	61,274,322	

³ See Klarna Holding (publ) - Annual report 2021 - Note 2 Accounting and valuation principles - point 12) for more details about definitions, stage allocation, and information about impairment of financial assets, financial guarantees and commitments under IFRS9.

⁴ Note that the gross carrying amount includes merchant receivables (presented under Simplified approach) and receivables towards third party payment providers and credit institutions. Further information about how the provisional allowances in accordance with the accounting framework IFRS 9 changed during 2021 can be found in Note 18.

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≤30days	5,082,949	1,216,980	13,954	62	32,926	6,346,871
>30-60days	-	1,376,394	28,138	12	18,122	1,422,666
>60-90days	-	637,471	33,518	-	21,405	692,394
>90days	-	50,495	1,560,552	1,268	142,783	1,755,098
Total	64,147,059	4,625,624	1,664,231	1,369	1,053,068	71,491,351

Table 12: Performing and non-performing exposures per 31 December 2020

SEKm	Klarna Holding Group					
Days past due	Stage1	Stage2	Stage3	POCI	Simplified Approach	Total
Before due	38,820,003	259,087	54,603	-	681,010	39,814,703
≤30days	4,582,007	141,565	155,931	1	29,921	4,909,425
>30-60days	-	669,722	41,850	11	32,586	744,169
>60-90days	-	311,282	30,676	34	12,105	354,097
>90days	-	93,496	697,976	6,582	96,653	894,707
Total	43,402,010	1,475,152	981,036	6,628	852,275	46,717,101

Credit losses

Klarna's business model, with short average maturity and high credit turnover, results in relatively low loan losses in comparison to the total lending volume over the full financial year. Credit losses as a percentage of total gross merchandise volume decreased across all major markets in 2020. Detailed information regarding credit losses can be found in Note 13 in the Klarna Holding (publ) - Annual report.

5.6 Other sources of credit risk

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

The risk of securities in the liquidity portfolio is mitigated by only investing in instruments issued by central banks, supranationals, governments, municipalities, as well as covered bonds. A limit framework is in place, with limits based on credit rating for both single name and issuer type exposure, in order to maintain high overall credit quality and ensure an appropriate level of

diversification. As at end December 2021 the entire liquidity portfolio was eligible for inclusion in the Liquidity Buffer under the Delegated Act on the Liquidity Coverage Ratio.⁵

Table 13: Credit quality of debt securities

Credit quality of debt securities	31 Dec 2021	31 Dec 2020
SEKm		
Treasury bills chargeable at central banks, etc., and bonds and other interest-bearing securities		
AAA	8,610	5,207
AA+	1,781	1,622
AA	92	-
AA-	394	-
Total	10,877	6,829

* According to the rating from Standard & Poor's.

Another source of credit risk for Klarna is counterparty credit risk relating to derivative contracts. This means the risk of a counterparty failing to fulfill its contractual obligations, which could cause a loss for Klarna. Counterparty credit risk is managed by selecting only high quality counterparties such as large Nordic and Global banks as derivative counterparties. In addition netting and margining are used to minimise the exposure amounts per counterparty. The Treasury Function manages the risk with independent oversight by Risk Control.

The credit risk of derivative transactions is calculated according to the original exposure method according to CRR2. The derivative transactions currently used by Klarna are limited to currency swaps. All active derivative transactions, measured at fair value, are shown in the table below.

Table 14: Derivatives measured at fair value

31 December 2021			
SEKm			
	Fairvalue		Total gross nominal amount
	Positive	Negative	
Foreign exchange derivatives			
Currency forwards	67.31	-627.87	49,520.44
Total	67.31	-627.87	49,520.44
	Fairvalue		Total gross nominal amount
	Positive	Negative	
Interest rate derivatives			
Interest rate swaps	-	-3.16	3,000.00
Total	-	-3.16	3,000.00

⁵ COMMISSION DELEGATED REGULATION (EU) 2015/61

31 December 2020

SEKm

	Fairvalue		Total gross nominal amount
	Positive	Negative	
Foreign exchange derivatives			
Currency forwards	341.20	-418.34	22,482.36
Total	341.20	-418.34	22,482.36

Klarna calculates the capital requirement arising from credit risk exposures according to the standardised approach as stated in section 5.2.1. Klarna uses the external rating agencies Moody's, Fitch and Standard and Poor's, to calculate risk weighted exposure amounts for institute exposures, corporate exposures and local and central authorities. Klarna regularly updates its counterparty register with short and long ratings. If an institution has two ratings, the worst is selected and with three ratings available, the median is selected. Should there be no rating available, the assigned risk weight is instead based on the rating of the national government in the jurisdiction to which the institution belongs. The Risk Control function reports the follow-up of all defined limits for credit risks to the board at least quarterly. Any limit breaches are escalated immediately.

6. Market risk

Market risk is defined as the risk that the value of, or expected future cash flow from Klarna's assets and liabilities, will decline as a result of market conditions. Klarna only invests in financial instruments for liquidity management purposes, and not with a speculative purpose. The nature of Klarna's business implies that there is no exposure to commodity or equity risk. Interest and currency risk however exist as part of the business. The management of these risks is further described in the sections below.

6.1 Currency risk

Currency risk is the risk that arises from the change in the price of one currency against another. The risk is mitigated by matching the lending assets with liabilities in the same currency, either by matching foreign currency assets with foreign currency loans or by entering into foreign exchange contracts. Internal policies limit the fluctuations in currency exposures at Group level and the exposure is managed on a daily basis through the foreign exchange market. Below is a statement of the currency exposure for each currency at the end of the reporting period. The exposure is defined as the net balance sheet position in each non-SEK currency.

6.1.1 Regulatory capital requirement for market risk

The capital requirement for currency risk is based on Klarna's net open currency position, defined for Klarna mainly as the sum of net spot and net forward positions in each currency. Klarna manages currency risk related to transaction risk (items that are revalued) by entering into foreign exchange contracts (FX swaps). Currency risk is hedged on a daily basis. The main driver for market risk exposure amount is structural equity positions in foreign subsidiaries.

Klarna's foreign-exchange positions as of year-end 2021 and 2020 are shown in the table below.

Table 15: Currency Exposure as of 31 December 2020 and 31 December 2021

31 Dec 2021	EUR	USD	GBP	Other	Total exposure
SEKm					
Net position	58,653	80,898	25,582	106,524	271,657
Effect of 10% change versus the foreign currency	-5,865	-8,090	-2,558	-10,652	-27,165

31 Dec 2020	EUR	USD	GBP	Other	Total exposure
SEKm					
Net position	82,269	10,566	13,460	71,956	178,251
Effect of 10% change versus the foreign currency	-8,227	-1,057	-1,346	-7,196	-17,826

A 10% change in the currency exchange rate (SEK) versus all foreign currencies would entail an effect of 0.81% on net income and -0.07% on the equity for the Group.

Currency risk is included in the Pillar 1 capital requirement and as a part of the ICLAAP Klarna uses an internal model to assess if the market risk Pillar 1 capital is sufficient to cover the risk.

6.2 Interest-rate risk in the banking book (IRRBB)

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

Klarna manages interest rate risk based on internal limits set by the Board. To comply with the internal limits Klarna can enter into hedging instruments such as interest rate swaps.

Interest rate risk in the banking book (IRRBB) is not included in the Pillar 1 requirement. The IRRBB covers gap risk, basis risk and option risk. An additional related risk type is credit spread risk in the banking book (CSRBB). Klarna evaluates exposure to all of these risks with capital allocated for gap risk, basis risk and CSRBB in accordance with the SFSA's revised Pillar 2 methods published in December 2020.⁶

⁶ SFSA, Pelare 2-metod för bedömning av kapitalpåslag för marknadsrisker i övrig verksamhet, dnr 19-4434 (Swedish only)



7. Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, from people and systems, or from external events. Effects could be direct or indirect financial losses or reputational damage.

7.1 Operational risk management approach

To promote a sound risk management approach and to ensure that Klarna acts within the operational risk appetite set by the Board a group-wide operational risk management framework is in place. The risk management framework for operational risks is based on the following processes:

1. Risk assessment and internal control
2. Incident management
3. Business continuity management
4. New product/process approval process
5. Model risk framework
6. ICT and security risk management framework

These methods for managing operational risk are described in a Risk Policy set by the Board as well as in detailed separate procedures. Independent reporting of Klarna's operational risk exposures and controls occurs at least quarterly to the Board by the Risk Control Function. The report also includes the status of operational risk management and relevant key risk indicators. Any risk appetite breaches are escalated in line with a predefined escalation process.

7.1.1 Risk assessment and internal control

The foundation for Klarna's operational risk approach is a risk assessment and internal control framework. This includes:

- mapping all business critical products and services, including their sub-processes,
- identifying the main risks in each of these,
- deciding and implementing mitigating actions,
- key risk indicators or adequate controls, and
- subsequently testing of the controls.

The process to identify and assess risks is performed at least annually or when deemed necessary due to e.g. incidents, identification of new risks, increased risk exposures, improved controls or reorganizations.

7.1.2 Incident management

The main purpose of incident management is to return the functionality and the performance of the product/service (including IT services) back to normal as quickly as possible. The secondary purpose is to learn and improve from the incident and take preventative action to prevent a similar incident from occurring.

7.1.3 Business continuity management

Business Continuity Management (BCM) identifies threats to the continuity of business critical products or services. It provides a framework to ensure readiness to recover, resume and maintain

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business critical products and services at an acceptable and predefined level during a disaster or significant long term disruption and/or crisis.

7.1.4 New product approval process

The New Product Approval (NPA) process is designed to provide risk assurance for new and materially altered products or services, processes, IT systems or markets and major operational and organizational changes. The process identifies and assesses risks associated with the change, deciding and implementing mitigating actions or adequate controls to mitigate these to an acceptable level.

The purpose of the NPA process is to ensure that Klarna only enters into activities when risks are adequately managed and controlled.

7.1.5 Model risk framework

The Model risk management framework identifies, understands and manages model risk across Klarna. It is based on an assessment of the criticality of models used and encompasses governance and control mechanisms such as management oversight, policies and procedures and controls, compliance and validation.

7.1.6 ICT and security risk management framework

The ICT and security risk management framework is fully integrated into the risk assessment and internal control process and risk management framework. The purpose with the framework is to ensure that all ICT and security risks are identified, analyzed, measured, monitored, managed, reported and kept within the limits of the risk appetite and that the projects and systems Klarna delivers and the activities Klarna performs are in compliance with external and internal requirements. The framework exists in order to do this in the most efficient manner possible as well as cover for the specific needs of ICT and security risk management as defined by EBA/GL/2019/04 guidelines for ICT and Security risk management amongst other local requirements.

7.2.1 Regulatory capital requirements for operational risk

Klarna uses the alternative standardized method (ASA), in accordance with CRR, Part 3, Title III, Chapter 3, for calculating the capital requirement for operational risk in Pillar 1. The standardized approach in the CRR uses gross income (3-year average) for different business lines as an indicator multiplied with a beta factor (12-18 percent) to calculate the REA. The ASA method uses exposures instead of gross income for retail and commercial business lines, which is more representative of the risk Klarna is exposed to. The capital requirement for operational risk equals the average of the annual capital requirements over all business lines over the preceding three years. The table below shows the key components underlying the calculation.

Table 16: Pillar 1 requirement for operational risk

SEKm	2021	2020
Exposure indicator	2,051	1,414
Avg. beta factor as per CRR Art 317	12.4%	12.7%
Own funds requirement	254	180

Klarna continuously enhances its approach to managing and reducing operational risk exposure. In its ICLAAP, Klarna uses an internal operational risk model to assess the sufficiency of the operational risk Pillar 1 capital. If the total internally assessed capital need is greater than Pillar 1, the amount exceeding Pillar 1 is included in Pillar 2.

8. Funding and Liquidity risk

Liquidity and funding risk assessment is an integral part of ongoing business operations at Klarna. The liquidity coverage ratio is found in the table below.

Table 17: Liquidity coverage ratio

Klarna Group AB				
SEKm	Total adjusted value			
	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Liquidity buffer	26,627	25,501	15,304	22,800
Total net cash outflows	3,079	2,345	2,450	2,840
Liquidity coverage ratio %	865%	1088%	625%	803%

8.1 Liquidity risk management

The relatively short duration of Klarna's assets can be leveraged during a liquidity shortage to quickly improve the liquidity situation through limiting new loan origination to reduce the funding need. The result is lower liquidity risk. Klarna is also subject to Swedish FSA's regulations on liquidity risk management (FFFS 2010:7). In particular these rules contain requirements relating to the identification and measurement of liquidity risk as well as funding plans, performance of stress testing and the maintenance of an adequate liquidity reserve.

8.1.1 Liquidity reserve and Counterbalancing capacity

To meet short term requirements in Klarna's liquidity position, which could be driven by a sudden shift in customer product preference or repayment behavior, an outflow of deposits, or an unexpected peak in credits granted over a short period of time, Klarna has various levers at its disposal as part of its counterbalancing capacity.

8.2 Liquidity stress testing

Liquidity stress testing is an integral part of Klarna's liquidity risk management framework and Klarna regularly uses stress testing to assess liquidity adequacy with the purpose is to evaluate sensitivity to relevant market and company specific factors and to ensure proper resistance towards stress.



8.3 Encumbered assets

A large proportion of Klarna's assets remain unencumbered. As the majority of these assets are lending to the public with a short average repayment profile, these inflows serve as a safeguard to reduce the liquidity risk. Tables can be found in appendix 5.

9. Risk in remuneration systems

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

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

The disclosures regarding remuneration in accordance with CRR Article 450 can be found in the Annual Report 2021, note 10.

Appendix

Appendix 1: Own funds balance sheet reconciliation

Reconciliation of shareholders' equity to regulatory capital SEKm	Consolidated situation		
	Carrying values as reported in financial statement	Adjustments under the scope of regulatory framework	Carrying values under the scope of regulatory framework
Common Equity Tier 1 (CET1) capital: instruments and reserves			
Total Share Capital	32,283	-45	32,237
Of Which: Share capital	3	-	3
Of which: Other capital contributions	32,280	-45	32,235
Restricted fund	0	-	
Reserves	324	-	324
Retained earnings	-1,649	-	-1,649
P&L current period	-7,017	-	-7,017
Common Equity Tier1 (CET1) capital before regulatory adjustments	23,940	-45	23,895
Common Equity Tier1: regulatory adjustments			
Adjustments to CET1 due to prudential filters	-	-1	-1
Goodwill	-4,586	-	-4,586
Other intangible assets (net of related tax liabilities)	-2,308	945	-1,363
Of which: Licences	-9	-	-9
Of which: Trademarks	-21	-	-21
Of which: Capitalised development costs	-1,341	719	-622
Of which: Other intangible assets	-938	-	-938
Of which: Related tax liabilities	-	226	226
IFRS 9 transitional adjustments	-	1,436	1,436
Deferred tax assets	-319	312	-8
Total regulatory adjustments to Common Equity Tier 1	-7,214	2,691	-4,522
Common Equity Tier1 capital	16,727	2,646	19,373
Additional Tier1 (AT1) capital instruments			
Additional Tier1 instruments	506	-166	340
Additional Tier1 capital	506	-166	340
Tier1 capital	17,233	2,480	19,713
Tier 2 (T2) capital: instruments and provisions			
Subordinated Liabilities	301	-159	142
Tier 2 Capital	301	-159	142
Tier 1 Capital	17,233	2,480	19,713
Total capital	17,534	2,321	19,855

Appendix 2: Capital instruments main features

		Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2
1	Issuer	Klarna Holding AB	Klarna Holding AB	Klarna Bank AB	Klarna Bank AB
2	Unique identifier	SE0003490770	SE0011844356	SE0009888753	SE0011415538
3	Governing law(s) of the instrument	Swedish law	Swedish law	Swedish law	Swedish law
Regulatory treatment					
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Consolidated	Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital	Additional Tier 1 Capital Notes	Additional Tier 1 Capital Notes	Subordinated Tier 2 Capital Notes
8	Amount recognised in regulatory capital (as of most recent reporting date)	SEK 19,372,837,370	SEK 340,300,570	SEK 250,000,000	SEK 301,055,663
9	Nominal amount of instrument	SEK 2,602,083	EUR 25,000,000	SEK 250,000,000	SEK 300,000,000
9a	Issue price	-	100%	100%	100%
9b	Redemption value	-	100%	100%	100%
10	Accounting classification	Shareholder's equity	Shareholder's equity	Shareholder's equity	Liability - amortized cost
11	Original date of issuance				
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated
13	Original maturity date	No maturity	No maturity	No maturity	2028-07-05
14	Issuer call subject to prior supervisory approval	-	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	-	2023-11-15	2022-05-26	2023-07-05
16	Subsequent call dates, if applicable	-	Every quarter falling after the first call date	Every quarter falling after the first call date	Every quarter falling after the first call date
Coupons / dividends					
17	Fixed or floating dividend/coupon				
18	Coupon rate and any related index	Fully discretionary	Fixed rate of 6.625% until optional call date. Floating rate of EURIBOR 3M + 6.277% afterwards	STIBOR 3M + 5.75%	STIBOR 3M + 3.5%
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Cumulative

23	Convertible or non-convertible	N/A	Non-convertible	Non-convertible	N/A
24	If convertible, conversion trigger(s)	-	-	-	-
25	If convertible, fully or partially	-	-	-	-
26	If convertible, conversion rate	-	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-	-
30	Write-down features	No	Yes	Yes	No
31	If write-down, write down trigger(s)	-	CET1 ratio falls below 7% for the Consolidated situation of Klarna Bank AB	CET1 ratio falls below 5.125% for Klarna Bank AB or 7% for the Consolidated situation of Klarna Bank AB	-
32	If write-down, full or partial	-	Fully or partially	Fully or partially	-
33	If write-down, permanent or temporary	-	Temporary	Temporary	-
34	If temporary write-down, description of write-up mechanism	-	Fully discretionary	Fully discretionary	-
35	Position in subordinated hierarchy in liquidation	Immediately junior to holders of notes which constitutes Additional Tier 1 Capital	Immediately junior to holders of notes which constitutes Additional Tier 2 Capital	Immediately junior to holders of notes which constitutes Tier 2 capital	Immediately junior to claims of depositors and other unsubordinated creditors
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	-	-	-	-

Appendix 3: Own funds disclosure template

Own funds disclosure template			
SEKm		Consolidated	Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	32,237	26(1), 27, 28, 29
	Of which: Share capital	3	EBA list 26(3)
	Of which: Share premium	32,235	EBA list 26(3)
2	Retained earnings	-1,649	26(1)(c)
3	Accumulated other comprehensive income (and other reserves)	324	26(1)
3a	Funds for general banking risk	-	26(1)(f)
	Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase out from CET1	-	486(2)
4		-	486(2)
5	Minority interest (amount allowed in consolidated CET1)	-	84
5a	Independently reviewed interim profits not of any foreseeable charge or dividend	-	26(2)
6	Common Equity Tier 1 capital before regulatory adjustments	30,912	
Common Equity Tier 1: regulatory adjustments			
7	Additional value adjustments (negative amount)	-1	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-5,949	36(1)(b), 37
	Of which: Goodwill (negative amount)	-4,586	
	Of which: Other intangible assets (net of related tax liability) (negative amount)	-1,363	
	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 36(3) are met) (negative amount)	-8	36(1)(c), 38
10		-8	36(1)(c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	33(1)(a)
			36(1)(d), 40,
12	Negative amounts resulting from the calculations of expected loss amounts	-	159
13	Any increase in equity that results from securitised assets (negative amount)	-	32(1)
	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33(1)(b)
14		-	33(1)(b)
15	Defined-benefit pension fund assets (negative amount)	-	36(1)(e), 41
	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36(1)(f), 42
16		-	36(1)(f), 42
	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36(1)(g), 44
17		-	36(1)(g), 44
	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36(1)(h), 43,
18			45, 46, 49(2) &
			(3), 79

19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	36(1)(i), 43, 45, 47, 48(1)(b), - 49(1) to (3), 79
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	- 36(1)(k)
20b	Of which: qualifying holdings outside the financial sector (negative amount)	36(1)(k)(i), 89 - to 91
20c	Of which: securitisation positions (negative amount)	36(1)(k)(ii), 243(1)(b), - 244(1)(b), 258
20d	Of which: free deliveries (negative amount)	36(1)(k)(iii), - 379(3)
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	36(1)(c), 38, - 48(1)(a)
22	Amount exceeding the 15% threshold (negative amount)	- 48(1)
23	Of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	36(1)(i), - 48(1)(b)
25	Deferred tax assets arising from temporary difference	36(1)(c), 38, - 48(1)(a)
25a	Losses for the current financial year (negative amount)	-7,017 36(1)(a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	- 36(1)(l)
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	- 36(1)(j)
27a	IFRS 9 transitional adjustments to CET1 Capital	1,436 473a(8)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-11,539
29	Common Equity Tier 1 (CET1) capital	19,373
Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	256 51, 52
31	Of which: classified as equity under applicable accounting standards	256
32	Of which: classified as liabilities under applicable accounting standards	-
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	- 486(3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	84 85, 86
35	Of which: instruments issued by subsidiaries subject to phase-out	0 486(3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	340
Additional Tier 1(AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	52(1)(b), 56(a), - 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution (negative amount)	- 56(b), 58

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39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(c), 59, 60 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(d), 59, 79
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56(e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	
44	Additional Tier 1 (AT1) capital	340	
45	Tier 1 capital (T1 = CET1 + AT1)	19,713	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	-	62, 63
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	-	486(4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	142	87, 88
49	Of which: instruments issued by subsidiaries subject to phase-out	-	486(4)
50	Credit risk adjustments	-	62(c) & (d)
51	Tier 2 (T2) capital before regulatory adjustment	142	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63(b)(i), 66(a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	66(b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	66(c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66(d), 69, 79
57	Total regulatory adjustments to Tier 2 (T2) capital	0	
58	Tier 2 (T2) capital	142	
59	Total capital (TC = T1 + T2)	19,855	
60	Total risk-weighted assets	61,836	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	31.3%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure amount)	31.9%	92(2)(b)
63	Total capital (as a percentage of total risk exposure amount)	32.1%	92(2)(c)

64	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 expressed as a percentage of total REA)	7.0%	CRD128, 129, 130, 131, 133
65	Of which: capital conservation buffer requirement	2.5%	
66	Of which: countercyclical buffer requirement	0.0%	
67	Of which: systemic risk buffer requirement	0	
67a	Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0	
68	Common Equity Tier 1 available to meet buffers (as a percentage of REA)	26.8%	CRD 128
Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36(1)(h), 45, 46, 56(c), 59, 60, 66(c), 69, 70
73	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)	262	36(1)(i), 45, 48
75	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)	312	36(1)(c), 38, 48
Applicable caps on the inclusion of provisions in Tier2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	- Current cap on CET1 instruments subject to phase-out arrangements	-	484(3), 486(2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484(3), 486(2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements	-	484(4), 486(3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484(4), 486(3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	-	484(5), 486(4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484(5), 486(4) & (5)

Appendix 4: Macroprudential supervisory measures

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Klarna Group

AB

SEKm

Breakdown by country	General credit exposures		Trading book exposures		Securitisation exposure		Own funds requirement			Own funds requirement weights	Countercyclical buffer rate	
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures			Total
Australia	962						54			54	1.1%	0.0%
Austria	1,492						61			61	1.3%	0.0%
France	679						11			11	0.2%	0.0%
Denmark	506						15			15	0.3%	0.0%
Luxembourg	1,121						0			0	0.0%	0.5%
Finland	3,794						178			178	3.8%	0.0%
Germany	24,106						1,305			1,305	27.7%	0.0%
Malta	19						2			2	0.0%	0.0%
Netherlands	1,832						110			110	2.3%	0.0%
Norway	3,610						222			222	4.7%	1.0%
Sweden	40,300						1,344			1,344	28.5%	0.0%
Switzerland	477						23			23	0.5%	0.0%
United Kingdom	9,106						566			566	12.0%	0.0%
United States of America	15,315						789			789	16.7%	0.0%
Other	1,271						34			34	0.73%	3.0%
Total	104,589						4,714			4,714	100.0%	4.5%

Amount of institution specific countercyclical capital buffer

Klarna Group AB

SEKm

Total risk exposure	61,836
Institution specific countercyclical buffer rate	0.05%
Institution specific countercyclical buffer requirement	29

Appendix 5: Asset encumbrance

Encumbered and unencumbered assets				
SEKm	Klarna Group AB			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
<i>Median over last four quarters</i>				
Assets of the reporting institution	839	0	85,828	932
Equity instruments	0	0	932	932
Debt securities	274	0	10,581	0
of which: covered bonds	0	0	566	0
of which: asset-backed securities	0	0	0	0
of which: issued by general governments	0	0	3,629	0
of which: issued by financial institutions	0	0	5,156	0
of which: issued by non-financial corporations	0	0	175	0
Other assets	482	0	72,313	0
of which: loans on demand	482	0	13,599	0
of which: loans and advances other than loans on demand	0	0	50,720	0
of which: other	0	0	9,837	0

Collateral received		Klarna Group AB	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt issued available for encumbrance	
Collateral received by the reporting institution		6	0
Loans on demand		0	0
Equity instruments		0	0
Debt securities		0	0
of which: covered bonds		0	0
of which: asset-backed securities		0	0
of which: issued by general government		0	0
of which: issued by financial corporations		0	0
of which: issued by non-financial corporations		0	0
Loans and advances other than loans on demand		0	0
Other collateral received		6	0
Own debt securities issued other than own covered bonds or asset-backed securities		0	0
Own covered bonds and asset-backed securities issued and not yet		0	0

pledged

Total assets, collateral received and own debt securities issued

852

Source of encumbrance	Klarna Group AB	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	636	633
Derivatives	322	230
of which: Over-The-Counter	322	230
Deposits	261	288
Repurchase agreements	261	288
of which: central banks	0	0
Collateralised deposits other than repurchase agreements	0	0
of which: central banks	0	0
Debt securities issued	0	0
of which: covered bonds issued	0	0
of which: asset-backed securities issued	0	0
Other sources of encumbrance	0	289
Nominal of loan commitments received	0	0
Nominal of financial guarantees received	0	0
Fair value of securities borrowed with non-cash-collateral	0	0
Other	0	289
Total sources of encumbrance	636	852

Source of encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. It is important to note that assets pledged that are subject to any restrictions in withdrawal such as for instance assets that require prior approval before withdrawal or replacement by other assets should be considered encumbered. The definition is not based on an explicit legal definition such as title transfer but rather on economic principles as the legal frameworks may differ in this respect across countries. The definition however is closely linked to contractual conditions.

One of the sources of encumbrance for Klarna includes collateral lent and received when conducting derivative transactions. Klarna considers a majority of its assets to be available for encumbrance.

The disclosed values above are derived from the median of the four quarterly end-of-period values over the previous 12 months.

Appendix 6: Disclosure on leverage ratio

Summary reconciliation of accounting assets and leverage ratio exposures		Consolidated situation
SEKm		Applicable amount
1	Total assets as per published financial statements	108,017
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013	0
4	Adjustments for derivative financial instruments	0
5	Adjustments for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3,166
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-5,958
8	Total leverage ratio exposure	105,225

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		Consolidated situation
		Leverage ratio exposure
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	108,017
EU-2	Trading book exposures	0
EU-3	Banking book exposures of which:	108,017
EU-4	Covered bonds	1,133
EU-5	Exposures treated as sovereigns	20,984
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	4,877
EU-7	Institutions	5,035
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	58,554
EU-10	Corporate	4,807
EU-11	Exposures in default	732

EU-12	Other exposures (e.g. equity securitisations, and other non-credit obligation assets)	11,894
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Leverage ratio common disclosure		Consolidated situation
SEKm		Leverage ratio exposure
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, and fiduciary assets but including collateral)	108,017
2	(Asset amounts deducted in determining Tier 1 capital)	-5,958
3	Total on-balance sheet exposures (excluding derivatives, SFTs, and fiduciary assets) (sum of lines 1 and 2)	102,059
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	0
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivative exposures (sum of lines 4 to 10)	0
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	24,458
18	(Adjustments for conversion to credit equivalent amounts)	-21,292
19	Other off-balance sheet exposures (sum of lines 17 to 18)	3,166

Exempted exposures in accordance with CRR Article 429(7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solobasis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposures		
20	Tier 1 capital	19,713
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	105,225
Leverage ratio		
22	Leverage ratio	17.61%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0

Appendix 7: IFRS 9 transitional disclosure

Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9	Klarna Group AB			
	31 Dec 2021	30 Sep 2021	20 June 2021	31 Mar 2021
Available capital (amounts)				
Common Equity Tier 1 (CET1) capital	19,373	22,064	20,208	17,546
CET1 capital as if IFRS 9 transitional arrangements had not been applied	17,937	20,977	19,302	16,727
Tier 1 capital	19,713	22,419	20,537	17,937
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	18,277	21,332	19,630	17,118
Total capital	19,855	22,575	20,657	18,317
Total capital as if IFRS 9 transitional arrangements had not been applied	18,420	21,488	19,751	17,499
Risk Exposure Amounts				
Total risk exposure amount	61,836	52,850	51,909	47,985
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	60,400	51,764	51,003	47,167
Capital ratios (as percentage of total risk exposure amount)				
CET1	31.3%	41.7%	38.9%	36.6%

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CET1 as if IFRS 9 transitional arrangements had not been applied	29.7%	40.5%	37.8%	35.5%
Tier 1 capital	31.9%	42.4%	39.6%	37.4%
Tier 1 as if IFRS 9 transitional arrangements had not been applied	30.3%	41.2%	38.5%	36.3%
Total capital	32.1%	42.7%	39.8%	38.2%
Total capital as if IFRS 9 transitional arrangements had not been applied	30.5%	41.5%	38.7%	37.1%
Leverage ratio				
Total Leverage ratio exposure amount	105,225	90,418	77,508	79,801
Leverage ratio	18.7%	24.8%	26.5%	22.5%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	17.6%	23.9%	25.6%	21.7%

Appendix 8: Disclosure of Performing and Non-performing exposures

Credit quality of Performing and Non-performing exposures by past due dates (gross balances)

Klarna Group AB 2021-12-31

SEKm

	Performing	Non-performing	Unlikely to pay that are not past due or are past due ≤ 90days	Past due > 90 days ≤ 180days	Past due > 180 days ≤ 1year	Past due > 1year ≤ 5 years	Past due > 5 years
Cash balances at central banks and other demand deposits	19,361	0	0	0	0	0	0
Loans and advances	65,554	1,836	515	1,027	171	120	3
Central banks	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0
Credit institutions	1,504	0	0	0	0	0	0
Other financial corporations	1,734	0	0	0	0	0	0
Non-financial corporations	1,281	172	1	63	46	62	0
Of which SMEs	310	101	1	8	33	59	0
Households	61,035	1,664	514	964	125	58	3
Debt securities	10,877	0	0	0	0	0	0
Central banks	0	0	0	0	0	0	0
General governments	3,030	0	0	0	0	0	0
Credit institutions	7,744	0	0	0	0	0	0
Other financial corporations	104	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0	0
Off-balance sheet exposures	23,616	12					
Central banks	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0
Non-financial corporations	7,008	12	0	0	0	0	0
Households	16,608	0	0	0	0	0	0
Total	119,409	1,848	515	1,027	171	120	3

Appendix 9: Disclosure of Provisions for performing and Non-performing exposures

Provisions for Performing and Non-performing exposures by past due days							
Klarna Group AB 2021-12-31							
SEKm							
	Performing	Non-performing	Unlikely to pay that are not past due or are past due ≤ 90days	Past due > 90 days ≤ 180days	Past due > 180 days ≤ 1year	Past due > 1year ≤ 5 years	Past due > 5 years
Cash balances at central banks and other demand deposits	0	0	0	0	0	0	0
Loans and advances	-2505	-1104	-194	-744	-114	-50	-2
Central banks	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0
Other financial corporations	-2	0	0	0	0	0	0
Non-financial corporations	-23	-145	0	-114	-22	-9	0
Of which SMEs	-2	-21	0	-2	-11	-7	0
Households	-2480	-959	-194	-630	-91	-42	-2
Debt securities	0	0	0	0	0	0	0
Central banks	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0	0
Off-balance sheet exposures	-49	-12					
Central banks	-49	0					
General governments	0	0					
Credit institutions	0	0					
Other financial corporations	-49	-12					
Non-financial corporations	0	0					
Households	0	0					
Total	-2554	-1116	-194	-744	-114	-50	-2

Appendix 10: Disclosure of Forborne exposures

Credit quality of forborne exposures								
Klarna Group AB 2021-12-31								
SEKm								
	Gross carrying amount / nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures
			Of which defaulted	Of which impaired				
Cash balances at central banks and other demand deposits	0	0	0	0	0	0	0	0
Loans and advances	54	290	290	290	-19	-102	0	0
Central banks	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0	0	0
Households	54	290	290	290	-19	-102	0	0
Debt Securities	0	0	0	0	0	0	0	0
Loan commitments given	0	0	0	0	0	0	0	0
Total	54	290	290	290	-19	-102	0	0

Appendix 11: Collateral obtained by taking possession and execution processes

Collateral obtained by taking possession, Non-performing exposures

Klarna Group AB

SEKm

		Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)	0	0
2	Other than PP&E	0	0
3	<i>Residential immovable property</i>	0	0
4	<i>Commercial Immovable property</i>	0	0
5	<i>Movable property (auto, shipping, etc.)</i>	0	0
6	<i>Equity and debt instruments</i>	0	0
7	<i>Other</i>	0	0
8	Total	0	0