Klarna.

Annual Report 2021.

Klarna Holding AB (publ).
Organisation number 556676-2356
January - December 2021

Contents

Financial information 2021

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

Strong performance of the business over the year has delivered:

42%	31.3%	38%
(46) [1] Gross merchandise volume[2] – YoY growth	(29.5) CET1 ratio	(40) [1] Total net operating income – YoY growth

147m	400k+	45
Active consumers	Global retail partners	Countries

USD 80bn [3]	USD 1.6bn [3]
(53bn) [1] Gross merchandise volume [2] SEK 689bn (484)	(1.1bn) [1] Total net operating income SEK 13,948m (10,094)

1. All growth figures are based on SEK results figures.
2. Total monetary value of sold products and services through Klarna over a given period of time.
3. Klarna's results are reported in SEK. To arrive at USD values, the average exchange rates for 2019, 2020 and 2021 have been used; 1 USD equals approximately 9.5 SEK for full year 2019, 1 USD equals approximately 9.2 SEK for full year 2020, and 1 USD equals approximately 8.6 SEK for full year 2021.

To our Shareholders.

To our Shareholders

Another year of high growth and improved economics.

In 2016 we formulated an idea of the future of banking and financial services. That banks - that sit at the core of the financial side of our lives - could and should play a very different role for us than they have done historically. They should put customers first! Banks should innovate to help consumers save time, save money, give them control, and ultimately improve people's finances, and make them worry less. Since then we have been on a mission to realize that vision. It has not been easy and it has required us to look at ourselves in the mirror and turn every stone on our own practices.

When we launched Klarna 17 years ago, we focused on providing a better digital version of existing banking services. On helping customers buy online more safely and without unnecessary friction. But we borrowed much of our business model from the banks. At the time, we did not really reflect on late fees, high interest or revolving - the mechanism of being able to borrow repeatedly but never actually getting out of debt. Those were simply accepted standard industry practices. By 2016 we had matured and come to question a lot of that - the way it has always been done is not the way it has to be.

We made tons of changes but we knew we still had even more ahead of us. We also realized that we wanted to strike a balance. We knew we needed to change our practices but to do that we needed to question what was really broken in the system and ensure again we did not take the easier path of following traditional banks. Banks, in a rush to avoid any potential angle of criticism, had abandoned huge amounts of consumers on low incomes to the hands of payday lenders and loan sharks. As former FCA executive Chris Woolard expressed it more recently in the UK: "A sustainable market needs more alternatives to high-cost credit...the biggest potential harms occur where there is a need for those on lower incomes or benefits to borrow." [1]

This brings us to today, I will explain in detail later on what these changes are, and while I am immensely proud of them, I am also very proud of Klarna's other achievements in 2021. We are now serving more than 100m active customers across the world, and our free short-term credit products have become an expression: BNPL. But we have also continued to grow our Pay Now immediate settlement option that today represents c40% of transaction volumes. With some truly exciting companies like Stocard and Hero joining Klarna, our active consumer number will grow to over 147m. We have also massively accelerated our global expansion with the addition of 10 new markets since the start of 2020.

Our app is becoming exactly that central place in our consumers' financial lives, and since how we spend our money is a big piece of that, Klarna has also risen to become a natural platform for many more shopping services. With more than 301m successful matches of consumers to brands and retailers, this has further accelerated our partner network to over 400k+ global retailers. As a result, merchandise volumes are at record levels of USD 80bn and we are seeing very exciting numbers in our in-store offering now live across c80,000 retail locations in the US like Macys, Sephora and Footlocker, and partnerships with the top 3 largest mall operators in the US.

As exciting all of this is, it is not what makes me the proudest. What makes me the proudest is the major accomplishments achieved in our underwriting capabilities AND the critical business model decisions that were decided and executed throughout 2021 that marks the full transformation into a world leading sustainable bank business model that will return billions into the hands of consumers.

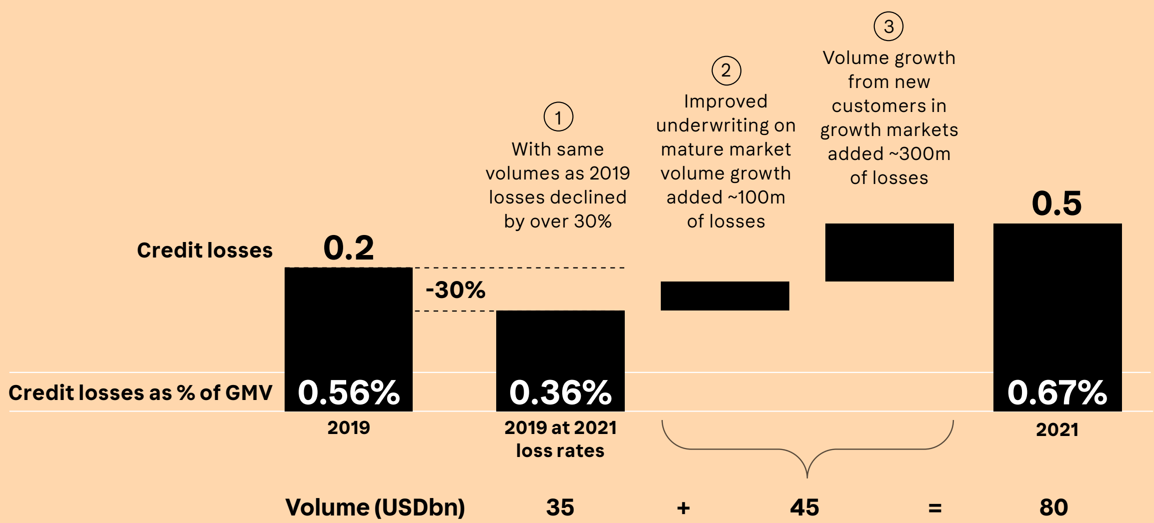
[1] https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf

Losses at all time low

With our focus on creating products which consumers love powered by effective underwriting - our credit loss rates have reduced by over 30% since 2019.[2] This is a major achievement, most importantly since behind that numerical reduction is the lives of tens of thousands of consumers where we have avoided adding to an unhealthy debt burden. The detailed reader will however notice that in absolute terms our credit losses are growing, not shrinking. This is entirely explained by Klarna's growth, expansion to new markets and massive inflow of new customers. It is more challenging to underwrite a new customer compared to an existing returning one.

As one can see in the graph below, if our merchandise volumes were the same as 2 years ago, our losses using today's underwriting models would be 30% lower (#1). However the additional volume through our strong growth even with those new more efficient underwriting models is adding an additional ~USD 100m[3] of losses (#2). Finally as seen in #3, the addition of new markets and new customers where loss levels are initially higher is then adding an additional ~USD 300m[3] of losses.

Credit losses USDbn



One particular strong and important development is the US. It is our fastest-growing key market, and soon to be our largest market. We have reduced our credit losses by 60% since 2019.

A unique thing that sets Klarna apart from the industry is how we underwrite and onboard consumers to our credit products. Credit cards make one initial assessment at sign up, give you a credit limit and then encourage you to spend, spend, spend. They hope the consumer will make the minimum repayments and pay interest on the balance - forever - because that's their business model.

Our extensive research and interviews with consumers finds that with those suffering persistent debt, most often there is sadly a broader addictive behavior that sits at the center of those consumers' situations. The majority of their debt will be with high-cost credit cards, unsecured loans, payday lenders etc. In addition to that they will most often have overdue electricity bills, phone bills, rent. Since Klarna never lends cash and the outstanding balance on average is USD 100, when consumers find themselves in debt, the amount owed to Klarna represents about 2% of their total debt. It is important to us to try to avoid them having an additional Klarna bill in what is already a challenging situation.

2 Credit losses comparison between 2019 actuals and "2019 at 2021 loss rates", where the latter has been calculated applying, at country level, 2021 credit loss rates to 2019 merchandise volume.

3 Calculated applying, at country level, 2021 credit loss rates to the 2019-2021 volume growth.

Klarna's model is much more sustainable. When a consumer chooses Klarna for the first time, we give consumers a small line of credit, usually around USD 100. Then we do a new assessment for each and every transaction they make. We see that consumers can use the product responsibly before we make small increases in the amount available to them. This is why 99% of our lending is repaid and our losses are below the card industry standard. This also means that on average a consumer in arrears will owe us USD 100 compared to a US consumer who on average will have an outstanding balance of over USD 5,000 on their traditional credit card. [4]

Consumers have no interest in paying interest and they should pay with money they have

Let's set the record straight once and for all. Consumers should first and foremost pay with money they have. Period. This is why we are continuing to expand our Pay Now option. We are especially proud to launch it in the UK. Less known is that Klarna owns the world's largest account-to-account based payments infrastructure, through our acquisition of Sofort back in 2014. This allows us to create a truly unique and cost efficient alternative to the existing payments network. Again we are happy to see that c40% of our transaction volume is Pay Now and we expect that share in physical stores to come closer to 90%.

Online however, credit makes sense. The opportunity to touch and feel before you pay, the ability to avoid having to wait for your money back while retailers' process returns are just two great examples of where credit makes sense, but there are many more. In fact it is not credit itself that is the problem. Former FCA executive Chris Woolard stated in a UK report on BNPL stated: "credit makes economies work and has a social purpose." [5] The problem is what form of credit. High-cost credit, credit that encourages you to push debt forward indefinitely as well as tons of other poor practices by credit card companies, banks and other less serious actors really are a menace to society. In 2021 Klarna removed the last elements of such business practices that we had inherited from the industry. No more revolving, always 30 days rather than 15 days to pay, and the removal of tons of additional fees puts us at the very front of sustainable credit and payments products.

These changes do not come without consequences, we estimate that, all else equal, our annualized revenue for 2021 and 2022 would be c10% [6] higher and that we have already returned USD 50m [7] to the pockets of our consumers in Q4 2021 alone. These actions are supported by our merchants and consumers, who are already rewarding us with long-term sustainable relationships that far outstrip the short-term impact of these changes.

4 Experian, 2021

5 https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf

6 Calculated by taking revenue forgone in Q4-21 as a result of these changes ($50m) over Q4-21 net operating income.

7 Revenue impact calculated by adding back fees and charges that have been removed from our consumer offerings as part of our updated practices.

The true heroes

The true heroes that have made those changes possible, however are our 400k+ retail partners. We salute and thank you for your support. They also made it entirely clear to us that they were fed up with the old models. For too long the credit card markets have been rigged against them. While networks have been able to charge high interchange fees for credit card acceptance, banks have not used those funds to offer attractive financing options to their consumers. Instead, banks have pocketed the interchange fees and in addition to that, charged their consumers staggering interest rates of up to 60% APR[8] for any financing options. All of which has benefited the banks and the banks only. What makes this even worse is credit cards have functioned as a massive redistribution of wealth by either entirely excluding low income households or charging them high APRs. High income households have been given free interest options in combination with aggressive cashback and loyalty points systems effectively working as a redistribution of wealth from the poor to the rich - an inverted Robin Hood if you like. In the US, the lowest income households pay USD 21 in fees and interest while the highest income households reap USD 750[9] in rewards. Retailers told us 'no more': with Klarna's model their cost of payments goes directly to the pocket of consumers in the form of short-term interest-free credit that further increases their spending power. And when finance is available at zero cost, consumers reward them with their loyalty. This is the ultimate purpose of financial services to grow and make markets function more....well yes, smooothly.

Finally, I would like to say that this great progress could not have been achieved without the commitment and ambition of our passionate and ambitious employees and the tremendous support of our shareholders. We are far from done and I hope you will continue to stand behind us as we continue on this challenging but extremely fun journey.

Sebastian

[8] nerdwallet.com; banktracker.com

[9] Federal Reserve Bank of Boston

Key Achievements 2021.

Key Achievements 2021

80bn	147m	45	400k+
USD Gross Merchandise Volume	Active consumers	Countries	Global retail partners

In 2021 we expanded the Klarna ecosystem to vastly increase consumer touchpoints across markets, services and products to fuel the growth of our 400,000+ retail partners with sustainable payments. Consumers value Klarna's integrated products that save them time and money by helping them make informed decisions and take control of their finances, increasing loyalty and return visits over time. As a result consumer adoption has accelerated with over 100m consumers using Klarna with a further 47m users added through acquisitions.

25m	+71%	3x	30
US consumers	US consumer growth	US GMV in 2021 vs 2020	Retail partners in US top 100

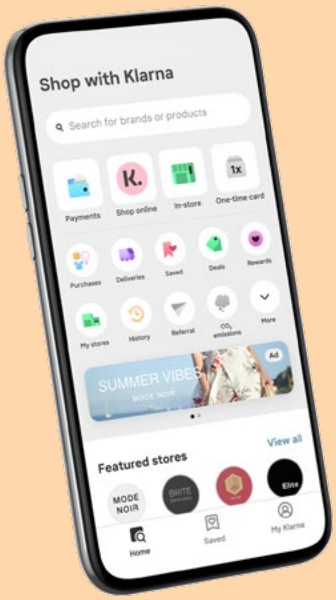
The US continues to be Klarna's fastest-growing key market by volume and now Klarna's second-largest by revenue, much of it fuelled by the app's success. US volumes have more than tripled YoY, fuelled by 71% growth in Klarna US consumers to 25m in January 2022.

Through our ambitious 2021 product expansion including the launch of the shopping app to 18 markets, we are creating more opportunities for consumers to engage with our retail partners through Klarna, attracting new consumers while growing loyalty among existing users. In growth markets, products that can be used across channels are supporting consumer acquisition and ongoing loyalty including the app and shop-anywhere browser extension. Consumers should first and foremost pay with money they have. Period. This is why we are continuing to expand our Pay Now option. We are especially proud to launch it in the UK. Less known is that Klarna owns the world's largest account-to-account based payments infrastructure, through our acquisition of Sofort back in 2014. This allows us to create a truly unique and cost efficient alternative to the existing payments network. Again we are happy to see that c40% of our transaction volume is Pay Now and we expect that share in physical stores to come closer to 90%.

The Klarna Card has been particularly successful meeting consumer demand for fair and transparent alternatives to conventional card offerings. Over 800k consumers across Sweden, Germany and the UK, up 50% YoY, now take advantage of the card's flexibility with clear payment schedules, no interest, and no FX mark up with the US launch waitlist at 500,000 just days after launch.

Product Launches

40%	Top 10	3x
US share of global Klarna app downloads	US shopping apps 2021	App users purchase frequency vs non-app users



02

01

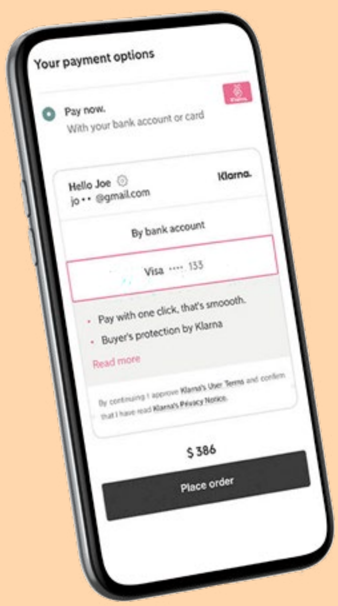
01 800k Klarna card users. US launch soon.

02 Shop-anywhere app now available in 18 markets.

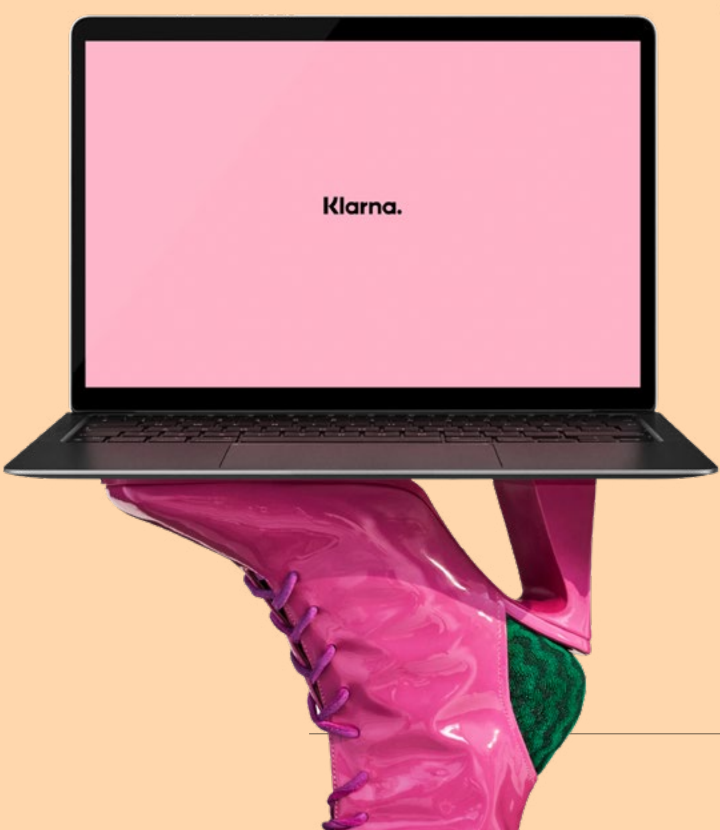
03 Shop-anywhere browser, 1m users - 5* rating.

04 Pay Now launched in the UK, US soon to follow.

05 Klarna Express button live with Macy's and Coach.

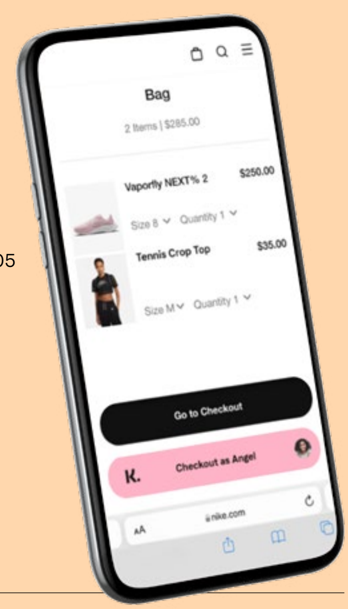


04



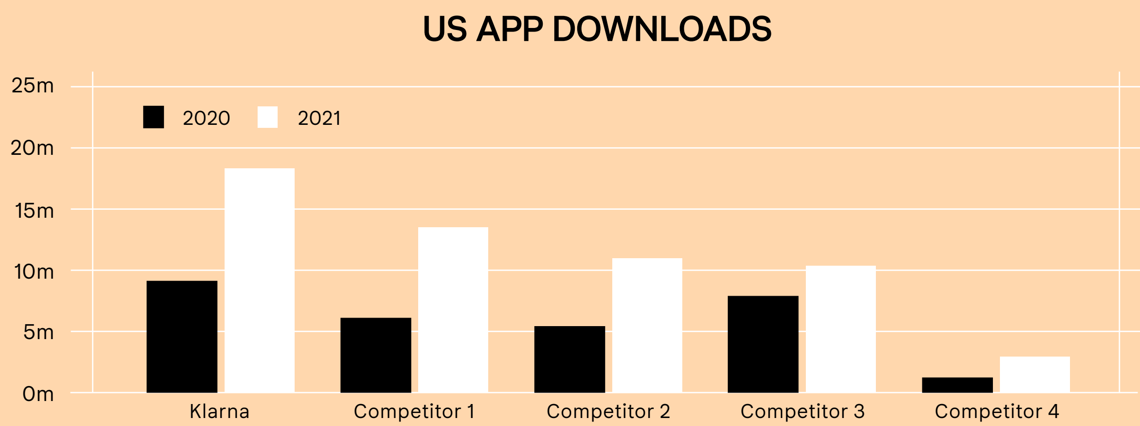
03

05

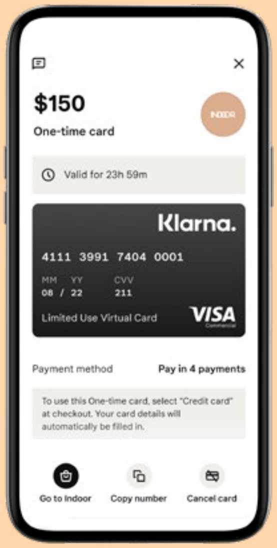


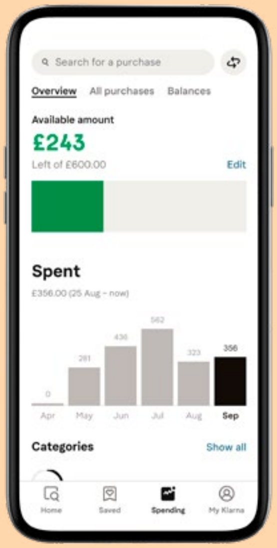
Klarna app is the single largest volume channel

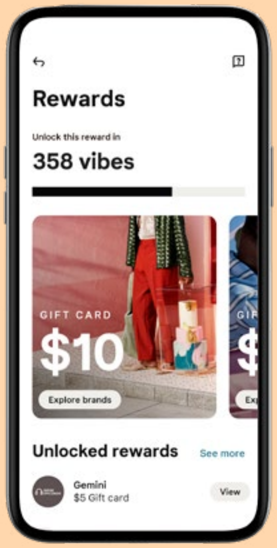
The Klarna app is now the single largest driver of GMV across the Klarna ecosystem, fuelling growth for Klarna and its retail partners through consumer acquisition and referrals. It is the second fastest-growing app on a downloads basis[1] compared to major global payments peers. The US has the highest share of Klarna app users of any market and accounts for over 40% of global downloads, placing Klarna in the Top 10 US shopping apps.[2] In December, US downloads of the Klarna app outpaced PayPal, YouTube, Snapchat, Whatsapp and Twitter. The shop-anywhere online or in-store capability of the app drives loyalty with features consumers love, with app users purchasing c3x more often than non-app shoppers.

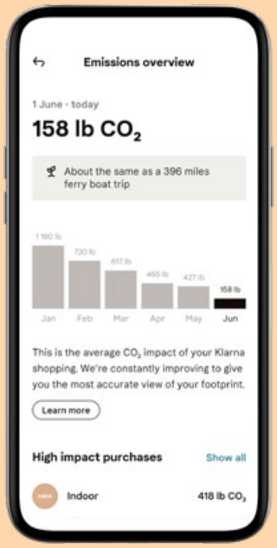


Our app is becoming a central place in our consumers' financial lives. The app supports significant consumer growth through easy access to everything from purchases across all channels, card balances and bank accounts, spending overviews, returns, carbon tracking, retailer offers and Klarna's shop anywhere online functionality - all services that have tangible value for consumers in their everyday lives.









[1] AppAnnie, 2021
[2] Apptopia, 2021

4m	4x	9
Global reward members	increase in purchase frequency of reward members	Further markets to launch rewards program

Fastest-growing customer segment across markets are consumers who purchase >2 a month

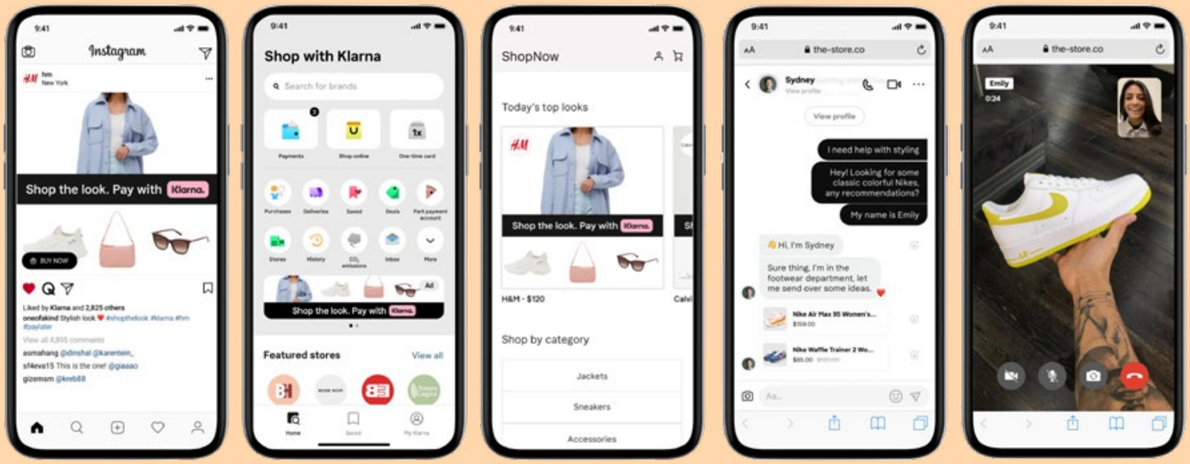
Klarna's rewards program, which now has c4m members in the US and Australia and is driving a ~4x uplift in repeat purchases in the US, will be rolled out to the UK, DACH, Nordics and all growth markets in 2022. The fastest-growing customer segments by volume generated[3] in both mature and growth markets are those who purchase through Klarna more than twice a month. We continue to invest in ensuring our consumers can access the best benefits through recent acquisition Stocard, a mobile wallet that brings together loyalty cards all in one place, and proposed acquisition PriceRunner's unparalleled product categorization, reviews and price comparison platform.

301m	2.6x	45	400k+
Clicks to retailers in 2021	Growth in clicks to retail partners	Of Top 100 US retailers live with Klarna's advertising services	Global retail partners

Powerful consumer acquisition through expanding partnerships, verticals and services

Klarna is a growth partner for retailers, not a marketplace. In 2021 we expanded the ways retailers can use Klarna to connect with consumers through complementary acquisitions while diversifying revenue streams. Klarna now supports retailers through the entire sales funnel from consumer acquisition to shopping to post-purchase experience. Our compelling pre-purchase proposition for consumers now includes instantly shoppable content, live and virtual shopping, running search and dynamic ad campaigns, in-app sponsored placements, and launching tailored content creation partnerships. New, enhanced services will come online during 2022 with rollout to many more retail partners. Klarna's unique post-purchase experience allows consumers to access delivery tracking information, instant refunds, and Klarna's 24/7 support smooths the experience between retailers and their customers in either the Klarna or retail partner's app.

[3] 2019-2021



Connecting consumers with retailers, bringing the in-store experience online

Klarna is scaling existing retailer relationships globally alongside its market expansion while expanding into new and growing verticals such as travel, event ticketing, beauty and high-frequency verticals such as pharmacy and grocery. Klarna's tailored premium and luxury offer has added 51 new global partners in 2021 driven by consumer demand as 84% of luxury shoppers want flexible payments as a standard part of the purchasing experience.[4] The breadth and reach of our partnerships across markets and verticals support consumer preference for Klarna and increases return shopping through choice and convenience.

65k	stripe	400k+
SMBs joined Klarna in 2021	Partnership giving access to millions more SMBs	Global retail partners

Klarna is also a growth partner for Small and Medium-sized Businesses (SMBs) connecting small businesses with global consumers. Our enhanced global strategic partnership with Stripe will allow millions more SMBs to integrate Klarna seamlessly into their customer experience. Klarna is also creating an avenue for SMBs to access BNPL through its partnership with Billie, giving Klarna unprecedented breadth across channels, verticals, and customer segments.

9.5k	137%	170%	11
In-store partners	Growth in partners	Rise in global in-store volumes	Countries where Klarna is available in H&M stores

4 The State of Smooth: Unpacking Luxury in 2022, Klarna, 2022

Klarna has seen accelerated demand across its in-store products as retailers look to drive the consistency of customer experience across channels through one preferred partner. While online retail is predicted to remain the fastest-growing channel, 72% of US retail sales are expected to take place in-store in 2024 [5] but in 2020 only 4% of offline sales included BNPL, leaving significant headroom for growth.[6] Additionally, Klarna's partnership with US mall operators Simon and Macerich and now Brookfield allows Klarna to reach a potential 2 billion shoppers, putting Klarna at the forefront of shoppers' minds in an enviable place in the shopping journey at over 300 major shopping destinations across the US.

5

New markets added in 2021

25

New countries added through Stocard acquisition

Market-leading expansion pace

Klarna has entered some of the fastest-growing e-commerce markets in the world including Spain and France, and now Canada. France has already reached 1m consumers since launch in June, and in Canada we launched with 300 retail partners including Harry Rosen, Mejuri, and Frank And Oak, and global retailers such as adidas, Sephora Canada, L'Oreal Canada, and GameStop. We have ambitious plans for further markets in 2022 where retailer demand and e-commerce market CAGR growth create multiple growth opportunities across Klarna's suite of products and services. The acquisition of Stocard has also provided Klarna with consumers in 25 additional countries, providing a primed user base for future expansion.

Disrupting global retail banking through transparency and better outcomes for consumers

At Klarna we believe banking should be simple. Klarna's investment in its open banking infrastructure - the largest open banking network in Europe with 15,000 banks in 24 countries - provides our partners with fast, secure payments services, powers Klarna's services including the Klarna app and immediate settlement, Pay Now, and underpins planned market expansion. This investment also benefits consumers through the ability to integrate their wider financial landscape including Klarna's new current accounts and savings accounts. The desktop fixed deposit offering, partnership with deposit marketplace Raisin and new in-app savings account Festgeld+ means consumers trust Klarna with over EUR 6bn of their money. Festgeld+ already has EUR 100m of deposits less than one month after launch, illustrating consumer demand for banking products that better serve their needs.

High-cost credit, credit that encourages consumers to push debt forward indefinitely as well other poor practices by credit card companies, banks and other less serious actors negatively impacts consumers. Klarna is committed to driving transparency and better consumer outcomes across the global banking and payments industry. In the Nordics, Klarna launched an industry-wide transparency initiative across the entire consumer credit market and implemented new product changes including improved payment reminders, elimination of fees, and amended payment terms. The additional removal of endless revolving credit lines means consumers are paying back their loans c20% earlier. The clear consumer benefits of this program means Klarna will now scale it to key global markets, tailored to local product fit and consumer preference.

[5] Forrester, 2021

[6] Worldpay, 2020

Report from the Board of Directors.

Report from the Board of Directors

The Board and the CEO of Klarna Holding AB (publ) hereby submit the report for the period January 1 to December 31 2021. This report presents the financial statements for Klarna Holding AB (publ) and consolidated financial statements for the company and its subsidiaries. The annual accounts have been prepared in thousands of Swedish kronor unless otherwise stated.

Information about the business

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

Klarna is a leading global provider of innovative banking, payments and shopping services. We continuously develop new products to meet the changing demands of consumers, helping them save time and money by helping them make informed decisions and take control of their finances. Together our products and services build the 'Klarna Everywhere' concept, enabling consumers to choose how, when, and where to shop, pay, and bank with Klarna, based on their own needs and preferences.

Our success is a result of the high degree of trust that has been built with consumers, retailers, and partners in all markets. This trust is critical in the financial sector, and maintaining it requires that we operate with the highest ethical standards and strive to do what is right every day. Such standards are embedded across all parts of the business - from handling sensitive personal data to a robust corporate governance framework and ensuring all employees are treated with respect in a secure working environment. Klarna's personal data protection officer is responsible for ensuring that all personal details are handled in accordance with the General Data Protection Regulation (GDPR).

Klarna was founded in 2005 in Sweden and has been a fully licensed bank since 2017, active in 45 markets.

Business Results

Net operating income

In 2021 Klarna continued to grow at pace as it launched new products, entered new markets and continued to provide consumers with products and services that enable them to save time, money, make informed decisions and take control of their finances. Global Merchandise Volume increased 42% YoY to SEK 689bn (USD 80bn) and Total net operating income increased 38% YoY to SEK 13,948m at period-end.

Commission income grew 47% YoY to SEK 11,254m powered by new and expanding global retail partnerships and increasing consumer adoption driving additional payments volumes through Klarna's channels.

Growth in Interest income of 24% YoY (SEK 4,040m, USD 471m) remained below that of total net operating income as consumer demand for our interest-free, shorter duration payment products outpaced other payment alternatives.

Interest expenses grew to SEK 666m (USD 78m) at period-end driven by significant ongoing volume growth.

Operating expenses

In 2021 we have accelerated our ambitious market and product expansion plans entering five new markets and growing our product offering to include the shopping app in 18 markets, the chrome browser extension, current and savings accounts as well as enhancing Klarna's suite of retailer growth services through organic growth and complementary acquisitions. As a result Operating expenses have increased to SEK 15,896m (USD 1,854m) and average FTEs at the end of the year were 4,789 as we scale to provide Klarna services globally and continue to support significant growth in existing markets, while integrating new colleagues joining from acquired companies.

Net credit losses increased to SEK 4,647m (USD 542m) driven by continued growth in our consumer base and expansion to new markets.

Liquidity and funding

Significant volume growth across all markets contributed to an increase in Loans to the public of 49% YoY to SEK 62,085m (USD 6,862m). Growth has been funded in part by the increase in Deposits from public of SEK 59,672m, up 94% YoY, driven by the success of our savings account offering in Germany and Sweden.

Klarna's business model focused on short-term credits results in a credit portfolio with an average turn of 40 days. This gives Klarna the flexibility to steer its balance sheet growth within a short timeframe.

Capital adequacy has strengthened further compared to the same period last year following equity raises in H1 2021. Klarna ended the year with a CET1 ratio of 31.3%, a strong capital position.

Branches Abroad

The company's subsidiary Klarna Bank AB (publ) operates Klarna Bank AB UK Branch, Klarna Bank AB German Branch and Klarna Bank AB Norwegian Branch.

During 2021, Klarna Bank AB (publ) also began operating Klarna Bank, filial af Klarna Bank AB (publ), Sverige (Denmark, June 2021), Klarna Bank AB, Sucursal en España (Spain, August 2021), and Klarna Bank AB Irish Branch (Ireland,October 2021) and also Klarna Bank AB French Branch (France, January 2022) after the period.

Interactions with regulators

We continue our positive and proactive interactions with regulators: we welcomed the UK Government’s Woolard Review and ‘Regulation of Buy-Now Pay-Later’ consultation, and in the US we are responding to the Consumer and Financial Protection Bureau’s Inquiry into BNPL.

Significant events

On March 1 2021
Klarna Holding AB (publ) completed a USD 1.1 billion (SEK 9,276m) funding round to accelerate international expansion and further capture global retail growth.

On May 24 2021
Klarna Bank AB (publ) voluntarily redeemed SEK 300m floating rate subordinated callable Tier 2 notes in accordance with the terms and conditions dated 20 June 2016.

On June 1 2021
A cross-border merger between Billpay GmbH (Corp. ID HRB122029B) and Klarna Bank AB (publ) was completed. Billpay GmbH was merged into Klarna Bank AB (publ), which is present in Germany through its German branch.

On June 10 2021
Klarna Holding AB (publ) raised USD 640million (SEK 5,540m) in equity in a funding round to support international expansion and further capture global retail growth.

On 21 October 2021
Klarna submitted an appeal of the Swedish FSA’s Pillar 2 guidance decision for Klarna Group.

On 2 November 2021
Klarna Bank AB (publ) announced its intention to acquire PriceRunner to bring enhanced product reviews, rich product discovery, and price comparisons to the Klarna App.

Future Development

Klarna will innovate and enhance its product offering to help consumers save time and money, helping them make informed decisions and take control of their finances. The Klarna Card, Pay Now and Express button will all be rolled out to further markets, and we will continue to add new services and functionality to our market-leading app.

Risk Management

Through its business activities Klarna is subject to a number of different risks, including credit risk, market risk, liquidity risk, business risk and operational risk.

The external regulations set forth requirements for good internal control, identification and management of risks as well as responsibilities for internal control functions. The Board and management regularly determine appropriate policies and instructions for the governance and management of risks, including risk appetite and tolerance limits.

The basis for the risk management and internal control framework is the three lines of defense model. The first line of defense refers to all risk management activities carried out by line management and staff. All managers are fully responsible for the risks, and the management of these, within their respective areas of responsibility.

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 regulatory risks. Engineering Assurance is responsible for frameworks, oversight and reporting on Information and Communications Technology (ICT) and security risk management.

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

ESG and Corporate Governance reports

In accordance with the Annual Accounts Act Chapter 6, §11 Klarna Holding AB (publ) has decided to report the Environment, Social and Governance (ESG) separately from the Annual Report. The ESG report has been submitted to the auditors at the same time as the Annual Report. The report is available at Klarna's website www.klarna.com

In accordance with the Annual Accounts Act Chapter 6, §8 the company's subsidiary Klarna Bank AB (publ) has decided to report the Corporate Governance report separately from the Annual Report. The Corporate Governance report has been submitted to the auditors at the same time as the Annual Report. The report is available at Klarna's website www.klarna.com

Proposed treatment of unappropriated earnings

The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 33,589,106,882 on Klarna Holding AB (publ)'s balance sheet at the disposal of the Annual General Meeting to be carried forward.

Additional Tier 1 instruments	256,372,091 SEK
Retained earnings	33,219,947,671 SEK
Net result for the year	112,787,120 SEK
Total	**33,589,106,882 SEK**

Group Financials.

Five Year Summary, Group

Amounts in SEKk	2021	2020	2019	2018	2017
Income statement					
Total net operating income	13,948,105	10,093,659	7,202,195	5,450,475	4,158,025
Operating result	-6,594,566	-1,538,149	-1,044,433	158,510	522,701
Net result for the year	-7,123,311	-1,305,019	-867,599	103,352	344,606
Balance sheet					
Loans to credit institutions	5,047,916	2,620,360	1,913,242	2,721,841	1,248,933
Loans to the public	62,085,131	41,717,591	29,654,552	19,979,002	13,874,164
All other assets	39,327,030	17,481,995	8,321,071	5,515,097	3,901,702
Total assets	**106,460,077**	**61,819,946**	**39,888,865**	**28,215,940**	**19,024,799**
Liabilities to credit institutions	713,182	2,414,897	4,939,524	1,418,054	396,965
Deposits from the public	59,671,831	30,834,677	12,287,653	14,581,769	8,491,654
All other liabilities	21,554,907	14,235,459	13,006,499	7,371,972	5,894,655
Total equity	24,520,157	14,334,913	9,655,189	4,844,145	4,241,525
Total liabilities and equity	**106,460,077**	**61,819,946**	**39,888,865**	**28,215,940**	**19,024,799**
Key ratios and figures[1]					
Return on equity	-33.9%	-12.8%	-14.4%	3.5%	14.9%
Return on assets	-8.5%	-2.6%	-2.5%	0.4%	2.2%
Debt/equity ratio	3.3	3.2	3.7	4.2	3.4
Equity/assets ratio	23.0%	23.2%	24.2%	17.2%	22.3%
Own funds (Total capital)[2]	19,855,494	13,529,578	8,448,158	3,424,327	2,830,504
Capital requirement[2]	4,946,863	3,391,228	2,115,637	1,820,881	1,244,297
Total capital ratio[2]	32.1%	31.9%	31.9%	15.0%	18.2%
Average number of full-time equivalents	4,789	3,238	2,248	1,713	1,380

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

[2] Figures refer to Klarna Holding AB (publ) group. In accordance with the capital adequacy regulations, the consolidated situation is made up of Klarna Holding AB (publ) and its subsidiaries. All subsidiaries are fully consolidated in the Group.

Income Statement, Group

Amounts in SEKk	Note	2021	2020
Interest income	4	4,040,282	3,264,747
Interest expenses	5, 6	−666,141	−505,215
Net interest income		**3,374,141**	**2,759,532**
Commission income	7	11,253,925	7,672,573
Commission expenses	8	−709,768	−574,101
Net result from financial transactions	9	−669,742	89,814
Other operating income		699,549	145,841
Total net operating income		**13,948,105**	**10,093,659**
General administrative expenses	6, 10, 11	−15,149,900	−8,682,745
Depreciation, amortization and impairment of intangible and tangible assets	6, 12	−745,988	−418,249
Total operating expenses before credit losses		**−15,895,888**	**−9,100,994**
Operating result before credit losses, net		**−1,947,783**	**992,665**
Credit losses, net	13	−4,646,783	−2,530,814
Operating result		**−6,594,566**	**−1,538,149**
Income tax	14	−528,745	233,130
Net result for the year		**−7,123,311**	**−1,305,019**
Whereof attributable to:			
Shareholders of Klarna Holding AB (publ)		−7,048,140	−1,298,655
Non-controlling interests		−106,367	−38,532
Additional Tier 1 capital holders		31,196	32,168
Total		**−7,123,311**	**−1,305,019**

Statement of Comprehensive Income, Group

Amounts in SEKk	2021	2020
Net result for the year	**−7,123,311**	**−1,305,019**
Items that may be reclassified subsequently to the income statement:		
Exchange differences, foreign operations	213,771	−116,495
Other comprehensive income for the year, net of tax	**213,771**	**−116,495**
Total comprehensive income for the year	**−6,909,540**	**−1,421,514**
Whereof attributable to:		
Shareholders of Klarna Holding AB (publ)	−6,834,172	−1,414,757
Non-controlling interests	−106,564	−38,925
Additional Tier 1 capital holders	31,196	32,168
Total	**−6,909,540**	**−1,421,514**

Balance Sheet, Group

Amounts in SEKk	Note	31 Dec 2021	31 Dec 2020
Assets			
Cash and balances with central banks		15,810,926	5,014,210
Treasury bills chargeable at central banks, etc.	16	9,744,295	5,219,426
Loans to credit institutions	17	5,047,916	2,620,360
Loans to the public	18	62,085,131	41,717,591
Bonds and other interest-bearing securities	19	1,132,964	1,609,770
Other shares and participations		792,259	20,081
Intangible assets	20	6,894,499	2,449,280
Tangible assets	6, 21	1,512,605	1,003,664
Deferred tax assets	14	319,329	661,741
Other assets	22, 23	2,371,105	1,141,161
Prepaid expenses and accrued income	24	749,048	362,662
Total assets		**106,460,077**	**61,819,946**
Liabilities			
Liabilities to credit institutions	25	713,182	2,414,897
Deposits from the public	26	59,671,831	30,834,677
Debt securities issued	27	9,122,819	4,182,723
Deferred tax liabilities	14	246,061	75,998
Other liabilities	6, 23, 28	9,144,348	7,809,170
Accrued expenses and prepaid income	29	2,675,077	1,424,918
Provisions	30	65,546	143,530
Subordinated liabilities	31	301,056	599,120
Total liabilities		**81,939,920**	**47,485,033**
Equity			
Share capital		2,602	2,450
Other capital contributed		32,280,015	14,929,573
Reserves		323,523	109,166
Additional Tier 1 instruments		506,372	506,372
Retained earnings		−1,648,704	−11,226
Net result for the year		−7,016,944	−1,266,487
Total equity attributable to parent		24,446,864	14,269,848
Non-controlling interests		73,293	65,065
Total equity		**24,520,157**	**14,334,913**
Total liabilities and equity		**106,460,077**	**61,819,946**

Statement of Changes in Equity, Group

Amounts in SEKk	Share capital	Other capital contributed	Reserves[2]	Additional Tier 1 instruments	Retained earnings	Net result	Total equity excl. non-controlling interests	Non-controlling interests	Total equity
Balance as at January 1, 2021	2,450	14,929,573	109,166	506,372	−11,226	−1,266,487	14,269,848	65,065	14,334,913
Reclassification	-	-	389	-	64	-	453	8	461
Transfer of previous year's net result	-	-	-	-	−1,266,487	1,266,487	-	-	-
Net result for the year	-	-	-	-	-	*−7,016,944*	*−7,016,944*	*−106,367*	*−7,123,311*
Other comprehensive income, net of tax	-	-	*213,968*	-	-	-	*213,968*	*−197*	*213,771*
Total comprehensive income for the year	-	-	*213,968*	-	-	*−7,016,944*	*−6,802,976*	*−106,564*	*−6,909,540*
New share issue	152	17,375,901	-	-	-	-	17,376,053	-	17,376,053
Transaction costs	-	−70,688	-	-	-	-	−70,688	-	−70,688
Share warrants	-	45,229	-	-	-	-	45,229	-	45,229
Share-based payments	-	-	-	-	−123,709	-	−123,709	-	−123,709
Restricted stock units[3]	-	-	-	-	-	-	-	94,660	94,660
Tax effect on Restricted stock units	-	-	-	-	5,678	-	5,678	9	5,687
Additional Tier 1 instruments[1]	-	-	-	-	−31,172	-	−31,172	−24	−31,196
Changes in non-controlling interests	-	-	-	-	−221,852	-	−221,852	20,139	−201,713
Balance as at December 31, 2021	2,602	32,280,015	323,523	506,372	−1,648,704	−7,016,944	24,446,864	73,293	24,520,157

Amounts in SEKk	Share capital	Other capital contributed	Reserves[2]	Additional Tier 1 instruments	Retained earnings	Net result	Total equity excl. non-controlling interests	Non-controlling interests	Total equity
Balance as at January 1, 2020	2,278	8,838,098	225,268	506,372	887,597	−865,394	9,594,219	60,970	9,655,189
Transfer of previous year's net result	-	-	-	-	−865,394	865,394	-	-	-
Net result for the year	-	-	-	-	-	*−1,266,487*	*−1,266,487*	*−38,532*	*−1,305,019*
Other comprehensive income, net of tax	-	-	*−116,102*	-	-	-	*−116,102*	*−393*	*−116,495*
Total comprehensive income for the year	-	-	*−116,102*	-	-	*−1,266,487*	*−1,382,589*	*−38,925*	*−1,421,514*
New share issue	172	6,135,301	-	-	-	-	6,135,473	-	6,135,473
Transaction costs	-	−83,107	-	-	-	-	−83,107	-	−83,107
Share warrants	-	39,281	-	-	-	-	39,281	-	39,281
Share-based payments	-	-	-	-	54,019	-	54,019	-	54,019
Restricted stock units[3]	-	-	-	-	-	-	-	35,527	35,527
Additional Tier 1 instruments[1]	-	-	-	-	−32,135	-	−32,135	−33	−32,168
Changes in non-controlling interests	-	-	-	-	−55,313	-	−55,313	7,526	−47,787
Balance as at December 31, 2020	2,450	14,929,573	109,166	506,372	−11,226	−1,266,487	14,269,848	65,065	14,334,913

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

[2] The reserves consist of exchange differences from foreign operations.

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

Equity is in its entirety attributable to the shareholders of Klarna Holding AB (publ), non-controlling interests and Additional Tier 1 capital holders.

Cash Flow Statement, Group

Amounts in SEKk	Note	2021	2020
Operating activities			
Operating result		−6,594,566	−1,538,149
Taxes paid		−229,169	−150,858
Adjustments for items in operating activities			
Depreciation, amortization and impairment	6, 12	745,988	418,249
Gain or loss from shares in listed and unlisted companies		20,081	-
Share-based payments		529,278	89,546
Provisions excluding credit losses		4,139	1,527
Provision for credit losses		1,327,275	631,229
Financial items including unrealized exchange rate effects		564,500	−72,624
Changes in the assets and liabilities of operating activities			
Change in loans to the public		−21,049,588	−12,466,089
Change in liabilities to credit institutions		−1,707,469	−2,697,220
Change in deposits from the public		28,810,594	18,562,508
Change in other assets and liabilities		−5,726,873	−1,147,239
Cash flow from operating activities[1]		**−3,305,810**	**1,630,880**
Investing activities			
Investments in intangible assets	20	−643,029	−410,761
Investments in tangible assets	21	−245,196	−63,921
Sales of fixed assets		-	3,723
Investments in business combinations	40	−2,218,083	−142,467
Investments of other shares and participations		−1,320,485	-
Divestments of other shares and participations		-	142,106
Cash flow from investing activities		**−4,426,793**	**−471,320**
Financing activities			
New share issue		15,144,316	5,989,718
Share warrants		45,229	15,601
Debt securities issued	27	4,911,523	−1,458,368
Subordinated liabilities	31	−300,584	-
Change in non-controlling interests		−201,713	−6,700
Payment of principal portion of lease contracts	6	−253,155	−137,368
Cash flow from financing activities		**19,345,616**	**4,402,883**
Cash flow for the year		**11,613,013**	**5,562,443**
Cash and cash equivalents at the beginning of the year		**6,920,380**	**1,624,121**
Cash flow for the year		11,613,013	5,562,443
Exchange rate diff. in cash and cash equivalents		225,870	−266,184
Cash and cash equivalents at the end of the year		**18,759,263**	**6,920,380**
Cash and cash equivalents include the following items			
Cash and balances with central banks		15,810,926	5,014,210
Loans to credit institutions[2]		2,948,337	1,906,170
Cash and cash equivalents		**18,759,263**	**6,920,380**

[1] Cash flow from operating activities includes interest payments received and interest expenses paid, see note 36.

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

Notes with accounting principles.

Note 1 Corporate information

The Parent Company, Klarna Holding AB (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. The Group's business is described in the Report of the Board of Directors.

The consolidated financial statements and the Annual Report for Klarna Holding AB (publ) for the financial year 2021 were approved by the Board of Directors and the Chief Executive Officer (CEO) on March 25, 2022. They will ultimately be adopted by Klarna Holding AB (publ)'s Annual General Meeting on May 6, 2022.

Note 2 Accounting principles

1) Basis for the preparation of the reports

Group

These annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) such as they have been adopted by the EU. In addition to these accounting standards, the Swedish Financial Supervisory Authority regulations (FFFS 2008:25), the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL, 1995:1559) and the recommendation RFR 1 Supplementary Accounting Rules for Groups issued by the Swedish Financial Reporting Board have also been applied.

Parent Company

The Parent Company, Klarna Holding AB (publ), prepares the annual accounts in accordance with the Annual Accounts Act (ÅRL, 1995:1554). The accounting recommendation for legal entities RFR 2 amended by the Swedish Financial Reporting Board has also been applied. The Group's accounting principles are also applicable for the Parent Company unless otherwise described in this note or the notes for the parent.

The preparation of reports in accordance with IFRS requires the use of a number of estimates for accounting purposes. The areas which involve a high degree of assessment or complexity and which are of considerable importance for the annual accounts are presented in section 26.

The financial statements are prepared on the basis that it will continue to operate as a going concern.

2) Changed accounting principles

No significant new standards (IFRS) or interpretations, applicable to Klarna, have come into effect during the period.

New and changed standards and interpretations which have not yet come into effect and which have not been early adopted by the Group:

1) Amendments to IAS 16 Property, Plant and Equipment for proceeds before intended use
2) Amendments to IAS 37 for the Costs of fulfilling a contract related to onerous contracts
3) Amendments to references to the conceptual framework in IFRS standards
4) Amendments to IAS 1 in the classification of liabilities as current or non-current

None of the changes in IFRS or IFRIC interpretations that have not yet come into effect are expected to have significant impact on the Group.

3) Group consolidation principles

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

Subsidiaries

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

The financial statements of subsidiaries are reported in the consolidated financial statements as of the acquisition date and until the time when a controlling interest no longer exists.

Business combinations

In connection with a business combination, the Group's acquisition cost is established through a purchase price allocation. In the analysis, the fair value of the identifiable assets and the assumed liabilities is determined.

The cost of the business combination comprises the fair value of all assets, liabilities and issued equity instruments provided as payment for the net assets in the subsidiary. Any surplus due to the cost of the business combination exceeding the identifiable net assets on the acquisition balance sheet is recognized as goodwill in the Group's balance sheet. Acquisition-related costs are recognized in the income statement when they arise. The subsidiary's financial reports are included in the consolidated accounts starting on the acquisition date.

The purchase price allocation identifies assets and liabilities that are not reported in the acquired company, such as trademarks and customer contracts. Identified intangible assets that have been identified when making the purchase price allocation are amortized over the estimated useful life. Goodwill and strong trademarks are considered to have an indefinite useful life and are therefore tested annually for impairment, or whenever there is any indication of impairment. Consideration that is contingent upon the outcome of future events is valued at fair value and the change in value is recognized in the income statement.

4) Foreign currency translation

Presentation currency and functional currency

The financial statements are prepared in Swedish kronor, which is the presentation currency of the Group. The functional currency is the currency of the primary economic environment in which an entity operates. Different entities within the Group therefore have different functional currencies. The functional currency for Klarna Holding AB (publ) is Swedish kronor.

Transactions and balance sheet items

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

Subsidiaries and branches

Foreign subsidiaries' and branches' assets and liabilities are translated at the closing day rate of exchange and income statement items at the average exchange rate. Translation differences are reported in Other comprehensive income.

5) Interest and commissions

Revenues are recognized in accordance with the effective interest method or when identified performance obligations have been fulfilled. The Group's revenues and expenses are reported after elimination of intragroup transactions. The product offerings from which revenues are recognized do not differ in any significant way between geographical markets.

Interest income and interest expenses

The effective interest rate method is used for recognizing interest income and interest expenses on all financial assets and liabilities measured at amortized cost. When measuring a financial asset or a financial liability to amortized cost, the interest income or expense is allocated over the relevant period. The effective interest rate is the rate that corresponds to the rate used for discounting contractual cash flows to the reported value of the financial asset or liability. The contractual cash flows used in the calculation include all fees that are considered to be integral to the effective interest rate.

Interest income calculated according to the effective interest rate method consists mainly of interest from loans to the public in the form of revolving credits and interest from lending to credit institutions.

Fees related to debt securities issued, deposits from the public, subordinated liabilities and liabilities to credit institutions are recognized as interest expenses.

Commission income and commission expenses

Revenues and expenses for different types of services are reported as commission income or commission expenses. Commission income mainly stems from retailers that have an agreement with Klarna and different types of fees related to end-customer receivables.

Commission income from retailers

Klarna provides retailers with a combined service offering (1) a payment solution while at the same time (2) providing consumers with credit products and catering for credit risk. Since these two types of services are highly interrelated, this service package epitomize one identified and distinct performance obligation. This performance obligation presents a stand-ready obligation which is satisfied over the contract period since the retailer receives the benefit of that service package over that period.

The transaction price of that performance obligation consists of both fixed and variable components. The variable parts are constrained since they are highly dependent on consumer transactions and are therefore not included in the initial transaction price. The transaction price is updated to mirror the dissolving uncertainty occurring in the performance obligation due to the variable components.

The process of completion is measured by evaluating the value to the customer of the provided service transferred to date relative to the remaining services promised under the contract. Since the amount of transactions and usage of the payment solution for the entire contract period is initially unknown, the process of completion is measured by using time elapsed. The revenues are then recognized over time.

Commission income from consumers

Klarna provides consumers with online purchases and the possibility to choose when in time to pay. Commission income from consumers is fixed amounts which arise from handling different types of payment options; this constitutes the transaction price. The respective performance obligation is satisfied at the date when the account statements or paper invoices are sent out. The revenue from the consumer commissions is therefore recognized at that point in time.

Commission and fees for extending credit are considered to be an integral part of the effective interest rate and are therefore recognized in interest income.

6) Net result from financial transactions

The net result from financial transactions comprises realized and unrealized changes in fair value of derivatives, realized and unrealized exchange rate effects as well as impairment and gains and losses from sales of shares.

7) General administrative expenses

General administrative expenses mainly consist of employee expenses, including salaries, pensions, social charges, and other administrative expenses such as office and computer expenses.

8) Credit losses, net

Impairment losses from financial assets classified into the category "measured at amortized cost" (see section "Financial assets and liabilities – classification and recognition" below), in the items Loans to credit institutions and Loans to the public on the balance sheet, are reported as Credit losses, net. Furthermore, credit losses, net, from off-balance sheet exposures related to financial instruments are also reported on this line.

Credit losses, net, for the period consist of realized credit losses, recovered amounts from debt sales and provisions for credit losses for granted credit with a deduction for the reversal of provisions for credit losses made previously. Realized credit losses are losses whose amount is for example determined via bankruptcy, a composition arrangement, a statement by an enforcement authority or the sale of receivables. Provision for credit losses is calculated either as 12 months expected credit loss or lifetime expected credit loss based on the IFRS 9 impairment requirements, see section "Impairment of financial assets" below for more details.

9) Cash and balances with central banks

Cash comprises legal tender and bank notes in foreign currencies. Balances with central banks consist of deposits in accounts with central banks under government authority where the following conditions are fulfilled:

(i) The central bank is domiciled, and

(ii) The balance is readily available at any time

10) Financial assets and liabilities – classification and recognition

Purchases and sales of financial assets and liabilities are recognized on the trade date. Financial instruments are removed from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred together with the risks and rewards associated with ownership.

Financial instruments are initially measured at fair value including transaction costs except for financial assets and liabilities classified as fair value through profit or loss where the transaction costs are recognized in the income statement.

Financial instruments are classified into various categories based on both Klarna's business model to manage its financial assets and the characteristics of the cash flows of the financial assets. Financial instruments are classified into the following categories:

Financial assets and liabilities at amortized cost

Klarna classifies and measures its financial assets at amortized cost if both of the following conditions are met:

(i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Klarna measures loans to the public and loans to credit institutions at amortized cost since they fulfill all requirements.

Klarna measures all financial liabilities at amortized cost except for its derivatives and certain financial instruments.

The amortized costs are determined on the basis of the effective interest that was calculated at the time of acquisition or origination. Financial assets at amortized cost are recognized at discounted contractual cashflow after a deduction for impairments.

Financial assets and liabilities at fair value through profit or loss

This category has two subcategories:

(i) *Mandatory:* This category includes any financial asset that is not measured at amortized cost, thus does not fulfill one or both of the conditions to be met for a financial asset to be measured at amortized cost.

(ii) *Designated*: This category includes any financial asset or liability that is designated on initial recognition as one to be measured at fair value with fair value changes recognized in profit or loss.

Measurement is at fair value and realized and unrealized profits or losses as a result of changes in fair value are included in the income statement in the period in which they arise. The fair value of financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Klarna uses different methods to determine the fair value, see section "Financial assets and liabilities – fair value measurement" below.

Klarna measures its derivatives as well as its investments in equity instruments and certain financial liabilities at fair value through profit or loss. These do not fulfill the conditions for being measured at amortized cost. In case Klarna's derivatives have negative values, these financial liabilities are measured at fair value through profit or loss. Klarna does neither measure any other financial liability at fair value through profit or loss nor designates any financial instrument at fair value through profit or loss.

Financial assets at fair value through other comprehensive income

Klarna does not classify any financial assets at fair value through other comprehensive income since Klarna has no business model whose objective it is to both collect contractual cash flows and to sell financial assets. Klarna does not use the option to designate its equity instruments as measured at fair value through other comprehensive income.

Klarna has not reclassified its financial assets subsequent to their initial recognition during the year. Financial liabilities are never reclassified.

The classification of financial assets and liabilities are monitored by internal reporting.

11) Financial assets and liabilities - fair value measurement

For financial assets and liabilities measured at fair value the Group uses different methods to determine the fair value. The methods are divided into three levels in accordance with IFRS 13.

Level 1

Level 1 in the fair value hierarchy consists of assets and liabilities measured using unadjusted quoted prices in active markets. This category includes certain investments in other shares and participations.

Level 2

Level 2 consists of assets and liabilities that do not have directly quoted market prices available from active markets. The fair values are calculated using valuation techniques based on market prices or rates prevailing at the balance sheet date. This is for example the case for currency forwards within other assets and other liabilities where active markets supply the input to the valuation. The fair value of currency forwards is estimated by applying the forward rate at balance sheet date to calculate the value of future cash flows.

Level 3

Level 3 includes estimated values based on assumptions and assessments. One or more significant inputs are not based on observable market information. Level 3 is used for certain items within other shares and participations and for certain items in debt securities in issue and loans to the public.

12) Impairment of financial assets, financial guarantees and commitments

Klarna is recording allowances for expected credit losses (ECL) for all loans and other financial assets not measured at fair value through profit or loss. Klarna calculates allowances for:

(i) Loans to the public
(ii) Loans to credit institutions
(iii) Financial guarantees and commitments

Treasury bills chargeable at central banks, bonds and other interest-bearing securities have been evaluated for impairment. The expected credit losses have been assessed as immaterial due to the features of the assets. This is also applicable for the majority of the loans to credit institutions which have strong credit ratings and are highly liquid.

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

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

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

Klarna groups its financial assets and off-balance sheet items within the scope of the IFRS 9 impairment requirements into the following:

Stage 1:

Klarna allocates financial assets to stage 1 at initial recognition and until there is a significant increase in credit risk. The allowance is calculated based on 12m expected credit losses. Stage 1 also includes loans where the credit risk has improved and that were reclassified from stage 2 and 3.

Stage 2:

When a loan has shown a significant increase in credit risk since initial recognition, Klarna allocates it to stage 2. The allowance for these loans is calculated based on lifetime expected credit losses. Stage 2 also includes loans that are reclassified from stage 3 because they are no longer considered credit impaired.

Stage 3:

Klarna allocates loans to stage 3 that are considered “credit impaired”. Klarna determines whether a financial asset is credit impaired based on the historical payments received from the consumer. Based on the default definition (see definition below) a financial instrument is considered being “credit impaired” if it is 90 days past due, has entered debt collection or is classified as fraudulent. The allowance for these stage 3 loans is calculated based on lifetime expected credit losses.

POCI:

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are not allocated to the 3-stage impairment model and are recognized at their fair value at initial recognition. At initial recognition, lifetime expected credit losses are considered as part of the gross carrying amount. Lifetime expected credit losses allowance is recognized at origination and subsequent increases and decreases in value are captured through impairment gains and impairment loss subsequently.

Significant increase in credit risk:

Klarna assesses, at the end of each reporting period, whether the credit risk of a financial instrument has increased significantly since initial recognition in order to determine whether 12m ECL or lifetime ECL shall apply. Klarna determines whether there has been a significant increase in risk on its credit products based on the cash received by the consumer. The definition of a significant increase in credit risk is further influenced by other factors that depend on the product type like days past due or whether the consumer has other contracts with Klarna that are already in stage 2 or 3. Days past due is the key determinant of significant increase in credit risk and is assessed by market and product.

If, at the reporting date, it is determined that there is no longer a significant increase in credit risk compared to prior periods, Klarna transfers the respective financial assets back into stage 1 and the allowance is reduced to an ECL calculated on a 12 month basis.

Definition of default:

Financial assets are defaulted when the asset has been 90 days or more past due without any payments, has entered debt collection or is classified as fraudulent.

Measurement of ECL:

The expected credit loss (ECL) for consumer receivables is calculated as a product of the key inputs PD, LGD and the outstanding balance discounted with the effective interest rate (EIR). These parameters are derived from internal statistics and other historical data. For quantitative information on the reported ECL amounts see note 18 Loans to the public.

Probability of Default (PD):

The historical balances as well as the proportion of those balances that default over time are used as a base to determine the PD. This approach is applied over different vintages for different countries and for days since origination. Hence, this methodology provides values for 12 month and lifetime PDs for different countries and days since origination. In cases where the maturity of the financial assets is very short, which is common for Klarna’s products, the 12 months PD and lifetime PD have equal values.

Loss Given Default (LGD):

LGD is the magnitude of the likely loss if there is a default. The loss given default is calculated using the historical balances over different vintages as a base. Furthermore, the LGD component is determined based on days past due. The recovery rate used in the LGD calculation is determined using the amount recovered from debt sales.

Effective Interest Rate (EIR):

The effective interest rate is determined based on the product type. It discounts the estimated future cash payments through the expected life of the financial instrument to net present value. Calculating the effective interest rate, all contractual terms of the financial instrument as well as all corresponding fees are considered. For products that do charge interest or fees that are to be included in the effective interest rate, the EIR is approximated as a yearly interest rate. This product specific EIR is then used to discount the outstanding balance which represents the expected exposure in the event of default.

Macroeconomic model:

The loss rates of consumer receivables are not significantly affected by macroeconomic factors due to the unique design and short maturities of the credit products. Furthermore, the underwriting process is built on point in time assessments of transactions where the current state of the consumer is regularly assessed. A macroeconomic model is used for consumer receivables with longer maturity even though the correlations between Klarna default rates and macroeconomic variables are low.

Financial guarantees and commitments:

For financial guarantees and commitments the measurement of ECL follows mainly the same methodology as for consumer receivables but further includes a credit conversion factor (CCF) in the calculation of the exposure at default (EAD). The CCF in the IFRS 9 model is the proportion of the undrawn credit limit that is utilized leading up to a default event. The CCF is calculated based on historically observed utilization rates.

Write-off of financial assets:

Financial assets that have no expectation of recovering either the entire outstanding amount or a proportion thereof are written off. Hence, the gross carrying amount of the financial asset is reduced and the amount of the loss is recognized in the income statement as Credit losses, net. Financial assets are generally written off when it is determined that the outstanding debt cannot be collected anymore as the borrower does not have assets or sources of income that could be used to repay the amounts subject to write-offs. To determine whether the outstanding debt cannot be collected anymore, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in principal payments. Financial assets that are written off could still be subject to enforcement activities in order to attempt to recover the receivables due. For information on the written-off loans subject to enforcement activities, see note 18 Loans to the public.

When it is considered that there is no realistic prospect of recovery or when the loan or receivable is sold to an external party, the financial asset and the related allowance are removed from the balance sheet.

Modifications:

In case a financial asset faces a substantial contractual modification, the previous asset is derecognized and a new asset is recognized. If the modified financial asset fulfills the definition of "credit impaired", the requirements for purchased or originated credit impaired assets for the recognition of the new asset are applied. If a financial asset faces a non-substantial contractual modification the financial asset is not derecognized and it is assessed if there occurred a significant increase in credit risk since initial recognition.

Simplified approach:

The simplified approach is used when calculating expected credit losses on retailer receivables. Hence, the loss allowance for retailer receivables is always measured at an amount equal to lifetime expected credit losses. The risk that the retailer would default is regularly analyzed, and based on quantitative as well as qualitative factors.

13) Repurchase agreements

Treasury bills and other interest-bearing securities sold under agreements to repurchase at a specified future date are not derecognized from the balance sheet as Klarna retains substantially all of the risks and rewards of ownership. Assets under repurchase agreements are transferred to the counterpart and the counterpart has the right to sell or re-pledge the assets. Such securities are kept on the balance sheet and pledged as collateral when the securities have been transferred and cash consideration has been received. Payment received is recognized under liabilities to credit institutions. The difference between the sale and repurchase price is accrued over the life of the agreement using the effective interest rate.

14) Offsetting financial transactions

Financial assets and liabilities are subject to offset and the net amount reported in the balance sheet when there is a legal right to settle on a net basis and an intention to settle net or realize the asset and settle the liability simultaneously.

Financial assets and liabilities from repurchase agreements are subject to netting agreements but, since transferred asset continues to be recognized, the asset and the associated liability have not been offset.

15) Derivative instruments

Derivative instruments are reported in the balance sheet on their trade date and are measured at fair value, both initially and in subsequent periods. Derivative instruments are classified as other assets or other liabilities. Changes in the fair value of derivative instruments are reported immediately in the income statement in the item Net result from financial transactions.

The Group does not apply hedge accounting.

16) Borrowing

Financial liabilities with regard to borrowing are categorized as liabilities which are initially reported at fair value, net of transaction costs incurred and then at amortized cost and with application of the effective interest method. This category comprises Liabilities to credit institutions, Deposits from the public, Debt securities in issue and Subordinated liabilities.

17) Leasing

At inception of the contract, Klarna assesses whether a contract is, or contains, a lease.

At inception or on reassessment of a contract that contains a lease component, the consideration in the contract is allocated to each lease component on the basis of their relative stand-alone price. However, for the leases of vehicles Klarna has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

A right-of-use asset and a lease liability are recognized at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for initial costs, incentive payments, restoration obligations and lease payments before the commencement date. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement of the lease liability.

The lease liability is initially measured at the present value of the remaining lease payments that are not paid at the commencement date, discounted using entity specific incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest rate method. It is re-measured when there is any change in future lease payments arising, for example, from a change in an index, assessment or estimations on the usage of extension, termination or purchase options or the amount expected to be payable under a residual value guarantee. Subsequently, a corresponding adjustment to the carrying amount of the right-of-use asset is made. Lease payments included in the measurement of the lease liability are fixed payments, variable lease payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase option, if applicable.

Klarna has elected not to recognize right-of-use assets and liabilities for short-term leases and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight line basis over the lease term.

18) Intangible assets

Goodwill

The amount by which a purchase sum, any non-controlling interest or the fair value on the day of acquisition of former shareholdings exceeds the fair value of identifiable acquired net assets is reported as goodwill. Goodwill on acquisitions of subsidiaries is reported as an intangible asset. Goodwill is tested annually to identify any impairment requirement and is recorded at acquisition cost less accumulated impairment. Impairment of goodwill is not reversed. Goodwill is allocated among cash-generating units when testing for any impairment requirement.

Brand names and customer related intangible assets

In business combinations, a portion of the acquisition price can be allocated to brand names and customer related intangible assets. They are reported at acquisition cost less accumulated depreciation and any accumulated impairment. Straight line depreciation is carried out over the assessed useful life (3-20 years).

Capitalized development expenses and licenses

Costs associated with IT systems and software which have been developed in-house or acquired and which are expected to be of considerable value for the business during at least three years are recognized as intangible assets. Costs for maintenance are expensed as incurred. Straight line depreciation is carried out over the assessed useful life (3-5 years).

Impairment

Goodwill and other intangible assets with indefinite useful life are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that impairment may have occurred. Impairment is calculated as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or cash generating unit. Disclosures on performed impairment test are provided in note 20.

Intangible assets with definite useful lives are reviewed for indications of impairment. If indications exist an impairment test is performed.

19) Tangible assets

Tangible assets consist of equipment, fixtures and fittings, and computers. Tangible assets are reported at acquisition cost after a deduction for accumulated depreciation and any accumulated impairment. Acquisition costs comprise expenses that are directly attributable to the acquisition of the asset. Straight line depreciation is carried out over the assessed useful life.

The following useful life periods are applied:

Equipment, tools, and fixtures and fittings	5 years
Computers and other machinery	3 years
Leasehold improvements	The shorter of lease term and useful life

An assessment of an asset's residual value and useful life is made annually. When the residual value is less than the carrying amount an impairment loss is recognized in the income statement.

20) Participations in subsidiaries

Participations in subsidiaries are reported in the Parent Company according to the acquisition method. If it is assessed that the fair value at the end of the reporting period is less than the acquisition cost, the shares are written down. The impairment is reported in the income statement. If it is assessed that the value will increase again, the impairment is reversed via the income statement.

21) Tax

Income taxes consist of current tax and deferred tax. Income taxes are reported directly in the income statement except when the underlying transaction is reported directly against equity or other comprehensive income, in which case also the accompanying tax is reported in equity or other comprehensive income. Deferred tax is reported according to the balance sheet method for all temporary differences between an asset's or a liability's tax base and its carrying amount in the balance sheet. Deferred tax assets are reported for non-utilized tax relief to the extent it is probable that the relief will be able to be set off against future taxable surpluses. Deferred taxes are estimated according to the tax rate that is expected to apply at the time of taxation.

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

22) Share-based payments

Employment stock warrants

For share-based payment to employees settled with equity instruments (warrants), the services rendered are measured with reference to the fair value of the granted equity instruments. The fair value of the equity instruments is calculated as per the grant date. The grant date refers to the date when a contract was entered into and the parties agreed on the terms of the share-based payment. Since the granted equity instruments are not vested until the employees have fulfilled a period of service, it is assumed that the services are rendered during the vesting period. This means that the expense and a corresponding increase in equity are recognized over the entire vesting period. Non-market based vesting terms, such as a requirement that a person remain employed, are taken into account in the assumption of how many equity instruments are expected to be vested. Changes in the estimate of how many shares are expected to be vested due to the non-market based vesting terms are recognized in the income statement and equity. The cost is presented under general administrative expenses in the income statement.

Restricted stock units

Restricted stock units (RSU) vest on a graded vesting scheme over a four year period. The fair value of the equity instruments is calculated as per the grant date. Since the granted equity instruments are not vested until the employees have fulfilled a period of service, it is assumed that the services are rendered during the vesting period. The expense and a corresponding increase in equity are recognized over the vesting period. The cost is presented under general administrative expenses in the income statement.

The employment vesting condition is a non-market based condition and is factored into the assumption of how many equity instruments are expected to vest. Where granted RSUs are forfeited due to a failure by the employee to satisfy the non-market based vesting conditions any change in expenses previously recognized in relation to such share-based payments are reversed effective from the date of the forfeiture.

Non-employee stock warrants

Klarna has granted stock warrants to certain non-employee participants in return for performed services. The fair value of the equity instruments is calculated as per the date when the services are rendered. The timing of the increase in equity is therefore dependent on when the services are performed. Depending on the characteristics of the services received a, the calculated IFRS 2 costs can be presented:

- In General and administrative expenses in the income statement over the vesting period
- As Capitalizable costs (if the capitalization requirements of costs to obtain a contract asset in IFRS 15 are met) and amortized over the useful life of the asset
- As a Revenue reduction under Commission income in the income statement (if considered a discount to a customer)

Any related social security charges relating to share-based payments are recognized as an expense during the corresponding period based on the fair value that serves as the basis for a payment of social security charges.

Further information relating to share-based payment transactions is presented in note 37.

23) Pensions

The Group's pension plans are defined contribution plans, which means that fees are paid to an independent legal entity according to a fixed pension plan. These fees are reported as personnel costs in the period they apply to. After the fees have been paid, the Group has no legal or other obligations.

24) Group contribution

Group contribution is recognized in the Parent Company according to its financial nature. Group contribution received from a subsidiary is reported according to the same principles as dividend received. For parent companies this means that group contribution received is reported as revenue in the income statement. Group contribution paid by a parent company to a subsidiary is to be reported as increased participation in the group company. For subsidiaries that pay or receive group contribution, this is to be reported together with the accompanying tax in equity among retained earnings.

25) Cash flow statement

The cash flow statement is reported using the indirect method. The cash flow statement is divided into payments from operating activities, investing activities and financing activities. Operating activities stem mainly from revenue-producing activities of the entity. Operating cash flows include cash received from customers and cash paid to suppliers and employees. Investing activities are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents. Financing activities are activities that alter the equity capital and borrowing structure of the entity.

26) Critical estimates and judgements for accounting purposes

The Group makes estimates and assumptions about the future based on management's experience and knowledge that affect how accounting principles are applied and what effect that has on the financial statements. The actual outcome may diverge from these estimates and assumptions. The estimates and assumptions that involve a considerable risk of significant adjustments in the carrying amounts for assets, liabilities, equity, revenue and costs during the subsequent financial year are dealt with in broad terms below.

Assessment of and impairment requirements for financial assets, financial guarantees and commitments

For financial assets that are measured at amortized cost or fair value through other comprehensive income as well as for loan commitments and financial guarantees the impairment requirements of IFRS 9 are applied. See section 12 above for impairment of financial assets, financial guarantees and commitments. Key assessments and assumptions used in impairment calculations are subject to regular review.

Impairment requirements for goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful life are tested for impairment annually, in accordance with the accounting principle described in note 20. This is tested by estimating the recoverable value, in other words, the highest of the realizable value and the value in use. If the recoverable value is lower than the carrying amount, the asset is written down.

The Group's intangible assets amount to SEK 6,894,499k (2,449,280k), whereof goodwill amounts to SEK 4,586,152k (1,429,144k) at the end of the year. See note 20 for further information on the measurement of goodwill and significant assumptions used in the annual impairment test.

Assessment of provisions

By the end of 2019, Klarna Holding AB (publ)'s subsidiary Klarna Bank AB (publ) had provisioned SEK 303m, net of payments, as a consequence of differences of opinions between Klarna Bank AB (publ) and the Swedish Tax Agency regarding the historical handling of VAT of Klarna Bank AB (publ). This was largely resolved in 2020, resulting in a release of most of the provision during 2020. In 2021, the final claim was resolved and the remaining provision was released during the year. No outstanding provision is held in this matter. See note 30 for provisions.

Assessment of leases

When Klarna accounts for lease contracts estimates and assumptions have been made concerning, for example, prolongation and termination options, as well as interest rates.

Losses carry-forward

The group assesses on an ongoing basis as well as at the end of the year the possibility of recognizing deferred tax assets related to loss carry-forwards. Deferred tax assets attributable to losses carry-forward are reported only if it is probable that they will be used towards taxable profits in the foreseeable future.

Share-based payments

The fair value of the equity instruments is calculated as per the grant date using the Black-Scholes model. This requires identification of various inputs to the model, including; expected volatility of own share price, risk free interest rate and expected term. The key assumptions used in the model are disclosed in note 37. Non-market vesting conditions are not taken into account when determining the fair value of instruments.

At each balance sheet date, the Group revises its estimates of the number of shares and awards that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the remaining vesting period.

Allocation of purchase price paid for acquired businesses

The allocation of the purchase price paid for acquired businesses to the identified acquired intangible assets is performed using valuation techniques that require management to estimate, for example, useful economic lives, cash flow associated with the assets and asset specific discount rates. The purchase price allocations performed in the current period are disclosed in note 40.

27) Incremental costs of obtaining a contract

Where applicable, the group recognizes incremental costs of obtaining a contract with a customer in accordance with IFRS 15. These costs are capitalized as an asset and amortized over the useful life of that asset. The asset is recognized under Other assets on the balance sheet. Amortization of the cost to obtain a contract asset is recognized under General and administrative expenses in the income statement.

Note 3 Risk management

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.

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.

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 sures 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.

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 CXO 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. Limits are set on metrics and individual risk exposures and levels towards limits are monitored on a monthly basis.

The Group's risk appetite is defined in the Risk policy 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.

Risk descriptions
The Group categorizes the key risks it is exposed to in the table below. This is subsequently further categorized and managed within the organization. These risk categories form the basis of how Klarna identifies, assesses, manages and reports against risk.

	Level 1 risk
Credit risk	The risk of adverse financial outcomes arising from credit events (default, bankruptcy) associated with a counterpart failing on its contractual obligations.
Market risk	The risk of losses in on and off balance sheet positions arising from movements in market prices.
Liquidity risk	The risk of Klarna being unable to meet its financial obligations, as they fall due, or unable to fund its operational needs without incurring unacceptable costs.
Operational risk	The risk of inadequate or failed personnel, governance, products/processes, information and communication technology or third parties leading to direct or indirect financial losses or reputational damage.
Business Risk	The risk of negative impact on earnings due to changing market conditions or inappropriate business or strategic choices. Business risk is related to Klarna's short and long term ability to realize earnings.

The primary risks the Group is exposed to are set out below along with an outline of the Group's management of these risks and an overview of the related risks exposure and measurement.

Credit risk
Credit Default Risk
Definition

Credit default risk is defined as the potential loss that a borrower or counterparty will fail to meet its contractual obligations. The Group is exposed to credit default risk due to exposures towards consumers, payment services providers, merchants, issuers in the Liquidity portfolio or cash deposited in various financial institutions.

Risk Management

The Group manages its credit risk through robust processes, monitoring frameworks and controls covering the full lifecycle of credit. These tools are further described in the Group's Risk Policy, Credit Policy, Finance policy and related instructions and routines.

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

The merchants and payment service providers (PSP) that offer the Group's payment services gives rise to a contingent liability. If a merchant closes down or becomes insolvent, there is a risk that the Group will be unable to offset any subsequent returns from consumers – which the Group guarantees on behalf of the consumers - against payments due from the Group to the retailer or indemnities.

The Group works proactively with tracking, controlling and mitigating merchant and PSP counterparty risks. The Group has a Merchant Credit Risk function that, among other tasks, assesses merchants' creditworthiness before they are onboarded and allocates a risk class to each merchant. Merchant credit risk assessments use external credit bureau data and internal data.

Credit risk in the liquidity portfolio is managed by ensuring the level of securities held is relative 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 and the credit rating of those issuers. These limits are applied by the Group's Treasury function on an ongoing basis in managing the liquidity portfolio and independently overseen by Risk Control.

Risk Measurement and Exposure

The Group is exposed to credit risk through public lending where consumers choose to make purchases using the Group's payment products. For credit exposures to the public, provisions are made to cover for expected credit losses. For additional information on ECL; see Note 2 Accounting principles, Note 17 Loans to credit institutions, and Note 18 Loans to the public.

Credit risk	31 Dec 2021	31 Dec 2020
Loan receivables, gross	71,491,351	46,717,101
Allowance for credit losses	−3,609,256	−2,016,488
Loan receivables, net carrying amount	**67,882,096**	**44,700,613**
of which: Loans to credit institutions	5,047,917	2,620,360
of which: Loans to the public	62,085,131	41,717,591
of which: Prepaid expenses and accrued income	749,048	362,662

The Group uses an internal model for potential merchant loss (PML) to estimate the risk exposure against merchants, should they become insolvent or are otherwise unable to meet ongoing obligations. Based on the model, the Group provisions for the contingent liabilities associated with merchant exposures based on the expected loss.

The credit risk of securities held in the liquidity portfolio is mitigated by only investing in high quality liquid assets, mainly government bonds or other securities with high credit rating and liquidity.

Credit quality of debt securities	31 Dec 2021	31 Dec 2020
Treasury bills chargeable at central banks, etc., and bonds and other interest-bearing securities		
AAA	8,609,772	5,206,949
AA+	1,781,003	1,622,247
AA	92,486	-
AA-	393,998	-
Total	**10,877,259**	**6,829,196**

Credit Concentration Risk

Definition

Credit concentration risk is the risk of losses stemming from concentrated credit exposures towards single large entities, economic sectors or geographical markets. This risk arises from exposures toward consumers, merchants, banks or other third parties.

Risk Management

The Group limits and continuously monitors the concentration of non-performing loans and large single exposures in our consumer credit portfolio. This, together with the dispersion of millions of customers across multiple countries and continents and low average order value, ensures that the consumer portfolio is diversified. Exposures and losses stemming from merchants, PSPs and banks are managed by limiting single exposures based on the risk class of the counterparty as well as the aggregated exposure and concentration to different segments.

Risk Measurement and Exposure

The following tables show the Group's and Klarna Bank AB (publ)'s credit risk exposure across key geographical regions, measured at amortized cost.

31 Dec 2021						
Gross amounts	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Per region						
Sweden	10,945,979	636,430	159,953	-	94,182	11,836,544
DACH[1]	21,914,761	921,318	689,055	292	309,660	23,835,086
Other	31,286,319	3,067,876	815,223	1,077	649,226	35,819,721
Total	**64,147,059**	**4,625,624**	**1,664,231**	**1,369**	**1,053,068**	**71,491,351**
Before due and per days past due						
Before due	59,064,110	1,344,284	28,069	27	837,832	61,274,322
≤30 days	5,082,949	1,216,980	13,954	62	32,926	6,346,871
>30-60 days	-	1,376,394	28,138	12	18,122	1,422,666
>60-90 days	-	637,471	33,518	-	21,405	692,394
>90 days	-	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**

31 Dec 2020						
Gross amounts	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Per region						
Sweden	9,181,621	348,768	212,806	-	173,985	9,917,180
DACH[1]	15,070,350	588,075	453,221	5,480	333,857	16,450,983
Other	19,150,039	538,309	315,009	1,148	344,433	20,348,938
Total	**43,402,010**	**1,475,152**	**981,036**	**6,628**	**852,275**	**46,717,101**
Before due and per days past due						
Before due	38,820,003	259,087	54,603	-	681,010	39,814,703
≤30 days	4,582,007	141,565	155,931	1	29,921	4,909,425
>30-60 days	-	669,722	41,850	11	32,586	744,169
>60-90 days	-	311,282	30,676	34	12,105	354,097
>90 days	-	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**

[1] Germany, Austria, and Switzerland

For additional information on allowances on Loans to the public, see note 18.

Counterparty Credit Risk (CCR)
Definition

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. A loss would be incurred if the transactions with the counterparty have a positive value for the Group at the time of default. This risk is mainly attributable to derivatives transactions entered into when hedging risk exposures.

Risk Management

Effective collateral management reduces the exposure towards counterparties, governed by credit support annexes. The Group only enters into transactions with counterparties that are regarded as having sufficiently high credit quality. The Group's Treasury function manages the risk with independent oversight by Risk Control.

Risk Measurement and Exposure

Exposures per counterparty are monitored daily and daily collateral management activities facilitate efficient exchange of margins between the Group and its counterparties.

Market Risk
Currency Risk
Definition

Currency risk is defined as the risk of losses in on and off balance sheet risk positions arising from movements in foreign exchange rates.

Risk Management

The Group has both funding and lending activities in foreign currencies and currency risk is managed by matching the funding currency with the foreign asset currency or by entering into foreign exchange contracts. Klarna monitors exposures arising from certain revenue and operational transactions in foreign currencies and when exposures from such transactions are material, mitigating actions are taken on a case-by-case basis.

Internal policies limit the exposure amounts in foreign currencies. Exposures are managed on a daily basis through the foreign exchange market.

Risk Measurement and Exposure
Below contains the daily average foreign currency exposure for key currencies to our operations.

Currency exposure[1]

31 Dec 2021	EUR	USD	GBP	Other	Total exposure
Net average daily 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
Net average daily 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**

[1] The amounts are presented in SEKk.

Interest rate risk in the Banking Book (IRRBB)
Definition

IRRBB is defined as the risk to both the earnings and the economic value of the Group arising from adverse movements in interest rates.

Risk Management

The Group is exposed to interest rate risk via mismatch of repricing terms in assets and liabilities. This risk is measured in terms of economic value and earnings risk. The Group has a limited appetite for interest rate risk in the banking book and the risk is managed by matching funding and asset interest rate duration. The risk is monitored on a continuous basis and residual risk is mitigated by adapting the interest rate duration of the liquidity portfolio and using interest rate swaps.

Risk Measurement and Exposure

Interest rate risk is measured as the change in economic value or earnings from assuming an adverse movement in market interest rates. The measure economic value accounts for changes to discounted values of future cash flows. In accordance to regulatory guidelines, the Group applies different stress tests to account for both parallel shifts and a rotation of the yield curve. The tables below summarize the worst possible outcome based on these stress tests.

Interest rate risk exposure[1]

31 Dec 2021	SEK	EUR	USD	GBP	Other	Total Exposure
Change in Economic Value	83,102	−156,117	−161	653	−4,916	**−77,439**

31 Dec 2020	SEK	EUR	USD	GBP	Other	Total Exposure
Change in Economic Value	34,736	−65,271	−4,392	252	1,203	**−33,472**

[1] The amounts are presented in SEKk.

Credit spread risk in the Banking Book (CSRBB)

Definition

CSRBB is the risk caused by changes in the market perception about the price of credit risk, liquidity premium and potentially other components of credit instruments inducing fluctuations in the price of credit risk, liquidity premium and other potential components, which is not explained by IRRBB or by expected credit default risk.

Risk Management

The source of this risk are investments in the liquidity portfolio where the investment framework only allows investments of well-known issuers with high credit quality and liquidity. In addition, the risk is managed by diversifying between regions, issuers, issuer types and currencies in the liquidity portfolio.

Risk Measurement and Exposure

The Group's exposure towards CSRBB is calculated using a Value at Risk model and is included in the Group's total IRRBB.

Liquidity Risk

Definition

Liquidity Risk refers to the risk of the Group being unable to meet its financial obligations, as they fall due, or unable to fund its operational needs without incurring unacceptable costs.

Risk Management

The Group is primarily exposed to liquidity risk due to the potential for unexpected increased demand for credits. There is a risk that the Group does not have a sufficient capacity to acquire additional funding at a reasonable cost, or does not have sufficient levels of liquid assets to convert to cash during such times. The Group's appetite is to keep sufficient levels of liquidity at hand at all times, ensuring that sufficient funds are available to support the business and that regulatory requirements are adhered to.

The Group actively manages its liquidity risk exposure and sources of liquidity on a daily basis to ensure that the Group always has the ability to fulfill its commitments as they fall due and meet regulatory requirements. The Group only invests in high quality financial instruments for liquidity management purposes.

Risk Measurement and Exposure

The Group has a regulatory requirement to maintain sufficient reserves of liquid assets to support a share (100% as of December 31, 2021) of estimated stressed net cash outflows over 30 days. The Group monitors and forecasts its Liquidity Coverage Ratio (LCR) on a daily basis to ensure that its portfolio of high quality liquid assets is sufficient to meet the requirements.

The Group also adheres to the Net Stable Funding Ratio (NSFR) requirement of 100%. The level of available stable funding shall exceed the amount of required stable funding. The Group monitors and forecasts the need for funding on a daily basis to ensure that the Group's business plan can be supported with sufficient funding.

Funding sources

31 Dec 2021	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Financial liabilities						
Liabilities to credit institutions	33,882	679,300	-	-	-	**713,182**
Deposits from the public	29,013,552	2,366,584	9,553,630	18,738,065	-	**59,671,831**
Debt securities issued[1]	2,962,597	622,903	2,009,683	3,527,636	-	**9,122,819**
Other liabilities[2]	7,424,296	226,159	419,497	637,350	183,316	**8,890,618**
Accrued expenses and prepaid income	2,190,522	41,505	185,934	202,844	246	**2,621,051**
Subordinated liabilities[1]	-	-	-	-	301,056	**301,056**
Total	**41,624,849**	**3,936,451**	**12,168,744**	**23,105,895**	**484,618**	**81,320,557**

31 Dec 2020	up to 3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Financial liabilities						
Liabilities to credit institutions	2,087,480	327,417	-	-	-	**2,414,897**
Deposits from the public	13,582,805	5,072,506	4,936,123	7,243,243	-	**30,834,677**
Debt securities issued[1]	549,746	1,847,367	198,856	1,586,754	-	**4,182,723**
Other liabilities[2]	6,704,102	107,190	96,257	481,984	133,623	**7,523,156**
Accrued expenses and prepaid income	1,046,142	77,594	167,030	70,409	49	**1,361,224**
Subordinated liabilities[1]	-	-	-	-	599,120	**599,120**
Total	**23,970,275**	**7,432,074**	**5,398,266**	**9,382,390**	**732,792**	**46,915,797**

[1] Interest is included in the amounts for Debt securities issued and Subordinated liabilities.

[2] Lease liabilities are included in the amounts for Other liabilities. For lease maturity information, see note 6, Leases.

Operational Risk
Definition
Operational risk is defined as the risk of inadequate or failed personnel, governance, products/ processes, information and communication technology or third parties leading to direct or indirect financial losses or reputational damage.

Risk Management
Operational risks are identified, assessed and managed through the mapping of all business critical products/services including their sub-processes, the identification of the main risks and implementing mitigation actions or adequate controls and the subsequent ongoing testing of the controls. Supporting this core approach the Group also manages operational risks through incident management, business continuity/crisis management, model risk management and proactive risk review for all major changes (New Product/Service Approval Process).

Risk Measurement and Exposure
Each risk is assessed by impact and the likelihood that together gives the risk level. Impact is evaluated through different aspects; financial, operational, regulatory, reputational and strategic. The risk exposure is monitored and reported on a regular basis, but at least quarterly, where all risks that are outside the risk appetite are escalated to either the management or to the Board depending on the risk exposure.

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

Risk Management
The Group's business strategy is delivered through the implementation of business plans. As a part of the business planning cycle, we assess the up-side and down-side risks of the plan, including assessing the impact of competitor and market conditions, in order to test the plans achievability in different circumstances.

Risk Measurement and Exposure
Our business plans utilize budgets and forecasts. Business plans are reviewed monthly by the executive team, including updates on key financial and business metrics.

Note 4 Interest income

	2021	2020
Loans to credit institutions	1,160	3,689
Loans to the public	3,975,936	3,178,668
Other interest income	63,186	82,390
Total	**4,040,282**	**3,264,747**

Interest income is calculated using the effective interest rate method.

Note 5 Interest expenses

	2021	2020
Interest-bearing securities and chargeable treasury bills etc.	−115,911	−94,142
Liabilities to credit institutions	−69,510	−46,906
Deposits from the public	−383,807	−263,496
Debt securities issued	−59,559	−58,072
Subordinated liabilities	−19,179	−25,761
Other interest expenses	−18,175	−16,838
Total	**−666,141**	**−505,215**

Interest expense is calculated using the effective interest rate method.

Note 6 Leases

	2021	2020
Depreciation of right-of-use assets	−260,311	−146,976
of which: buildings	−257,046	−143,289
of which: cars	−1,948	−2,782
of which: other	−1,317	−905
Interest expense for lease liabilities	−21,508	−12,881
Total right-of-use lease cost	**−281,819**	**−159,857**
Expenses relating to short-term leases	−72,335	−43,443
Expenses relating to low-value assets	−3,725	−2,847
Total short-term and low value leases	**−76,060**	**−46,290**
Right-of-use assets and lease liabilities		
Carrying amount for right-of-use assets	1,097,858	772,486
of which: buildings	1,091,951	767,463
of which: cars	2,913	4,165
of which: other	2,994	858
Additions to right-of-use assets during the year	355,644	253,417
Disposals during the year	−31,828	−2,023
Revaluations during the year	248,300	33,980
Currency translation difference during the year	13,567	−21,262
Lease liabilities	1,084,282	763,141

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

2021						
Maturity	**up to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**>1-5 years**	**>5 years**	**Total**
Lease liabilities	64,724	62,047	157,627	616,568	183,316	**1,084,282**

2020						
Maturity	**up to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**>1-5 years**	**>5 years**	**Total**
Lease liabilities	42,672	42,618	88,401	455,828	133,622	**763,141**

Note 7 Commission income

Commission income split by product category	2021	2020
Retailer	9,006,732	5,577,140
Consumer	2,185,767	1,817,541
Other	61,426	277,892
Total	**11,253,925**	**7,672,573**

The opening balance of receivables connected to commission income amounted to SEK 1,257m (688m) as of January 1, 2021, and the closing balance as of December 31, 2021, amounts to SEK 1,970m (SEK 1,257m) for the Group. These receivables are included in Loans to the public, see note 18.

Commission income arises from financial instruments and is measured at amortized cost.

Note 8 Commission expenses

	2021	2020
Commission to partners	–709,768	–574,101
Total	**–709,768**	**–574,101**

Commission expenses arise from financial instruments and are measured at amortized cost.

Note 9 Net result from financial transactions

	2021	2020
Realized/unrealized fluctuations in exchange rates	–20,720	57,964
Gains from financial instruments	14,507	12,373
Losses from financial instruments	–110,051	–122,629
Realized and unrealized gains/losses on shares held in listed and unlisted companies	–553,478	142,106
Total	**–669,742**	**89,814**

As of December 31, 2021, Klarna Bank AB (publ) had entered into currency forward contracts and interest rate swaps with the gross nominal amount of SEK 52,520,440k (22,482,363k).

Note 10 Employees and personnel costs

	2021	2020
Average number of full-time equivalents	4,789	3,238
Number of men	*2,819*	*2,035*
Number of women	*1,970*	*1,203*
In Sweden	2,616	1,950
Number of men	*1,510*	*1,186*
Number of women	*1,106*	*764*
In the United Kingdom	241	123
Number of men	*144*	*80*
Number of women	*97*	*43*
In Germany	1,073	780
Number of men	*733*	*561*
Number of women	*340*	*219*
In Norway	21	15
Number of men	*10*	*9*
Number of women	*11*	*6*
In the Netherlands	62	40
Number of men	*34*	*25*
Number of women	*28*	*15*
In Finland	21	16
Number of men	*10*	*8*
Number of women	*11*	*8*
In Austria	10	9
Number of men	*4*	*4*
Number of women	*6*	*5*
In the United States	453	241
Number of men	*200*	*119*
Number of women	*253*	*122*
In Australia	73	25
Number of men	*36*	*15*
Number of women	*37*	*10*
In Italy	95	26
Number of men	*69*	*21*
Number of women	*26*	*5*
In Spain	62	7
Number of men	*28*	*4*
Number of women	*34*	*3*
In Belgium	10	6
Number of men	*5*	*3*
Number of women	*5*	*3*

In Canada	15	-
Number of men	*10*	-
Number of women	*5*	-
In Denmark	4	-
Number of men	*2*	-
Number of women	*2*	-
In France	11	-
Number of men	*7*	-
Number of women	*4*	-
In Ireland	2	-
Number of men	*2*	-
Number of women	-	-
In Japan	2	-
Number of men	*2*	-
Number of women	-	-
In New Zealand	3	-
Number of men	*2*	-
Number of women	*1*	-
In Poland	12	-
Number of men	*9*	-
Number of women	*3*	-
In Switzerland	3	-
Number of men	*2*	-
Number of women	*1*	-

Salaries, other remuneration, social security and pension expenses	2021	2020
Salaries and other remuneration amounted to:		
Board and CEO	−21,770	−11,195
Other employees	−2,838,614	−1,995,518
Total salaries and other remuneration	**−2,860,384**	**−2,006,713**
Statutory and contractual social security expenses	−1,107,214	−720,041
of which: pension expenses	−226,963	−172,220
Total salaries, other remuneration, social security and pension expenses	**−3,967,598**	**−2,726,754**

	31 Dec 2021		31 Dec 2020	
Board members and senior management	**Number at closing day**	**Percentage of men**	**Number at closing day**	**Percentage of men**
Group CEO and other members of senior management	9	78%	7	86%

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

2021 Salaries and other remuneration to the board and senior management	Basic salary/fee	Variable remuneration[3]	Other benefits	Pension expenses	Total
Michael Moritz, Chairman of the Board	-	-	-	-	-
Roger Ferguson[1]	−1,070	−1,904	-	-	**−2,974**
Lise Kaae	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Omid Kordestani	−984	−3,352	-	-	**−4,336**
Sarah Smith	−1,070	−3,623	-	-	**−4,693**
Andrew Young[1]	-	-	-	-	-
Sebastian Siemiatkowski, CEO	−8,880	−52	−8	−827	**−9,767**
Knut Frängsmyr, Deputy CEO	−7,200	−42	−8	−970	**−8,220**
Other members of senior management (7)[2]	−79,355	−19,042	−64	−4,580	**−103,041**
Total	**−98,559**	**−28,015**	**−80**	**−6,377**	**−133,031**

[1] On May 20, 2021, the company appointed Roger Ferguson to the Board. Andrew Young resigned from the Board.

[2] The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

[3] Variable remuneration includes cash-based variable remuneration and IFRS 2 expensed amounts for equity based programs.

2020 Salaries and other remuneration to the board and senior management	Basic salary/fee (restated)	Variable remuneration (restated)[4]	Other benefits	Pension expenses	Total (restated)
Michael Moritz, Chairman of the Board	-	-	-	-	-
Lise Kaae	-	-	-	-	-
Jonathan Kamaluddin[1]	–875	-	-	-	**–875**
Mikael Walther	-	-	-	-	-
Omid Kordestani	-	-	-	-	-
Sarah Smith	-	-	-	-	-
Sarah McPhee[1]	–500	-	-	-	**–500**
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO	–8,880	–83	–30	–827	**–9,820**
Knut Frängsmyr, Deputy CEO	–6,351	–699	–3	–874	**–7,927**
Other members of senior management[2] (5)[3]	–63,168	–1,629	–87	–3,528	**–68,412**
Total	**–79,774**	**–2,411**	**–120**	**–5,229**	**–87,534**

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

[2] Remuneration calculated for 2020 using the same principles as 2021

[3] The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

[4] Variable remuneration includes cash-based variable remuneration and IFRS 2 expensed amounts for equity based programs. The 2020 figures related to the RSU program have been restated to IFRS 2 cost instead of vested value.

Remuneration

The rules on remuneration are found in the Swedish Banking and Financing Act (2004:297) and the Swedish Financial Supervisory Authority's regulations (FFFS 2011:1 and FFFS 2020:30) regarding remuneration systems in credit institutions, securities companies and fund management companies licensed to conduct discretionary portfolio management (below "the remuneration rules").

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

The information below follows the provisions of the disclosure rules.

Remuneration program

The group has a remuneration structure that recognizes the importance of well-balanced but differentiated remuneration structures, based on business and local market needs, as well as the importance of being consistent with and promoting sound and efficient risk management not encouraging excessive risk-taking and short-term profits or counteracting the Group's long term interests.

The aim with the remuneration structure is to both support the ability to attract and retain talents in every position as well as support equal and fair treatment, but also to ensure that remuneration in the Group is aligned with efficient risk management and compliant with existing regulations.

Remuneration Committee

The Board of Directors has established a Remuneration Committee consisting of three members appointed by the Board. The Remuneration Committee is responsible for preparing and presenting proposals to the Board on salaries and remuneration issues. This duty includes proposals regarding the Remuneration Policy and on remuneration to members of the Group management team and employees who head any of the control functions. The Remuneration Committee shall also prepare proposals for the Annual General Meeting regarding the remuneration of the members of the Board and the auditors. Furthermore, the Remuneration Committee shall make a competent and independent evaluation of the Remuneration Policy and the Group’s remuneration system, together with the suitable control function(s) if necessary.

The Remuneration Committee held two formal meetings in 2021. It handled matters within its responsibility on an ongoing basis through correspondence between the committee members with the formal decisions not covered by its delegation authority being reported to and documented by the Board at the closest following Board meeting.

Remuneration Policy and risk analysis

The Board has adopted a Remuneration Policy that is designed to be compatible with and promote sound and effective risk management, avoid exaggerated risk-taking and be in line with the Group’s long-term interests. The Remuneration Policy shall be revised when it is necessary, at least annually.

The Remuneration Policy, remuneration system and list of those staff members whose professional activities have a material impact on the Group’s risk profile (Identified staff) are assessed annually. The assessment includes an analysis of all key risks the Group is or might be exposed to, including the risks associated with its Remuneration Policy and remuneration structure. In general, the Group’s remuneration system involves low risk compared with large banks and other credit institutions with comprehensive trading and other businesses covered by the remuneration rules. The risk cycle in the Group’s credit business is assessed to be short, which means that any risks materialize within a few months.

Remuneration structure

The Group applies the following general principles on remuneration:

(i) remuneration shall be set on an individual basis, based on experience, competence and performance

(ii) remuneration shall not be discriminating

(iii) remuneration shall be competitive, but not counterproductive to the Group's long term interests and capability to generate positive results throughout a full economic cycle.

The remuneration structure within the Group comprises fixed remuneration and variable remuneration. As stipulated in the remuneration rules, the Group ensures that the fixed and variable components are appropriately balanced by ensuring that the fixed remuneration represents a sufficiently large proportion of the employee's total remuneration allowing the Group the possibility to pay no variable remuneration. This means that the Group can decide that the variable remuneration, including deferred payment, can be canceled in part or in whole under certain circumstances, as described below.

Variable remuneration shall amount to a maximum 100% of an employee’s total fixed remuneration for Identified staff and 200% of an employee’s total fixed remuneration for other employees, unless otherwise decided by the Board of Directors in exceptional cases.

Variable remuneration should not only take into consideration the employee’s and his/her team’s result but preferably also the Group’s total result as well as qualitative criteria such as the employee’s compliance with internal rules. It should be based on results that are adjusted for current and future risks. The Group shall ensure that it is entitled to unilaterally decrease or withdraw all or parts of the variable remuneration if the criteria are not met or if the Group’s financial situation deteriorates substantially.

If an Identified staff member receives variable remuneration exceeding the amount stipulated in the remuneration rules such remuneration would be subject to deferral and retention.

Remuneration to Group management team and Identified staff

Total amount entered as an expense for remuneration to the Group management team of 9 persons[1] (7) amounts to SEK 121,027k (86,159k) and for Identified staff, 91 persons[1] (50), this sum amounts to SEK 177,027k (96,717k), which aggregates to SEK 298,055k (182,877k). Variable remuneration accounts for SEK 19,135k (2,411k) of the Group management team figure paid to 9 (7) of its members and SEK 47,040k (6,344k) of the Identified staff figure, paid to 83 (39) beneficiaries.

Total amount entered as an expense for remuneration to other employees is SEK 2,838,294k (1,995,518k).

[1] The number refers to individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

The tables below present variable remuneration paid and awarded:

2021	Value of variable remuneration			Number of beneficiaries		
Type of variable remuneration	Group management team	Identified staff	Total	Group management team	Identified staff	Total
Paid as one off cash payments (relating to referral bonuses / gratuities / sales commission)	−363	−2,865	**−3,228**	2	18	**20**
Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits	−21,323	−52,373	**−73,696**	9	88	**97**
Outstanding deferred remuneration[1]	−1,116	−1,067	**−2,183**	2	2	**4**
New sign-on bonus paid	−3,906	-	**−3,906**	1	-	**1**
Severance payments paid	-	−6,811	**−6,811**	-	2	**2**
Total	**−26,708**	**−63,116**	**−89,824**	**9**	**89**	**98**

[1] There has been no risk adjustment reduction made to deferred remuneration awards during 2021.

Six employees have been remunerated more than EUR 1m (two between EUR 1m and EUR 1,5m, three between EUR 2m and EUR 2,5m, one between EUR 4,5m and 5m).

2020	Value of variable remuneration			Number of beneficiaries		
Type of variable remuneration	Group management team (restated)[3]	Identified staff (restated)[3]	Total (restated)[3]	Group management team	Identified staff	Total
Paid as one off cash payments (relating to referral bonuses / gratuities / sales commission)	−1,730	−3,127	**−4,857**	3	10	**13**
Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits	−6,029	−16,515	**−22,544**	7	47	**54**
Outstanding deferred remuneration[1]	−1,795	−1,693	**−3,488**	3	6	**9**
New sign-on bonus paid	-	-	-	-	-	-
Severance payments paid[2]	-	-	-	-	-	-
Total	**−9,554**	**−21,335**	**−30,889**	**7**	**47**	**54**

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

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

[3] Following have been restated for the 2020 figures: deferred remuneration have been added and IFRS 2 cost related to the RSU program has been added.

One employee has been remunerated more than EUR 1m.

Note 11 Fees and reimbursement of expenses for auditors

	2021	2020
EY		
Audit engagement	−16,553	−8,955
Audit related services	−1,049	−1,047
Tax consultancy	-	−23
Total	**−17,602**	**−10,025**
Thomas Alexander & Co Limited		
Audit engagement	−377	-
Total	**−377**	**-**
Finnhammars Revisionsbyrå AB		
Audit engagement	−45	-
Total	**−45**	**-**
P.G. Economides & Co Ltd		
Audit engagement	−13	−51
Total	**−13**	**−51**

Note 12 Depreciation, amortization and impairment of intangible and tangible assets

	2021	2020
Amortization and depreciation		
Intangible assets	−414,456	−194,294
Tangible assets[1]	−331,529	−206,592
Total	**−745,985**	**−400,886**
Impairment		
Intangible assets	-	−17,363
Tangible assets	−3	-
Total	**−3**	**−17,363**
Total depreciation, amortization and impairment of intangible and tangible assets	**−745,988**	**−418,249**

[1] Depreciation of leased assets is included in Tangible assets. See note 6, Leases, for additional information.

Note 13 Credit losses, net

Loan losses divided by class	2021	2020
Loans to credit institutions		
Increase in provisions	−2,192	−2,180
Reversal of previous provisions	2,914	1,432
Total	**722**	**−748**
Loans to the public		
Realized loan losses, net of recoveries	−3,319,508	−1,918,931
Release in provisions to cover realized loan losses	2,695,521	1,510,473
Increase in provisions	−12,224,947	−6,282,384
Reversal of previous provisions	8,169,160	4,200,342
Total	**−4,679,774**	**−2,490,500**
Financial guarantees and commitments		
Increase in provisions	−36,873	−106,906
Reversal of previous provisions	69,142	67,340
Total	**32,269**	**−39,566**
Total credit losses, net	**−4,646,783**	**−2,530,814**

Note 14 Taxes

Income tax expense	2021	2020
Current tax		
Tax expense for the year	–211,773	–95,505
Adjustment of tax attributable to previous years	17,046	–552
Total	**–194,727**	**–96,057**
Deferred tax		
Deferred tax	–334,018	329,187
Total	**–334,018**	**329,187**
Reported tax expense	**–528,745**	**233,130**

Effective tax rate	2021	2020
Income before tax	**–6,594,566**	**–1,538,149**
Income tax calculated in accordance with national tax rates applicable in each country	1,418,575	356,882
Non-taxable revenues	32,347	3,214
Non-deductible expenses	–111,749	–69,682
Taxable income not booked in profit or loss	–13,847	–36,423
Deductible expenses not booked in profit or loss	100,836	20,099
Unrecognized taxable losses	–1,906,556	–34,956
Effect of change in tax rate	4,845	–8,943
Losses carried forward used this year	-	2,600
Adjustments of tax attributable to previous years	–53,196	339
Reported tax expense	**–528,745**	**233,130**
Effective tax rate	**–8.0%**	**15.2%**

Deferred tax assets	2021	2020
Losses carried forward	8,581	556,130
Allowance for credit losses	212,361	70,914
Other	89,887	34,697
Recognized in profit and loss	**310,829**	**661,741**
Share-based payments	8,500	-
Recognized in other comprehensive income and shareholders' equity	**8,500**	**-**
Total	**319,329**	**661,741**

Deferred tax liabilities	2021	2020
Intangible assets	181,198	75,879
Other	64,863	119
Total	**246,061**	**75,998**

The Swedish corporate tax rate decreased from 21.4% to 20.6% on January 1, 2021. The deferred tax assets and liabilities for Swedish companies have been adjusted accordingly.

Deferred tax assets attributable to carryforward of unused tax losses are recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized. The group recognized deferred tax assets of SEK 661,741k at 31 December 2020, of which SEK 556,130k related to carryforward losses.

As the Group has evolved its growth strategy through the year and noting the Group's recent history of operating losses we have concluded that the criteria to recognize deferred tax assets in relation to the majority of the Group's carryforward losses is no longer met. As such, in accordance with IAS 12, deferred tax assets relating to losses incurred during the year have not been recognized and the majority of the previously recognized deferred tax assets have been derecognized.

In addition to the above; reported tax expense, related to items recorded in the income statement, Klarna Bank AB (publ) has utilized tax losses amounting to SEK 470m (with a calculated tax effect of SEK 97m). The taxable income relates to warrants, whose tax effect usually is reported within equity. Due to Klarna Bank AB (publ)'s tax losses having not been recognized as deferred tax assets, the utilization of the tax losses leads to no tax expense being reported in equity in respect of the warrants.

Note 15 Net result from categories of financial instruments

	2021	2020
Financial instruments mandatory measured at fair value through profit or loss	−586,890	−38,015
Financial assets measured at amortized cost	10,563,550	8,373,221
Financial liabilities measured at amortized cost	−1,330,116	−1,002,257
Currency exchange gains/losses	466,612	126,539
Total	**9,113,156**	**7,459,488**

Note 16 Treasury bills chargeable at central banks, etc.

	31 Dec 2021	31 Dec 2020
State and sovereigns	992,852	2,954,366
Municipalities and other public bodies	8,751,443	2,265,060
Total	**9,744,295**	**5,219,426**
By currency		
- in SEK	5,355,191	5,219,426
- in EUR	800,766	-
- in USD	3,588,338	-
Total	**9,744,295**	**5,219,426**

Note 17 Loans to credit institutions

	31 Dec 2021	31 Dec 2020
Loans to credit institutions	5,047,916	2,620,360
By currency		
- in SEK	531,372	532,106
- in EUR	1,725,525	1,142,175
- in USD	2,141,843	281,553
- in AUD	355,460	279,836
- in GBP	96,155	59,379
- in other currencies	197,561	325,311
Total	**5,047,916**	**2,620,360**

All loans to credit institutions are payable on demand. For the fair value amounts, see note 33.

Note 18 Loans to the Public

	31 Dec 2021	31 Dec 2020
Loans to the public	65,694,264	43,733,235
Allowance for credit losses	−3,609,133	−2,015,644
Total loans to the public	**62,085,131**	**41,717,591**

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Gross carrying amount as at January 1, 2021[1]	**40,418,143**	**1,475,152**	**981,036**	**6,628**	**852,276**	**43,733,235**
New assets originated or purchased	1,373,839,720	611,783	508,003	452	6,601,981	**1,381,561,939**
Assets derecognized or repaid (excl. write-offs)	−1,339,076,106	−8,103,684	−2,215,899	−1,498	−6,394,450	**−1,355,791,637**
Transfers to stage 1	3,351,506	−2,858,362	−493,144	-	-	-
Transfers to stage 2	−18,022,293	18,177,201	−154,908	-	-	-
Transfers to stage 3	−1,922,609	−4,441,740	6,364,349	-	-	-
Amounts written off	−183,776	−417,913	−3,437,329	−4,041	−17,833	**−4,060,892**
Other adjustments	−54,601	183,177	112,120	−171	11,094	**251,619**
Gross carrying amount as at December 31, 2021	**58,349,984**	**4,625,614**	**1,664,228**	**1,370**	**1,053,068**	**65,694,264**

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Allowance as at January 1, 2021[1]	**−1,043,262**	**−299,403**	**−570,891**	**−2,456**	**−99,632**	**−2,015,644**
New assets originated or purchased	−5,313,772	−213,627	−466,604	−93	−314,273	**−6,308,369**
Assets derecognized or repaid (excl. write-offs)	5,444,846	1,219,471	876,766	546	231,305	**7,772,934**
Transfers to stage 1	−465,697	312,244	153,453	-	-	-
Transfers to stage 2	880,005	−962,932	82,927	-	-	-
Transfers to stage 3	27,552	2,214,372	−2,241,924	-	-	-
Impact on year end ECL from change in credit risk	−1,404,600	−3,496,196	−1,259,299	−689	-	**−6,160,784**
Changes to models and inputs used for ECL calculations	246,258	143,569	6,399	-	-	**396,226**
Amounts written off	14,658	230,305	2,430,528	2,197	17,833	**2,695,521**
Other adjustments	15,490	−29,687	26,462	−36	−1,246	**10,983**
Allowance as at December 31, 2021	**−1,598,522**	**−881,884**	**−962,183**	**−531**	**−166,013**	**−3,609,133**

[1] The table shows month over month movements.

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

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

[1] The table shows month over month movements.

Loans with a contractual amount of SEK 1,782m (784m) that were written off during the year are still subject to enforcement activity.

For the fair value amounts, see note 33.

Note 19 Bonds and other interest-bearing securities

	31 Dec 2021	31 Dec 2020
Other borrowers	1,132,964	1,609,770
Total	**1,132,964**	**1,609,770**
- in SEK	1,132,964	1,609,770

For the fair value amounts, see note 33.

Note 20 Intangible assets

	Goodwill	Brands	Licenses	Capitalized development expenses	Other intangible assets	Total
Purchase value as at January 1, 2021	1,429,144	80,358	59,083	1,258,883	512,039	3,339,507
Additions from business combinations	3,036,509	26,781	6,171	292,938	699,543	**4,061,942**
This year's purchase	-	-	1,937	631,477	9,615	**643,029**
This year's sales/disposals	-	-	−700	−27,465	−105	**−28,270**
Reclassification	-	-	-	118	−118	-
Currency translation difference	120,499	1,913	249	11,794	40,599	**175,054**
Purchase value as at December 31, 2021	4,586,152	109,052	66,740	2,167,745	1,261,573	8,191,262
Amortization as at January 1, 2021	-	−6,012	−54,898	−571,030	−166,999	−798,939
This year's amortization	-	−5,622	−3,804	−254,979	−150,056	**−414,461**
Additions from business combinations	-	-	-	-	−23	**−23**
This year's sales/disposals	-	-	691	21,363	103	**22,157**
Currency translation difference	-	−186	−124	−4,777	−7,068	**−12,155**
Amortization as at December 31, 2021	-	−11,820	−58,135	−809,423	−324,043	−1,203,421
Write-down as at January 1, 2021	-	−74,346	-	−16,942	-	−91,288
Currency translation difference	-	−1,672	-	−382	-	**−2,054**
Write-down as at December 31, 2021	-	−76,018	-	−17,324	-	−93,342
Carrying amount as at December 31, 2021	4,586,152	21,214	8,605	1,340,998	937,530	6,894,499

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

Impairment testing of Goodwill and intangible assets with an indefinite useful life

The Group conducted its annual goodwill impairment test as of October 1, 2021. In performing this test all goodwill was allocated to one cash-generating unit (CGU) aligned with the Group's one operating segment. No impairment losses were identified as a result of the test as the fair value less cost of sales (FVLCS) of the CGU exceeded its carrying amount. In determining the FVLCS, the group applied a level 3 valuation methodology using a revenue multiple as a key assumption. The Group performed a sensitivity analysis and compared the key assumption to peer company valuations. No reasonably possible change in the key assumptions that would result in an impairment loss were identified in our sensitivity analysis. As of December 31, 2021 the Group determined that no reasonably possible events occurred, or circumstances changed from October 1. 2021 to December 31, 2021 that would reduce the FVLCS of the reporting unit below its carrying amount.

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

Note 21 Tangible assets

	Leasehold improvements	Equipment	Total
Purchase value as at January 1, 2021	117,881	303,532	421,413
This year's purchase	22,549	222,647	245,196
Acquisitions of subsidiaries	-	4,679	4,679
This year's sales/disposals	-1,166	-2,140	-3,306
Currency translation difference	3,686	6,422	10,108
Purchase value as at December 31, 2021	142,950	535,140	678,090
Depreciation as at January 1, 2021	-20,187	-170,048	-190,235
This year's depreciation	-20,360	-50,860	-71,220
This year's sales/disposals	1,063	813	1,876
Currency translation difference	-1,149	-2,615	-3,764
Depreciation as at December 31, 2021	-40,633	-222,710	-263,343
Carrying amount as at December 31, 2021[1]	102,317	312,430	414,747

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

[1] Leases are recognized as right-of-use assets and are included in Tangible assets in the Balance sheet. On December 31, 2021, the right-of-use assets amount to SEK 1,097,858k (772,486k), which are disclosed in note 6, Leases.

Note 22 Other assets

	31 Dec 2021	31 Dec 2020
Current tax assets	245,911	189,634
VAT receivables	42,953	21,632
Derivatives	67,308	341,203
Cost to obtain a contract	1,816,939	522,698
Other receivables	197,994	65,994
Total	**2,371,105**	**1,141,161**

For more information on derivatives, see note 23. For the fair value amounts, see note 33.

Note 23 Derivatives

Derivatives held for trading

31 Dec 2021	Fair value		Total gross nominal amount
Foreign exchange derivatives	**Positive**	**Negative**	
Currency forwards	67,308	−627,867	49,520,440
Total	**67,308**	**−627,867**	**49,520,440**
	Fair value		**Total gross nominal amount**
Interest rate derivatives	**Positive**	**Negative**	
Interest rate swaps	-	−3,159	3,000,000
Total	**-**	**−3,159**	**3,000,000**

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

Note 24 Prepaid expenses and accrued income

	31 Dec 2021	31 Dec 2020
Accrued transaction-related income	424,393	151,173
Prepaid licenses	160,963	76,225
Other accrued income	79,580	10,006
Prepaid marketing	42,331	117,247
Other prepaid expenses	41,781	7,915
Accrued interest	-	96
Total	**749,048**	**362,662**

For the fair value amounts, see note 33.

Note 25 Liabilities to credit institutions

	31 Dec 2021	31 Dec 2020
Liabilities to credit institutions	713,182	2,414,897
By currency		
- in SEK	25,250	1,858,573
- in EUR	-	228,730
- in USD	680,158	327,594
- in other currencies	7,774	-
Total	**713,182**	**2,414,897**

For the fair value amounts, see note 33. For maturity analysis of financial liabilities, see note 35.

Note 26 Deposits from the public

	31 Dec 2021	31 Dec 2020
Private individuals	59,012,617	30,240,723
Companies	659,214	593,954
Total	**59,671,831**	**30,834,677**
By currency		
- in SEK	16,018,653	6,322,367
- in EUR	43,061,123	24,140,360
- in other currencies	592,055	371,950
Total	**59,671,831**	**30,834,677**

For the fair value amounts, see note 33. For maturity analysis of financial liabilities, see note 35.

Note 27 Debt securities issued

	31 Dec 2021	31 Dec 2020
Senior unsecured bonds	4,604,153	2,301,006
Commercial papers	4,193,239	1,696,206
Other bonds	325,427	185,511
Total	**9,122,819**	**4,182,723**

In February 2021, Klarna Bank AB (publ) issued a new loan of SEK 1,000m under the Medium Term Notes program. The notes have a final maturity in February 2024 and pay interest on a quarterly basis. The loan was listed on Nasdaq Stockholm at the date of issuance in February 2021. In July 2021, a second tranche of the loan of SEK 200m was issued.

In June 2021, Klarna Bank AB (publ) issued a new loan of SEK 1,000m under the Medium Term Notes program. The notes have a final maturity in June 2023 and pay interest on a quarterly basis. The loan was listed on Nasdaq Stockholm at the date of issuance in June 2021.

In September 2021, Klarna Bank AB (publ) issued a new loan of SEK 500m under the Medium Term Notes program. The notes have a final maturity in September 2023 and pay interest on a quarterly basis. The loan was listed on Nasdaq Stockholm at the date of issuance in September 2021. In September 2021, a second tranche of the loan of SEK 200m was issued.

In September 2021, Klarna Bank AB (publ) issued a new loan of SEK 300m under the Medium Term Notes program. The notes have a final maturity in March 2025 and pay interest on a quarterly basis. The loan was listed on Nasdaq Stockholm at the date of issuance in September 2021.

During 2021, a total of SEK 899m matured or were repurchased from the outstanding loans under the Medium Term Notes program.

For the fair value amounts, see note 33. For maturity analysis of financial liabilities, see note 35.

Note 28 Other liabilities

	31 Dec 2021	31 Dec 2020
Accounts payable	185,853	237,993
Personnel related taxes	86,122	106,057
Current tax liabilities	79,396	77,432
Liabilities to retailers	5,279,050	5,650,051
Derivatives	627,867	418,336
Lease liabilities	1,084,282	763,141
Other liabilities	1,801,778	556,160
Total	**9,144,348**	**7,809,170**

For more information on derivatives, see note 23. For the fair value amounts, see note 33. For maturity analysis of financial liabilities, see note 35.

Note 29 Accrued expenses and prepaid income

	31 Dec 2021	31 Dec 2020
Accrued personnel related expenses	649,626	386,867
Accrued marketing costs	584,795	171,332
Accrued expenses for outsourced functions	341,812	92,876
Other accrued expenses	303,373	191,031
Accrued commissions to partners	186,918	167,698
Accrued interest	185,740	131,061
Accrued expenses for consultants	152,046	45,493
Accrued scoring costs	107,901	79,273
Accrued IT related costs	91,099	82,675
Other prepaid income	54,425	62,405
Accrued distribution costs	17,342	14,207
Total	**2,675,077**	**1,424,918**

For the fair value amounts, see note 33. For maturity analysis of financial liabilities, see note 35.

Note 30 Provisions

	Pensions and other post-employment obligations	Restructuring reserve	Pending legal issues and tax litigations	Other provisions	Total
Provisions as at January 1, 2021	99	58	50,068	765	50,990
Acquisitions	-	-	-	46	**46**
New provisions	2,668	90	1,287	95	**4,140**
Amounts used	-	−151	−50,068	-	**−50,219**
Other adjustments	29	3	70	18	**120**
Provisions as at December 31, 2021	**2,796**	**-**	**1,357**	**924**	**5,077**

Provisions for financial guarantees and commitments	Stage 1	Stage 2	Stage 3	Total
Provisions as at January 1, 2021	60,794	15,228	16,519	92,541
New provisions	23,137	7,429	7,169	**37,735**
Reversed provisions	−40,158	−16,304	−12,483	**−68,945**
Transfers to stage 1	3,809	−3,486	−323	**-**
Transfers to stage 2	−416	416	-	**-**
Transfers to stage 3	−3	−5	8	**-**
Impact on year end ECL from change in credit risk	−3,521	1,658	777	**−1,086**
Other adjustments	176	1	47	**224**
Provisions as at December 31, 2021	**43,818**	**4,937**	**11,714**	**60,469**

	Pensions and other post-employment obligations	Restructuring reserve	Pending legal issues and tax litigations	Other provisions	Total
Provisions as at January 1, 2020	-	774	302,888	1,340	305,002
Acquisitions	103	-	-	-	**103**
New provisions	-	10	1,812	-	**1,822**
Amounts used	-	−718	−254,632	−546	**−255,896**
Other adjustments	−4	−8	-	−29	**−41**
Provisions as at December 31, 2020	**99**	**58**	**50,068**	**765**	**50,990**

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

The total provisions at the end of the year 2021 including the provisions for financial guarantees and commitments amount to SEK 65,546k (143,530k).

By the end of 2019, Klarna Bank AB (publ) had provisioned SEK 303m, net of payments, as a consequence of differences of opinions between Klarna Bank AB (publ) and the Swedish Tax Agency regarding the historical handling of VAT of Klarna Bank AB (publ). This was largely resolved in 2020, resulting in a release of most of the provision during 2020. In 2021, the final claim was resolved and the remaining provision was released during the year. No outstanding provision is held in this matter.

Note 31 Subordinated liabilities

	31 Dec 2021	31 Dec 2020
Subordinated note, nominal value	300,000	600,000
Transaction expenses	−1,464	−3,811
Accrued interest	2,520	2,931
Total	**301,056**	**599,120**

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 of subordinated notes due 2028. The notes have a floating coupon rate corresponding to STIBOR 3M plus 3.5% per annum. The interest is paid on a quarterly basis. The notes were allocated to a limited number of large Nordic investors and the first call date is July 5, 2023.

For the fair value amounts, see note 33. For maturity analysis of financial liabilities, see note 35.

Note 32 Pledged assets and contingent liabilities

	31 Dec 2021	31 Dec 2020
Pledged assets		
Assets pledged for own liabilities		
Pledged loans to the public and credit institutions	2,766,734	9,248,248
Pledged treasury bills chargeable at central banks, etc., and pledged bonds and other interest-bearing securities	-	1,714,570
Other pledged assets	28,048	25,812
Total	**2,794,782**	**10,988,630**
Contingent liabilities and commitments		
Contingent liabilities		
Guarantees	40,797	40,327
Commitments	23,587,065	16,396,546
Total	**23,627,862**	**16,436,873**

Parts of the receivables are continuously pledged as collateral for liabilities to credit institutions which provides security for the Group's credit facility. The credit liability amounted to SEK 0k (0k) as at December 31, 2021.

Treasury bills chargeable at central banks, etc., and pledged bonds and other interest-bearing securities contain securities pledged as collateral in repurchase agreements. Associated liabilities amounted to SEK 0k (1,714,572k) as at December 31, 2021.

Commitments contain an undrawn part of consumer credit line amounting to SEK 16,607,753k (10,780,554k) and a commitment to refund consumers in case of returns to a defaulted retailer amounting to SEK 6,979,312k (5,615,992k) as at December 31, 2021.

Note 33 Fair value of financial assets and liabilities

	31 Dec 2021			31 Dec 2020		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	15,810,926	15,810,926	-	5,014,210	5,014,210	-
Treasury bills chargeable at central banks, etc.	9,714,217	9,744,295	-30,078	5,231,819	5,219,426	12,393
Loans to credit institutions	5,047,916	5,047,916	-	2,620,360	2,620,360	-
Loans to the public	62,085,131	62,085,131	-	41,717,591	41,717,591	-
Bonds and other interest-bearing securities	1,129,680	1,132,964	-3,284	1,617,383	1,609,770	7,613
Other shares and participations	792,259	792,259	-	20,081	20,081	-
Other assets	197,994	197,994	-	65,994	65,994	-
Other assets (Currency forwards)	67,308	67,308	-	341,203	341,203	-
Prepaid expenses and accrued income	503,273	503,273	-	157,882	157,882	-
Total	**95,348,704**	**95,382,065**	**-33,362**	**56,786,523**	**56,766,517**	**20,006**

	31 Dec 2021			31 Dec 2020		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Liabilities						
Liabilities to credit institutions	713,182	713,182	-	2,413,280	2,414,897	-1,617
Deposits from the public	59,917,033	59,671,831	245,202	30,931,098	30,834,677	96,421
Debt securities issued	9,121,724	9,122,819	-1,095	4,186,765	4,182,723	4,042
Other liabilities	8,259,592	8,259,592	-	7,104,820	7,104,820	-
Other liabilities (Currency forwards and interest rate swaps)	631,026	631,026	-	418,336	418,336	-
Accrued expenses and prepaid income	2,621,051	2,621,051	-	1,361,224	1,361,224	-
Subordinated liabilities	306,781	301,056	5,725	605,457	599,120	6,337
Total	**81,570,389**	**81,320,557**	**249,832**	**47,020,980**	**46,915,797**	**105,183**

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

Carrying amount for loans to credit institutions and loans to the public are assumed to be approximations of fair value. Fair value on short-term (<1 year) loans is equivalent to their booked value since the effect of discounting is insignificant.

The calculation of fair value of deposits from the public is based on Level 2 input using observable market data. Deposits from the public are grouped into maturity buckets and thereafter the net present value is calculated based on the remaining maturity and the corresponding interest rate.

Fair value of issued debt securities and subordinated liabilities are determined using the quoted market price at the balance sheet date where available (in the case of level 1) or using observable inputs (in the case of level 2).

Note 34 Classification of financial assets and liabilities into measurement categories

31 Dec 2021	Fair value through profit or loss	Amortized cost	Non-financial assets	Total
Assets				
Cash and balances with central banks	-	15,810,926	-	15,810,926
Treasury bills chargeable at central banks, etc.	-	9,744,295	-	9,744,295
Loans to credit institutions	-	5,047,916	-	5,047,916
Loans to the public	-	62,085,131	-	62,085,131
Bonds and other interest-bearing securities	-	1,132,964	-	1,132,964
Other shares and participations	792,259	-	-	792,259
Intangible assets	-	-	6,894,499	6,894,499
Tangible assets	-	-	1,512,605	1,512,605
Deferred tax assets	-	-	319,329	319,329
Other assets	67,308	197,994	2,105,803	2,371,105
Prepaid expenses and accrued income	-	503,273	245,775	749,048
Total	**859,567**	**94,522,499**	**11,078,011**	**106,460,077**

31 Dec 2021	Fair value through profit or loss	Amortized cost	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	-	713,182	-	713,182
Deposits from the public	-	59,671,831	-	59,671,831
Debt securities issued	325,427	8,797,392	-	9,122,819
Deferred tax liabilities	-	-	246,061	246,061
Other liabilities	631,026	8,259,592	253,730	9,144,348
Accrued expenses and prepaid income	-	2,621,050	54,027	2,675,077
Provisions	-	-	65,546	65,546
Subordinated liabilities	-	301,056	-	301,056
Total	**956,453**	**80,364,103**	**619,364**	**81,939,920**

31 Dec 2020	Fair value through profit or loss	Amortized cost	Non-financial assets	Total
Assets				
Cash and balances with central banks	-	5,014,210	-	**5,014,210**
Treasury bills chargeable at central banks, etc.	-	5,219,426	-	**5,219,426**
Loans to credit institutions	-	2,620,360	-	**2,620,360**
Loans to the public	-	41,717,591	-	**41,717,591**
Bonds and other interest-bearing securities	-	1,609,770	-	**1,609,770**
Other shares and participations	20,081	-	-	**20,081**
Intangible assets	-	-	2,449,280	**2,449,280**
Tangible assets	-	-	1,003,664	**1,003,664**
Deferred tax assets	-	-	661,741	**661,741**
Other assets	341,203	65,994	733,964	**1,141,161**
Prepaid expenses and accrued income	-	157,882	204,780	**362,662**
Total	**361,284**	**56,405,233**	**5,053,429**	**61,819,946**

31 Dec 2020	Fair value through profit or loss	Amortized cost	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	-	2,414,897	-	**2,414,897**
Deposits from the public	-	30,834,677	-	**30,834,677**
Debt securities issued	185,511	3,997,212	-	**4,182,723**
Deferred tax liabilities	-	-	75,998	**75,998**
Other liabilities	418,336	7,104,820	286,014	**7,809,170**
Accrued expenses and prepaid income	-	1,361,224	63,694	**1,424,918**
Provisions	-	-	143,530	**143,530**
Subordinated liabilities	-	599,120	-	**599,120**
Total	**603,847**	**46,311,950**	**569,236**	**47,485,033**

The following table shows the financial assets and liabilities measured at fair value, divided into the three valuation levels. For description of the fair value levels, see note 2, Accounting principles, section 11. No transfers between levels have been made during 2021.

31 Dec 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	530,571	-	261,688	**792,259**
Other assets (Currency forwards)	-	67,308	-	**67,308**
Total	530,571	**67,308**	**261,688**	**859,567**
Financial liabilities				
Debt securities issued	-	-	325,427	**325,427**
Other liabilities (Currency forwards and interest rate swaps)	-	631,026	-	**631,026**
Total	**-**	**631,026**	**325,427**	**956,453**

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

Movements in Level 3

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

	Financial assets	Financial liabilities
	Other shares and participations	Debt securities issued[2]
Balance as at January 1, 2021	**20,081**	**185,511**
Gain/loss in income statement[1]	−20,081	3,564
of which: unrealized gain/loss	−20,081	3,564
Purchases	251,915	-
Issuances	-	133,853
Impact of foreign exchange movements	9,773	2,499
Balance as at December 31, 2021	**261,688**	**325,427**

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

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

[2] The value of debt securities issued has been established using valuation models.

The Group uses a range of unobservable inputs and valuation techniques such as the current interest rate, equity markets, expected future cash flows and options models to determine the fair value of level 3 financial instruments. Given the wide dispersion of values in the unobservable inputs used in valuation, the range is not disclosed. The impact of a 10% increase (decrease) in the valuation of Other shares and participations would increase (decrease) assets by SEK 26,169k. The impact of a 10% increase (decrease) in valuation inputs of Debt securities issued would increase (decrease) liabilities by SEK -4,918k (4,610k). The impact of a 10% increase (decrease) in valuation inputs of Loans to the public would increase (decrease) assets by SEK 4,334k (-4,038k).

Note 35 Maturity analysis for financial liabilities

	31 Dec 2021			31 Dec 2020		
	Expected to be recovered or settled:			Expected to be recovered or settled:		
Contractual undiscounted cash flows	**Within 12 months**	**After 12 months**	**Total**	**Within 12 months**	**After 12 months**	**Total**
Liabilities to credit institutions	715,930	-	**715,930**	2,416,829	-	**2,416,829**
Deposits from the public	41,269,234	19,033,516	**60,302,750**	23,680,218	7,314,837	**30,995,055**
Debt securities issued	5,650,904	3,566,129	**9,217,033**	2,623,522	1,599,578	**4,223,100**
Other liabilities	8,092,414	901,824	**8,994,238**	6,907,549	615,607	**7,523,156**
Accrued expenses and prepaid income	2,417,961	203,090	**2,621,051**	1,290,766	70,458	**1,361,224**
Subordinated liabilities	10,529	360,725	**371,254**	24,016	731,824	**755,840**
Total	**58,156,972**	**24,065,284**	**82,222,256**	**36,942,900**	**10,332,304**	**47,275,204**

Note 36 Interest received and paid

	2021	2020
Interest payments received	3,721,401	3,082,872
Interest expenses paid	–589,820	–328,303

Note 37 Share-based payments

Employee Restricted Stock Unit Program
Klarna's Restricted Stock Unit Program (the "RSU Program") was implemented in 2020. The RSU Program is designed to provide incentives to the participants to deliver long-term shareholder returns. It is open to all employees and entails a gratuitous granting of Restricted Stock Units ("RSUs") in relation to an ownership interest in Klarna Bank AB (publ). Each participant is granted a set number of RSUs at the grant date, which vest over a four-year graded vesting schedule, with 25% of the shares vesting annually. Should the participant end their employment within the group, unvested RSUs will be forfeited.

The number of shares distributed to employees under the RSU Program is approved by the Board of Directors of Klarna Holding AB (publ). The share-based compensation expense is based on the grant-date fair value of the awards and recognized over the vesting period, in line with the graded vesting schedule.

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

Employee Stock Warrants
In certain jurisdictions the Group offers share-based payments to certain employees in the form of stock warrants. The warrants are subject to graded vesting over a term of typically four to five years. The awards are accounted for as equity-settled share based payments, with the fair value determined at the grant date and expensed over the vesting period, based on the Group's estimate of the number of awards that will eventually vest. One warrant entitles the recipient to purchase one ordinary share in Klarna Holding AB (publ) at the agreed strike price.

Certain warrants have been acquired by employees in exchange for a cash payment of the fair market value at grant date. Since pre-emption rights related to these awards transfer over a specified period they are accounted for as equity settled share-based payments, however no associated expense is recognized.

Non-Employee Stock Warrants
Klarna has granted stock warrants to certain non-employee participants. The vesting periods associated with these grants range from one year to five years. The warrants are accounted for as equity settled share-based payments and recorded as an expense over the relevant service or vesting periods. The fair market value of services provided has been determined with reference to the fair market value of the instruments as measured at the date when the services are provided.

Employee Restricted Share
Klarna has a restricted share award scheme in which some employees have acquired restricted shares in a group entity that retains an ownership interest in Klarna Bank AB (publ). The term of the program will conclude in 2023. The restricted share awards are accounted for as an equity settled share based payment. The restricted shares were acquired by employees in exchange for a cash payment at fair market value, measured at the grant date and therefore no associated expense is recognized. On conclusion of the program there will be no impact on non-controlling interest since the effect is already reflected in the minority interest at the balance sheet date.

Other Equity Awards
During 2021 the Group issued 50,144 equity instruments in relation to business acquisitions. The instruments are granted to specific individuals of the acquired companies and entitle the recipient to one ordinary share in Klarna Holding AB (publ). There is a four year vesting period associated with these instruments, and they are accounted for as equity-settled share-based payment compensation and recognized as a post business combination expense. The instruments have been measured based on the fair market value of the underlying ordinary shares at the date of grant.

Details regarding the Group's RSU program and other contingent equity instruments are outlined in the table below:

	Restricted stock units		Other equity awards	
Group	**Number of RSUs**	**Weighted average fair value at grant SEK**	**Number of shares**	**Weighted average fair value at grant SEK**
January 1, 2021	**40,536**	**2,328**	-	-
Granted during the year	1,348,636	47	50,144	11,135
Share split during the year[1]	1,986,264	195	-	-
Released during the year	−877,878	46	-	-
Forfeited during the year	−285,247	75	-	-
December 31, 2021	**2,212,311**	**134**	**50,144**	**11,135**

	Restricted stock units		Other equity awards	
Group	**Number of RSUs**	**Weighted average fair value at grant SEK**	**Number of shares**	**Weighted average fair value at grant SEK**
January 1, 2020	-	-	-	-
Granted during the year	41,127	2,328	-	-
Released during the year	-	-	-	-
Forfeited during the year	−591	2,328	-	-
December 31, 2020	**40,536**	**2,328**	-	-

[1] On June 14, 2021 the number of shares was increased by a share split, whereby one (1) existing share will be split into fifty (50) shares. Upon completion of the share split, the company will have 24,997,647,850 preference shares and 6,495,450 ordinary shares. The share split was registered on 7 August 2021.

Additional detail on employee and non-employee stock warrant programs is outlined in the tables below:

	Stock Warrants	
Group	**Number of warrants**	**Weighted average exercise price SEK**
January 1, 2021	**457,949**	**1,509**
Granted during the year	155,396	4,161
Exercised during the year[1]	−41,000	1,033
Forfeited during the year	−35,826	1,627
December 31, 2021	**536,519**	**2,385**

	Stock warrants	
Group	**Number of warrants**	**Weighted average exercise price SEK**
January 1, 2020	**167,038**	**924**
Granted during the year	301,098	1,980
Forfeited during the year	−10,187	1,681
December 31, 2020	**457,949**	**1,564**

[1] The weighted average share price at the date of exercise of these warrants was SEK 14,789k.

The range of exercise prices for warrants outstanding at the end of the year is between 1 and 14,789 (1 to 5,676). The weighted average remaining contractual life for warrants is 3 years (3.3). The number of exercisable warrants amounts to 11 500 (0) as at 31 December 2021.

Klarna uses the Black Scholes options pricing model when calculating the fair value of warrant programs. The below table outlines the inputs used within the model:

	Stock warrants	
Group	**2021**	**2020**
Expected volatility (%)	25 - 28	25
Risk-free interest rate (%)	0 - 0.3	0.2 - 0.5
Expected term (years)	4.4 - 5.3	3.9 - 5.2
Weighted average share price (SEK)	6,474	2,580

Expected volatility has been assessed with reference to the historic share price volatility of companies within Klarna's peer group.

The weighted average fair value of warrants granted during the year was 3,082 (819).

The total expense recognized in the profit and loss statement in relation to share-based payments is 478,716k (89,636k).

Note 38 Information on related parties

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

During the year, there have been normal business transactions between companies in the Group and agreed remuneration has been paid to the CEO, Board of Directors and other senior management personnel.

For information about transactions with the Board of Directors, CEO and senior management, see note 10.

Note 39 Capital adequacy and leverage ratio

Capital adequacy regulations

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

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

Consolidated situation and methods for calculating minimum requirements

In accordance with capital adequacy regulations, the consolidated situation is made up of the Parent Company Klarna Holding AB (publ) and its subsidiaries. All subsidiaries are fully consolidated in the Group. Klarna Bank AB (publ) is a registered bank under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). Klarna Bank AB (publ) uses the standardized method for calculating the minimum capital requirements for credit as well as market risk and the alternative standardized approach for operational risk regarding Klarna Bank AB (publ) and its consolidated situation. The approval for calculating minimum capital requirement for operational risk using the alternative standardized approach was granted by the Finansinspektionen in December 2019. All regulated activities under the banking license are conducted in Klarna Bank AB (publ).

Common Equity Tier 1 capital

During 2021, SEK 6,859m of Common Equity Tier 1 was added to the own funds of the consolidated situation of Klarna Holding AB (publ) mainly through an equity raise of USD 1,640m.

Additional Tier 1 capital

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

Klarna Holding AB (publ) issued, in November 2018, EUR 25m in Additional Tier 1 capital instruments. They have a fixed-to-floating coupon rate corresponding to 6.625% per annum. The floating interest rate is EURIBOR 3M plus 6.277% 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 Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process

The objective of the ICLAAP is to ensure that Klarna clearly and correctly identifies, assesses and manages all risk to which it is exposed. The process considers the financial resources required to cover such risk, and to ensure that Klarna has access to sufficient capital and liquidity to support its business strategy over the coming planning horizon with regards to different market conditions. The main governing document for the ICLAAP is the ICLAAP policy. In this document, Klarna's board defines the responsibilities, processes and rules of the ICLAAP. The ICLAAP is performed at least yearly.

The internally assessed required capital is based on the minimum capital requirement, Pillar I, and additional capital required for other risks as determined as part of the ICLAAP, Pillar II, as well as the combined buffer requirements. The internally assessed required capital as of December 31, 2021 amounts to SEK 8,229m (5,552m) for Klarna Bank AB (publ) and SEK 7,225m (4,883m) for the consolidated situation. Klarna thereby has sufficient capital to cover for required capital under Pillar I, including combined buffer requirements, and Pillar II.

Capital adequacy disclosure

Capital adequacy disclosure in accordance with the requirements in Commission Implementing Regulation (EU) No 1423/2013 can be found in Klarna's Capital adequacy report.

IFRS 9 transitional adjustments

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

Excess subsidiary capital deduction

In accordance with Article 85 and 87 of CRR Klarna Bank AB (publ)'s Tier 1 and Tier 2 capital can only be included in the capital base of Klarna Holding Group with the share required to cover the minimum capital requirements of Klarna Bank AB (publ) and its subsidiaries. As of December 31, 2021 an amount of SEK 84m Additional Tier 1 capital and SEK 142m Tier 2 capital instruments issued by Klarna Bank AB (publ) were included in the Own funds of Klarna Holding Group.

Capital adequacy information	Consolidated situation 31 Dec 2021	Consolidated situation 31 Dec 2020	Klarna Bank AB (publ) 31 Dec 2021	Klarna Bank AB (publ) 31 Dec 2020
Own funds, total risk exposure amount and total leverage ratio exposure				
Common Equity Tier 1 capital	19,372,837	12,514,158	19,170,496	6,429,038
Tier 1 capital	19,713,138	12,978,002	19,420,496	6,679,038
Own funds	19,855,494	13,529,578	19,721,552	7,278,158
Total risk exposure amount	61,835,794	42,390,354	69,646,678	47,868,892
Total leverage ratio exposure	105,225,277	62,564,979	108,773,965	65,442,688
Capital adequacy analysis				
Common Equity Tier 1 capital ratio	31.3%	29.5%	27.5%	13.4%
Tier 1 capital ratio	31.9%	30.6%	27.9%	13.9%
Total capital ratio	32.1%	31.9%	28.3%	15.2%
Leverage ratio	18.7%	20.7%	17.9%	10.2%
Combined buffer requirement incl, the requirements of 575/2013 Art, 92(1)(a)	7.0%	7.0%	7.0%	7.0%
of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5%
of which: countercyclical buffer requirement	0.0%	0.1%	0.0%	0.1%
Common Equity Tier 1 capital available to meet buffers	26.8%	24.8%	23.0%	8.7%
Exposure amounts for credit risk according to the standardized approach				
Credit risk including counterparty credit risk	104,589,276	60,876,486	107,167,518	63,340,973
of which: central governments or central banks	17,110,128	6,039,522	16,886,070	5,881,912
of which: regional governments or local authorities	3,873,851	2,238,974	3,873,851	2,238,974
of which: public sector entities	-	26,052	-	26,052
of which: multilateral development banks	4,877,439	2,140,206	4,877,439	2,140,206
of which: institutions	6,220,246	2,999,050	3,133,278	2,101,546
of which: corporates	6,369,295	4,101,853	14,043,739	8,144,030
of which: retail	58,554,424	38,419,101	52,173,353	35,294,967
of which: exposures in default	732,491	529,264	671,682	549,145
of which: covered bonds	1,132,964	1,609,770	1,132,964	1,609,770
of which: equity	792,259	20,081	6,839,904	3,385,226
of which: other items	4,926,179	2,752,613	3,535,238	1,969,145
Total exposure amount	**104,589,276**	**60,876,486**	**107,167,518**	**63,340,973**
Risk exposure amounts according to the standardized approach				
Credit risk including counterparty credit risk	58,919,066	38,019,317	65,398,361	41,891,483
of which: institutions	1,253,493	599,810	636,099	420,309
of which: corporates	6,295,879	4,014,407	13,984,696	8,070,733
of which: retail	43,915,818	28,814,326	39,130,015	26,471,225
of which: exposures in default	761,934	634,380	701,125	654,261
of which: covered bonds	113,296	160,977	113,296	160,977
of which: equity	1,184,791	50,203	7,232,436	3,415,347
of which: other items	5,393,855	3,745,214	3,600,694	2,698,631
Market risk	655,927	2,114,861	2,037,608	3,771,325
of which: foreign exchange risk	655,927	2,114,861	2,037,608	3,771,325
Operational risk	2,252,092	2,252,092	2,202,000	2,202,000
Credit valuation adjustments	8,709	4,084	8,709	4,084
Total risk exposure amount	**61,835,794**	**42,390,354**	**69,646,678**	**47,868,892**

	Consolidated situation		Klarna Bank AB (publ)	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Total minimum capital requirements				
Credit risk including counterparty credit risk	4,713,525	3,041,545	5,231,868	3,351,320
of which: institutions	100,279	47,985	50,888	33,625
of which: corporates	503,670	321,153	1,118,776	645,659
of which: retail	3,513,265	2,305,146	3,130,401	2,117,698
of which: exposures in default	60,955	50,750	56,090	52,341
of which: covered bonds	9,064	12,878	9,064	12,878
of which: equity	94,783	4,016	578,595	273,228
of which: other items	431,509	299,617	288,054	215,891
Market risk	52,474	169,189	163,009	301,705
of which: foreign exchange risk	52,474	169,189	163,009	301,705
Operational risk	180,167	180,167	176,160	176,159
Credit valuation adjustments	697	327	697	327
Total capital requirement	**4,946,863**	**3,391,228**	**5,571,734**	**3,829,511**
Own funds disclosure				
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts	32,237,388	14,892,742	26,366,372	7,358,049
Retained earnings	−1,648,704	−11,226	−2,426,892	−738,535
Accumulated other comprehensive income (and other reserves)	323,523	109,166	1,051,163	648,275
Common Equity Tier 1 capital before regulatory adjustments	**30,912,207**	**14,990,682**	**24,990,643**	**7,267,789**
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	−1,487	−780	−1,487	−780
Intangible assets (net of related tax liability)	−5,949,231	−1,915,967	−772,895	−308,829
Losses for the current financial year	−7,016,944	−1,266,487	−6,046,495	−1,061,451
IFRS 9 transitional adjustments to CET1 Capital	1,435,830	706,710	1,000,730	532,309
Deferred tax assets rely on future profitability	−7,538	-	-	-
Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	**−11,539,370**	**−2,476,524**	**−5,820,147**	**−838,751**
Common Equity Tier 1 (CET1) capital	**19,372,837**	**12,514,158**	**19,170,496**	**6,429,038**
Additional Tier 1 (AT1) capital instruments				
Capital instruments and the related share premium accounts	256,372	256,372	250,000	250,000
of which: classified as equity under applicable accounting standards	256,372	256,372	250,000	250,000
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	83,929	207,472	-	-
Total Additional Tier 1 (AT1) capital instruments	**340,301**	**463,844**	**250,000**	**250,000**
Tier 1 capital	**19,713,138**	**12,978,002**	**19,420,496**	**6,679,038**
Tier 2 (T2) capital instruments				
Capital instruments and the related share premium accounts	-	-	301,056	599,120
Qualifying own funds instruments included in consolidated T2 issued by subsidiaries and held by third party	142,356	551,576	-	-
Total Tier 2 (T2) capital instruments	**142,356**	**551,576**	**301,056**	**599,120**
Own funds	**19,855,494**	**13,529,578**	**19,721,552**	**7,278,158**

Note 40 Business combinations

Toplooks, LLC, 2021

On March 2, 2021, Klarna Runway Holding Inc (subsidiary of Klarna Holding AB (publ)) acquired 100% of the voting rights in the US-based company Toplooks and its patent-pending AI shoppable content engine. The acquisition allows Klarna to provide retailers with unique, value additive marketing services, while providing an improved shopping experience for consumers.

The total consideration was SEK 993m and was paid in cash and shares in Klarna Holding AB (publ). The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 673m has been recorded to goodwill, SEK 389m to acquired intangible assets, SEK 71m to deferred tax liabilities and SEK 1m to other assets, specified below.

Goodwill refers to expected growth through new customers and future technology development as well as synergies.

Toplooks LLC	Purchase Price Allocation
Intangible assets	389,238
Other assets	1,443
Deferred tax liability	–70,702
Net identifiable assets and liabilities	**319,979**
Goodwill	673,270
Consideration	**993,249**

From the acquisition date until December 31, 2021, Toplooks contributed SEK 18m, net, to the Group's total operating revenues. The total effect on the Group's net result is not identifiable since the personnel and indirect costs of Toplooks are highly integrated to and not separable from other parts of Klarna's organization.

Hero Towers Limited, 2021

On July 9, 2021, Klarna Bank AB (publ) acquired 100% of the shares in Hero Towers Limited (Hero) and its wholly-owned subsidiary Hero Technologies Inc. Hero is a virtual shopping platform for eCommerce, offering one-to-one live streaming solutions for online merchants and in-store personnel to assist and convert online shoppers.

The total consideration was SEK 1,259m and was paid in cash and shares in Klarna Holding AB (publ). The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 1,070m has been recorded to goodwill, SEK 192m to acquired intangible assets and SEK 36m to deferred tax liabilities. SEK 33m refers to other net assets, specified below.

The goodwill primarily refers to the value of returns from future customers, future technology, buyer-specific synergies and the assembled workforce.

Hero Towers Limited	Purchase Price Allocation
Loans to credit institutions	52,029
Loans to the public	21,943
Intangible assets	191,600
Tangible assets	3,242
Other assets	14,583
Other liabilities	–58,272
Deferred tax liability	–36,362
Net identifiable assets and liabilities	**188,763**
Goodwill	1,070,068
Consideration	**1,258,831**

Certain parts of the consideration shares of Klarna Holding AB (publ) have vesting conditions. The share-based payments have been measured in accordance with IFRS 2, Share-based Payment, at the acquisition date. The total cost of share-based payment is allocated over the duration of the vesting period and is reported as General and administrative expenses in the Group's Income Statement.

From the date of acquisition until December 31, 2021, Hero Towers Limited and its wholly-owned subsidiary Hero Technologies Inc., contributed SEK 38m, net, to the Group's total operating revenues. The total effect on the Group's net result is not identifiable since the personnel and indirect costs of Hero are highly integrated to and not separable from other parts of Klarna's organization.

Stocard GmbH, 2021

On July 21, 2021, Klarna Bank AB (publ) acquired 100% of the shares in Stocard GmbH (Stocard) and its wholly-owned subsidiaries Stocard UK Limited, Stocard S.á.r.l. and Stocard Pty Ltd. Stocard provides a mobile wallet app for consumers to gather all their loyalty cards electronically in one place. It also enables merchants to make targeted offerings to consumers, e.g., based on usage pattern and location.

The total consideration was SEK 1,114m and was paid in cash and shares in Klarna Holding AB (publ). The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 1,011m has been recorded to goodwill, SEK 180m to acquired intangible assets and SEK 54m to deferred tax liabilities. SEK -23m refers to other net assets, specified below.

The goodwill primarily refers to cross-selling synergies and workforce.

Stocard GmbH	Purchase Price Allocation
Loans to credit institutions	12,542
Loans to the public	18,542
Intangible assets	179,528
Tangible assets	60,994
Other assets	7,784
Prepaid expenses and accrued income	4,468
Deferred tax liability	−53,848
Other liabilities	−117,193
Accrued expenses and prepaid income	−10,168
Net identifiable assets and liabilities	**102,649**
Goodwill	1,011,491
Consideration	**1,114,140**

From the acquisition date until December 31, 2021, Stocard contributed SEK 51m, net, to the Group's total operating revenues. The total effect on the Group's net result is not identifiable since the personnel and indirect costs of Stocard are highly integrated to and not separable from other parts of Klarna's organization.

Piggy, LLC, 2021

On July 22, 2021, Klarna Runway Holding Inc (subsidiary of Klarna Holding AB (publ)) acquired 100% of the shares in Piggy LLC. Piggy's product offering consists of a desktop extension for Chrome as well as a mobile app that looks for coupons and cash-back.

The total consideration was SEK 362m and was paid in cash and shares in Klarna Holding AB (publ). The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 161m has been recorded to goodwill, SEK 158m to acquired intangible assets and SEK 44m in other net assets, specified below.

Goodwill primarily refers to future unidentified users, synergies and workforce.

Piggy LLC	Purchase Price Allocation
Loans to credit institutions	28,431
Intangible assets	158,075
Other assets	19,239
Other liabilities	–4,145
Net identifiable assets and liabilities	**201,600**
Goodwill	160,501
Consideration	**362,101**

Certain parts of the consideration shares of Klarna Holding AB (publ) have vesting conditions. The share-based payments have been measured in accordance with IFRS 2, Share-based Payment, at the acquisition date. The total cost of share-based payment is allocated over the duration of the vesting period and is reported as General and administrative expenses in the Group's Income Statement.

From the acquisition date until December 31, 2021, Piggy contributed SEK 33m, net, to the Group's total operating revenues. The total effect on the Group's net result is not identifiable since the personnel and indirect costs of Piggy are highly integrated to and not separable from other parts of Klarna's organization.

Apprl Fashion AB, 2021

On July 23, 2021, Klarna Bank AB (publ) acquired 100% of the shares in Apprl Fashion AB (now renamed to Klarna MAS AB). Apprl offers a platform enabling merchants to manage their influencer relationships end-to-end on their own.

The total consideration was SEK 137m and was paid in cash and shares in Klarna Holding AB (publ). The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 78m has been recorded to goodwill, SEK 65m to acquired intangible assets and SEK 10m to deferred tax liabilities. SEK 4m refers to other net assets, specified below.

The goodwill primarily refers to Apprl's future growth through new merchant customers, additional publishers and technological development as well as synergies.

Apprl Fashion AB	Purchase Price Allocation
Loans to credit institutions	6,333
Loans to the public	3,672
Intangible assets	65,000
Other assets	5,422
Deferred tax liability	−10,360
Other liabilities	−11,108
Net identifiable assets and liabilities	**58,959**
Goodwill	78,098
Consideration	**137,057**

Certain parts of the consideration shares of Klarna Holding AB (publ) have vesting conditions. The share-based payments have been measured in accordance with IFRS 2, Share-based Payment, at the acquisition date. The total cost of share-based payment is allocated over the duration of the vesting period and is reported as General and administrative expenses in the Group's Income Statement.

From the acquisition date until December 31, 2021, Apprl contributed by SEK 20m, net, to the Group's total operating revenues. The total effect on the Group's net result is not identifiable since the personnel and indirect costs of Apprl are highly integrated to and not separable from other parts of Klarna's organization.

Inspirock Inc, 2021

On October 19, 2021, Klarna Runway Holding Inc (subsidiary of Klarna Holding AB (publ)) acquired 100% of the shares in Inspirock Inc. Inspirock is a travel planning website with a unique interface that enables travelers to plan their entire itinerary from transportation to activities in the cities they are visiting.

The total consideration was SEK 115m and was paid in cash and shares in Klarna Holding AB (publ). The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 87m has been recorded to goodwill, SEK 21m to acquired intangible assets and SEK 8m in other net assets, specified below.

Goodwill primarily refers to synergies achieved through integration of Inspirock into the Klarna app, including the potential to increase inspirational content beyond Inpirock's current offering, new customers, benefits of future technology development and workforce.

Inspirock Inc.	Purchase Price Allocation
Loans to credit institutions	4,430
Intangible assets	20,772
Other assets	3,834
Other liabilities	−442
Net identifiable assets and liabilities	**28,594**
Goodwill	86,736
Consideration	**115,330**

Certain parts of the consideration shares of Klarna Holding AB (publ) have vesting conditions. The share-based payments have been measured in accordance with IFRS 2, Share-based Payment, at the acquisition date. The total cost of share-based payment is allocated over the duration of the vesting period and is reported as General and administrative expenses in the Group's Income Statement.

From the acquisition date until December 31, 2021, Inspirock contributed by SEK 2m, net, to the Group's total operating revenues. The total effect on the Group's net result is not identifiable since the personnel and indirect costs of Inspirock are highly integrated to and not separable from other parts of Klarna's organization.

Dreams Securities AB, 2021

On October 15, 2021, Klarna Bank AB (publ) acquired 100% of the shares in Dreams Securities AB (now renamed to Klarna Securities AB). The total purchase consideration was SEK 16m. The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 17m has been recorded to acquired intangible assets, SEK 4m million to deferred tax liabilities and SEK 3m to other net assets. No goodwill has been recognized in the acquisition. The purchase price allocation is considered preliminary at the end of the period.

Zorro Cash K.K, 2021

On October 26, 2021, Klarna Bank AB (publ) acquired 100% of the shares in Zorro Cash K.K. The total purchase consideration was SEK 23m. The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 19m has been recorded to goodwill, SEK 3m to acquired intangible assets, SEK 1m million to deferred tax liabilities and SEK 2m to other net assets. The purchase price allocation is considered preliminary at the end of the period.

The goodwill mainly represents synergies and value of a strong management team and workforce.

Certain parts of the consideration shares of Klarna Holding AB (publ) have vesting conditions. The share-based payments have been measured in accordance with IFRS 2, Share-based Payment, at the acquisition date. The total cost of share-based payment is allocated over the duration of the vesting period and is reported as General and administrative expenses in the Group's Income Statement.

Search Engine Marketing Sweden AB, 2020

On December 4, 2020, Klarna Bank AB (publ) acquired 100% of the shares in Search Engine Marketing Sweden AB, a company offering Google Comparison Shopping Services, product feed management and shopping ad bid management under the brand names "Shoptail" and "Semtail".

The purchase price allocation was considered preliminary at the end of the period 2020 and adjusted during 2021. The total purchase consideration was SEK 73m after the adjustment. The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 48m has been recorded to goodwill, SEK 20m to acquired intangible assets, SEK 4m million to deferred tax liabilities and SEK 9m to other net assets.

Certain parts of the consideration shares of Klarna Holding AB (publ) have vesting conditions. The share-based payments have been measured in accordance with IFRS 2, Share-based Payment, at the acquisition date. The total cost of share-based payment is allocated over the duration of the vesting period and is reported as General and administrative expenses in the Group's Income Statement.

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

Note 41 Significant events after the end of the reporting period

No significant events have occurred after the closing date.

Parent Company Financials.

Income Statement, Parent Company

Amounts in SEKk	Note	2021	2020
Administrative expenses	4,5	−14,707	−2,455
Operating result		**−14,707**	**−2,455**
Income from financial items			
Other interest income and similar items		155,768	95,880
Financial expenses		988	−2,324
Total income from financial items		**156,756**	**93,555**
Result after financial items		**142,049**	**91,101**
Income tax	6	−29,262	−20,189
Net result for the year		**112,787**	**70,912**

Statement of Comprehensive Income, Parent Company

Amounts in SEKk	2021	2020
Net result for the year	112,787	70,912
Total comprehensive income for the year	**112,787**	**70,912**

Balance Sheet, Parent Company

Amounts in SEKk	Note	31 Dec 2021	31 Dec 2020
Assets			
Financial non-current assets			
Shares and participations in group companies	8	28,777,498	7,875,113
Receivables	9	4,786,585	7,971,103
Deferred tax assets	6	-	17,862
Total financial non-current assets		**33,564,083**	**15,864,078**
Current assets			
Receivables	9	24,065	16,558
Accrued income		54	77
Cash and bank balances		5,978	5,826
Total current assets		**30,097**	**22,461**
Total assets		**33,594,180**	**15,886,539**
Equity			
Share capital		2,602	2,450
Share premium reserve		32,167,228	14,820,055
Additional Tier 1 instruments		256,372	256,372
Retained earnings		1,052,720	734,729
Net result for the year		112,787	70,912
Total equity		**33,591,709**	**15,884,518**
Liabilities			
Current liabilities			
Other liabilities		1,458	480
Accrued expenses	10	1,013	1,541
Total current liabilities		**2,471**	**2,021**
Total equity and liabilities		**33,594,180**	**15,886,539**

Statement of Changes in Equity, Parent Company

	Restricted equity	Non-restricted equity				
Amounts in SEKk	**Share capital**	**Share premium reserve**	**Additional Tier 1 instruments**	**Retained earnings**	**Net result**	**Total equity**
Balance as at January 1, 2021	2,450	14,820,055	256,372	734,729	70,912	15,884,518
Transfer of previous year's net result	-	-	-	70,912	−70,912	-
Net result for the year	-	-	-	-	*112,787*	*112,787*
Total comprehensive income for the year	-	-	-	-	***112,787***	***112,787***
New share issue	152	17,375,901	-	-	-	17,376,053
Transaction costs	-	−70,688	-	-	-	**−70,688**
Share warrants	-	-	-	45,229	-	**45,229**
Share-based payments	-	-	-	251,653	-	**251,653**
Restricted stock units[2]	-	-	-	8,879	-	**8,879**
Additional Tier 1 instruments[1]	-	-	-	−16,722	-	**−16,722**
Balance as at December 31, 2021	2,602	32,125,268	256,372	1,094,680	112,787	33,591,709

	Restricted equity	Non-restricted equity				
Amounts in SEKk	**Share capital**	**Share premium reserve**	**Additional Tier 1 instruments**	**Retained earnings**	**Net result**	**Total equity**
Balance as at January 1, 2020	2,278	8,767,861	256,372	614,501	44,215	9,685,227
Transfer of previous year's net result	-	-	-	44,215	−44,215	-
Net result for the year	-	-	-	-	*70,912*	*70,912*
Total comprehensive income for the year	-	-	-	-	***70,912***	***70,912***
New share issue	172	6,135,301	-	-	-	**6,135,473**
Transaction costs	-	−83,107	-	-	-	**−83,107**
Share warrants	-	-	-	39,281	-	**39,281**
Share-based payments	-	-	-	54,019	-	**54,019**
Additional Tier 1 instruments[1]	-	-	-	−17,287	-	**−17,287**
Balance as at December 31, 2020	2,450	14,820,055	256,372	734,729	70,912	15,884,518

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

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

Share capital: 26,020,834 shares (24,499,679), quota value 0.1 (0.1).

Cash Flow Statement, Parent Company

Amounts in SEKk	Note	2021	2020
Operating activities			
Operating result		−14,707	−2,455
Financial items, net		139,849	68,814
Adjustments for items in operating activities			
Share-based payments		8,879	-
Taxes paid		−17,852	-
Changes in the assets and liabilities of operating activities			
Change in other assets and liabilities		3,252,270	−6,019,036
Cash flow from operating activities		**3,368,439**	**−5,952,677**
Investing activities			
Investments in subsidiaries	8	−19,431,559	−45,933
Cash flow from investing activities		**−19,431,559**	**−45,933**
Financing activities			
New share issue		16,017,912	5,989,718
Share warrants		45,229	15,601
Change in non-controlling interests		-	−6,700
Cash flow from financing activities		**16,063,141**	**5,998,619**
Cash flow for the year		**21**	**9**
Cash and cash equivalents at the beginning of the year		**5,826**	**6,063**
Cash flow for the year		21	9
Exchange rate diff. in cash and cash equivalents		131	−246
Cash and cash equivalents at the end of the year		**5,978**	**5,826**
Cash and cash equivalents include the following items			
Cash and bank balances		5,978	5,826
Cash and cash equivalents		**5,978**	**5,826**

Notes with accounting principles.

Notes, Parent Company

The Group notes 1-3 apply to the Parent Company as well, with the exception that the Parent Company has chosen not to adopt IFRS 9 "Financial instruments" which is in accordance with the Swedish accounting recommendation, RFR 2, amended by the Swedish Financial Reporting Board.

Note 4 Employees and personnel costs

Salaries, other remunerations and social security expenses	2021	2020
Board and CEO	−11,141	−2,189
Total salaries and remuneration	**−11,141**	**−2,189**

Klarna Holding AB (publ) has no employees. However, the remuneration to the board of directors other than CEO is accounted for in Klarna Holding AB (publ).

	31 Dec 2021		31 Dec 2020	
Board members and senior management	Number at closing day	Percentage of men	Number at closing day	Percentage of men
CEO and other members of senior management	2	100%	2	100%
Board members	7	71%	7	71%

2021 Salaries and other remuneration to the board and senior management	Basic salary/fee	Variable remuneration[2]	Other benefits	Pension expenses	Total
Michael Moritz, Chairman of the Board	-	-	-	-	-
Roger Ferguson[1]	−1,070	−1,904	-	-	**−2,974**
Lise Kaae	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Omid Kordestani	−984	−3,352	-	-	**−4,336**
Sarah Smith	−1,070	−3,623	-	-	**−4,693**
Andrew Young[1]	-	-	-	-	-
Sebastian Siemiatkowski, CEO[3]	-	-	-	-	-
Knut Frängsmyr, Deputy CEO[3]	-	-	-	-	-
Total	**−3,124**	**−8,879**	-	-	**−12,003**

[1] On May 20, 2021, the company appointed Roger Ferguson to the Board. Andrew Young resigned from the Board.

[2] Variable remuneration includes cash-based variable remuneration and IFRS 2 expensed amounts for equity based programs.

[3] Remuneration to CEO is accounted for and presented in the annual report for Klarna Bank AB (publ).

2020 Salaries and other remuneration to the board and senior management	Basic salary/fee	Variable remuneration (restated)[2]	Other benefits	Pension expenses	Total (restated)
Michael Moritz, Chairman of the Board	-	-	-	-	-
Lise Kaae	-	-	-	-	-
Jonathan Kamaluddin[1]	−875	-	-	-	−875
Mikael Walther	-	-	-	-	-
Omid Kordestani	-	-	-	-	-
Sarah Smith	-	-	-	-	-
Sarah McPhee[1]	−500	-	-	-	−500
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO[3]	-	-	-	-	-
Knut Frängsmyr, Deputy CEO[3]	-	-	-	-	-
Total	**−1,375**	**-**	**-**	**-**	**−1,375**

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

[2] Variable remuneration includes cash-based variable remuneration and IFRS 2 expensed amounts for equity based programs. The 2020 figures related to the RSU program have been restated to IFRS 2 cost instead of vested value.

[3] Remuneration to CEO is accounted for and presented in the annual report for Klarna Bank AB (publ).

Note 5 Expenses by expense type

	2021	2020
Audit fees to Ernst & Young AB	−488	−225
Other costs	−14,219	−2,230
Total	**−14,707**	**−2,455**

Note 6 Income tax expense

Current tax	2021	2020
Tax expense for the year	–29,262	–20,189
Total current tax	**–29,262**	**–20,189**
Reported tax expense	**–29,262**	**–20,189**

The effective tax on income deviates from the nominal tax rate due to the following items:

Effective tax rate	2021	2020
Income before tax	142,049	91,101
Income tax calculated in accordance with national tax rate	–29,262	–19,496
Effect of change in tax rate	-	–693
Reported tax expense	**–29,262**	**–20,189**
Effective tax rate	**–20.6%**	**–22.2%**

Deferred tax assets	2021	2020
The balance comprises temporary differences attributable to:		
Losses carried forward[1]	-	17,862
Total	**-**	**17,862**

[1] The decrease in losses carry-forward in comparison to the reported tax expense consists of tax booked through equity in regard of share issuance transaction costs booked in equity.

Losses carry-forward

Deferred tax assets attributable to losses carry-forward are reported only if it is probable that they will be used towards taxable profits in the foreseeable future.

The Swedish corporate tax rate has decreased from 21.4% to 20.6% on January 1, 2021. The deferred tax assets and liabilities for Swedish companies have been adjusted accordingly.

Note 7 Proposed treatment of unappropriated earnings

The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 33,589,106,882 on Klarna Holding AB (publ)'s balance sheet at the disposal of the Annual General Meeting to be carried forward.

Additional Tier 1 instruments	256,372,091	SEK
Retained earnings	33,219,947,671	SEK
Net result for the year	112,787,120	SEK
Total	**33,589,106,882**	**SEK**

Note 8 Shares and participations in group companies

			31 Dec 2021	31 Dec 2020
Participations in group companies			28,777,498	7,875,113
Group companies	**No. of shares**	**Share**	**Book value**	**Book value**
Klarna Bank AB (publ), Sweden, Corp. ID 556737-0431	193,418	97%	26,331,741	7,323,099
Klarna Midco AB, Sweden, Corp. ID 559146-5132	528,885	93%	747,357	551,214
Larkan Holding AB, Sweden, Corp. ID 559262-3119	24,300	97%	6,399	800
Klarna Runway Holding Inc.	100	100%	1,692,001	-
Total			**28,777,498**	**7,875,113**

During 2021 Klarna Holding AB (publ) increased its investment in Klarna Bank AB (publ), Klarna Midco AB, Larkan Holding AB and Klarna Runway Holding Inc. The Klarna Group operates according to a centralized business model where Klarna Bank AB (publ), being the owner of the majority of the Group's assets, risks as well as the strategic and key value driving functions, is the principal (central entrepreneur) of the Group. Klarna Inc. conducts the Group's business on the US market, Sofort GmbH provide online payment solutions complementing Klarna's business. All other companies of the Group are either providers of auxiliary services or pure holding companies.

Note 9 Receivables

	31 Dec 2021	31 Dec 2020
Non-current		
Receivables from group companies	4,786,585	7,971,103
Total	**4,786,585**	**7,971,103**
Current		
Receivables from group companies	16,708	16,139
Other receivables	7,357	419
Total	**24,065**	**16,558**
Total receivables	**4,810,650**	**7,987,661**

Note 10 Accrued expenses

	31 Dec 2021	31 Dec 2020
Accrued personnel related expenses	529	1,344
Audit fees	484	197
Total	1,013	1,541

Note 11 Contingent liabilities

The subsidiary Klarna Bank AB (publ) continually pledges parts of its receivables as collateral for liabilities to credit institutions which provides security for the Group's credit facilities. The credit liability amounts to SEK 0k (0k) as at December 31, 2021. Klarna Holding AB (publ) acts as a guarantor for Klarna Bank AB (publ)'s outstanding liability regarding this credit facility.

Note 12 Information on related parties

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

The following transactions have taken place with related parties:

Klarna Holding AB (publ) has a non-current receivable of SEK 4,759,270k (7,971,103k) and current receivable of SEK 16,647k (16,079k) from Klarna Bank AB (publ).

Additionally, Klarna Holding AB (publ) has a current receivable of SEK 60k (60k) from Klarna Midco AB.

For information about transactions with the board of directors, CEO and senior management, see note 5.

Definitions and Abbreviations

Advertising products and services
Services provided to retailers to engage and attract consumers including AI and influencer-led content creation, search and dynamic advertising and in-app sponsored placements.

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

Common Equity Tier 1 capital
Equity excluding proposed dividend, deferred taxes and intangible assets and certain other regulatory adjustments defined in Regulation (EU) No 575/2013 (CRR) and EU 241/2014.

Consumer
An individual or company using our services.

Debt/equity ratio*
Average liabilities adjusted for untaxed reserves in relation to average equity adjusted for untaxed reserves. The calculation of average liabilities and average equity is based on opening and closing balances for the reporting period.

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

Financing
Klarna's account product.

Gross Merchandise Value
Value of products sold through Klarna platform.

Klarna Card
Klarna's physical shop anywhere card.

Klarna In-Store
Klarna's product for physical stores allows retailers to offer our alternative payment methods wherever they get in direct contact with their customers.

Monthly active app users
Number of unique authenticated app (web + native) users per calendar month. Information from internal estimates.

Own funds (Total capital)
The sum of Tier 1 capital and Tier 2 capital.

Pay now
Klarna's product for immediate settlement.

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

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

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

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

Tier 2 capital
Subordinated liabilities, which are eligible for inclusion in the total capital.

Total capital ratio
Total capital as a percentage of risk exposure amounts

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

Board of Directors' affirmation

The Board of Directors and CEO certify that the annual report has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements have been prepared in accordance with the international reporting standards (IFRS/IAS) referred to in the European parliament and the councils' regulation (EC) 1606/2002, from July 19, 2002, on the application of International Accounting Standards. They give a true and fair view of the Parent Company's and the Group's financial position and result. It is further assured that the report of the Board of Directors gives a true and fair overview of the development of the Parent Company's and Group's business activities, financial position and results of operations as well as describes the material risks and uncertainties that the Parent Company and its subsidiaries are facing.

Stockholm, March 25, 2022

Michael Moritz Chairman of the Board	Mikael Walther Board member	Lise Kaae Board member
Sarah Smith Board member	Roger Ferguson Board member	Omid Kordestani Board member
	Sebastian Siemiatkowski CEO and Board member	

Our audit report was submitted on March 25, 2022
Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant


Klarna.

Auditor's report

To the general meeting of the shareholders of Klarna Holding AB, corporate identity number 556676-2356

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Klarna Holding AB for the year 2021. The annual accounts and consolidated accounts of the company are included on pages 18-111 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2021 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

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

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

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-17. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors [and the Managing Director].
- Conclude on the appropriateness of the Board of Directors' [and the Managing Director's] use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Klarna Holding AB for the year 2021 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

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

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

Stockholm March 25, 2022
Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant