# Annual report 2016

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

## Table of Contents



The statutory Annual Report comprises of pages 2-57.

# To our shareholders

Fellow shareholders,

During the past 12 years we have worked extremely hard to solve tedious and complicated online payments. Even though we are far from finished, we have come a long way on the road to achieving that goal.

We are now using all the knowledge and experience that we have gathered from the online world over the past decade to solve the same problems in the world of physical stores, and that is only the beginning of what we are setting out to accomplish.

Klarna is dedicated in continuing to make the shopping experience better for consumers, and by doing so drive user loyalty, and ultimately sales, for our merchants and partners across the globe. It therefore makes us extremely proud to see that merchants are continuing to see real results with our products, with increasing conversion rates, order value, number of users and overall preference.

Some highlights during the year:

- We launched several exciting new products: in store payments in the Nordics, a financing solution in the US and UK, and an instant payments option called Klarna Direct in Sweden. Just to name a few.

- Our systems remained very stable during the year. Black Friday and Christmas were effortlessly handled despite record breaking sale figures, and over the year we maintained 99.98% system availability.

- At Klarna, we put the user experience first. We are therefore very proud to see our customer service satisfaction index at 88 %, a real proof of success, with anything above 85 % considered to be world class customer service.

I want to take this opportunity to thank my fellow employees, our shareholders, merchants and users for another great year. Together we will continue to create wonders.

Thank you,
Sebastian Siemiatkowski, CEO and Co-founder

# Report of the Board of Directors

The Board and the CEO of Klarna AB (publ) hereby submit their report for the financial year January 1 – December 31, 2016. The annual accounts have been prepared in thousands of Swedish kronor unless otherwise stated.

**Information about the business**
Klarna AB (publ) is a registered credit market company and is under the supervision of the Swedish Financial Supervision Authority (Finansinspektionen). The company's personal data delegate guarantees that personal details are dealt with in accordance with the Swedish Personal Data Protection Act (PUL).

At Klarna, we want to make shopping smoother everywhere. We do this by making buying simpler and safer for consumers and selling simpler and safer for merchants. Our business is primarily comprised of payment solutions and consumer lending products. Klarna receives revenues from both the merchants and the consumers that use Klarna's payment solutions.

Klarna's value proposition to our users is to let them purchase goods safely and simply and to pay when and how they want. Klarna offers consumers a range of direct and credit payment options, including card payments and direct banking, as well as Klarna's proprietary payment options, which include invoice, sales financing and instant payments.

Klarna's value proposition to merchants is to increase their sales and reduce their working capital requirements by providing simple, safe, and cost-effective payment solutions and consumer credit products across all commerce platforms including desktop, tablets, mobile phones and physical stores. Klarna's offerings to the merchant include technology, credit risk, customer services and administration.

The flagship product Klarna Checkout is a conversion driving checkout solution optimized for desktop and mobile in which merchants can offer popular payment services such as card payments, direct banking and Klarna's proprietary payment options in one integrated solution. Klarna assumes all the risk in the transaction on behalf of both the consumer and the merchant.

**Significant events during the financial year**
On June 20, Klarna AB (publ) issued 300 MSEK of subordinated bonds. To support this transaction Klarna AB (publ) was transformed from a private company to a public company according to the Swedish Companies Act.

On September 28, Eva Cederbalk resigned from the Board of Directors at her own request. On the same day Jonathan Kamaluddin was elected new chairman of the Board of Directors.

On November 15, Victor Jacobsson resigned from the Board of Directors at his own request. On the same day, Mikael Walther was appointed new member of the Board of Directors.

On December 1, the company's wholly-owned subsidiary Ident Inkasso AB established a branch in Germany.

Klarna AB (publ) has provisioned 166 MSEK for 2014-2016 as a consequence of new tax assessments made by the Swedish Tax Agency on how Klarna handles VAT. Klarna is disputing the new assessments; however the provisioning represents a likely outcome.

**Future development**
The future continues to look bright for Klarna. Focus areas during 2017 will be to gain scale and optimizing margins in the UK and US, further strengthen our market leading positions in the Nordics and continental Europe countries by further improving our product offerings, achieving operational efficiencies in our core direct costs, driving increased customer preference and loyalty through improved products and consumer communication, and ensuring long term scalability and flexibility through continued investments in our technical platform.

**Risks and risk management**
Through its business activities, Klarna is subject to a number of different risks, the main ones being credit risk, operational risk, market risk (interest risk and currency risk) and liquidity risk. For a more detailed description, see note 3.

External regulations set forth requirements for proper internal control, identifying and managing risks as well as having internal control functions on different levels. The Board and Management regularly decide on policies and instructions for the governance and management of risks, including a risk appetite and tolerance limits.

The basis for the risk management and internal control framework is a three lines of defense model, which describes the roles and responsibilities for risk management and control. The first line of defense refers to all risk management activities carried out by line management and staff. All managers are fully responsible for the risks, and the management of these, within their respective area of responsibility. Hence they are responsible for ensuring that the appropriate organization, procedures and support systems are implemented to ensure a sufficient system of internal controls.

The second line of defense refers to Klarna's independent Risk Control and Compliance Functions, which report directly to the CEO and the Board of Directors. These functions set the principles and framework for risk management, facilitate risk assessment and perform the independent follow-up, as well as monitoring that the operations are carried out in compliance with external regulations and internal policies. They shall also promote a sound risk management and compliance culture - and in this way enable business - by supporting and educating business line managers and staff.

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 AB as internal auditors.

**Important events after the end of the reporting period**
On 1 February 2017, the company's newly acquired (January 2017) indirect subsidiary Klarna SPV GmbH signed a share purchase agreement regarding all shares in the German payment company Billpay GmbH. The acquisition is conditional upon approval from the German Financial Supervisory Authority.

The initial accounting for the business combination is incomplete at the time the financial statements are authorized for issue. Thus no financial conditions regarding Billpay GmbH could be disclosed.

**Proposed treatment of unappropriated earnings**
The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of 2,212,940,807 kronor on Klarna AB (publ)´s balance sheet at the disposal of the Annual General Meeting to be carried forward.

| | | |
|---|---|---|
| Retained earnings | 2 212 640 654 | kronor |
| Net Income for the year | 300 153 | kronor |
| Total | 2 212 940 807 | kronor |

# Five Year Summary, Group

| **Amounts in TSEK** | **2016** | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|---|
| **Income Statement** | | | | | |
| Total operating revenues | 3 560 661 | 2 776 466 | 2 192 703 | 1 571 827 | 1 170 167 |
| Operating income | 168 300 | 170 127 | 101 441 | 66 808 | 31 639 |
| Net income for the year | 113 427 | 127 411 | 75 424 | 54 126 | 23 973 |
| **Balance Sheet** | | | | | |
| Loans to credit institutions | 1 234 684 | 499 754 | 756 176 | 612 841 | 459 765 |
| Loans to the public | 8 362 961 | 6 037 726 | 4 446 223 | 3 500 695 | 2 860 300 |
| All other assets | 2 484 179 | 2 220 915 | 1 992 823 | 510 694 | 306 587 |
| **Total assets** | 12 081 824 | 8 758 395 | 7 195 222 | 4 624 230 | 3 626 652 |
| Liabilities to credit institutions | 754 944 | 708 826 | 386 116 | 168 220 | 75 695 |
| Deposits from the public | 5 839 490 | 3 959 427 | 3 705 020 | 2 679 992 | 2 203 075 |
| All other liabilities | 2 870 025 | 1 626 780 | 1 107 479 | 943 832 | 569 116 |
| Total equity | 2 617 365 | 2 463 362 | 1 996 607 | 832 186 | 778 766 |
| **Total liabilities and equity** | 12 081 824 | 8 758 395 | 7 195 222 | 4 624 230 | 3 626 652 |
| **Key Ratios and Figures** | | | | | |
| Return on equity[1] | 6,6% | 7,6% | 7,2% | 8,3% | 5,1% |
| Return on assets[2] | 1,1% | 1,6% | 1,3% | 1,3% | 0,7% |
| Debt/equity ratio[3] | 3,1 | 2,6 | 3,2 | 4,0 | 3,8 |
| Equity/assets ratio[4] | 21,7% | 28,1% | 27,7% | 18,0% | 19,3% |
| Own funds | 1 928 585 | 1 388 231 | 819 777 | 736 784 | 719 545 |
| Capital requirement | 820 138 | 578 504 | 431 855 | 331 245 | 246 518 |
| Total capital ratio[5] | 18,8% | 19,2% | 15,2% | 17,8% | 23,4% |
| Average number of employees | 1 244 | 1 074 | 1 017 | 778 | 672 |

Footnotes 1-5 are described on the next page.

# Five Year Summary, Parent Company

| Amounts in TSEK | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Income Statement** | | | | | |
| Total operating revenues | 2 921 550 | 2 277 555 | 1 860 988 | 1 397 333 | 1 031 000 |
| Operating income | 9 697 | 68 871 | 131 063 | 64 842 | 29 440 |
| Net income for the year | 300 | 47 020 | 75 750 | 44 258 | 18 677 |
| **Balance Sheet** | | | | | |
| Loans to credit institutions | 946 172 | 313 890 | 674 074 | 595 154 | 448 720 |
| Loans to the public | 8 802 093 | 6 456 845 | 5 009 148 | 3 500 695 | 2 860 300 |
| All other assets | 2 009 207 | 1 826 556 | 1 370 933 | 531 949 | 333 210 |
| Total assets | 11 757 472 | 8 597 291 | 7 054 155 | 4 627 798 | 3 642 230 |
| Liabilities to credit institutions | 754 944 | 708 826 | 386 116 | 168 220 | 75 695 |
| Deposits from the public | 5 839 490 | 3 959 427 | 3 705 020 | 2 679 992 | 2 203 075 |
| All other liabilities | 2 848 743 | 1 614 770 | 1 072 591 | 984 115 | 611 584 |
| Total equity | 2 314 295 | 2 314 268 | 1 890 428 | 795 471 | 751 876 |
| Total liabilities and equity | 11 757 472 | 8 597 291 | 7 054 155 | 4 627 798 | 3 642 230 |
| **Key Ratios and Figures** | | | | | |
| Return on equity[1] | 0,4% | 2,8% | 7,6% | 7,6% | 4,5% |
| Return on assets[2] | 0,0% | 0,6% | 1,3% | 1,1% | 0,6% |
| Debt/equity ratio[3] | 3,3 | 2,6 | 3,3 | 4,0 | 3,9 |
| Equity/assets ratio[4] | 20,2% | 26,9% | 26,8% | 17,9% | 22,0% |
| Own funds | 2 540 564 | 2 256 995 | 1 807 132 | 716 522 | 708 883 |
| Capital requirement | 908 420 | 697 175 | 553 165 | 332 477 | 242 230 |
| Total capital ratio[5] | 22,4% | 25,9% | 26,1% | 17,2% | 23,4% |
| Average number of employees | 851 | 727 | 700 | 636 | 548 |

[1] Return on equity is the operating income for the year as a percentage of adjusted average equity.

[2] Return on assets is the net income for the year as a percentage of average total assets.

[3] The debt/equity ratio is average liabilities in relation to adjusted average equity.

[4] The equity/assets ratio is adjusted equity as a percentage of total assets at the end of the reporting period.

[5] The total capital ratio is the own funds in relation to total risk exposure amount.

# Income Statement, Group

| Amounts in TSEK | Note | 2016 | 2015 |
|---|---|---|---|
| Interest income | 5 | 1 282 921 | 1 053 072 |
| Commission income | 6 | 2 265 763 | 1 715 817 |
| Other operating income | | 11 977 | 7 577 |
| **Total operating revenues** | | **3 560 661** | **2 776 466** |
| Interest expenses | 7 | -102 212 | -84 656 |
| Commission expenses | 8 | -150 281 | -98 156 |
| Net income from financial transactions | 9 | -18 665 | -11 886 |
| General administrative expenses | 10, 11 ,12 | -2 584 887 | -1 972 789 |
| Depreciation, amortization and impairment | | | |
| of intangible and tangible fixed assets | 13 | -112 628 | -103 601 |
| Credit losses, net | 14 | -423 688 | -335 251 |
| **Total operating expenses** | | **-3 392 361** | **-2 606 339** |
| **Operating income** | | **168 300** | **170 127** |
| Income tax expense | 15 | -54 873 | -42 716 |
| **Net income for the year** | | **113 427** | **127 411** |

# Statement of Comprehensive Income, Group

| | | |
|---|---|---|
| **Net income for the year** | **113 427** | **127 411** |
| **Items that may be reclassified subsequently to the income statement:** | | |
| Exchange differences, foreign operations | 41 443 | -37 481 |
| **Other comprehensive income for the year, net after tax** | **41 443** | **-37 481** |
| **Total comprehensive income for the year** | **154 870** | **89 930** |

Net income and total comprehensive income are both in its entirety attributable to the shareholders of Klarna AB (publ).

# Balance Sheet, Group

| Amounts in TSEK | Note | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash in hand | | 40 | 55 |
| Chargeable central bank treasury bills etc. | 18 | 941 703 | 790 348 |
| Loans to credit institutions | 19 | 1 234 684 | 499 754 |
| Loans to the public | 20 | 8 362 961 | 6 037 726 |
| Other shares and participations | | 10 315 | 12 315 |
| Intangible assets | 22 | 1 212 236 | 1 191 710 |
| Tangible fixed assets | 23 | 54 825 | 53 520 |
| Other assets | 24 | 219 478 | 134 930 |
| Prepaid expenses and accrued income | 25 | 45 582 | 38 037 |
| **Total assets** | | **12 081 824** | **8 758 395** |
| **Liabilities** | | | |
| Liabilities to credit institutions | 26 | 754 944 | 708 826 |
| Deposits from the public | 27 | 5 839 490 | 3 959 427 |
| Deferred tax liabilities | 15 | 74 955 | 80 073 |
| Other liabilities | 28 | 2 079 328 | 1 314 063 |
| Accrued expenses and prepaid income | 29 | 277 681 | 230 639 |
| Provisions | 30 | 141 260 | 2 005 |
| Subordinated liabilities | 31 | 296 801 | - |
| **Total liabilities** | | **9 464 459** | **6 295 033** |
| **Equity** | | | |
| Share capital | | 52 752 | 52 752 |
| Other capital contributed | | 1 396 207 | 1 396 207 |
| Reserves | | 73 397 | 31 954 |
| Retained earnings | | 981 582 | 855 038 |
| Net income for the year | | 113 427 | 127 411 |
| **Total equity** | | **2 617 365** | **2 463 362** |
| **Total liabilities and equity** | | **12 081 824** | **8 758 395** |

# Statement of Changes in Equity, Group

| Amounts in TSEK | Share capital | Oth. capital contributed | Reserves | Retained earnings | Net income | Total equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2016** | **52 752** | **1 396 207** | **31 954** | **855 038** | **127 411** | **2 463 362** |
| Transfer of previous year's net income | - | - | - | 127 411 | -127 411 | - |
| *Net income for the year* | - | - | - | - | *113 427* | *113 427* |
| *Exchange differences, foreign operations* | - | - | *41 443* | - | - | *41 443* |
| **Total comprehensive income for the year** | **-** | **-** | **41 443** | **-** | **113 427** | **154 870** |
| Group contribution[1] | - | - | - | -350 | - | -350 |
| Tax effect group contribution | - | - | - | 77 | - | 77 |
| Share-based payments | - | - | - | -594 | - | -594 |
| **Balance at December 31, 2016** | **52 752** | **1 396 207** | **73 397** | **981 582** | **113 427** | **2 617 365** |
| | | | | | | |
| **Balance at January 1, 2015** | **52 752** | **1 019 207** | **69 435** | **779 789** | **75 424** | **1 996 607** |
| Transfer of previous year's net income | - | - | - | 75 424 | -75 424 | - |
| *Net income for the period* | - | - | - | - | *127 411* | *127 411* |
| *Exchange differences, foreign operations* | - | - | *-37 481* | - | - | *-37 481* |
| **Total comprehensive income for the year** | **-** | **-** | **-37 481** | **-** | **127 411** | **89 930** |
| Group contribution[1] | - | - | - | -230 | - | -230 |
| Tax effect group contribution | - | - | - | 51 | - | 51 |
| Shareholders contribution | - | 377 000 | - | - | - | 377 000 |
| Share-based payments | - | - | - | 4 | - | 4 |
| **Balance at December 31, 2015** | **52 752** | **1 396 207** | **31 954** | **855 038** | **127 411** | **2 463 362** |

[1] Group contribution to parent company Klarna Holding AB, not paid.

# Income Statement, Parent Company

| Amounts in TSEK | Note | 2016 | 2015 |
|---|---|---|---|
| Interest income | 4, 5 | 1 314 132 | 1 081 362 |
| Lease income | 4 | 3 197 | - |
| Interest expense | 7 | -102 043 | -84 615 |
| **Net interest income** | | **1 215 286** | **996 747** |
| Group contribution | 4 | 700 | 900 |
| Commission income | 4, 6 | 1 828 353 | 1 389 672 |
| Commission expense | 8 | -138 747 | -89 852 |
| Net income from financial transactions | 4, 9 | 4 847 | -30 937 |
| Other operating income | 4 | 11 111 | 11 025 |
| **Total operating revenue** | | **2 921 550** | **2 277 555** |
| General administrative expenses | 10, 11, 12 | -2 391 959 | -1 790 738 |
| Depreciation, amortization and impairment of intangible and tangible fixed assets | 13 | -70 962 | -63 985 |
| Other operating costs | | -49 313 | -30 341 |
| **Total expenses before credit losses** | | **-2 512 234** | **-1 885 064** |
| **Operating income before credit losses, net** | | **409 316** | **392 491** |
| Net credit losses | 14 | -399 619 | -323 620 |
| **Operating income** | | **9 697** | **68 871** |
| Appropriations | 16 | -2 539 | -10 992 |
| Income tax expense | 15 | -6 858 | -10 859 |
| **Net income for the year** | | **300** | **47 020** |

# Statement of Comprehensive Income, Parent Company

| | | |
|---|---|---|
| **Net income for the year** | **300** | **47 020** |
| **Items that may be reclassified subsequently to the income statement:** | | |
| Exchange differences, foreign operations | - | - |
| **Total comprehensive income for the year** | **300** | **47 020** |

# Balance Sheet, Parent Company

| Amounts in TSEK | Note | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash in hand | | 4 | 4 |
| Chargeable central bank treasury bills etc. | 18 | 941 703 | 790 348 |
| Loans to credit institutions | 19 | 946 172 | 313 890 |
| Loans to the public | 20 | 8 802 093 | 6 456 845 |
| Shares and participations in group companies | 21 | 543 999 | 543 999 |
| Other shares and participations | | 10 315 | 12 315 |
| Intangible assets | 22 | 135 406 | 121 125 |
| Tangible fixed assets | 23 | 28 653 | 29 277 |
| Other assets | 24 | 286 071 | 273 455 |
| Prepaid expenses and accrued income | 25 | 63 056 | 56 033 |
| **Total assets** | | **11 757 472** | **8 597 291** |
| **Liabilities and equity** | | | |
| Liabilities to credit institutions | 26 | 754 944 | 708 826 |
| Deposits from the public | 27 | 5 839 490 | 3 959 427 |
| Deferred tax liabilities | 15 | 3 274 | - |
| Other liabilities | 28 | 2 084 638 | 1 337 186 |
| Accrued expenses and prepaid income | 29 | 240 162 | 195 724 |
| Provisions | 30 | 139 468 | - |
| Subordinated liabilities | 31 | 296 801 | - |
| **Total liabilities** | | **9 358 777** | **6 201 163** |
| **Untaxed reserves** | 32 | **84 400** | **81 860** |
| **Equity** | | | |
| Share capital | | 52 752 | 52 752 |
| Reserves | | 48 602 | - |
| Retained earnings | | 2 212 641 | 2 214 496 |
| Net income for the year | | 300 | 47 020 |
| **Total equity** | | **2 314 295** | **2 314 268** |
| **Total liabilities and equity** | | **11 757 472** | **8 597 291** |

# Statement of Changes in Equity, Parent Company

| Amounts in TSEK | Restricted equity | | Non-restricted equity | | |
|---|---|---|---|---|---|
| | Share capital | Reserves | Retained earnings | Net income | Total equity |
| **Balance at January 1, 2016** | **52 752** | **-** | **2 214 496** | **47 020** | **2 314 268** |
| Transfer of previous year's net income | - | - | 47 020 | -47 020 | - |
| *Net income for the year* | *-* | *-* | *-* | *300* | *300* |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **300** | **300** |
| Group contribution[1] | - | - | -350 | - | -350 |
| Tax effect group contribution | - | - | 77 | - | 77 |
| Fund for internally developed software | - | 48 602 | -48 602 | - | - |
| **Balance at December 31, 2016** | **52 752** | **48 602** | **2 212 641** | **300** | **2 314 295** |
| | | | | | |
| **Balance at January 1, 2015** | **52 752** | **-** | **1 761 926** | **75 750** | **1 890 428** |
| Transfer of previous year's net income | - | - | 75 750 | -75 750 | - |
| *Net income for the year* | *-* | *-* | *-* | *47 020* | *47 020* |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **47 020** | **47 020** |
| Group contribution[1] | - | - | -230 | - | -230 |
| Tax effect group contribution | - | - | 51 | - | 51 |
| Shareholders contribution | - | - | 377 000 | - | 377 000 |
| **Balance at December 31, 2015** | **52 752** | - | **2 214 496** | **47 020** | **2 314 268** |

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

[1] Group contribution to parent company Klarna Holding AB, not paid.

# Cash Flow Statement

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| **Amounts in TSEK** | | **2016** | **2015** | **2016** | **2015** |
| **Operating activities** | | | | | |
| Operating income | | 168 300 | 170 127 | 9 697 | 68 871 |
| Taxes paid | | -59 619 | -35 905 | -49 048 | -17 329 |
| *Adjustments for non-cash items in operating activities* | | | | | |
| Depreciation, amortization and impairment | 13 | 112 628 | 103 601 | 70 962 | 63 985 |
| Group contribution | | - | - | -700 | -900 |
| Share-based payments | | -594 | - | - | - |
| Provisions excl credit losses | | 141 467 | - | 141 467 | - |
| Provision for credit losses | | 42 428 | 122 215 | 50 650 | 112 937 |
| Financial items, unrealized | | -14 880 | -14 657 | -35 182 | 5 485 |
| *Changes in the assets and liabilities of operating activities* | | | | | |
| Change in loans to the public | | -2 367 663 | -1 713 718 | -2 395 898 | -1 560 635 |
| Change in liabilities to credit institutions | | 46 118 | 322 711 | 46 118 | 322 711 |
| Change in deposits from the public | | 1 880 063 | 254 407 | 1 880 063 | 254 407 |
| Change in other assets and liabilities | | 583 347 | 193 251 | 701 593 | 34 163 |
| **Cash flow from operating activities** | | **531 595** | **-597 969** | **419 722** | **-716 305** |
| **Investing activities** | | | | | |
| Investments in intangible assets | 22 | -68 965 | -30 812 | -68 135 | -29 794 |
| Investments in tangible assets | 23 | -24 796 | -29 029 | -16 485 | -8 888 |
| Sales of fixed assets | | -16 | 39 | - | - |
| Investments in subsidiaries | | - | - | - | -4 263 |
| Other shares and participations | | - | -12 315 | - | -12 315 |
| **Cash flow from investing activities** | | **-93 777** | **-72 117** | **-84 620** | **-55 260** |
| **Financing activities** | | | | | |
| Shareholder contribution received | | - | 377 000 | - | 377 000 |
| Share warrants | | - | 4 | - | - |
| Subordinated debt | 31 | 296 801 | - | 296 801 | - |
| **Cash flow from financing activities** | | **296 801** | **377 004** | **296 801** | **377 000** |
| **Cash flow for the year** | | **734 619** | **-293 082** | **631 903** | **-394 565** |
| **Cash and cash equivalents at the beginning of year** | | **437 919** | **728 684** | **252 005** | **646 570** |
| Cash flow for the year | | 734 619 | -293 082 | 631 903 | -394 565 |
| Exchange rate diff. in cash and cash equivalents | | -842 | 2 317 | - | - |
| **Cash and cash equivalents at the end of year** | | **1 171 696** | **437 919** | **883 908** | **252 005** |
| **Cash and cash equivalents include the following items** | | | | | |
| Cash in hand | | 40 | 55 | 4 | 4 |
| Loans to credit institutions[1] | | 1 171 656 | 437 864 | 883 904 | 252 001 |
| **Cash and cash equivalents** | | **1 171 696** | **437 919** | **883 908** | **252 005** |

[1] Adjusted for non-cash items in loans to credit institutions.

# Notes with Accounting Principles

## Note 1 Corporate information

The parent company, Klarna AB (publ), 556737-0431, maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated financial statements for 2016 consists of the parent company and its subsidiaries, together they make up the Group. The Group's business is described in the Report of the Board of Directors.

The parent company of Klarna AB (publ) is Klarna Holding AB, 556776-2356. Klarna Holding AB has its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden.

The consolidated financial statements and the Annual Report for Klarna AB (publ) for the financial year 2016 were approved by the Board of Directors and the CEO on April 26, 2017. They will ultimately be adopted by Klarna AB (publ)'s Annual General Meeting on May 16, 2017.

## Note 2 Accounting and valuation 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 Supervision Authority regulations (FFFS 2008:25), the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), 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's annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL). Klarna AB applies legally restricted IFRS, which means that the annual accounts have been prepared in accordance with IFRS with the additions and exceptions ensuing from the Swedish Financial Reporting Board recommendation RFR 2 Accounting for Legal Entities and the Swedish Financial Supervision Authority regulations and general guidelines for the annual accounts of credit institutions and securities companies (FFFS 2008:25).

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 will be reported in section 22.

### 2) Changed accounting principles

*New and changed standards and interpretations*

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint operations
- Amendments to IAS 16 and iAS 41: Bearer Plants
- Annual Improvements to IFRS 2012-2014 Cycle

The adoption of the new and changed standards and interpretations mentioned above did not have a significant impact on the Group.

*New and changed standards and interpretations which have not yet come into effect and which have not been applied in advance by the Group*

*IFRS 9, "Financial instruments"*
Deals with the classification, valuation and reporting of financial liabilities and assets. The complete version of IFRS 9 was published in July 2014, which replaces most of the guidance in IAS 39 and adopted by the EU in November 2016. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss. The existing IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale are removed. The classification is determined on initial recognition on the basis of the company's business model and on the contractual cash flow characteristics of the assets. IFRS 9 also contains changes for the valuation of financial assets. The incurred loss model in IAS 39 is replaced with an expected credit loss model. The new model applies to financial assets that are not measured at fair

value through profit or loss, including loans, trade receivables and debt securities. For financial liabilities there are no major changes compared to IAS 39. The effective date is 1 January 2018 and early adoption is permitted.

The Group has not yet finalized its impact assessment of IFRS 9, and will therefore not adopt IFRS 9 before 1 January 2018. However, due to the short credit time of Klarna's financial assets for which the new model is applicable to, no material effect on the Group is expected.

*IFRS 15, "Revenue from contracts with customers"*
IFRS 15 will replace IAS 18 *Revenues*. The new standard establishes the principles for revenue recognition from contracts with customers, but it does not impact the recognition of revenue from financial instruments in the scope of IAS 39. The standard also establishes new disclosures to provide more relevant information. The standard is applicable from 1 January 2018.

The Group has not yet finalized its impact assessment of IFRS 15.

*IFRS 16 Leases*
In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. EU has not yet adopted the standard. The group has not yet assessed the impact of IFRS 16.

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

**Group consolidation principles**
The consolidated accounts are presented according to the acquisition method and comprise Klarna 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. In the case of business combinations, a purchase price allocation is prepared, where identifiable assets and liabilities are valued at fair value at the time of acquisition. 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 income statement starting on the acquisition date.

Intra Group transactions and receivables and liabilities between the affiliated companies are eliminated.

*Subsidiaries*
Subsidiaries are those companies that Klarna 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.

**3) 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 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 income from financial transactions.

*Subsidiaries*
Foreign subsidiaries' 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.

**4) Interest and commissions**

Revenues are recognized when it is probable that economic benefits associated with the transaction will be realized and the amount of revenue can be reliably measured. The Group's revenues and expenses are reported after elimination of intragroup sales.

*Interest income and Interest expenses*
The effective interest method is used for recognizing interest income and interest expenses on all financial assets and liabilities measured at amortized cost. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and

of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that corresponds to the rate used for discounting estimated future cash flows to the reported value of the financial asset or liability. The estimated future cash flows used in the calculation include all fees that are considered to be integral to the effective interest rate.

The interest income consists mainly of interest from loans to the public in the form of revolving credits and interest from lending to credit institutions.

*Commission income and commission expenses*
Revenues for different types of services are reported as commission income. Commissions and fees for payment services are recognized when the services have been completed and are measured at the fair value of the economic benefits associated with the transaction.

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.

Commission income stems mainly from merchants that have an agreement with Klarna and different types of fees related to end-customer receivables.

**5) Net income from financial transactions**

The net income from financial transactions comprise realized and unrealized changes in fair value due to currency exchange effects and realized and unrealized changes in fair value of derivatives used for hedging, but where hedge accounting is not applied.

**6) General administrative expenses**

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

**7) Net credit losses**

Impairment losses from financial assets classified into the category Loans and receivables (see section "Financial assets and liabilities – classification and reporting" below), in the items Loans to central banks, Loans to credit institutions and Loans to the public on the balance sheet, are reported as Net credit losses.

Net credit losses for the period comprise realized credit losses 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 as the difference between the gross loan amount and the sum of the net present value of estimated cash flows, see section "Impairment of loans and receivables" below for more details.

**8) Financial assets and liabilities – classification and reporting**

Purchases and sales of financial instruments are reported 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 almost all the risks and rights associated with ownership.

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

Financial instruments are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument. Financial instruments are classified into the following categories in accordance with IAS 39, Financial Instruments: Recognition and Measurement:

*Financial assets and liabilities at fair value through profit or loss*
This category has two subcategories:

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

*Held for trading*: This category includes financial assets that are held for trading. All derivatives and financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking are held for trading.

Included in this category are financial assets and liabilities which are listed in an active market or where it is assessed that a reliable fair value can be stated. Chargeable central bank treasury bills etc. and derivatives are both included in this category.

Measurement is at fair value and recalculation is done via the income statement. Realized and unrealized profits and 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 – measurement" below.

*Financial assets classified as Available for sale*
Financial assets classified as Available for sale ("AFS") are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as Loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. AFS financial assets are measured at fair value, where fair value changes are recognized directly in other comprehensive income. Interest, impairment losses and foreign exchange gains and losses on AFS financial assets are however recognized in profit or loss. The cumulative gain or loss that was recognized in other comprehensive income is recognized in profit or loss when an AFS financial asset is derecognized.

Available for sale equity investments that are not quoted in an active market and whose fair value cannot be measured reliably are carried at cost less any impairment loss.

*Loans and receivables*
Into this category are put non-derivative financial assets which have fixed or determinable payments and which are not listed in an active market. Loans to the public, Lending to credit institutions, other assets and accrued revenues are included in this category. Measurement is at amortized cost, which is determined on the basis of the effective interest that was calculated at the time of acquisition. Loans and receivables are reported in the amount at which they are estimated to be received, that is after a deduction for impairments. The Group's loans to the public are pledged so as to enable increased borrowing if necessary.

*Other financial liabilities*
This category comprises all financial liabilities that do not fall into the category measured at fair value through profit or loss. Measurement is at amortized cost.

The classification of financial assets and liabilities follows internal reporting and follow-up within the company.

**9) Financial assets and liabilities - measurement**

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

*Level 1*
Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets. This category includes investments in discount papers where direct tradable price quotes exist.

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

*Level 3*
Estimated values based on assumptions and assessments. One or more significant inputs are not based on observable market information.

**10) Impairment of loans and receivables**

Klarna tests all loans and receivables for impairment. The Group assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. Loans and receivables that are not individually significant are assessed collectively.

To determine whether a loss event has occurred on an individual basis, 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.

If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan(s) or receivable(s) and the present value of expected future cash flows discounted at its original effective interest rate. The carrying amount of the loans and the receivables is reduced by making a provision for credit losses and the amount of the loss is recognized in the income statement as a Net credit loss.

The collective assessment of impairment is to establish an allowance amount on a portfolio basis, a loss amount that is probable of having occurred and is reasonably estimable. The allowance amount represents the incurred losses on the portfolio of smaller-balance homogeneous loans and receivables, which are loans and receivables within the retail business. The loans and receivables are grouped according to similar credit risk characteristics and the allowance for each group is determined using statistical models based on historical experience.

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

If in a subsequent period the amount of a previously recognized impairment loss decreases and the decrease is due to an event occurring after the impairment was recognized, the impairment loss is reversed by reducing the allowance account accordingly. Such reversal is recognized in profit or loss.

**11) Derivative instruments**

Derivative instruments are reported in the balance sheet on the day of the contract and are measured at fair value, both initially and at subsequent revaluations. Derivative instruments are always 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 income from financial transactions.

The Group does not apply hedge accounting.

**12) 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 and Deposits from the public.

**13) Leasing**

Any leasing agreements are attributable to normal agreements for the business and are primarily for office premises and office equipment and are classified as operational leasing. Lease payments for these agreements are expensed linearly over the lease term.

**14) 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 divided 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 is normally 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 (8-14 years). Certain intangible assets have an indefinite useful life and hence are not amortized, but are tested for impairment at least annually.

*IT development and computer software*

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 (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. The impairment charge 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, where the value in use is determined as the present value of expected future cash flows. Disclosures on performed impairment test are provided in note 22.

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

**15) Property, plant and equipment**

Property, plant and equipment consist of equipment, fixtures and fittings, and computers. All property, plant and equipment are reported at acquisition cost after a deduction for accumulated depreciation and any accumulated impairment. By acquisition cost is meant 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 |
| Investments in rented facilities | No longer than the contract time |

Assessment of an asset's residual value and useful life is done annually. When the residual value is less than the carrying value an impairment is recognized in the income statement.

**16) 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.

**17) 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.

**18) Share-based payments**

For share-based payment to employees settled with equity instruments, 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 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 is expected to be vested due to the non-marked based vesting terms is recognized in the income statement and equity. Any related social charges are recognized as cash-settled share-based payment i.e. as an expense during the corresponding period based on the fair value that serves as the basis for a payment of social insurance charges

**19) Pensions**

The Group's pension plans are defined contribution plans, which mean 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.

**20) Group contribution**

Group contribution is reported in the Parent Company according to its financial significance. 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 financial revenue in the income statement. Group contribution paid by a Parent Company to a subsidiary is to be reported as increased participation in the affiliated company. For subsidiaries that pay or receive Group contribution, this is to be reported, together with the accompanying tax, in equity among retained earnings.

**21) 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 are the main revenue-producing activities of the entity that are not investing or financing activities, so 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.

**22) Important estimations and assumptions for accounting purposes**

The Group makes estimates and assumptions about the future. The estimates for accounting purposes that are a consequence of these will by definition seldom correspond to the actual results. The estimates and assumptions that involve a considerable risk of significant adjustments in the carrying amounts for assets and liabilities during the subsequent financial year are dealt with in broad terms below.

*Assessment of and impairment requirements for loans and other receivables*

The value of the Group's loans and receivables is continually tested. Where necessary, receivables are written down to the assessed recoverable amount. The estimated recoverable amount is based on an assessment of the counterparty's financial ability to repay. For loan receivables valued collectively, the future cash flows are estimated amongst other things on the basis of assumptions about how observable data may entail credit losses. The final outcome may deviate from original provisions for credit losses. The assessments and assumptions used are subject to regular checks and follow-up.

*Impairment requirements for goodwill and other intangible assets*

The Group tests on a yearly basis if there is an impairment requirement for goodwill and other intangible assets with indefinite useful life, in accordance with the accounting principle described in note 14 under the heading "Intangible assets". This is tested by estimating the recoverable value, i.e. 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 amounted to 1,212,236 (1,191,710) TSEK, whereof goodwill amounted to 898,455 (866,037) TSEK at the end of the year and is attributable to the acquisition of Sofort AG and Analyzd Technologies Ltd. See note 22 for disclosure of performed impairment tests.

# Note 3 Risk management

**General**
Risk is defined as the possibility of a negative deviation from an expected financial outcome. The Klarna Group is through its business activities subject to a number of different risks, the main ones being credit risk, market risk, liquidity risk and operational risk. Other risks include concentration risk, business risk, strategic risk, reputational risk, remuneration risk and pension risk.

Klarna has a risk appetite framework in place, set by the Board, and 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 purpose of risk management is to safeguard Klarna's long term survival, manage volatility in financial performance, and increase value for the owners by ensuring efficient capital management. The basis for the risk management and internal control framework is the three lines of defense model. The first line of defense refers to all risk management activities carried out by line management and staff. All managers are fully responsible for the risks, and the management of these, within their respective area of responsibility. Hence they are responsible for ensuring that the appropriate organization, procedures and support systems are implemented to ensure a sufficient system of internal controls.

The second line of defense refers to Klarna's independent Risk Control and Compliance Functions, which report directly to the CEO and the Board. To ensure independence, these functions are not involved in business operations.

Risk Control has the responsibility to monitor, control, analyze and report risks in Klarna's business. This includes facilitating assessment of risks, performing testing of internal controls that have been implemented to reduce Klarna's operational risk, and an evaluation± of the appropriateness of the controls. Furthermore, the function is responsible for analyzing the different risk measures that are being used, and to propose changes to these if deemed necessary.

The Compliance function is responsible for supporting the business and management in compliance matters and for assisting in identifying, for follow-up and reporting on compliance risks, which refers to the risk of Klarna not complying with external and internal rules. Furthermore, the Compliance Function is responsible for promoting a sound compliance culture across the business by helping to ensure quality, integrity and ethical practices within the business.

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

The Audit, Compliance and Risk Committee of the Board has the specific responsibility to discuss, steer and monitor these issues and prepare for decisions by the full Board of Directors. For details on the Board of Directors, please see note 10.

The text and figures and the tables below are for the Klarna Group. However, the business activities and risks are mainly in the parent company; Klarna AB (publ).

**Credit risk**
Credit risk is the risk that Klarna realizes a loss due to not having its receivables repaid, either due to a counterpart's inability or unwillingness to fulfill its obligations. Klarna is mainly exposed to credit risk from three sources,

1. Lending to individual consumers/members of the public/companies who buy online using Klarna payment methods
2. Exposure to online merchants defaulting/bankruptcy who Klarna partner with and process payments for
3. Exposure to credit institutions as well as investments in financial assets like treasury bills.

Klarna is exposed to credit risk in the following regions:

- Nordics (Sweden, Norway, Finland, Denmark)
- Germany and Austria
- Netherlands
- United Kingdom
- United States

Klarna has organized the credit risk function into regionally focused credit extension teams who manage the credit risk, within the appetite limits defined by the Board of Directors and executive management. Support is provided through centrally located functions with specialization in risk systems, data science and modelling, fraud management, compliance and legal management.

In order to mitigate the credit risk from individual consumers Klarna uses proprietary scoring models to perform an applicant's credit assessment. Model inputs consist of a number of purchase related data points, such as purchase amount and the specific online store from which the purchase is made. This is combined, together with historical internal customer payment and credit behavior history and external information, to produce the scoring models. Due to differences in local legislation, the availability of external credit rating data and local customer behaviors, models tend to be specific to each country where Klarna conducts business. Loans advanced to customers are a blend of flexible revolving credit options where customers pay at their own pace, with a defined minimum monthly payment, fixed part payment offerings varying between 3 and 36 months, and short term invoice receivables with weighted life between 10 and 30 days.

Customer repayment performances as well as expected losses given by Klarna's underwriting models are continuously monitored and risk appetite for respective regions is adjusted based on the potentially changing risk profile of the portfolio, as well as based on commercial considerations at the time. The short average credit duration makes it possible to respond swiftly and effectively whenever the environment changes by changing credit approval criteria. In addition to the scoring models, manual and automated processes are in place to detect potential fraudulent behavior and credit abuse.

Klarna's ongoing reporting of end customer credit risks focuses on both internal metrics such as pay rates, delinquency rates and provisions as well as total loss rates experienced on the portfolio over time. The highlights are summarized monthly in a report sent to the Executive Credit Committee (ECC). The ECC consists of relevant members of the executive management team and has the responsibility to discuss, steer and monitor the credit portfolio. Klarna's credit policy describes the role of the ECC as well as all credit risk reports distributed within the company.

Klarna's underwriting and credit granting policies are defined based on regional risk appetite assessment – approved by the Executive Committee and the Board of Directors. These are monitored regularly by the credit risk department under the supervision of Risk Control.

The total lending credit exposure amounts to 9,597,645 (6,537,480) TSEK, out of which 8,362,961 (6,037,726) TSEK is lent to the public and 1,234,684 (499,754) TSEK is lent to credit institutions. For credit exposure to the public Klarna makes provisions to cover for expected losses.

| **Credit risk** | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| **Amounts in TSEK** | **2016** | **2015** | **2016** | **2015** |
| Loan receivables, gross | 10 026 369 | 6 903 223 | 10 175 728 | 7 127 203 |
| Allowance for credit losses (loans to the public) | -428 724 | -365 743 | -427 463 | -356 468 |
| Loan receivables, net carrying amount | 9 597 645 | 6 537 480 | 9 748 265 | 6 770 735 |
| *Loans to credit institutions* | *1 234 684* | *499 754* | *946 172* | *313 890* |
| *Loans to the public* | *8 362 961* | *6 037 726* | *8 802 093* | *6 456 845* |

**Loans to the public after allowances, age distributed, Group**

**Amounts in TSEK**

| **Total** | **Not due** | **Total overdue** | **0-1 month** | **1-3 months** | **4-6 months** | **6-12 months** | **> 12 months** |
|---|---|---|---|---|---|---|---|
| 8 362 961 | 6 938 328 | 1 424 633 | 1 084 770 | 239 590 | 47 215 | 52 415 | 643 |

**Loans to the public after allowances, age distributed, Parent Company**

**Amounts in TSEK**

| **Total** | **Not due** | **Total overdue** | **0-1 month** | **1-3 months** | **4-6 months** | **6-12 months** | **> 12 months** |
|---|---|---|---|---|---|---|---|
| 8 802 093 | 7 378 912 | 1 423 181 | 1 083 716 | 239 278 | 47 148 | 52 395 | 644 |

For additional information on allowances on Loans to the public, please see note 20.

The merchants that offer Klarna's payment services to do also carry a credit risk for Klarna. If a merchant closes down or becomes insolvent, there is a risk that Klarna will be unable to offset any subsequent returns from consumers – which Klarna guarantees on the consumers behalf - against payments due from Klarna to the merchant or indemnities. Klarna assesses this risk to be limited, based on the low probability of a credit event taking place in combination with a significant exposure volume, but is working proactively with tracking, controlling and mitigating merchant credit risks. Merchant credit risk is mitigated using a longer payment delay on settlement payments towards merchants, and with guarantees and/or frequent financial follow-ups. Klarna has a Merchant Risk Monitoring function that, among other tasks, assesses merchants' credit worthiness before they start to work with Klarna. The function also manually tracks the financial status of Klarna's largest merchant credit risks. Merchant credit risk assessments use external credit bureau data and internal data. If a merchant credit risk is deemed too high, counter measures are taken to ensure that cooperation can continue under modified and acceptable terms.

Klarna is also exposed to credit risk through its investments in debt securities held for liquidity management purposes. The risk of these investments is however mitigated by only investing in debt securities issued by governments or local governments with at least a rating of AA by Standard & Poor's.

**Credit quality of debt securities**

| | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| **Amounts in TSEK** | **2016** | **2015** | **2016** | **2015** |
| *Chargeable central bank treasury bills etc.* | | | | |
| AAA[1] | 245 670 | 290 153 | 245 670 | 290 153 |
| AA+[1] | 550 293 | 500 195 | 550 293 | 500 195 |
| AA[1] | 95 701 | - | 95 701 | - |
| Unrated[1] | 50 039 | - | 50 039 | - |
| **Total** | **941 703** | **790 348** | **941 703** | **790 348** |

[1] According to rating from Standard & Poor's.

The follow-up of all defined tolerance limits for credit risk is reported at least quarterly to the Board of Directors by the Risk Control function. Any limit breaches are escalated immediately.

Klarna uses the standardized method for calculating capital requirements for credit risk. See note 37 Capital adequacy for details of the calculation of credit risks.

**Market risk**

Market risk is defined as the risk that the value of or expected future cash flow from Klarna's assets and liabilities will decline as a result of changes in market conditions.

Klarna only invests in financial instruments for liquidity management purposes in order to reduce market risk exposure, and not with a speculative purpose. The nature of Klarna's business implies that there is no exposure to commodity or equity risk. Interest and currency risk however exists as part of the business. The management of these risks is further described in the sections below.

*Interest rate risk*

Interest rate risk is defined as the risk of decreased market values of Klarna's fixed-rate interest-bearing assets due to changes in interest rates (value risk), or the risk of net interest return being negatively affected by changes in general interest rates (earnings risk).

Interest rate risk is related to any mismatch between interest bearing assets and liabilities. Klarna's overall objective is to ensure that any changes in interest rates on its funding can be matched by changes in interest rates on its lending. To allow this, all agreements with merchants and end-customers have, to the extent possible according to regulations, immediately adjustable interest rates.

Klarna's lending is concentrated to short maturities. The funding is also primarily of short maturity, through retail deposits and a bank credit line.

Klarna monitors and manages interest rate risk based on internal limits set by the Board. To comply with the internal limits Klarna can adjust rates on its lending or enter into hedging instruments such as interest rate swaps. Treasury is responsible for calculating and monitoring interest rate risk on continuous basis. Until December 31, 2016, Klarna has not needed to enter into any financial instruments to mitigate interest rate risk.

A parallel shift in market interest rates of 100 bps implies an absolute interest risk of 28,365 TSEK (10,538) given discounting of future cash flow at 1.5%. This effect corresponds to 1.02% (0.43%) of equity.

The Group's interest income amounted to 1,282,921 (1,053,072) TSEK and interest expenses amounted to 102,212 (84,656) TSEK which results in net interest income of 1,180,709 (968,416) TSEK.

*Currency risk*
Currency risk is the risk that arises from the change in the price of one currency against another. The Group is exposed to two different types of currency risks, translation risk and transaction risk.

Klarna is exposed to transaction risks which primarily arise when Klarna AB (publ) grants credit in currencies other than the functional currency. The risk is mitigated by matching the lending assets with liabilities in the same currency, either by matching foreign currency assets with foreign currency loans or by entering into derivative instruments. Lending in another currency than the functional currency has been continuously increasing during 2016, as a result of growth in markets outside Sweden. Lending in foreign currencies is expected to increase further during 2017 as growth is expected to continue at an accelerated rate in foreign markets that have been entered by Klarna.

In addition to transaction risks, Klarna is exposed to translation risk on group level. Translation risks primarily arise as a result of revaluation of inter-company balances. Translation risks are monitored continuously but are currently not actively hedged.

During 2016, exchange rate losses related to transaction risk were 1,158 (2,864) TSEK. The Group has a policy that limits the allowed fluctuations in exchange rates at the Group level to 0.5% of equity, which equals to 13,087 (12,317) TSEK, in the event of an exchange rate movement of ± 10% in any given day. The group enters into derivatives to ensure compliance with this policy if required. Treasury is responsible for the operational management of currency risks which are calculated on a daily basis.

Below is a statement of the currency exposure for each currency at the end of the reporting period in absolute numbers.

**Currency exposure, Group**

| **2016** | NOK | EUR | DKK | USD | ILS | CHF | GBP | Absolute exposure |
|---|---|---|---|---|---|---|---|---|
| Net position | 20 770 | 216 282 | 138 | 2 810 | 4 372 | 36 | 1 990 | 246 398 |
| Effect of 10% change versus the foreign currency | -2 077 | -21 628 | -14 | -281 | -437 | -4 | -199 | -24 640 |
| **2015** | | | | | | | | |
| Net position | 22 733 | 30 563 | 801 | 18 843 | 3 583 | 37 | 11 340 | 87 900 |
| Effect of 10% change versus the foreign currency | -2 273 | -3 056 | -80 | -1 884 | -358 | -4 | -1 134 | -8 789 |

A 10% change in the currency exchange rate (SEK) versus all foreign currencies would entail an effect of 20.37 % (6.90) on net income and 0.94 % (0.36) on equity for the Group.

The follow-up of all defined tolerance limits for market risk is reported at least quarterly to the board by the Risk Control function. Any limit breaches are escalated immediately.

**Liquidity risk**
Liquidity risk is defined as the risk of the Group not being able to meet its payment obligations on the due date without increasing the cost of meeting its obligations considerably.

The total sum of the Group's liabilities in each category are detailed in the below duration analysis. The Group has four main financing sources: operating liabilities, bank financing, retail deposits and subordinated debt. The inherent liquidity risk is managed by striving to match the duration of the assets with the duration of the liabilities. In addition it is mitigated by maintaining liquidity reserves in order to be able to manage imbalances in the duration. The company pledges parts of its receivables as collateral for its bank financing. The set-up of the bank financing is such that when the receivables are repaid, the Group's bank financing is also automatically reduced. The methods for managing liquidity risk are described in the Risk Policy as well as in detailed separate instructions.

The main liquidity measure is the Liquidity Coverage Ratio, defined in the EU's Commission Delegated Regulation. Klarna has a regulatory requirement to maintain sufficient reserves of liquid assets to support a share (70% as of 31 December 2016, gradually increasing to 100% by 2019) of estimated stressed liquidity outflows over 30 days. Klarna monitors and forecasts its Liquidity Coverage Ratio on a daily basis to ensure that its stock of high quality liquid assets is sufficient to meet requirements.

The follow-up of all defined tolerance limits for liquidity is reported at least quarterly to the board by the Risk Control function. Any limit breaches are escalated immediately.

Unutilized credit at the end of the reporting period amounted to 2,009,212 (1,291,174) TSEK.

**Sources of liquidity, Group**

**2016**

| **Book values in TSEK** | **up to 3 months** | **>3 to 6 months** | **>6 to 12 months** | **1-5 years** | **>5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Liabilities to credit institutions | - | 264 156 | - | 490 788 | - | 754 944 |
| Deposits from the public | 2 280 737 | 997 997 | 1 092 718 | 1 468 038 | - | 5 839 490 |
| Other liabilities | 1 963 670 | - | 140 | - | - | 1 963 810 |
| Accrued expenses and prepaid income | 132 889 | 9 146 | 6 371 | 19 | - | 148 425 |
| Subordinated liabilities[1] | 388 | - | - | - | 296 413 | 296 801 |
| **Total** | **4 377 684** | **1 271 299** | **1 099 229** | **1 958 845** | **296 413** | **9 003 470** |

[1] Interest is included in the amounts for subordinated liabilities.

**2015**

| **Book values in TSEK** | **up to 3 months** | **>3 to 6 months** | **>6 to 12 months** | **1-5 years** | **>5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Liabilities to credit institutions | - | - | - | 708 826 | - | 708 826 |
| Deposits from the public | 1 823 190 | 662 326 | 565 400 | 908 511 | - | 3 959 427 |
| Other liabilities | 1 253 221 | - | - | - | - | 1 253 221 |
| Accrued expenses and prepaid income | 89 556 | 10 636 | 2 529 | - | - | 102 721 |
| **Total** | **3 165 967** | **672 962** | **567 929** | **1 617 337** | **-** | **6 024 195** |

**Operational risk**

Operational risk is defined as the risk of financial or reputational losses resulting from inadequate or failed internal processes, from people and systems, or from external events. Operational risk includes legal and compliance risks.

The main operational risks that Klarna faces are related to the significant growth of the company. The increase in number of employees, number of transactions and the development of new products means a continuous need for new structures and processes as well as development of systems.

The foundation for Klarna's work with operational risk is a risk assessment and internal control framework describing the main processes and the inherent identified risks. The method to assess operational risks includes mapping all major processes in the business, identifying the main risks in each process, deciding and implementing adequate controls and finally testing of the controls. The Group also has processes in place for incident management, business continuity/crisis management as well as approval of new products, activities, processes and systems. These methods for managing operational risk are described in the Risk Policy as well as in detailed separate instructions.

The follow-up of all defined tolerance limits for operational risk (including operational losses aggregated risk exposure, inadequate controls, etc.) is reported at least quarterly to the board by the Risk Control function. The report includes also the status of operational risk management and relevant key risk indicators.

Klarna uses the standardized method for calculating capital requirement for operational risk.

**Capital**

Klarna's own funds provide the capacity to absorb unexpected losses that are not possible to avoid or mitigate, and ensures that at all points in time a sufficient buffer of financial resources exists to meet obligations to stakeholders. In this way, Klarna's capital functions as a last resort protection against risk.

The Board is responsible for overall planning of the capital structure. Relevant capital planning contributes to the company being well-equipped to meet a situation that requires further capital. Klarna has a clearly formulated view on what constitutes an optimal level of capital to ensure long term survival, and to provide an adequate buffer when entering new markets. The following factors are taken into consideration:

- the minimum capital required by laws and regulations, including buffers;
- the owners' required rate of return and effective capital management;
- the level of capital required for counterparts to consider Klarna a reliable partner and to signal confidence on the capital market

Klarna's additional capital required under Pillar II, and the resulting total capital requirement, is assessed through the Group's internal capital adequacy assessment process (ICAAP). See note 37 for details on Klarna's capital requirement under Pillar I and Pillar II, and on Klarna's capital adequacy.

Klarna's Finance and Risk Control functions monitor capital adequacy on an on-going basis to ensure that capital requirements and board limits on capitalization are not breached. Any breaches are escalated, and Klarna's Financial Recovery Plan provides executive management with a wide range of actions to deploy in case of capital stress.

In addition to the risk-sensitive capital measures discussed above Klarna regularly monitors total leverage, i.e. capitalization in relation to total assets and off-balance sheet commitments. In 2016, Klarna issued Subordinated Tier 2 Capital Notes (see note 31 – subordinated liabilities), a portion of which can be used in the calculation of Klarna's capital adequacy ratios.

# Note 4 Income by geographical area

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

| Parent Company 2016 | Sweden | Germany | Others | Total |
|---|---|---|---|---|
| Interest income | 725 221 | 138 045 | 450 866 | 1 314 132 |
| Lease income | 3 197 | - | - | 3 197 |
| Group contribution | 700 | - | - | 700 |
| Commission income | 769 222 | 557 768 | 501 363 | 1 828 353 |
| Net income from financial transactions | -61 342 | 37 347 | 28 842 | 4 847 |
| Other operating income | 9 809 | - | 1 302 | 11 111 |
| **Total** | **1 446 807** | **733 160** | **982 373** | **3 162 340** |

| Parent company 2015 | Sweden | Germany | Others | Total |
|---|---|---|---|---|
| Interest income | 583 278 | 100 053 | 398 031 | 1 081 362 |
| Group contribution | 900 | - | - | 900 |
| Commission income | 602 383 | 445 987 | 341 302 | 1 389 672 |
| Net income from financial transactions | 33 522 | -55 602 | -8 857 | -30 937 |
| Other operating income | 11 025 | - | - | 11 025 |
| **Total** | **1 231 108** | **490 438** | **730 476** | **2 452 022** |

*Others include countries Finland, Norway, Denmark, the United Kingdom, the United States, Austria and the Netherlands.*

# Note 5 Interest income

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Loans to credit institutions | 145 | 172 | 139 | 167 |
| Loans to the public | 1 282 757 | 1 052 755 | 1 282 757 | 1 081 050 |
| Other interest income | 19 | 145 | 31 236 | 145 |
| **Total** | **1 282 921** | **1 053 072** | **1 314 132** | **1 081 362** |

# Note 6 Commission income

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Transaction-based commission | 2 249 003 | 1 698 129 | 1 815 596 | 1 376 058 |
| Other commission income | 16 760 | 17 688 | 12 757 | 13 614 |
| **Total** | **2 265 763** | **1 715 817** | **1 828 353** | **1 389 672** |

## Note 7 Interest expenses

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Liabilities to credit institutions | -19 542 | -16 472 | -19 335 | -16 426 |
| Deposits from the public | -51 751 | -61 952 | -51 751 | -61 952 |
| Other interest expenses | -30 919 | -6 232 | -30 957 | -6 237 |
| **Total** | **-102 212** | **-84 656** | **-102 043** | **-84 615** |

## Note 8 Commission expenses

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Commission to partners | -150 281 | -98 156 | -138 747 | -89 852 |
| **Total** | **-150 281** | **-98 156** | **-138 747** | **-89 852** |

## Note 9 Net income from financial transactions

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Realized/non-realized fluctuations in exchange rates | -2 218 | -3 633 | 20 665 | -23 178 |
| Interest income financial instruments | 80 | 507 | 80 | 507 |
| Interest cost financial instruments | -14 527 | -8 760 | -13 898 | -8 266 |
| Other | -2 000 | - | -2 000 | - |
| **Total** | **-18 665** | **-11 886** | **4 847** | **-30 937** |

As per December 31, 2016, Klarna AB (publ) had entered FX forward contracts amounting to 899,683 (1,248,337) TSEK.

## Note 10 Employees and personnel costs

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Average number of employees | 1 244 | 1 074 | 851 | 727 |
| *Number of men* | *790* | *675* | *539* | *450* |
| *Number of women* | *454* | *399* | *312* | *277* |
| | | | | |
| In Sweden | 873 | 750 | 851 | 727 |
| *Number of men* | *546* | *456* | *539* | *450* |
| *Number of women* | *327* | *294* | *312* | *277* |
| | | | | |
| In Norway | 11 | 15 | - | - |
| *Number of men* | *10* | *13* | - | - |
| *Number of women* | *1* | *2* | - | - |
| | | | | |
| In Germany | 202 | 210 | - | - |
| *Number of men* | *125* | *137* | - | - |
| *Number of women* | *77* | *73* | - | - |
| | | | | |
| In Netherlands | 13 | 11 | - | - |
| *Number of men* | *10* | *8* | - | - |
| *Number of women* | *3* | *3* | - | - |
| | | | | |
| In Finland | 8 | 10 | - | - |
| *Number of men* | *4* | *5* | - | - |
| *Number of women* | *4* | *5* | - | - |
| | | | | |
| In Israel | 38 | 33 | - | - |
| *Number of men* | *28* | *24* | - | - |
| *Number of women* | *10* | *9* | - | - |
| | | | | |
| In Austria | 6 | 7 | - | - |
| *Number of men* | *3* | *4* | - | - |
| *Number of women* | *3* | *3* | - | - |
| | | | | |
| In Great Britain | 23 | 10 | - | - |
| *Number of men* | *19* | *8* | - | - |
| *Number of women* | *4* | *2* | - | - |
| | | | | |
| In USA | 70 | 28 | - | - |
| *Number of men* | *45* | *20* | - | - |
| *Number of women* | *25* | *8* | - | - |

**Salaries, other remuneration and social security expenses**

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Salaries and remuneration amounted to | | | | |
| Board and CEO[1] | -5 966 | -7 362 | -5 966 | -7 362 |
| Other employees | -791 304 | -676 501 | -473 596 | -408 032 |
| **Total salaries and remuneration** | **-797 270** | **-683 863** | **-479 562** | **-415 394** |
| | | | | |
| Statutory and contractual social security expenses | -279 433 | -224 565 | -234 689 | -186 817 |
| *whereof pension expenses* | *-76 790* | *-58 046* | *-67 925* | *-51 672* |
| **Total salaries, remuneration, social security and pension expenses** | **-1 076 703** | **-908 428** | **-714 251** | **-602 211** |

| **Board members and senior management** | Group | | | |
|---|---|---|---|---|
| | **2016** | | **2015** | |
| | **Number at closing day** | **Percentage of men** | **Number at closing day** | **Percentage of men** |
| Board members | 33 | 97% | 46 | 91% |
| Group CEO's and other members of senior management | 7 | 100% | 8 | 88% |

**Group 2016**

| **Salaries and remuneration to the board and senior management** | **Basic salary/fee** | **Variable remuneration** | **Other benefits** | **Pension expenses** | **Total** |
|---|---|---|---|---|---|
| Jonathan Kamaluddin, Chairman of the Board[1] | -350 | - | - | - | -350 |
| Eva Cederbalk[1] | -550 | - | - | - | -550 |
| Niklas Adalberth | - | - | - | - | - |
| Victor Jacobsson[2] | - | - | - | - | - |
| Michael Walther[2] | - | - | - | - | - |
| Anton Jonathan Levy | - | - | - | - | - |
| Michael Moritz | - | - | - | - | - |
| Sara McPhee | -267 | - | - | - | -267 |
| Sebastian Siemiatkowski, CEO | -4 060 | - | -5 | -734 | -4 799 |
| Knut Frängsmyr, Deputy CEO | -6 038 | -1 054 | -5 | -777 | -7 874 |
| Other members of senior management (7)[3] | -18 081 | -21 269 | -225 | -3 120 | -42 695 |
| **Total** | **-29 346** | **-22 323** | **-235** | **-4 631** | **-56 535** |

[1] Eva Cederbalk resigned from the board on Sep 28th. On the same day Jonathan Kamaluddin was appointed as Chairman of the Board.

[2] Victor Jacobsson resigned from the board on Nov 15th. On the same day Michael Walther was appointed onto the board.

[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.

**Group 2015**

| Salaries and remuneration to the board and senior management | Basic salary/fee | Variable remuneration | Other benefits | Pension expenses | Total |
|---|---|---|---|---|---|
| Eva Cederbalk, Chairman of the Board | -300 | - | - | - | -300 |
| Niklas Adalberth | -2 712 | - | -10 | -515 | -3 237 |
| Victor Jacobsson | - | - | - | - | - |
| Jonathan Kamaluddin | -150 | - | - | - | -150 |
| Anton Jonathan Levy | - | - | - | - | - |
| Michael Moritz | - | - | - | - | - |
| Nigel Morris[1] | - | - | - | - | - |
| Sebastian Siemiatkowski, CEO | -2 946 | - | -2 | -727 | -3 675 |
| Knut Frängsmyr, Deputy CEO | -5 497 | - | -2 | -713 | -6 213 |
| Sara McPhee[1] | - | - | - | - | - |
| Other members of senior management (6)[2] | -16 435 | -5 653 | -295 | -3 280 | -25 663 |
| **Total** | **-28 040** | **-5 653** | **-309** | **-5 236** | **-39 238** |

[1] Nigel Morris was a member of the board until May 8, 2015. Sara McPhee new member of the board from September 30, 2015.

[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.

| | Parent Company | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| **Board members and senior management** | **Number at closing day** | **Percentage of men** | **Number at closing day** | **Percentage of men** |
| Board members | 7 | 86% | 8 | 75% |
| CEO and other members of senior management | 7 | 100% | 8 | 88% |

**Parent Company 2016**

| Salaries and remuneration to the board and senior management | Basic salary/fee | Variable remuneration | Other benefits | Pension expenses | Total |
|---|---|---|---|---|---|
| Jonathan Kamaluddin, Chairman of the Board[1] | -350 | - | - | - | -350 |
| Eva Cederbalk[1] | -550 | - | - | - | -550 |
| Niklas Adalberth | - | - | - | - | - |
| Victor Jacobsson[2] | - | - | - | - | - |
| Michael Walther[2] | - | - | - | - | - |
| Anton Jonathan Levy | - | - | - | - | - |
| Michael Moritz | - | - | - | - | - |
| Sara McPhee | -267 | - | - | - | -267 |
| Sebastian Siemiatkowski, CEO | -4 060 | - | -5 | -734 | -4 799 |
| Knut Frängsmyr, Deputy CEO | -6 038 | -1 054 | -5 | -777 | -7 874 |
| Other members of senior management (7)[3] | -18 081 | -21 269 | -225 | -3 120 | -42 695 |
| **Total** | **-29 346** | **-22 323** | **-235** | **-4 631** | **-56 535** |

[1] Eva Cederbalk resigned from the board on Sep 28th. On the same day Jonathan Kamaluddin was appointed as Chairman of the Board.

[2] Victor Jacobsson resigned from the board on Nov 15th. On the same day Michael Walther was appointed onto the board.

[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.

**Parent Company 2015**

| Salaries and remuneration to the board and senior management | Basic salary/fee | Variable remuneration | Other benefits | Pension expenses | Total |
|---|---|---|---|---|---|
| Eva Cederbalk, Chairman of the Board | -300 | - | - | - | -300 |
| Niklas Adalberth | -2 712 | - | -10 | -515 | -3 237 |
| Victor Jacobsson | - | - | - | - | - |
| Jonathan Kamaluddin | -150 | - | - | - | -150 |
| Anton Jonathan Levy | - | - | - | - | - |
| Michael Moritz | - | - | - | - | - |
| Nigel Morris[1] | - | - | - | - | - |
| Sebastian Siemiatkowski, CEO | -2 946 | - | -2 | -727 | -3 675 |
| Knut Frängsmyr, Deputy CEO | -5 497 | - | -2 | -713 | -6 213 |
| Sara McPhee[1] | - | - | - | - | - |
| Other members of senior management (6)[2] | -16 435 | -5 653 | -295 | -3 280 | -25 663 |
| **Total** | **-28 040** | **-5 653** | **-309** | **-5 236** | **-39 238** |

[1] Nigel Morris was a member of the board until May 8, 2015. Sara McPhee new member of the board from September 30, 2015.

[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.

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

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

The information below follows the provisions of the disclosure rules.

**Klarna Remuneration**
Klarna 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 Klarna'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 Klarna is aligned with efficient risk management and compliant with existing regulations.

**Klarna Remuneration Committee**
The Board of Directors has established a Remuneration Committee consisting of two members appointed by the Board. The Remuneration Committee is responsible for preparing and presenting proposals to the Board on 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 Klarna's remuneration system, together with the suitable control function(s) if necessary.

The Remuneration Committee has had two formal meetings in 2016. In addition, it has also handled up-coming matters 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 remuneration risk analysis**
Klarna's Board has adopted a Remuneration Policy that is designed to be compatible with and promote sound and effective risk management, counteract exaggerated risk taking and be in line with Klarna's long-term interests. The Remuneration Policy shall be revised when it is necessary, at least annually.

Klarna's Remuneration Policy, remuneration system and list of those staff members whose professional activities have a material impact on Klarna's risk profile (Identified Staff) are assessed annually. The assessment includes an analysis of all risks Klarna is or might be exposed to, including the risks associated with its Remuneration Policy and remuneration structure. In general, Klarna'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 Klarna's credit business is assessed to be short, which means that any risks materialize within a few months.

**Remuneration structure**
Klarna applies the following general principles on remuneration:

- Remuneration shall be set on an individual basis, based on experience, competence and performance
- Remuneration shall not be discriminating
- Remuneration shall be competitive, but not counterproductive to Klarna's long term interests and capability to generate positive results throughout a full economic cycle.

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

Variable remuneration shall amount to maximum 100 percent of an employee's total fixed remuneration for Identified Staff and 200 percent 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 Klarna'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. Klarna 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 Klarna'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.

The remuneration rules defines variable remuneration as "Compensation that is not pre-established to amount or size. Commission-based remuneration, which is not linked to future risk of such commitments which may change the company's income statement or balance sheet, is not considered to be variable remuneration". Based on this definition, it is Klarna's assessment that Klarna's sales commission does not qualify as variable remuneration. Sales commission is offered only to selected employees working in the Klarna sales organization through various commission models. The commission models are consistently evaluated in order to, at all times, reflect its purpose and for them to comply with the business goals of Klarna as a company.

**Share-based payments**
In certain jurisdictions Klarna offers share-based payments to employees consisting of warrants. The warrants are subject to graded vesting in four (five) annual installments, corresponding to the maximum duration of the programs. No program may be settled in cash by Klarna. In total 280,119 (165,096) warrants are considered share-based payments. The weighted average exercise price is as follows: for warrants outstanding at the beginning of the year: SEK 608.89 (464.42); granted during the year: SEK 970.20 (954); forfeited during the year SEK 400 (470); outstanding at the end of the year: SEK 752.98 (619.08). All such warrants have an exercise price between SEK 470 and 1,175 (SEK 400 and 963). The value of granted warrants has been established using the Black Scholes model.

The total cost of share-based payment is allocated over the duration of warrant programs. The total expense for share-based payments for 2016 is 21,346 (4,576) TSEK.

**Remuneration 2016**

Total amount entered as an expense for remuneration to the Group Management team (9 persons[1]) was 59,609 TSEK and for Identified Staff (58 persons[1]) this sum was 99,741 TSEK, which aggregates to 159,350 TSEK. Variable remuneration accounts for 22,323 TSEK of the Group Management Team figure paid to 5 of its members and 11,533 TSEK of the Identified Staff figure, paid to 18 beneficiaries.

Total amount entered as an expense for remuneration to other employees was 637,920 (537,507) TSEK.

[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 below table gives a breakdown of variable remuneration paid and awarded during 2016:

| Type of Variable Remuneration | Value of Variable Remuneration (in TSEK) | | | Number of Beneficiaries | | |
|---|---|---|---|---|---|---|
| | Group Management Team | Identified staff | Total | Group Management Team | Identified Staff | Total |
| Paid as one off Cash payments (relating to Referral bonuses / Gratifications) | 1,333 | 2,965 | 4,298 | 2 | 17 | 19 |
| Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits | 1,433 | 8,388 | 9,821 | 1 | 9 | 10 |
| Outstanding deferred remuneration | 2,266 | 1,776 | 4,042 | 3 | 11 | 14 |
| Deferred remuneration awarded[1] | 1,999 | 1,236 | 3,235 | 2 | 10 | 12 |
| New sign-on bonus paid | 19,557 | 180 | 19,737 | 3 | 2 | 5 |
| Severance payments paid | - | - | - | - | - | - |
| Severance payments awarded[2] | - | 1 769 | 1,769 | - | 3 | 3 |

[1] There have been no performance adjustment reductions made to deferred remuneration awards during 2015.
[2] The highest severance payment awarded to a single person was 922 TSEK.

Two employees have been remunerated more than EUR 1 million.

## Note 11 Fees and reimbursement of expenses for auditors

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| *Ernst & Young AB* | | | | |
| Audit engagement | -3 417 | - | -2 100 | - |
| Audit related services | -226 | - | - | - |
| Tax consultancy | -966 | - | -966 | - |
| Other services | -50 | - | - | - |
| **Total** | **-4 659** | **-** | **-3 066** | **-** |
| | | | | |
| *Öhrlings PricewaterhouseCoopers AB* | | | | |
| Audit engagement | 350 | -3 335 | 582 | -1 559 |
| Audit related services | - | -65 | - | -65 |
| Other services | - | -319 | - | -62 |
| **Total** | **350** | **-3 719** | **582** | **-1 686** |

## Note 12 Operating lease commitments

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Total lease and rental costs during the year | -73 633 | -71 574 | -48 619 | -46 452 |
| The future aggregate minimum lease payment under operating leases are as follows: | | | | |
| No later than 1 year | -69 291 | -56 205 | -48 619 | -46 452 |
| Later than 1 year and no later than 5 years | -199 273 | -212 753 | -134 318 | -179 090 |
| Later than five years | -24 421 | - | - | - |
| **Total** | **-292 985** | **-268 958** | **-182 937** | **-225 542** |

The leased assets mainly comprise of facilities, vehicles and machinery.

## Note 13 Depreciation, amortization and impairment of intangible and tangible assets

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Depreciation of tangible assets | -24 725 | -21 603 | -17 109 | -16 742 |
| Amortization of intangible assets | -88 220 | -80 471 | -53 853 | -46 420 |
| Write-offs | 317 | -1 527 | - | -823 |
| **Total** | **-112 628** | **-103 601** | **-70 962** | **-63 985** |

## Note 14 Credit losses

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Provision for credit losses | -42 428 | -122 215 | -50 650 | -112 937 |
| Realised credit losses, net | -381 260 | -213 036 | -348 969 | -210 683 |
| **Total** | **-423 688** | **-335 251** | **-399 619** | **-323 620** |

## Note 15 Taxes

| Income tax expense | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| *Current tax* | | | | |
| Tax expense for the year | -69 310 | -43 822 | -5 944 | -10 088 |
| Adjustment of tax attributable to previous years | -1 311 | -112 | -342 | -771 |
| **Total current tax** | **-70 621** | **-43 934** | **-6 286** | **-10 859** |
| | | | | |
| *Deferred tax* | | | | |
| Deferred tax regarding temporary differences | 15 748 | 1 218 | -572 | - |
| **Total deferred tax** | **15 748** | **1 218** | **-572** | **-** |
| | | | | |
| **Reported tax expense** | **-54 873** | **-42 716** | **-6 858** | **-10 859** |

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

| | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| Income before tax | 168 300 | 170 127 | 7 158 | 57 879 |
| Income tax calculated in accordance with national tax rates regarding income in each country | -48 258 | -44 703 | -1 577 | -12 733 |
| Non-taxable revenues | 1 489 | 3 636 | 80 | 3 640 |
| Non-deductible expenses | -2 742 | -1 315 | -1 697 | -880 |
| Standard revenue, tax allocation reserve | -97 | -226 | -98 | -115 |
| Effect of change in tax rate | -730 | 4 | - | - |
| Adjustments attributable to previous years (def tax) | -3 224 | - | -3 224 | - |
| Adjustments attributable to previous years | -1 311 | -112 | -342 | -771 |
| **Reported tax expense** | **-54 873** | **-42 716** | **-6 858** | **-10 859** |
| | | | | |
| **Effective tax rate** | **32,6%** | **25,1%** | **95,8%** | **18,8%** |

| **Deferred tax assets**[1] | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| The balance comprises temporary differences attributable to: | | | | |
| Allowance for credit losses | 468 | 1 946 | - | - |
| Other | 11 194 | 300 | 2 703 | - |
| Total deferred tax assets | **11 662** | **2 246** | **2 703** | **-** |

[1] Deferred tax assets included in Other assets in Balance sheet.

| **Deferred tax liabilities** | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| The balance comprises temporary differences attributable to: | | | | |
| Intangible assets | 53 057 | 61 059 | - | - |
| Untaxed reserves | 18 568 | 18 009 | - | - |
| Other | 3 330 | 1 005 | 3 274 | - |
| Total deferred tax liabilities | **74 955** | **80 073** | **3 274** | **-** |

## Note 16 Appropriations

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Additional depreciation | - | - | -13 269 | 3 508 |
| Change in tax allocation reserve | - | - | 10 730 | -14 500 |
| **Total** | - | - | **-2 539** | **-10 992** |

## Note 17 Proposed treatment of unappropriated earnings

The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of 2,212,940,807 kronor on Klarna AB (publ)´s balance sheet at the disposal of the Annual General Meeting to be carried forward.

| | | |
|---|---|---|
| Retained earnings | 2 212 640 654 | kronor |
| Net Income for the year | 300 153 | kronor |
| Total | 2 212 940 807 | kronor |

## Note 18 Chargeable central bank treasury bills etc.

| | **Group 2016** | | **Parent Company 2016** | |
|---|---|---|---|---|
| | Acquisition cost | Fair value | Acquisition cost | Fair value |
| Chargeable treasuries | 95 733 | 95 701 | 95 733 | 95 701 |
| Issued by public bodies, municipality | 846 782 | 846 002 | 846 782 | 846 002 |
| **Total** | **942 515** | **941 703** | **942 515** | **941 703** |
| | | | | |
| - in SEK | 751 114 | 750 444 | 751 114 | 750 444 |
| - in EUR | 191 401 | 191 259 | 191 401 | 191 259 |

| | **Group 2015** | | **Parent Company 2015** | |
|---|---|---|---|---|
| | Acquisition cost | Fair value | Acquisition cost | Fair value |
| Issued by public bodies, municipality | 790 670 | 790 348 | 790 670 | 790 348 |
| **Total** | **790 670** | **790 348** | **790 670** | **790 348** |
| | | | | |
| - in SEK | 790 670 | 790 348 | 790 670 | 790 348 |

The carrying amount of the chargeable central bank treasury bills which have a remaining life of up to one year amounts to 942,515 (790,670) TSEK.

## Note 19 Loans to credit institutions

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Loans to credit institutions | 1 234 684 | 499 754 | 946 172 | 313 890 |
| | | | | |
| - in SEK | 840 942 | 239 051 | 840 899 | 239 006 |
| - in EUR | 336 025 | 185 181 | 79 497 | 40 497 |
| - in USD | 30 538 | 25 253 | 4 196 | 11 796 |
| - in other currencies | 27 179 | 50 269 | 21 580 | 22 591 |

All loans to credit institutions are payable on demand. Booked value is the same as fair value.

## Note 20 Loans to the public

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Loans to the public | 8 791 685 | 6 403 469 | 9 229 556 | 6 813 313 |
| Allowance for credit losses | -428 724 | -365 743 | -427 463 | -356 468 |
| **Total loans to the public** | **8 362 961** | **6 037 726** | **8 802 093** | **6 456 845** |
| | | | | |
| Allowance at beginning of the period | -365 743 | -234 483 | -356 468 | -234 483 |
| Provisions excluding interest and fees, net | -42 428 | -122 215 | -50 650 | -112 937 |
| Provisions for interest and fees, net[1] | -20 228 | -17 533 | -20 228 | -17 533 |
| Foreign exchange effect | -325 | 8 488 | -117 | 8 485 |
| **Allowance at end of the period** | **-428 724** | **-365 743** | **-427 463** | **-356 468** |

[1] Provisions for interest and fees are included in interest income in the income statement.

All loans and receivables are either individually or collectively assessed for impairment. The absolute majority of the allowances at beginning of year are reversed at the end of the financial year and replaced with allowances on new loans and receivables.

The fair value is equal to the booked value. For age distribution see note 35.

## Note 21 Shares and participations in group companies

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Participations in group companies | - | - | 543 999 | 543 999 |

| | | | **2016** | **2015** |
|---|---|---|---|---|
| **Group companies** | **No. of shares** | **Share** | **Book value** | **Book value** |
| Analyzd Technologies Ltd., Cyprus, Corp. ID 273011 | 1 000 | 100% | 18 215 | 18 215 |
| Ident Inkasso AB, Sweden, Corp. ID 596918-1158 | 50 000 | 100% | 50 | 50 |
| Klarna Austria GmbH, Austria, Corp. ID 387052w | 1 | 100% | 300 | 300 |
| Klarna B.V., Netherlands, Corp. ID 50315250 | 18 000 | 100% | 173 | 173 |

| | | | | |
|---|---|---|---|---|
| Klarna Germany Holding GmbH, Germany, Corp. ID HRB 153963 B | 25 000 | 100% | 520 605 | 520 605 |
| Klarna GmbH, Germany, Corp ID HRB 77353 | 25 000 | 100% | 243 | 243 |
| Klarna Inc., USA, Corp. ID 99-0365994 | 10 000 000 | 100% | 4 264 | 4 264 |
| Klarna Norge AS, Norway, Corp. ID 995 515 164 | 10 000 | 100% | 122 | 122 |
| Klarna OY, Finland, Corp. ID 2247127-6 | 2 500 | 100% | 27 | 27 |
| Klarna UK Ltd., Great Britain, Corp. ID 8706739 | 1 | 100% | 0 | 0 |
| | | | **543 999** | **543 999** |

For the year ending December 31 2016, the following subsidiary companies were entitled to exemption from audit under section 479A of the Companies Act 2006, Great Britain:
Klarna UK Limited (registered number 08706739)

**2016**

| **Affiliated companies** | **Geographical area** | **Total operating revenues** | **Operating income** | **Taxes** | **Average no. of employees** |
|---|---|---|---|---|---|
| Analyzd technologies Ltd. | Cyprus | - | -16 | - | - |
| Ident Inkasso AB | Sweden | 18 033 | 841 | -204 | 22 |
| Klarna Austria GmbH | Austria | 4 141 | 168 | -56 | 3 |
| Klarna B.V. | Netherlands | 21 814 | 1 298 | -255 | 13 |
| Klarna Germany Holding GmbH | Germany | - | 194 527 | -57 130 | - |
| Klarna GmbH | Germany | 53 628 | 2 628 | -1 184 | 52 |
| Klarna Ltd. | Israel | 59 581 | 4 448 | -934 | 38 |
| Klarna Norge AS | Norway | 15 537 | 757 | -235 | 11 |
| Klarna OY | Finland | 8 892 | 421 | -88 | 8 |
| Klarna UK Ltd. | Great Britain | 58 707 | 2 663 | -619 | 23 |
| Klarna, Inc. | USA | 249 819 | 13 385 | -5 183 | 70 |
| Sofort GmbH | Germany | 425 625 | 3 419 | - | 150 |
| Sofort Austria GmbH | Austria | 5 386 | 260 | -84 | 3 |

**2015**

| **Group Companies** | **Geographical area** | **Total operating revenues** | **Operating income** | **Taxes** | **Average no. of employees** |
|---|---|---|---|---|---|
| Analyzd technologies Ltd. | Cyprus | - | -17 | - | - |
| Ident Inkasso AB | Sweden | 20 375 | 940 | 88 | 23 |
| Klarna Austria GmbH | Austria | 6 105 | 339 | -96 | 3 |
| Klarna B.V. | Netherlands | 17 610 | 844 | -177 | 11 |
| Klarna Germany Holding GmbH | Germany | - | 101 424 | -32 053 | - |
| Klarna GmbH | Germany | 58 986 | 3 122 | -1 030 | 57 |
| Klarna Ltd. | Israel | 48 790 | 3 711 | -704 | 33 |
| Klarna Norge AS | Norway | 20 710 | 989 | -287 | 15 |
| Klarna OY | Finland | 11 506 | 546 | -114 | 10 |
| Klarna UK Ltd. | Great Britain | 35 745 | 1 612 | -415 | 10 |
| Klarna, Inc. | USA | 124 534 | -3 | -327 | 28 |
| Sofort GmbH | Germany | 342 598 | 1 342 | 21 | 153 |
| Sofort Austria GmbH | Austria | 6 405 | 779 | -195 | 4 |

# Note 22 Intangible assets

| Group 2016 | Goodwill | Brands | Licenses | Other intangible assets[1] | Total |
|---|---|---|---|---|---|
| **Opening balance purchase value** | **866 037** | **68 253** | **35 366** | **387 662** | **1 357 318** |
| This year's purchase | - | - | 3 339 | 65 626 | 68 965 |
| Currency translation difference | 32 418 | 2 552 | 69 | 7 326 | *42 365* |
| **Closing balance purchase value** | **898 455** | **70 805** | **38 774** | **460 614** | **1 468 648** |
| | | | | | |
| **Opening balance amortization** | **-** | **-** | **-22 636** | **-142 972** | **-165 608** |
| This year's depreciation | - | - | -8 212 | -80 008 | -88 220 |
| Currency translation difference | - | - | -34 | -2 550 | *-2 584* |
| **Closing balance amortization** | **-** | **-** | **-30 882** | **-225 530** | **-256 412** |
| | | | | | |
| **Carrying amount at the end of the year** | **898 455** | **70 805** | **7 892** | **235 084** | **1 212 236** |

| Group 2015 | Goodwill | Brands | Licenses | Other intangible assets[1] | Total |
|---|---|---|---|---|---|
| **Opening balance purchase value** | **898 200** | **70 785** | **31 041** | **370 026** | **1 370 052** |
| This year's purchase | - | - | 4 381 | 26 431 | 30 812 |
| Purchase value sold | - | - | - | *-1 527* | *-1 527* |
| Currency translation difference | -32 163 | -2 532 | -56 | -7 268 | *-42 019* |
| **Closing balance purchase value** | **866 037** | **68 253** | **35 366** | **387 662** | **1 357 318** |
| | | | | | |
| **Opening balance amortization** | **-** | **-** | **-14 695** | **-72 055** | **-86 750** |
| This year's depreciation | - | - | -7 963 | -72 508 | -80 471 |
| Currency translation difference | - | - | 22 | 1 591 | *1 613* |
| **Closing balance amortization** | **-** | **-** | **-22 636** | **-142 972** | **-165 608** |
| | | | | | |
| **Carrying amount at the end of the year** | **866 037** | **68 253** | **12 730** | **244 690** | **1 191 710** |

[1] Other intangible assets includes internally developed software.

| Parent Company 2016 | Licenses | Other intangible assets[1] | Total |
|---|---|---|---|
| **Opening balance purchase value** | **33 515** | **191 801** | **225 316** |
| This year's purchase | 2 509 | 65 624 | 68 133 |
| **Closing balance purchase value** | **36 024** | **257 425** | **293 449** |
| | | | |
| **Opening balance amortization** | **-21 804** | **-82 386** | **-104 190** |
| This year's depreciation | -7 845 | -46 008 | -53 853 |
| **Closing balance amortization** | **-29 649** | **-128 394** | **-158 043** |
| | | | |
| **Carrying amount at the end of the year** | **6 375** | **129 031** | **135 406** |

| Parent Company 2015 | Licenses | Other intangible assets[1] | Total |
|---|---|---|---|
| **Opening balance purchase value** | **29 448** | **166 896** | **196 344** |
| This year's purchase | 4 067 | 25 727 | 29 794 |
| Purchase value sold | - | *-822* | *-822* |
| **Closing balance purchase value** | **33 515** | **191 801** | **225 316** |
| | | | |
| **Opening balance amortization** | **-14 277** | **-43 494** | **-57 771** |
| This year's depreciation | -7 528 | -38 892 | -46 420 |
| **Closing balance amortization** | **-21 805** | **-82 386** | **-104 191** |
| | | | |
| **Carrying amount at the end of the year** | **11 710** | **109 415** | **121 125** |

[1] Other intangible assets includes internally developed software.

**Impairment testing of goodwill and intangible assets with an indefinite useful life**
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. The impairment charge 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, where the value in use is determined as the present value of expected future cash flows.

The Group’s recognized goodwill and intangible assets with an indefinite useful life is attributable to the acquisition of Sofort AG and Analyzd Technologies Ltd. Expected future cash flows for the cash generating unit are based on forecasts for the first five years. The forecasts are based on internal assessments of the development of income and costs. A long term growth rate is applied for years after the first five-year period. The long term growth rate used in the cash flow forecast for 2016 is 2% (2%). The expected cash flows have been discounted to present value using a discount rate that is based on the risk-free interest rate and a company specific risk adjustment. The discount rate used for 2016 was 10.3% (11.4%) before tax. The results of the impairment test showed that the recoverable amount is larger than the carrying amount with a good margin and that there consequently was no need for an impairment charge.

## Note 23 Tangible assets

| Group 2016 | Buildings and land | Equipment | Total |
|---|---|---|---|
| **Opening balance purchase value** | **6 537** | **111 815** | **118 352** |
| Opening balance purchase value adjustment | - | 166 | 166 |
| This year's purchase | 339 | 24 457 | 24 796 |
| Purchase value sold | - | -19 | -19 |
| Currency translation difference | 488 | 1 529 | 2 017 |
| **Closing balance purchase value** | **7 364** | **137 948** | **145 312** |
| | | | |
| **Opening balance amortization** | **-** | **-64 832** | **-64 832** |
| Opening balance amortization adjustment | - | -166 | -166 |
| This year's depreciation | -983 | -23 742 | -24 725 |
| Accumulated depreciation sold | - | 19 | 19 |
| Currency translation difference | -58 | -725 | -783 |
| **Closing balance amortization** | **-1 041** | **-89 446** | **-90 487** |
| | | | |
| **Carrying amount at the end of the year** | **6 323** | **48 502** | **54 825** |

| Group 2015 | Buildings and land | Equipment | Total |
|---|---|---|---|
| **Opening balance purchase value** | **-** | **89 713** | **89 713** |
| This year's purchase | 6 537 | 22 492 | 29 029 |
| Purchase value sold | - | -137 | -137 |
| Currency translation difference | - | -253 | -253 |
| **Closing balance purchase value** | **6 537** | **111 815** | **118 352** |
| | | | |
| **Opening balance amortization** | **-** | **-43 474** | **-43 474** |
| This year's depreciation | - | -21 603 | -21 603 |
| Accumulated depreciation sold | - | 97 | 97 |
| Currency translation difference | - | 148 | 148 |
| **Closing balance amortization** | **-** | **-64 832** | **-64 832** |
| | | | |
| **Carrying amount at the end of the year** | **6 537** | **46 983** | **53 520** |

| Parent Company 2016 | Equipment | Total |
| --- | --- | --- |
| **Opening balance purchase value** | **82 787** | **82 787** |
| Opening balance purchase value adjustment | 166 | 166 |
| This year's purchase | 16 485 | 16 485 |
| **Closing balance purchase value** | **99 438** | **99 438** |
| | | |
| **Opening balance amortization** | **-53 510** | **-53 510** |
| Opening balance amortization adjustment | -166 | -166 |
| This year's depreciation | -17 109 | -17 109 |
| **Closing balance amortization** | **-70 785** | **-70 785** |
| | | |
| **Carrying amount at the end of the year** | **28 653** | **28 653** |

| Parent Company 2015 | Equipment | Total |
| --- | --- | --- |
| **Opening balance purchase value** | **73 899** | **73 899** |
| This year's purchase | 8 888 | 8 888 |
| **Closing balance purchase value** | **82 787** | **82 787** |
| | | |
| **Opening balance amortization** | **-36 771** | **-36 771** |
| This year's depreciation | -16 742 | -16 742 |
| Accumulated depreciation sold | *2* | *2* |
| **Closing balance amortization** | **-53 510** | **-53 510** |
| | | |
| **Carrying amount at the end of the year** | **29 277** | **29 277** |

## Note 24 Other assets

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Accounts receivable | 87 076 | 66 349 | 36 630 | 24 811 |
| Receivables from group companies | - | 3 542 | 155 692 | 207 808 |
| Tax assets | 41 360 | 1 187 | 40 766 | - |
| Deferred tax | 11 662 | 2 246 | 2 703 | - |
| Derivatives | 15 696 | 14 979 | 15 696 | 14 979 |
| Other receivables | 63 684 | 46 627 | 34 584 | 25 857 |
| **Total** | **219 478** | **134 930** | **286 071** | **273 455** |

## Note 25 Prepaid expenses and accrued income

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Accrued interest | - | - | 23 225 | 22 390 |
| Accrued other income | 1 808 | 1 558 | 1 749 | 1 233 |
| Prepaid rent | 14 392 | 770 | 13 030 | - |
| Prepaid insurance | 1 091 | 168 | 754 | - |
| Prepaid licenses | 10 692 | 2 659 | 10 692 | 2 659 |
| Other prepaid expenses | 17 599 | 32 882 | 13 606 | 29 751 |
| **Total** | **45 582** | **38 037** | **63 056** | **56 033** |

## Note 26 Liabilities to credit institutions

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Liabilities to credit institutions | 754 944 | 708 826 | 754 944 | 708 826 |
| | | | | |
| - in SEK | 490 788 | 501 609 | 490 788 | 501 609 |
| - in EUR | 178 098 | 169 817 | 178 098 | 169 817 |
| - in USD | 26 425 | - | 26 425 | - |
| - in other currencies | 59 633 | 37 400 | 59 633 | 37 400 |
| **Total** | 754 944 | 708 826 | 754 944 | 708 826 |

## Note 27 Deposits from the public

| | Group | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Booked value | Fair value | Booked value | Fair value |
| Private individuals | 5 300 690 | 5 375 848 | 3 514 195 | 3 557 049 |
| Companies | 459 649 | 461 492 | 390 678 | 392 080 |
| Other organizations | 79 151 | 79 642 | 54 554 | 54 934 |
| **Total** | **5 839 490** | **5 916 982** | **3 959 427** | **4 004 063** |
| By currency | | | | |
| - in SEK | 3 223 645 | 3 240 609 | 2 734 264 | 2 748 567 |
| - in EUR | 2 615 845 | 2 676 373 | 1 225 163 | 1 255 496 |
| **Total** | **5 839 490** | **5 916 982** | **3 959 427** | **4 004 063** |

| | Parent Company | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Booked value | Fair value | Booked value | Fair value |
| Private individuals | 5 300 690 | 5 375 848 | 3 514 195 | 3 557 049 |
| Companies | 459 649 | 461 492 | 390 678 | 392 080 |
| Other organizations | 79 151 | 79 642 | 54 554 | 54 934 |
| **Total** | **5 839 490** | **5 916 982** | **3 959 427** | **4 004 063** |
| By currency | | | | |
| - in SEK | 3 223 645 | 3 240 609 | 2 734 264 | 2 748 567 |
| - in EUR | 2 615 845 | 2 676 373 | 1 225 163 | 1 255 496 |
| **Total** | **5 839 490** | **5 916 982** | **3 959 427** | **4 004 063** |

The calculation of fair value of public deposits is based on Level 2 input using observable market data in form of yield curves. Public deposits are grouped into maturity buckets and thereafter average maturity and interest rates of each group is calculated. To measure the fair value, for each deposit group, the future value of the public deposits is calculated and discounted using yield curves with corresponding maturities.

## Note 28 Other liabilities

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Accounts payable | 71 664 | 52 661 | 62 002 | 44 681 |
| Tax at source, personnel | 21 996 | 18 435 | 15 034 | 12 503 |
| Liabilities to affiliated companies | 174 524 | 62 054 | 322 483 | 165 674 |
| Tax liabilities | 76 060 | 24 885 | - | 1 997 |
| Liabilities to internet merchants | 1 715 599 | 1 135 688 | 1 684 217 | 1 109 859 |
| Other liabilities | 19 485 | 20 340 | 902 | 2 472 |
| **Total** | **2 079 328** | **1 314 063** | **2 084 638** | **1 337 186** |

For maturity analysis of financial liabilities, see note 35.

## Note 29 Accrued expenses and prepaid income

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Accrued personnel related expenses | 123 603 | 126 514 | 108 507 | 104 721 |
| Accrued commissions to partners | 24 741 | 13 950 | 24 457 | 13 950 |
| Accrued interest | 23 279 | - | 23 279 | - |
| Other accrued expenses | 104 688 | 90 175 | 82 549 | 77 053 |
| Other prepaid income | 1 370 | - | 1 370 | - |
| **Total** | **277 681** | **230 639** | **240 162** | **195 724** |

For maturity analysis of financial liabilities, see note 35.

## Note 30 Provisions

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Provisions at beginning of year** | **2 005** | **1 797** | | |
| Pending legal issues and tax litigations | 976 | 1 011 | - | - |
| Other provisions | 1 029 | 785 | - | - |
| | | | | |
| **Additions** | **167 000** | **272** | **139 468** | **-** |
| Pending legal issues and tax litigations | 166 000 | - | 138 468 | - |
| Commitments and guarantees given | 1 000 | - | 1 000 | - |
| Other provisions | - | 272 | - | - |
| | | | | |
| **Amounts used** | **-27 755** | **-** | **-** | **-** |
| Pending legal issues and tax litigations | -27 497 | - | - | - |
| Other provisions | -258 | - | - | - |
| | | | | |
| **Foreign exchange effect** | **10** | **-63** | **-** | **-** |
| Pending legal issues and tax litigations | - | -35 | - | - |
| Other provisions | 10 | -28 | - | - |
| | | | | |
| **Provisions at end of year** | **141 260** | **2 005** | **139 468** | **-** |
| Pending legal issues and tax litigations | 139 479 | 976 | 138 468 | - |
| Commitments and guarantees given | 1 000 | - | 1 000 | - |
| Other provisions | 781 | 1 029 | - | - |

Klarna AB (publ) has provisioned 166 MSEK for 2014-2016 as a consequence of new tax assessments made by the Swedish Tax Agency on how Klarna AB (publ) handles VAT. Klarna AB (publ) is disputing the new assessments; however the provisioning represents a likely outcome.

## Note 31 Subordinated liabilities

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Subordinated note, nominal value | 300 000 | - | 300 000 | - |
| Transaction expenses | -3 587 | - | -3 587 | - |
| Accrued interest | 388 | - | 388 | - |
| **Total** | **296 801** | **-** | **296 801** | **-** |

In June 20, 2016, Klarna AB (publ) issued 300 MSEK of subordinated notes. The subordinated notes have a maturity of 10 years with a call option of the issuer after 5 years. The interest is paid on a quarterly basis.

For maturity analysis of financial liabilities, see note 35.

## Note 32 Untaxed reserves

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Additional depreciation | - | - | - | -13 269 |
| Tax allocation reserve | - | - | 84 400 | 95 129 |
| **Total** | **-** | **-** | **84 400** | **81 860** |

## Note 33 Pledged assets and contingent liabilities

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Pledged assets** | | | | |
| *Assets pledged for own liabilities* | | | | |
| Pledged loans and receivables | 3 836 025 | 4 603 602 | 3 836 025 | 4 603 602 |
| Other pledged assets | 9 058 | - | - | - |
| **Total pledged assets** | **3 845 083** | **4 603 602** | **3 836 025** | **4 603 602** |
| **Contingent liabilities and commitments** | | | | |
| Contingent liabilities | 83 865 | - | 83 865 | - |
| Commitments | - | - | - | - |
| **Total contingent liabilities and commitments** | **83 865** | **-** | **83 865** | **-** |

Klarna AB (publ) continually pledges parts of its receivables and loans in order to enable increased borrowing. The pledged assets are collateral for liabilities to credit institutions and provide security for the Group's credit facility. The credit liability amounted to 490,788 (708,826) TSEK at December 31, 2016.

## Note 34 Classification of financial assets and liabilities into valuation categories

| Group<br>2016 , Amounts in TSEK | Measured at fair value through profit or loss: Designated at fair value through profit or loss | Measured at fair value through profit or loss: Held for trading | Available for sale | Loans and receivables | Non-financial assets | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash in hand | - | - | - | 40 | - | 40 |
| Chargeable central bank treasury bills etc. | 941 703 | - | - | - | - | 941 703 |
| Loans to credit institutions | - | - | - | 1 234 684 | - | 1 234 684 |
| Loans to the public | - | - | - | 8 362 961 | - | 8 362 961 |
| Other shares and participations | - | - | 10 315 | - | - | 10 315 |
| Intangible assets | - | - | - | - | 1 212 236 | 1 212 236 |
| Tangible assets | - | - | - | - | 54 825 | 54 825 |
| Other assets | - | 15 696 | - | 132 732 | 71 050 | 219 478 |
| Prepaid expenses and accrued income | - | - | - | - | 45 582 | 45 582 |
| **Total** | **941 703** | **15 696** | **10 315** | **9 730 417** | **1 383 693** | **12 081 824** |

| 2016 , Amounts in TSEK | Measured at fair value through profit or loss | Other financial liabilities | Non-financial liabilities | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Liabilities to credit institution | - | 754 944 | - | 754 944 |
| Deposits from the public | - | 5 839 490 | - | 5 839 490 |
| Deferred tax liabilities | - | - | 74 955 | 74 955 |
| Other liabilities | - | 1 963 810 | 115 518 | 2 079 328 |
| Accrued expenses and prepaid income | - | 148 425 | 129 256 | 277 681 |
| Provisions | - | - | 141 260 | 141 260 |
| Subordinated liabilities | - | 296 801 | - | 296 801 |
| **Total** | **-** | **9 003 470** | **460 989** | **9 464 459** |

| **Group** | Measured at fair value through profit or loss | | | | | |
|---|---|---|---|---|---|---|
| **2015 , Amounts in TSEK** | Designated at fair value through profit or loss | Held for trading | Available for sale | Loans and receivables | Non-financial assets | Total |
| **Assets** | | | | | | |
| Cash in hand | - | - | - | 55 | - | 55 |
| Chargeable central bank treasury bills etc. | 790 348 | - | - | - | - | 790 348 |
| Loans to credit institutions | - | - | - | 499 754 | - | 499 754 |
| Loans to the public | - | - | - | 6 037 726 | - | 6 037 726 |
| Other shares and participations | - | - | 12 315 | - | - | 12 315 |
| Intangible assets | - | - | - | - | 1 191 710 | 1 191 710 |
| Tangible assets | - | - | - | - | 53 520 | 53 520 |
| Other assets | - | 14 979 | - | 101 352 | 18 599 | 134 930 |
| Prepaid expenses and accrued income | - | - | - | - | 38 037 | 38 037 |
| **Total** | **790 348** | **14 979** | **12 315** | **6 638 887** | **1 301 866** | **8 758 395** |

| **2015 , Amounts in TSEK** | Measured at fair value through profit or loss | Other financial liabilities | Non-financial liabilities | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Liabilities to credit institutions | - | 708 826 | - | 708 826 |
| Deposits from the public | - | 3 959 427 | - | 3 959 427 |
| Deferred tax liabilities | - | - | 80 073 | 80 073 |
| Other liabilities | - | 1 253 221 | 60 842 | 1 314 063 |
| Accrued expenses and prepaid income | - | 102 721 | 127 918 | 230 639 |
| Provisions | - | - | 2 005 | 2 005 |
| **Total** | **-** | **6 024 195** | **270 838** | **6 295 033** |

| Parent Company | Measured at fair value through profit or loss | | | | | |
|---|---|---|---|---|---|---|
| 2016 , Amounts in TSEK | Designated at fair value through profit or loss | Held for trading | Available for sale | Loans and receivables | Non-financial assets | Total |
| **Assets** | | | | | | |
| Cash in hand | - | - | - | 4 | - | 4 |
| Chargeable central bank treasury bills etc. | 941 703 | - | - | - | - | 941 703 |
| Loans to credit institutions | - | - | - | 946 172 | - | 946 172 |
| Loans to the public | - | - | - | 8 802 093 | - | 8 802 093 |
| Shares and participations in group companies | - | - | - | - | 543 999 | 543 999 |
| Other shares and participations | - | - | 10 315 | - | - | 10 315 |
| Intangible assets | - | - | - | - | 135 406 | 135 406 |
| Tangible assets | - | - | - | - | 28 653 | 28 653 |
| Other assets | - | 15 696 | - | 225 132 | 45 243 | 286 071 |
| Prepaid expenses and accrued income | - | - | - | - | 63 056 | 63 056 |
| **Total** | **941 703** | **15 696** | **10 315** | **9 973 401** | **816 357** | **11 757 472** |

| 2016 , Amounts in TSEK | Measured at fair value through profit or loss | Other financial liabilities | Non-financial liabilities | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Liabilities to credit institutions | - | 754 944 | - | 754 944 |
| Deposits from the public | - | 5 839 490 | - | 5 839 490 |
| Deferred tax liabilities | - | - | 3 274 | 3 274 |
| Other liabilities | - | 2 069 604 | 15 034 | 2 084 638 |
| Accrued expenses and prepaid income | - | 131 654 | 108 508 | 240 162 |
| Provisions | - | - | 139 468 | 139 468 |
| Subordinated liabilities | - | 296 801 | - | 296 801 |
| **Total** | **-** | **9 092 493** | **266 284** | **9 358 777** |

| Parent Company | Measured at fair value through profit or loss | | | | | |
|---|---|---|---|---|---|---|
| **2015 , Amounts in TSEK** | Designated at fair value through profit or loss | Held for trading | Available for sale | Loans and receivables | Non-financial assets | Total |
| **Assets** | | | | | | |
| Cash in hand | - | - | - | 4 | - | 4 |
| Chargeable central bank treasury bills etc. | 790 348 | - | - | - | - | 790 348 |
| Loans to credit institutions | - | - | - | 313 890 | - | 313 890 |
| Loans to the public | - | - | - | 6 456 845 | - | 6 456 845 |
| Shares and participations in group companies | - | - | - | - | 543 999 | 543 999 |
| Other shares and participations | - | - | 12 315 | - | - | 12 315 |
| Intangible assets | - | - | - | - | 121 125 | 121 125 |
| Tangible assets | - | - | - | - | 29 277 | 29 277 |
| Other assets | - | 14 979 | - | 258 476 | - | 273 455 |
| Prepaid expenses and accrued income | - | - | - | - | 56 033 | 56 033 |
| **Total** | **790 348** | **14 979** | **12 315** | **7 029 215** | **750 434** | **8 597 291** |

| **2015 , Amounts in TSEK** | Measured at fair value through profit or loss | Other financial liabilities | Non-financial liabilities | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Liabilities to credit institutions | - | 708 826 | - | 708 826 |
| Deposits from the public | - | 3 959 427 | - | 3 959 427 |
| Other liabilities | - | 1 321 903 | 15 283 | 1 337 186 |
| Accrued expenses and prepaid income | - | 91 003 | 104 721 | 195 724 |
| **Total** | **-** | **6 081 159** | **120 004** | **6 201 163** |

**Financial assets and liabilities - measurement**

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

*Level 1*

Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets. This category includes investments in discount papers where direct tradable price quotes exist.

*Level 2*

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

*Level 3*

Estimated values based on assumptions and assessments. One or more significant inputs are not based on observable market information.

The following table shows the company's financial assets and liabilities measured at fair value at December 31, 2016, divided up into the three valuation levels.

| **2016, Group** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Chargeable central bank treasury bills etc. | 941 703 | - | - | 941 703 |
| Other assets (Fx forwards) | - | 15 696 | - | 15 696 |
| **Total assets** | **941 703** | **15 696** | - | **957 399** |

| **2015, Group** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Chargeable central bank treasury bills etc. | 790 348 | - | - | 790 348 |
| Other assets (Fx forwards) | - | 14 979 | - | 14 979 |
| **Total assets** | **790 348** | **14 979** | **-** | **805 327** |

| **2016, Parent Company** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Chargeable central bank treasury bills etc. | 941 703 | - | - | 941 703 |
| Other assets (Fx forwards) | - | 15 696 | - | 15 696 |
| **Total assets** | **941 703** | **15 696** | **-** | **957 399** |

| **2015, Parent Company** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Chargeable central bank treasury bills etc. | 790 348 | - | - | 790 348 |
| Other assets (Fx forwards) | - | 14 979 | - | 14 979 |
| **Total assets** | **790 348** | **14 979** | **-** | **805 327** |

# Note 35 Maturity analysis for assets and liabilities

| **Group** | | **2016** | | | **2015** | | |
|---|---|---|---|---|---|---|---|
| **Contractual undiscounted cash flows** | | Expected to be recovered or settled: | | | Expected to be recovered or settled: | | |
| **Amounts in TSEK** | Note | Within 12 months | After 12 months | **Total** | Within 12 months | After 12 months | **Total** |
| **Financial Liabilities** | | | | | | | |
| Other liabilities | 28 | 1 963 811 | - | 1 963 811 | 1 252 887 | - | 1 252 887 |
| Accrued expenses and prepaid income | 29 | 148 425 | - | 148 425 | 102 721 | - | 102 721 |
| Subordinated liabilities | 31 | 11 802 | 403 337 | 415 139 | - | - | - |
| Liabilities to credit institutions | 19 | 264 156 | 490 788 | 754 944 | - | 708 826 | 708 826 |
| Deposits from the public | 20 | 4 440 255 | 1 563 023 | 6 003 278 | 3 093 459 | 962 779 | |
| **Total** | | **6 828 449** | **2 457 148** | **9 285 597** | **4 449 067** | **1 671 605** | **2 064 434** |

| **Parent Company** | | **2016** | | | **2015** | | |
|---|---|---|---|---|---|---|---|
| **Contractual undiscounted cash flows** | | Expected to be recovered or settled: | | | Expected to be recovered or settled: | | |
| **Amounts in TSEK** | Note | Within 12 months | After 12 months | **Total** | Within 12 months | After 12 months | **Total** |
| **Financial Liabilities** | | | | | | | |
| Other liabilities | 28 | 1 963 101 | - | 1 963 101 | 1 319 808 | - | 1 319 808 |
| Accrued expenses and prepaid income | 29 | 131 655 | - | 131 655 | 91 002 | - | 91 002 |
| Subordinated liabilities | 31 | 11 802 | 403 337 | 415 139 | - | - | - |
| Liabilities to credit institutions | 19 | 264 156 | 490 788 | 754 944 | - | 708 826 | 708 826 |
| Deposits from the public | 20 | 4 440 255 | 1 563 023 | 6 003 278 | 3 093 459 | 962 779 | 4 056 238 |
| **Total** | | **6 810 969** | **2 457 148** | **9 268 117** | **4 504 269** | **1 671 605** | **6 175 874** |

**Parent Company**
**Contractual undiscounted cash flows**

| **2016 Amounts in TSEK** | Note | Payable on demand | Maximum 3 months | 3-12 months | 1-5 years | More than 5 years | **Total** |
|---|---|---|---|---|---|---|---|
| Loans to credit institutions | 19 | 946 172 | - | - | - | - | 946 172 |
| Loans to the public | 20 | 122 060 | 2 666 453 | 2 154 276 | 4 227 409 | 1 439 805 | 10 610 003 |
| **Total assets** | | **1 068 232** | **2 666 453** | **2 154 276** | **4 227 409** | **1 439 805** | **11 556 175** |
| Liabilities to credit institutions | 26 | - | - | - | 754 944 | - | 754 944 |
| Deposits from the public | 27 | 1 288 422 | 1 012 160 | 2 139 673 | 1 563 023 | - | 6 003 278 |
| **Total Liabilities** | | **1 288 422** | **1 012 160** | **2 139 673** | **2 317 967** | **-** | **6 758 222** |

| **2015 Amounts in TSEK** | Note | Payable on demand | Maximum 3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| Loans to credit institutions | 19 | 313 890 | - | - | - | - | 313 890 |
| Loans to the public | 20 | 127 778 | 2 836 550 | 858 146 | 2 200 335 | - | 6 022 809 |
| **Total assets** | | **441 668** | **2 836 550** | **858 146** | **2 200 335** | **-** | **6 336 699** |
| Liabilities to credit institutions | 26 | - | - | - | 708 826 | - | 708 826 |
| Deposits from the public | 27 | 1 268 405 | 561 350 | 1 263 704 | 962 779 | - | 4 056 238 |
| **Total Liabilities** | | **1 268 405** | **561 350** | **1 263 704** | **1 671 605** | **-** | **4 765 064** |

# Note 36 Information on related parties

*Group and parent company*

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

During the period, there have been normal business transactions between companies in the Group and agreed current remuneration to the CEO, board of directors and other key personnel.

The following transactions have taken place with related parties:

| 2016 | Klarna Holding | Subsidiaries |
|---|---|---|
| **Related parties - revenues and expenses** | | |
| Interest income | - | 31 221 |
| Interest expenses | - | -45 |
| Services sold, sales | - | 8 688 |
| Services purchased, sales | - | 400 751 |
| Services purchased, product development | - | 64 499 |
| Group contribution received | - | 700 |

| 2016 | Klarna Holding | Subsidiaries |
|---|---|---|
| **Related parties - assets and liabilities** | | |
| Loans receivable, current | - | 701 518 |
| Other current receivables | - | 40 497 |
| Loan liabilities, current | - | 106 503 |
| Other current liabilities | 174 524 | 52 650 |
| Group contribution paid | 350 | - |

| 2015 | Klarna Holding | Subsidiaries |
|---|---|---|
| **Related parties - revenues and expenses** | | |
| Interest income | - | 28 295 |
| Interest expenses | - | -6 |
| Services sold, sales | - | 10 188 |
| Services purchased, sales | - | 305 498 |
| Services purchased, product development | - | 48 973 |
| Group contribution received | - | 900 |

| 2015 | Klarna Holding | Subsidiaries |
|---|---|---|
| **Related parties - assets and liabilities** | | |
| Loans receivable, current | - | 727 724 |
| Other current receivables | 3 542 | 41 715 |
| Loan liabilities, current | - | 1 760 |
| Other current liabilities | 62 054 | 101 860 |
| | | |
| Group contribution paid | 230 | - |

Intragroup invoicing is handled according to the arm's length principle, where the subsidiaries charge their expenses to Klarna AB (publ) including a mark-up.

See note 10 for transactions with the Board of Directors, CEO, and senior management.

## Note 37 Capital adequacy and leverage ratio

**Capital adequacy regulations**

Capital adequacy refers to the ability of an institution's Own Funds to cover the risk it is exposed to. Within the EU the capital adequacy requirements are contained in the Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR), both implemented in 2014. These regulations are based on the global capital adequacy standards Basel II and III, and defines minimum requirements for total own funds in relation to risk-weighted exposure amounts (Pillar I), rules for the Internal Capital Adequacy Process "ICAAP" (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 Supervision Authority regulations (FFFS 2008:25) and (FFFS 2014:12). Other disclosures required under Pillar III are published on Klarna's homepage www.klarna.se.

**Subordinated liabilities**

On June 20, 2016, Klarna AB (publ) issued 300 MSEK subordinated notes due 2026. The subordinated notes is eligible for inclusion as Tier 2 capital in accordance with current regulations. The notes have a floating coupon rate corresponding to STIBOR 3m plus 4.5 percent per annum which corresponds to an initial coupon of approximately 4 percent. The notes were allocated to a limited number of large Nordic investors and the first call date is June 20, 2021.

**Consolidated situation**

The consolidated situation for Klarna consists of all companies in the Klarna Holding Group (Klarna AB Group and its parent company Klarna Holding AB). No adjustments have been made in the calculation of the capital adequacy requirement from the Klarna Holding Group's consolidated numbers.

**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 Pillar 3 report.

## Own Funds

| | Consolidated situation | | Parent company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Common Equity Tier 1 capital: instruments and reserves** | | | | |
| Capital instruments and the related share premium accounts | 2 192 977 | 2 027 320 | 1 448 959 | 1 448 959 |
| of which: Share capital | 1 879 | 1 860 | 52 752 | 52 752 |
| Retained earnings | 412 307 | 285 689 | 816 433 | 818 290 |
| Accumulated other comprehensive income (and other reserves) | 73 397 | 78 661 | 114 434 | 63 851 |
| Independently reviewed interim profits net of any foreseeable charge or dividend | 113 239 | 127 212 | 300 | 47 020 |
| **Common Equity Tier 1 (CET 1) capital before regulatory adjustments** | **2 791 920** | **2 518 882** | **2 380 126** | **2 378 120** |
| **Common Equity Tier 1 capital: regulatory adjustments** | | | | |
| Additional value adjustments (negative amount) | (957) | - | (957) | - |
| Intangible assets (net of related tax liability) (negative amount) | (1 159 179) | (1 130 651) | (135 406) | (121 125) |
| **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **(1 160 136)** | **(1 130 651)** | **(136 363)** | **(121 125)** |
| **Common Equity Tier 1 (CET1) capital** | **1 631 784** | **1 388 231** | **2 243 763** | **2 256 995** |
| **Additional Tier 1 (AT1) capital** | | | | |
| **Tier 1 capital (T1 = CET1 + AT1)** | **1 631 784** | **1 388 231** | **2 243 763** | **2 256 995** |
| **Tier 2 (T2) capital: Instruments and provisions** | | | | |
| **Tier 2 (T2) capital** | 296 801 | - | 296 801 | - |
| **Total capital (TC = T1 + T2)** | **1 928 585** | **1 388 231** | **2 540 564** | **2 256 995** |
| **Total risk weighted assets** | **10 251 727** | **7 231 298** | **11 355 254** | **8 714 686** |
| **Capital ratios and buffers** | | | | |
| Common Equity Tier 1 (as a percentage of total risk exposure amount) | 15,9% | 19,2% | 19,8% | 25,9% |
| Tier 1 (as a percentage of total risk exposure amount) | 15,9% | 19,2% | 19,8% | 25,9% |
| Total capital (as a percentage of total risk exposure amount) | 18,8% | 19,2% | 22,4% | 25,9% |
| Institution specific buffer requirement (as a percentage of risk exposure amount) | 3,4% | 3,1% | 3,3% | 3,0% |
| of which: capital conservation buffer requirement | 2,5% | 2,5% | 2,5% | 2,5% |
| of which: countercyclical buffer requirement | 0,9% | 0,6% | 0,8% | 0,5% |
| Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 7,9% | 11,2% | 11,8% | 17,9% |
| **Amounts below the thresholds for deduction (before risk weighting)** | | | | |
| Deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) | 11 661 | 2 246 | 2 703 | - |

| Capital requirement and risk exposure amounts | Consolidated situation | | Parent company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Risk exposure amount** | | | | |
| Credit risk according to standardized method | 6 885 649 | 4 887 055 | 7 870 138 | 5 967 180 |
| Market risk according to standardized method | 246 190 | 53 354 | 550 181 | 493 823 |
| Operative risk according to standardized method | 3 119 888 | 2 290 889 | 2 934 935 | 2 253 683 |
| **Total risk exposure amount** | **10 251 727** | **7 231 298** | **11 355 254** | **8 714 686** |
| | | | | |
| **Exposure amount for credit risk according to the standardized method** | | | | |
| Institute exposure | 252 033 | 105 487 | 194 324 | 68 300 |
| Corporate exposure | 243 253 | 127 778 | 685 144 | 568 638 |
| Retail/household exposure | 6 014 576 | 4 390 395 | 6 012 574 | 4 374 195 |
| Exposures in default | 100 273 | 56 088 | 100 183 | 55 947 |
| Equity exposure | 10 315 | 12 315 | 554 314 | 556 314 |
| Other items | 265 199 | 194 992 | 323 599 | 343 785 |
| **Total credit risk exposure amount** | **6 885 649** | **4 887 055** | **7 870 138** | **5 967 179** |
| | | | | |
| **Market risk exposure amounts according to standardized method** | | | | |
| Foreign exchange risk | 246 190 | 53 354 | 550 181 | 493 823 |
| **Total market risk according to standardized method** | **246 190** | **53 354** | **550 181** | **493 823** |
| | | | | |
| **Capital requirement** | | | | |
| Credit risk according to standardized method | 550 852 | 390 964 | 629 611 | 477 374 |
| Market risk to standardized method | 19 695 | 4 268 | 44 014 | 39 506 |
| Operational risk according to standardized method | 249 591 | 183 271 | 234 795 | 180 295 |
| **Total capital requirement** | **820 138** | **578 504** | **908 420** | **697 175** |
| | | | | |
| **Leverage ratio** | | | | |
| Tier 1 capital | 1 631 784 | 1 388 231 | 2 243 763 | 2 256 995 |
| Total exposure | 10 934 381 | 7 575 914 | 11 630 856 | 8 488 799 |
| Leverage ratio | 14,9% | 18,3% | 19,3% | 26,6% |

**The Internal Capital Adequacy Assessment Process "ICAAP"**

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

The 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 ICAAP, Pillar II. The internally assessed required capital as at Year-end 2016 (2015) amounted to 937,220 (730,675) TSEK for Klarna AB (publ) and 848,938 (612,004) TSEK for the consolidated situation. Klarna thereby has sufficient capital to cover for required capital under Pillar I and Pillar II.

## Note 38 Important events after the end of the reporting period

On 1 February 2017, the company's newly acquired indirect subsidiary Klarna SPV GmbH signed a share purchase agreement regarding all shares in the German payment company Billpay GmbH. The acquisition is conditional upon approval from the German Financial Supervisory Authority.

The initial accounting for the business combination is incomplete at the time the financial statements are authorized for issue. Thus no financial conditions regarding Billpay GmbH could be disclosed.

Stockholm 2017-

______________________
Jonathan Kamaluddin
Chairman of the Board

______________________
Niklas Adalberth

______________________
Michael Walther

______________________
Sara McPhee

______________________
Anton Jonathan Levy

______________________
Michael Moritz

______________________
Sebastian Siemiatkowski
CEO

Our audit report was submitted on 2017-

Ernst & Young AB

______________________
Stefan Lundberg
Authorized Public Accountant