

Publication of information concerning capital adequacy and liquidity management

May 29, 2020

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

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

The information is presented for Klarna Bank AB (publ) (556737-0431) and its consolidated situation as of March 31, 2020.

Summary of capital adequacy information	Consolidated situation	Klarna Bank AB
SEKk	31 Mar 2020	31 Mar 2020
Own funds		
Common Equity Tier 1 capital	7,189,416	4,214,113
Additional Tier 1 capital	485,338	250,000
Tier 2 capital	561,894	598,636
Own funds	8,236,647	5,062,750
Risk exposure amount		
Credit risk according to standardized approach	25,319,086	27,264,891
Market risk according to standardized approach	489,274	1,686,979
Operational risk according to alternative standardized approach	1,415,645	1,473,836
Credit valuation adjustment	12,991	12,991
Total risk exposure amount	27,236,996	30,438,698
Capital adequacy analysis		
Common Equity Tier 1 capital ratio	26.4%	13.8%
Tier 1 capital ratio	28.2%	14.7%
Total capital ratio	30.2%	16.6%
Combined buffer requirement incl. the requirements of 575/2013 Art. 92(1)(a)	7.1%	7.1%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	0.1%	0.1%
Common Equity Tier 1 available to meet buffer requirement, less minimum capital requirement.	21.9%	9.3%
Leverage ratio		
Tier 1 capital	7,674,754	4,464,113
Total Leverage ratio exposure amount	43,719,236	44,142,693
Leverage ratio	17.6%	10.1%

Capital requirements for credit risk per exposure class, standardized approach

SEKk

Consolidated situation

Exposure class	Exposure amount	Risk weighted exposure amount	Capital requirement
Central governments or central banks	959,459	0	0
Regional governments or local authorities	3,525,634	0	0
Public sector entities	824,980	0	0
Multilateral development banks	821,831	0	0
Institutions	3,039,339	607,868	48,629
Corporates	1,619,852	1,534,391	122,751
Retail	26,741,150	20,055,862	1,604,469
Exposures in default	624,005	704,865	56,389
Covered bonds	2,808,813	280,881	22,471
Equity	20,852	50,974	4,078
Other items	1,616,988	2,084,245	166,740
Total	42,602,902	25,319,086	2,025,527

Capital requirements for credit risk per exposure class, standardized approach

SEKk

Klarna Bank AB

Exposure class	Exposure amount	Risk weighted exposure amount	Capital requirement
Central governments or central banks	830,250	0	0
Regional governments or local authorities	3,525,634	0	0
Public sector entities	824,980	0	0
Multilateral development banks	821,831	0	0
Institutions	1,818,288	363,658	29,093
Corporates	4,059,970	3,987,676	319,014
Retail	25,863,098	19,397,323	1,551,786
Exposures in default	548,993	629,853	50,388
Covered bonds	2,808,813	280,881	22,471
Equity	1,365,194	1,395,316	111,625
Other items	828,452	1,210,184	96,815
Total	43,295,502	27,264,891	2,181,191

Internally assessed capital requirement

As of March 31, 2020, the internally assessed capital requirement for the consolidated situation amounted to SEK 3.2bn and for Klarna Bank AB (publ) to SEK 3.6bn, comprising the minimum capital requirement under Pillar I, the capital requirement for risks managed under Pillar II and the combined buffer requirements.

Sources of funding

As of March 31, 2020, Klarna's business was funded by deposits from the public, debt securities in issue, operational liabilities, subordinated debt and liabilities to credit institutions.

Liquidity reserve

As of March 31, 2020, Klarna's liquidity reserve amounted to SEK 10.8bn and consisted of high-quality liquid assets.

IFRS 9 Transitional adjustments

From January 1, 2018 Klarna applies the transitional rules in accordance with article 473(a) of the European Union regulation no 575/2013 in order to phase in the effect on capital when applying IFRS 9. This includes adjusting the capital adequacy calculations with a dynamic and a static amount over a five-year period.

SEKk	Consolidated situation			
	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 June 2019
Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9				
Available capital (amounts)				
Common Equity Tier 1 (CET1) capital	7,189,416	7,439,312	7,665,982	3,386,342
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	6,756,871	7,017,798	7,381,004	3,101,363
Tier 1 capital	7,674,754	7,913,117	8,157,562	3,892,714
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	7,242,209	7,491,603	7,872,584	3,607,736
Total capital	8,236,647	8,448,159	8,731,239	4,490,839
Total capital as if IFRS 9 transitional arrangements had not been applied	7,804,102	8,026,644	8,446,260	4,397,638
Risk exposure amounts				
Total risk exposure amount	27,236,996	26,445,452	25,434,302	23,731,981
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	26,804,451	26,023,938	25,149,324	23,638,780
Capital ratios (as percentage of total risk exposure amount)				
CET1	26.4%	28.1%	30.1%	14.3%
CET1 as if IFRS 9 transitional arrangements had not been applied	25.2%	27.0%	29.3%	13.1%
Tier 1	28.2%	29.9%	32.1%	16.4%
Tier 1 as if IFRS 9 transitional arrangements had not been applied	27.0%	28.8%	31.3%	15.3%
Total capital	30.2%	31.9%	34.3%	18.9%
Total capital as if IFRS 9 trans. Arrangements had not been applied	29.1%	30.8%	33.6%	18.6%
Leverage ratio				
Total Leverage ratio exposure amount	43,719,236	38,528,570	33,553,450	29,016,069
Leverage ratio	17.6%	20.5%	24.3%	13.4%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	16.6%	19.4%	23.5%	12.4%

Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9

Klarna Bank AB

SEKk	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 June 2019
Available capital (amounts)				
Common Equity Tier 1 (CET1) capital	4,214,113	4,570,245	4,078,857	3,227,171
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	3,851,416	4,261,842	4,078,857	3,048,031
Tier 1 capital	4,464,113	4,820,245	4,328,857	3,477,171
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	4,101,416	4,511,842	4,328,857	3,298,031
Total capital	5,062,750	5,418,570	4,927,098	4,075,296
Total capital as if IFRS 9 transitional arrangements had not been applied	4,700,053	5,110,166	4,927,098	3,896,156
Risk exposure amounts				
Total risk exposure amount	30,438,698	28,793,937	30,302,991	27,595,600
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	30,076,001	28,485,533	30,123,851	27,500,834
Capital ratios (as percentage of total risk exposure amount)				
CET1	13.8%	15.9%	13.5%	11.7%
CET1 as if IFRS 9 transitional arrangements had not been applied	12.8%	15.0%	13.5%	11.1%
Tier 1	14.7%	16.7%	14.3%	12.6%
Tier 1 as if IFRS 9 transitional arrangements had not been applied	13.6%	15.8%	14.4%	12.0%
Total capital	16.6%	18.8%	16.3%	14.8%
Total capital as if IFRS 9 trans. arrangements had not been applied	15.6%	17.9%	16.4%	14.2%
Leverage ratio				
Total Leverage ratio exposure amount	44,142,693	38,928,014	33,997,279	29,376,345
Leverage ratio	10.1%	12.4%	12.7%	11.8%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	11.7%	12.3%	11.5%	11.2%

Disclosure of information regarding capital adequacy and capital ratios

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

Own funds disclosure			Regulation (EU) No 575/2013 Article reference
SEKk	Consolidated situation	Klarna Bank AB	
Common Equity Tier 1 (CET1) capital: instruments and reserves			
Capital instruments and the related share premium accounts	9,080,086	4,857,892	26(1), 27, 28, 29
of which: Share capital	2,289	52,752	26(3)
of which: Share premium	9,077,797	4,805,140	26(3)
Retained earnings	14,174	-508,814	26(1)(c)
Accumulated other comprehensive income (and other reserves)	332,171	434,292	26(1)
Independently reviewed interim profits			26(2)
Common Equity Tier 1 capital before regulatory adjustments	9,426,432	4,783,370	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Additional value adjustments	-637	-637	34, 105
Intangible assets (net of related tax liability)	-2,228,004	-560,684	36(1)(b), 37
Losses for the current financial year	-440,920	-370,632	36(1)(a)
IFRS 9 transitional adjustments to CET1 Capital	432,545	362,697	473a(8)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,237,016	-569,257	
Common Equity Tier 1 (CET1) capital	7,189,416	4,214,113	
Additional Tier 1 (AT1) capital: instruments			
Capital instruments and the related share premium accounts	256,372	250,000	51, 52
of which: classified as equity under applicable accounting standards	256,372	250,000	
Qualifying AT1 capital included in the consolidated Tier 1 capital issued by subsidiaries and held by third parties	228,966		85, 86
Additional Tier 1 (AT1) capital before regulatory adjustments	485,338	250,000	
Additional Tier 1 (AT1) capital: regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 (AT1) capital			
Additional Tier 1 (AT1) capital instruments	485,338	250,000	
Tier 1 capital (T1 = CET1 + AT1)	7,674,754	4,464,113	
Tier 2 (T2) capital: instruments and provisions			
Capital instruments and the related share premium accounts		598,636	62, 63
Qualifying own funds instruments included in the consolidated Tier 2 capital issued by subsidiaries and held by third party	561,894		87, 88
Tier 2 (T2) capital before regulatory adjustment	561,894	598,636	
Tier 2 (T2) capital: regulatory adjustments			
Total regulatory adjustments to Tier 2 (T2) capital			
Tier 2 (T2) capital instruments	561,894	598,636	
Own funds (TC = T1 + T2)	8,236,647	5,062,750	
Total risk exposure amount	27,236,996	30,438,698	

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

Common Equity Tier 1	26.4%	13.8%	92(2)(a)
Tier 1	28.2%	14.7%	92(2)(b)
Total capital	30.2%	16.6%	92(2)(c)
Institution specific buffer requirement (CET1 requirement in accordance with article 92(1)(a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer)	7.1%	7.1%	CRD 128, 129, 130, 131, 133
of which: capital conservation buffer requirement	2.5%	2.5%	
of which: countercyclical buffer requirement	0.1%	0.1%	
Common Equity Tier 1 available to meet buffer requirement, less minimum capital requirement.	21.9%	9.3%	CRD 128

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

Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	20,081	20,081	36(1)(i), 45, 48
Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38(3) are met)	448,473	389,826	36(1)(c), 38, 48