Klarna.

Annual financial statement release January – December 2017

Our purpose at Klarna is to simplify buying. This is done by making buying simpler and safer for consumers and selling simpler and safer for merchants. Klarna's business is primarily comprised of payment solutions and consumer credit products designed specifically for e-commerce. Today, Klarna's services have expanded beyond traditional e-commerce, for example, by managing payments for public transport, media and increasingly in physical stores. Klarna receives revenues from both the merchants and the consumers that use Klarna's payment solutions.

July – December 2017

- Compared to last year, total sales volume grew by 43%
- Total operating revenues increased 32% to SEK 2,474m (1,868)
- Operating income for the period was SEK 203m (35)
- Net income for the period amounted to SEK 117m (17)

January – December 2017

- Year over year growth in total sales volumes was 42%
- Total operating revenues increased 27% to SEK 4,526m (3,561)
- Operating income amounted to SEK 524m (168)
- Net income for the year amounted to SEK 346m (113)
- 26,000 new merchants, Group total now 89,000
- 19 million new consumers used Klarna this year

Highlights from the year

- Bank license was obtained in June
- BillPay GmbH was acquired in September
- Additional tier 1 capital was raised in May and a senior unsecured bond was issued in September

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To our Shareholders

Fellow shareholders,

2017 was an important year for Klarna.

Obtaining a banking license was a milestone and natural next step for the company. I am proud to say that Klarna has already played a role in disrupting payments services in order to provide the smoothest experience for merchants and consumers. Now we have even more possibilities to drive that change by broadening our offering and the ability to be deeper in the value chain. The license will not change who we are; consumer focused, product driven and technology intensive. We will continue to work every day to provide solutions that will deliver optimal user experience, help people streamline their financial lives and support businesses by solving the complexity of handling payments.

Our focus on user experience for consumers is relentless and by doing so, we drive loyalty, and ultimately sales for our 89,000 merchants and partners. They see the value which our products bring, improving conversion rates, order amount, number of users and overall preference. The significant year on year growth in volumes recorded is testament to this and supported the further scaling of the company across key markets.

The acquisition of BillPay GmbH into the Klarna Group in September significantly strengthened our position in the DACH region and we welcomed talented new colleagues to the company.

Over the course of the year Brightfolk/Bestseller Group, Permira and Visa all joined as new investors. The company is continually evolving and this new energy, strategic insight and perspective is a great asset.

Other highlights:

- 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.
- We are 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

Comments from the Board of Directors

The Board and the CEO of Klarna Bank AB (publ) hereby submits the report for the period July 1 – December 31, 2017 and the full year. The report has been prepared in thousands of Swedish kronor unless otherwise stated.

Information about the business
Klarna Bank AB (publ), a wholly owned subsidiary to Klarna Holding AB, is a registered bank and is under the supervision of the Swedish Financial Supervision Authority (Finansinspektionen). The company's personal data protection officer is responsible that all personal details are dealt with in accordance with the Swedish Personal Data Protection Act (PUL).

Our purpose at Klarna is to simplify buying. This is done by making buying simpler and safer for consumers and selling simpler and safer for merchants. Klarna's business is primarily comprised of payment solutions and consumer credit products designed specifically for e-commerce. Today, Klarna's services have expanded beyond traditional e-commerce, for example, by managing payments for public transport, media and increasingly in physical stores. Klarna receives revenues from both the merchants and the consumers that use Klarna's payment solutions.

Klarna's value proposition to consumers is to allow them to make safe and simple online purchases and to pay when and how they want. Klarna offers consumers a range of payment options including card payments and direct banking, as well as Klarna's proprietary payment options, which include invoice (Pay Later), sales financing (Slice It), we also have immediate settlement option (Pay Now). That way consumers can choose how and when to pay for purchases based on their needs and preferences.

Klarna's value proposition to merchants is to increase sales and reduce their working capital requirements by providing simple, safe, and cost-effective payment solutions and consumer credit products across all e-commerce platforms, and especially on mobile phones. 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 optimised for desktop and mobile through which merchants can offer card payments, direct banking and Klarna's proprietary payment options in one solution. Klarna assumes all the risk for both the consumer and merchant.

Our success to date is a result of the high degree of trust we have built with customers and partners in all markets. This trust is critical in the financial sector and when handling personal data. Maintaining that trust requires that we operate with the highest ethical standards and strive to do what's right every day. Such standards are necessary across all parts of the business- from the handling of sensitive personal data to a robust corporate governance framework and ensuring all employees are treated with respect in a secure working environment.

Business performance
January – December 2017
Total operating revenue grew by 27% year over year resulting in SEK 4,526m at year-end. This was mainly driven by higher volumes and new merchants.

Klarna had an interest income of SEK 1,591m, corresponding to a 24% growth driven by increased Slice It volume. Overdue fees and corresponding interest continued to decrease as a share of total interest income.

Commission income increased by 29% to SEK 2,924m. This was due to an increase in end consumer activity driving transaction growth. Reminder fees related to Pay Later continued to decrease as a share of total commission income.

Total operating expenses grew by 18% mainly due to higher general administrative expenses as a result of ramping up the business. Average number of employees increased to 1,380 from 1,244 (excluding consultants).

Klarna had an overall volume growth within the group running at 42%, however losses as a proportion of volume decreased by 20% year over year (2016: 0.34%; 2017: 0.27%). This was driven by organic improvement in risk models and tooling across large markets over the end of 2016, as well as over early 2017, and in addition ensuring that losses on higher risk merchants and fraud related events were brought within tolerance levels.

Net income recorded at SEK 346m which is more than three times higher than last year. Net income in 2016 was impacted by a provisioning of SEK 166m for the pending tax assessment, however the current year included a related provisioning of SEK 66m. The strong result was mainly a result of solid volume growth and a significant number of new merchants being on-boarded, as well as continuous work on decreasing the direct costs.

Loans to the public grew by 64% to SEK 13,874m mainly driven by growth generated from existing merchants predominantly in the Nordic and DACH region, but also due to significant signing of new global merchants across all geographies.

Deposits from the public grew by 45% to SEK 8,492m as a result of ramping up the business, main driver was the EUR deposits in Germany.

For further comments see below on important events during the period as well as the notes.

July – December 2017
Total operating revenue for the period grew by 32% compared to the same period last year. This was mainly driven by higher volumes, especially from the Black Weekend in November, as well as new merchants. Operating revenue for the period amounted to SEK 2,474m (1,868).

Total operating costs amounted to SEK 2,271m corresponding to a 24% increase mainly due to higher labor costs as well as higher credit losses. Credit losses and volumes rose in proportion to each other over the latter half of the year. Over this period risk tolerance across markets has been kept largely unchanged when compared to H1 2017. Forward looking expectation is that losses on a market level will move largely in line with volume going forward with overall loss-volume relationship being determined based on product distribution on each respective market.

Net income for the period amounted to SEK 117m compared to SEK 17m last year.

Significant events during the year
In May 2017, Klarna AB (publ) issued additional Tier 1 bonds in the principal amount of SEK 250m.

Klarna AB (publ) was granted a bank license by Finansinspektionen (the Swedish Financial Supervisory Authority) on June 19, 2017. In connection herewith, the company's legal name was changed to Klarna Bank AB (publ).

On September 13, 2017, the company's indirect subsidiary Klarna SPV GmbH consummated the acquisition of Billpay GmbH.

On September 18, 2017, Klarna Bank AB (publ) issued floating rate senior unsecured notes in an amount of SEK 2,000m. The bond was listed on Nasdaq Stockholm, Sweden on December 14, 2017.

On December 15, 2017, the company's director Anton Levy resigned from the board of directors and Andrew Young was appointed new director.

Future development
In 2017 Klarna continued to lay the foundation for continuing our quest to become the world's favourite way to buy. We further strengthened our market leading positions in the Nordics and continental Europe, attracting new partners, consumers and talents through new products and rebranding activities. Our strong current momentum in combination with the bank license, enables us to further invest in merchant and customer preference during the coming year.

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.

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

The basis for the internal control and risk management framework is a three line 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 organisation, procedures and support systems are implemented to ensure a sufficient system of internal controls.

The second line of defense refers to Klarna's independent functions for Risk Control and Compliance, which both report directly to the CEO and the Board. These functions set the principles and framework for risk management, facilitate risk assessment and perform the independent follow-up, as well as making sure 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 as internal auditors.

Important events after the end of the reporting period
On February 13, 2018 an announcement of closure of the Klarna Tel Aviv site in Israel was made. The decision was taken as part of overall strategy to focus on strengthening our commercial and operational presence in our key commercial markets where our merchants and partners are located. All 31 Klarna staff employed in Tel Aviv were offered the possibility to continue to work in other Klarna locations.

On February 22, 2018, the company's director Niklas Adalberth resigned from the board of directors and Niklas Savander was appointed new director.

No other important events occurred after the closing date.

Five Year Summary, Group

Amounts in SEKk	Jan - Dec 2017	Jan - Dec 2016	Jan - Dec 2015	Jan - Dec 2014	Jan - Dec 2013
Income Statement					
Total operating revenues	4,525,879	3,560,661	2,776,466	2,192,703	1,571,827
Operating income	523,987	168,300	170,127	101,441	66,808
Net income for the year	345,613	113,427	127,411	75,424	54,126
Balance Sheet					
Loans to credit institutions	1,211,778	1,234,684	499,754	756,176	612,841
Loans to the public	13,874,164	8,450,037	6,104,075	4,513,304	3,512,009
All other assets	3,901,290	2,397,103	2,154,566	1,925,742	499,380
Total assets	**18,987,232**	**12,081,824**	**8,758,395**	**7,195,222**	**4,624,230**
Liabilities to credit institutions	396,965	754,944	708,826	386,116	168,220
Deposits from the public	8,491,654	5,839,490	3,959,427	3,705,020	2,679,992
All other liabilities	6,065,083	2,870,025	1,626,780	1,107,479	943,832
Total equity	4,033,530	2,617,365	2,463,362	1,996,607	832,186
Total liabilities and equity	**18,987,232**	**12,081,824**	**8,758,395**	**7,195,222**	**4,624,230**
Key Ratios and Figures					
Return on equity[1]	15.8%	6.6%	7.6%	7.2%	8.3%
Return on assets[2]	2.2%	1.1%	1.6%	1.3%	1.3%
Debt/equity ratio[3]	3.7	3.1	2.6	3.2	4.0
Equity/assets ratio[4]	21.2%	21.7%	28.1%	27.7%	18.0%
Own funds	2,830,504	1,928,585	1,388,231	819,777	736,784
Capital requirement	1,244,297	820,138	578,504	431,855	331,245
Total capital ratio[5]	18.2%	18.8%	19.2%	15.2%	17.8%
Average number of employees	1,380	1,244	1,074	1,017	778

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

[4] The equity/assets ratio is 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.

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Five Year Summary, Group

Amounts in SEKk	Jul - Dec 2017	Jul - Dec 2016	Jul - Dec 2015	Jul - Dec 2014	Jul - Dec 2013
Income Statement					
Total operating revenues	2,474,300	1,867,831	1,490,240	1,169,675	830,666
Operating income	203,480	34,895	7,347	75,808	1,910
Net income for the period	117,169	16,931	1,988	64,324	3,831
Balance Sheet					
Loans to credit institutions	1,211,778	1,234,684	499,754	756,176	612,841
Loans to the public	13,874,164	8,450,037	6,104,075	4,513,304	3,512,009
All other assets	3,901,290	2,397,103	2,154,566	1,925,742	499,380
Total assets	**18,987,232**	**12,081,824**	**8,758,395**	**7,195,222**	**4,624,230**
Liabilities to credit institutions	396,965	754,944	708,826	386,116	168,220
Deposits from the public	8,491,654	5,839,490	3,959,427	3,705,020	2,679,992
All other liabilities	6,065,083	2,870,025	1,626,780	1,107,479	943,832
Total equity	4,033,530	2,617,365	2,463,362	1,996,607	832,186
Total liabilities and equity	**18,987,232**	**12,081,824**	**8,758,395**	**7,195,222**	**4,624,230**
Key Ratios and Figures					
Return on equity[1]	15.8%	6.6%	7.6%	7.2%	8.3%
Return on assets[2]	0.8%	0.2%	0.0%	1.1%	0.1%
Debt/equity ratio[3]	3.7	3.1	2.6	3.2	4.0
Equity/assets ratio[4]	21.2%	21.7%	28.1%	27.7%	18.0%
Own funds	2,830,504	1,928,585	1,388,231	819,777	736,784
Capital requirement	1,244,297	820,138	578,504	431,855	331,245
Total capital ratio[5]	18.2%	18.8%	19.2%	15.2%	17.8%
Average number of employees	1,456	1,194	1,005	839	769

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

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

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

[4] The equity/assets ratio is 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 SEKk	Note	Jul - Dec 2017	Jul - Dec 2016	Jan - Dec 2017	Jan - Dec 2016
Interest income	5	866,766	673,606	1,591,013	1,282,921
Commission income		1,603,005	1,187,319	2,924,191	2,265,763
Other operating income		4,529	6,906	10,675	11,977
Total operating revenues		**2,474,300**	**1,867,831**	**4,525,879**	**3,560,661**
Interest expenses	6	-75,083	-57,343	-138,682	-102,212
Commission expenses		-115,128	-87,460	-205,253	-150,281
Net income from financial transactions		-19,211	-9,499	-23,899	-18,665
General administrative expenses		-1,599,019	-1,392,745	-2,932,765	-2,584,887
Depreciation, amortisation and impairment of intangible and tangible fixed assets	7	-138,185	-61,221	-200,575	-112,628
Credit losses, net	8	-324,194	-224,668	-500,718	-423,688
Total operating expenses		**-2,270,820**	**-1,832,936**	**-4,001,892**	**-3,392,361**
Operating income		**203,480**	**34,895**	**523,987**	**168,300**
Income tax expense		-86,311	-17,964	-178,374	-54,873
Net income for the period		**117,169**	**16,931**	**345,613**	**113,427**

Statement of Comprehensive Income, Group

Net income for the period	**117,169**	**16,931**	**345,613**	**113,427**
Items that may be reclassified subsequently to the income statement:				
Exchange differences, foreign operations	41,122	16,210	50,931	41,443
Other comprehensive income for the period, net after tax	**41,122**	**16,210**	**50,931**	**41,443**
Total comprehensive income for the period	**158,291**	**33,141**	**396,544**	**154,870**

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

Balance Sheet, Group

Amounts in SEKk	Note	31 Dec 2017	31 Dec 2016
Assets			
Cash in hand		36	40
Chargeable central bank treasury bills		1,847,705	941,703
Loans to credit institutions		1,211,778	1,234,684
Loans to the public	9	13,874,164	8,450,037
Other shares and participations		-	10,315
Intangible assets		1,801,072	1,212,236
Tangible assets		61,844	54,825
Deferred tax assets		21,763	11,662
Other assets	10	96,401	120,740
Prepaid expenses and accrued income		72,469	45,582
Total assets		**18,987,232**	**12,081,824**
Liabilities			
Liabilities to credit institutions		396,965	754,944
Deposits from the public		8,491,654	5,839,490
Debt securities in issue	11	1,995,036	-
Deferred tax liabilities		136,250	74,955
Other liabilities	12	3,126,085	2,079,328
Accrued expenses and prepaid income		381,178	277,681
Provisions		129,413	141,260
Subordinated liabilities		297,121	296,801
Total liabilities		**14,953,702**	**9,464,459**
Equity			
Share capital		52,752	52,752
Other capital contributed		2,805,140	1,396,207
Additional Tier 1 instruments		250,000	-
Reserves		124,328	73,397
Retained earnings		455,697	981,582
Net income for the period		345,613	113,427
Total equity		**4,033,530**	**2,617,365**
Total liabilities and equity		**18,987,232**	**12,081,824**

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Statement of Changes in Equity, Group

Amounts in SEKk	Share capital	Other capital contributed[2]	Additional Tier 1 instruments	Reserves	Retained earnings[2]	Net income	Total equity
Balance at January 1, 2017	**52,752**	**1,396,207**	**-**	**73,397**	**981,582**	**113,427**	**2,617,365**
Opening balance, manual adjustment	-	629,514	-	-	-629,514	-	-
Transfer of previous year's net income	-	-	-	-	113,427	-113,427	-
Net income for the year	-	-	-	-	-	*345,613*	*345,613*
Exchange differences, foreign operations	-	-	-	*50,931*	-	-	*50,931*
Total comprehensive income for the year	**-**	**-**	**-**	**50,931**	**-**	**345,613**	**396,544**
Group contribution[1]	-	-	-	-	-1,300	-	-1,300
Tax effect group contribution	-	-	-	-	286	-	286
Shareholders contribution	-	779,419	-	-	-	-	779,419
Issued additional Tier 1 instruments	-	-	250,000	-	-8,785	-	241,215
Balance at December 31, 2017	**52,752**	**2,805,140**	**250,000**	**124,328**	**455,697**	**345,613**	**4,033,530**
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**

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

[2] The opening balances for other capital contributed and retained earnings in 2017 have been updated and corrected. As part of a new mapping structure, SEK 630m relating to shareholders' contribution, previously classified as retained earnings, should be presented as other capital contributed and have therefore been updated.

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Cash Flow Statement, Group

Amounts in SEKk		Jul - Dec 2017	Jul - Dec 2016	Jan - Dec 2017	Jan - Dec 2016
Operating activities					
Operating income		203,480	34,895	523,987	168,300
Taxes paid		-67,630	-20,584	-120,877	-59,619
Adjustments for non-cash items in operating activities					
Depreciation, amortisation and impairment	7	138,185	61,221	200,575	112,628
Share-based payments		-	-594	-	-594
Provisions excl credit losses		58,594	138,467	86,560	141,467
Provision for credit losses		163,730	-28,742	188,127	42,428
Financial items, unrealised		-8,047	-8,664	22,136	-14,880
Changes in the assets and liabilities of operating activities					
Change in loans to the public		-4,017,500	-1,717,273	-5,331,454	-2,388,390
Change in liabilities to credit institutions		-86,566	729,663	-357,979	46,118
Change in deposits from the public		2,301,389	794,618	2,652,164	1,880,063
Change in other assets and liabilities		-350,665	299,419	-463,041	604,074
Cash flow from operating activities		**-1,665,030**	**282,426**	**-2,599,802**	**531,595**
Investing activities					
Investments in intangible assets		-81,506	-32,249	-127,903	-68,965
Investments in tangible assets		-14,996	-9,476	-32,779	-24,796
Sales of fixed assets		-23	-16	-23	-16
Investments in subsidiaries		-400,324	-	-400,324	-
Cash flow from investing activities		**-496,849**	**-41,741**	**-561,029**	**-93,777**
Financing activities					
Shareholder contribution received		779,419	-	779,419	-
Share warrants		-	-78	-	-
Additional Tier 1 instruments		-	-	248,000	-
Senior unsecured bond		1,994,000	-	1,994,000	-
Subordinated debt		-	196	-	296,801
Other		-	-1	-	-
Cash flow from financing activities		**2,773,419**	**117**	**3,021,419**	**296,801**
Cash flow for the period		**611,540**	**240,802**	**-139,412**	**734,619**
Cash and cash equivalents at the beginning of period		**423,847**	**932,979**	**1,171,696**	**437,919**
Cash flow for the period		611,540	240,802	-139,412	734,619
Exchange rate diff. in cash and cash equivalents		7,714	-2,085	10,817	-842
Cash and cash equivalents at the end of period		**1,043,101**	**1,171,696**	**1,043,101**	**1,171,696**
Cash and cash equivalents include the following items					
Cash in hand		36	40	36	40
Loans to credit institutions[1]		1,043,065	1,171,656	1,043,065	1,171,656
Cash and cash equivalents		**1,043,101**	**1,171,696**	**1,043,101**	**1,171,696**

[1] Adjusted for non-cash items in loans to credit institutions such as money in transfer.

Notes with Accounting Principles

Note 1 Corporate information

The parent company, Klarna Bank AB (publ), 556737-0431, maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated annual financial statement release for 2017 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.

Note 2 Accounting and valuation principles

Basis for the preparation of the reports
This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The financial statements for both the Group and the Parent Company have also been prepared in accordance with the applicable regulations in the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Financial Supervisory Authority regulations (FFFS 2008:25) and the Swedish Financial Reporting Board's recommendations (RFR 1 and RFR 2).

The accounting principles and calculation methods applied in this report are identical to those applied in the Annual Report for 2016.

Changed accounting principles
New and changed standards and interpretations

- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

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. The effective date is 1 January 2018 and early adoption is permitted. The Group has not early adopted the standard and does not intend to restate the comparative figures for 2017 in the annual report 2018 due to IFRS 9.

Classification and Measurement
The classification and measurement requirements in IFRS 9 state that financial assets should be classified as, and measured at, amortised cost, fair value through profit and loss or fair value through other comprehensive income. The classification of a financial instrument is dependent on the business model for the portfolio where the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

In order to assess the business model, the Group has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. To derive the right level on which portfolios are determined, the Group has taken the current business structure into account. When determining the business model for each portfolio the Group has analysed the objective with the financial assets as well as for instance past sales behavior and management compensation.

The Group has analysed whether the cash flows from the financial assets held as of 31 December 2017 are SPPI compliant. This has been performed by grouping contracts which are homogenous from a cash flow perspective and conclusions have been drawn for all contracts within that group.

The analysis of the business model and the SPPI review have not resulted in any significant changes compared to how the financial instruments are measured under IAS 39. No significant impact is thus expected on the Group's financial position, financial performance or equity in the period of initial application.

Impairment
The impairment requirements in IFRS 9 are based on an expected credit loss model instead of the current incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than IAS 39. IFRS 9 requires all assets measured at amortised cost and fair value through other comprehensive income, as well as off-balance commitments including guarantees and loan commitments, to be included in the impairment model.

The assets to test for impairment will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. In stage 1, the provisions should equal the 12-month expected credit loss while in stage 2 and 3, the provisions should equal the lifetime expected credit loss.

One important driver for size of provisions under IFRS 9 is the trigger for transferring an asset from stage 1 to stage 2. For assets held at transition, the Group has decided to use change in internal rating and scoring data to determine whether there has been a significant increase in credit risk or not. For assets being recognised going forward, the Group has decided to use a mix of absolute and relative changes in probability of default as the transfer criterion as well as customers with payments more than 30 days past due will also be transferred to stage 2.

The provisions under IFRS 9 will be calculated as the exposure at default times the probability of default times the loss given default. When calculating lifetime losses under IFRS 9, including the staging assessment, the calculation should be based on probability weighted forward looking information. The Group has decided to apply two macro-economic scenarios. The different scenarios will be used to adjust the relevant parameters for calculating expected losses and a probability weighted average of the expected losses under each scenario will be recognised as provisions.

As a result of applying the IFRS 9 rules, allowance for credit losses will increase by SEK 81m for the Group and by SEK 88m in Klarna Bank AB (publ). The impact on equity is SEK -69m, net of tax in the Group and SEK -75m, net of tax in Klarna Bank AB (publ). The increase in allowance for credit losses is driven by the IFRS 9 requirement to hold provisions for non-impaired assets (stage 1 as defined in IFRS 9 standard) based on expected losses, as opposed to the IAS 39 requirement that only provisions for incurred losses are to be held. This means that under IFRS 9, losses based on events which are yet to occur need to be assessed and booked in the reporting period, whilst previously, under IAS 39, only losses relating to events which had already occurred were recognised in the reporting period.

The Group has decided to apply the transitional rules with the dynamic option issued by EU. This means that the increase in credit losses at transition date will be allocated over the coming five years and this will also apply to increases in provisioning in stage 1 and 2. The transitional rules will at transition date have a lower impact on Common equity Tier 1 capital than the actual effect of applying the IFRS 9 rules.

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 IFRS 9. The standard also establishes new disclosures to provide more relevant information. The standard is applicable from 1 January 2018.

The Group has finalised its impact assessment of IFRS 15 and the standard has no significant impact on the financial statements.

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 recognised 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 adopted the standard in November 2017.

The Group has not yet assessed the impact of IFRS 16.

Other changes in IFRS
Other changes in IFRS or IFRIC interpretations that have not yet come into effect are not expected to have any significant impact on the Group.

Note 3 Operating segments and Income by geographical area

The segment information is presented based on the perspective of the Chief Operating Decision Maker (CODM), and the measurement principles and allocation between operating segments follow the information reported to the Chief Executive Officer, who is identified as the CODM.

Klarna's main geographical markets comprise the Nordic countries, the DACH region (Germany, Austria and Switzerland), the BNL region (Belgium and the Netherlands) as well as the United Kingdom and the USA. Revenues are distributed to geographical areas based on location of the customer's operations. Items not fully allocated to any of the operating segments are shown separately as reconciling items.

Financial information is presented for the two main operating segments Nordics and DACH. The remainder of operating segments fall below the quantitative thresholds in IFRS 8 and are included in "Other" operating segments.

2017

	Nordics	DACH	Other	Total
Revenue	2,603,711	1,530,513	186,402	4,320,626

	Sweden	Germany	Other	Total
Revenue	1,626,611	1,371,576	1,322,439	4,320,626
Non-current assets	242,104	1,600,069	20,742	1,862,915

2016

	Nordics	DACH	Other	Total
Revenue	2,153,994	1,111,375	145,011	3,410,380

	Sweden	Germany	Other	Total
Revenue	1,371,835	1,009,291	1,029,254	3,410,380
Non-current assets	164,059	1,078,450	24,552	1,267,061

Certain commission revenues, cost of revenue and general expenditures are not allocated to the segments as they are managed on an overall group basis. The reconciliation between reportable segment revenue to the Group's net income before tax is as follows:

Reconciliation between total segments and financial statements	31 Dec 2017	31 Dec 2016
Revenue - Total operating segments	4,320,626	3,410,380
Interest expenses	-138,682	-102,212
Net income from financial transactions	-23,899	-18,665
General administrative expenses	-2,932,765	-2,584,887
Depreciation, amortisation and impairment of intangible and tangible fixed assets	-200,575	-112,628
Credit losses, net	-500,718	-423,688
Net income before tax	**523,987**	**168,300**

Note 4 Business combinations

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

For business combinations where the cost exceeds the net carrying amount of the acquired identifiable assets and the assumed liabilities, the difference is reported as goodwill in the balance sheet.

The purchase price allocation identifies assets and liabilities that are not reported in the acquired company, such as trademarks and customer contracts. Identified intangible assets that have been identified when making the purchase price allocation are amortised over the estimated useful life. Goodwill and strong trademarks are considered to have an indefinite useful life and are therefore tested annually for impairment, or whenever there is any indication of impairment. Consideration that is contingent upon the outcome of future events is valued at fair value and the change in value is recognised in the income statement. The financial statements of subsidiaries are reported in the consolidated financial statements as of the acquisition date and until the time when a controlling interest no longer exists.

Klarna's acquisition of BillPay
On September 13, 2017, Klarna SPV GmbH, an indirect subsidiary of Klarna Bank AB (publ), acquired 100 percent of the German company BillPay GmbH. BillPay is licensed by the German Federal Financial Supervisory Authority (BaFin) to offer money transmission services under the Payment Services Supervision Act (ZAG). BillPay is a leading online payment provider. The consideration amounted to SEK 579,985k and was paid fully in cash. In the purchase price allocation, goodwill amounts to SEK 339,506k. The goodwill recognised for the acquisition corresponds to the complementary strengths of the two companies in the field of payment solutions. The goodwill recognised is not expected to be deductible for income tax purposes.

BillPay	Purchase Price
Intangible assets	242,415
Tangible assets	4,017
Lending to the public	272,563
Deferred tax assets	18,284
Other assets	13,005
Cash and cash equivalents	179,661
Provisions	-11,149
Deferred tax liabilities	-72,129
Other liabilities	-406,188
Net identifiable assets and liabilities	**240,479**
Consolidated goodwill	339,506
Consideration	**579,985**

Transaction related costs amounted to SEK 14,175k and derive from external legal fees and due diligence expenses. The costs have been included in the item General administrative expenses in the Group's consolidated income statement. For the period from the acquisition date of September 13, 2017 until December 31, 2017, BillPay contributed with total operating revenues of SEK 80,987k and net income of SEK 7,583k to the Group's result. If the acquisition had occurred on January 1, 2017, management estimates that consolidated total operating revenues for the Klarna Group would have increased by additional SEK 164,127k and consolidated net income for the full year would have increased by additional SEK 11,893k.

Note 5 Interest income

	Jul - Dec 2017	Jul - Dec 2016	Jan - Dec 2017	Jan - Dec 2016
Loans to credit institutions	178	70	300	145
Loans to the public	866,527	673,527	1,590,642	1,282,757
Other interest income	61	9	71	19
Total	**866,766**	**673,606**	**1,591,013**	**1,282,921**

Note 6 Interest expenses

	Jul - Dec 2017	Jul - Dec 2016	Jan - Dec 2017	Jan - Dec 2016
Liabilities to credit institutions	-26,727	-11,681	-28,680	-19,542
Deposits from the public	-48,076	-37,298	-78,337	-68,722
Other interest expenses	-280	-8,364	-31,665	-13,948
Total	**-75,083**	**-57,343**	**-138,682**	**-102,212**

Note 7 Depreciation, amortisation and impairment of intangible and tangible assets

Depreciation / amortisation	**Jul - Dec 2017**	**Jul - Dec 2016**	**Jan - Dec 2017**	**Jan - Dec 2016**
Intangible assets	-49,764	-48,382	-97,666	-88,220
Tangible assets	-14,717	-13,158	-29,205	-24,725
Total depreciation / amortisation	**-64,481**	**-61,540**	**-126,871**	**-112,945**
Impairment				
Intangibles assets	-73,704	-	-73,704	-
Tangible assets	-	319	-	317
Total impairment	**-73,704**	**319**	**-73,704**	**317**
Total depreciation, amortisation and impairment of intangible and tangible assets	**-138,185**	**-61,221**	**-200,575**	**-112,628**

Note 8 Credit losses, net

	Jul - Dec 2017	Jul - Dec 2016	Jan - Dec 2017	Jan - Dec 2016
Provision for credit losses	-163,730	24,039	-188,127	-42,428
Realised credit losses, net	-160,464	-248,707	-312,591	-381,260
Total	**-324,194**	**-224,668**	**-500,718**	**-423,688**

Note 9 Loans to the public

	31 Dec 2017	31 Dec 2016
Loans to the public	14,539,491	8,887,138
Allowance for credit losses	-665,327	-437,101
Total loans to the public	**13,874,164**	**8,450,037**
Allowance at beginning of the year	-437,101	-374,159
Acquisition of subsidiaries	-53,370	-
Provisions excluding interest and fees, net	-177,097	-42,428
Provisions for interest and fees, net[1]	5,422	-19,851
Foreign exchange effect	-3,181	-663
Allowance at end of the period	**-665,327**	**-437,101**

[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.

Booked value for loans to the public are assumed to be approximations of fair value. Fair value on short term loans is equivalent to their booked value since the effect of discounting is insignificant.

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Note 10 Other assets

	31 Dec 2017	31 Dec 2016
Tax assets	6,701	41,360
VAT receivables	10,732	18,028
Derivatives	29,908	15,696
Other receivables	49,060	45,656
Total	**96,401**	**120,740**

Note 11 Debt securities in issue

	31 Dec 2017	31 Dec 2016
Senior unsecured bond	1,995,036	-
Total	**1,995,036**	**-**

Note 12 Other liabilities

	31 Dec 2017	31 Dec 2016
Accounts payable	135,012	71,664
Personnel related taxes	28,102	21,996
Liabilities to group companies	170,985	174,524
Tax liabilities	108,498	76,060
Liabilities to merchants	2,673,200	1,715,599
Other liabilities	10,288	19,485
Total	**3,126,085**	**2,079,328**

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Note 13 Pledged assets and contingent liabilities

	31 Dec 2017	31 Dec 2016
Pledged assets		
Assets pledged for own liabilities		
Pledged loans and receivables	5,393,252	3,836,025
Other pledged assets	8,200	9,058
Total pledged assets	**5,401,452**	**3,845,083**
Contingent liabilities and commitments		
Contingent liabilities		
Guarantees	357,367	83,865
Commitments	706,407	-
Total contingent liabilities and commitments	**1,063,774**	**83,865**

Klarna Bank 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 liability amounted to SEK 96,170k (490,788) at December 31, 2017.

Klarna Bank AB (publ) has issued guarantees on behalf of its subsidiary Klarna Inc., USA. These guarantees have not been included in the table above since they are uncertain to amount and the probability of an outflow is deemed as very low.

Note 14 Financial assets and liabilities at fair value

	31 Dec 2017			31 Dec 2016		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash in hand	36	36	-	40	40	-
Chargeable central bank treasury bills	1,847,705	1,847,705	-	941,703	941,703	-
Loans to credit institutions	1,211,778	1,211,778	-	1,234,684	1,234,684	-
Loans to the public	13,874,164	13,874,164	-	8,450,037	8,450,037	-
Shares and participation in unlisted companies	-	-	-	10,315	10,315	-
Other assets	49,060	49,060	-	45,656	45,656	-
Other assets (Fx forwards)	29,908	29,908	-	15,696	15,696	-
Total	**17,012,651**	**17,012,651**	**-**	**10,698,131**	**10,698,131**	**-**
Liabilities						
Liabilities to credit institutions	396,965	396,965	-	754,944	754,944	-
Deposits from the public	8,436,250	8,491,654	-55,404	5,916,982	5,839,490	77,492
Debt securities in issue	2,230,800	1,995,036	235,764	-	-	-
Other liabilities	2,982,011	2,982,011	-	1,963,810	1,963,810	-
Accrued expenses and prepaid income	231,731	231,731	-	148,425	148,425	-
Subordinated liabilities	297,121	297,121	-	296,801	296,801	-
Total	**14,574,878**	**14,394,518**	**180,360**	**9,080,962**	**9,003,470**	**77,492**

Note 15 Classification of financial assets and liabilities into valuation categories

31 Dec 2017	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	-	-	-	36	-	36
Chargeable central bank treasury bills	1,847,705	-	-	-	-	1,847,705
Loans to credit institutions	-	-	-	1,211,778	-	1,211,778
Loans to the public	-	-	-	13,874,164	-	13,874,164
Intangible assets	-	-	-	-	1,801,072	1,801,072
Tangible assets	-	-	-	-	61,844	61,844
Deferred tax assets	-	-	-	-	21,763	21,763
Other assets	-	29,908	-	49,060	17,433	96,401
Prepaid expenses and accrued income	-	-	-	-	72,469	72,469
Total	**1,847,705**	**29,908**	**-**	**15,135,038**	**1,974,581**	**18,987,232**

31 Dec 2017	Measured at fair value through profit or loss	Other financial liabilities	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	-	396,965	-	396,965
Deposits from the public	-	8,491,654	-	8,491,654
Debt securities in issue	-	1,995,036	-	1,995,036
Deferred tax liabilities	-	-	136,250	136,250
Other liabilities	-	2,982,011	144,074	3,126,085
Accrued expenses and prepaid income	-	231,731	149,447	381,178
Provisions	-	-	129,413	129,413
Subordinated liabilities	-	297,121	-	297,121
Total	**-**	**14,394,518**	**559,184**	**14,953,702**

31 Dec 2016	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	941,703	-	-	-	-	941,703
Loans to credit institutions	-	-	-	1,234,684	-	1,234,684
Loans to the public	-	-	-	8,450,037	-	8,450,037
Other shares and participations	-	-	10,315	-	-	10,315
Intangible assets	-	-	-	-	1,212,236	1,212,236
Tangible assets	-	-	-	-	54,825	54,825
Deferred tax assets	-	-	-	-	11,662	11,662
Other assets	-	15,696	-	45,656	59,388	120,740
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**

31 Dec 2016	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	-	-	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**

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, 2017, divided up into the three valuation levels. No transfers between levels have been made during 2017 and 2016.

31 Dec 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Chargeable central bank treasury bills	1,847,705	-	-	1,847,705
Other assets (Fx forwards)	-	29,908	-	29,908
Total assets	**1,847,705**	**29,908**	**-**	**1,877,613**
Financial liabilities				
Other liabilities (Fx forwards)	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**

31 Dec 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Chargeable central bank treasury bills	941,703	-	-	941,703
Other assets (Fx forwards)	-	15,696	-	15,696
Total assets	**941,703**	**15,696**	**-**	**957,399**
Financial liabilities				
Other liabilities (Fx forwards)	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**

Note 16 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 define minimum requirements for total own funds in relation to risk-weighted exposure amounts (Pillar I), rules for the Internal Capital Adequacy Process and Internal Liquidity Adequacy Assessment Process "ICLAAP" (Pillar II) and rules for disclosures on risk, capital adequacy etc. (Pillar III).

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

Additional Tier 1 capital

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

Subordinated liabilities

Klarna Bank AB (publ) has outstanding SEK 300m in subordinated notes due 2026. The subordinated notes are eligible for inclusion as Tier 2 capital in accordance with current regulations. The notes have a floating coupon rate corresponding to STIBOR 3m plus 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 Bank 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 lll report.

Own Funds	Consolidated situation	
	Dec 2017	Dec 2016
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	2,980,978	2,192,977
of which: Share capital	1,967	1,879
Retained earnings	541,614	412,307
Accumulated other comprehensive income (and other reserves)	124,327	73,397
Independently reviewed interim profits net of any foreseeable charge or dividend	344,606	113,239
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	**3,991,525**	**2,791,920**
Common Equity Tier 1 capital: regulatory adjustments		
Additional value adjustments (negative amount)	(1,878)	(957)
Intangible assets (net of related tax liability) (negative amount)	(1,706,264)	(1,159,179)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(1,708,142)**	**(1,160,136)**
Common Equity Tier 1 (CET1) capital	**2,283,383**	**1,631,784**
Additional Tier 1 (AT1) capital	250,000	-
Tier 1 capital (T1 = CET1 + AT1)	**2,533,383**	**1,631,784**
Tier 2 (T2) capital: Instruments and provisions		
Tier 2 (T2) capital	297,121	296,801
Total capital (TC = T1 + T2)	**2,830,504**	**1,928,585**
Total risk weighted assets	**15,553,716**	**10,251,727**
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.7%	15.9%
Tier 1 (as a percentage of total risk exposure amount)	16.3%	15.9%
Total capital (as a percentage of total risk exposure amount)	18.2%	18.8%
Institution specific buffer requirement (as a percentage of risk exposure amount)	3.4%	3.4%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	0.9%	0.9%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.7%	7.9%
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)	21,763	11,662

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Capital requirement and risk exposure amounts	Consolidated situation	
	Dec 2017	Dec 2016
Risk exposure amount		
Credit risk according to standardised method	11,287,794	6,885,649
Market risk according to standardised method	112,758	246,190
Operative risk according to standardised method	4,153,165	3,119,888
Total risk exposure amount	**15,553,716**	**10,251,727**
Exposure amount for credit risk according to the standardised method		
Institute exposure	318,727	252,033
Corporate exposure	375,316	243,253
Retail/household exposure	10,288,748	6,014,576
Exposures in default	166,615	100,273
Equity exposure	-	10,315
Other items	138,388	265,199
Total credit risk exposure amount	**11,287,794**	**6,885,649**
Market risk exposure amounts according to standardised method		
Foreign exchange risk	112,758	246,190
Total market risk according to standardised method	**112,758**	**246,190**
Capital requirement		
Credit risk according to standardised method	903,024	550,852
Market risk according to standardised method	9,021	19,695
Operational risk according to standardised method	332,252	249,591
Total capital requirement	**1,244,297**	**820,138**
Leverage ratio		
Tier 1 capital	2,533,383	1,631,784
Total leverage ratio exposure	17,776,515	10,934,381
Leverage ratio	14.3%	14.9%

The Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process "ICLAAP"
The objective of the ICLAAP is to ensure that Klarna clearly and correctly identifies, assesses and manages all risks to which it is exposed. The process considers the financial resources required to cover 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 ICLAAP is the ICLAAP policy. In this document, Klarna's board defines the responsibilities, processes and rules of the ICLAAP. The ICLAAP is performed at least yearly.

The assessed required capital is based on the minimum capital requirement, Pillar I, and additional capital required for other risks as determined as part of the ICLAAP, Pillar II. At year-end 2017 (2016) it amounted to SEK 1,466,388k (937,220) for Klarna Bank AB (publ) and SEK 1,339,051k (848,938) for the consolidated situation. Klarna thereby has sufficient capital to cover for required capital under Pillar I and Pillar II.

Note 17 Information on related parties

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 Bank AB (publ), key management personnel, as well as close family members of and companies significantly influenced by such board members or key management personnel.

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

Note 18 Important events after the end of the reporting period

On February 13, 2018 an announcement of closure of the Klarna Tel Aviv site in Israel was made. The decision was taken as part of overall strategy to focus on strengthening our commercial and operational presence in our key commercial markets where our merchants and partners are located. All 31 Klarna staff employed in Tel Aviv were offered the possibility to continue to work in other Klarna locations.

On February 22, 2018, the company's director Niklas Adalberth resigned from the board of directors and Niklas Savander was appointed new director.

No other important events occurred after the closing date.

Income Statement, Parent Company

Amounts in SEKk	Jul - Dec 2017	Jul - Dec 2016	Jan - Dec 2017	Jan - Dec 2016
Interest income	869,028	689,527	1,609,057	1,314,132
Lease income	1,921	3,197	4,661	3,197
Interest expense	-74,993	-57,297	-138,355	-102,043
Net interest income	**795,956**	**635,427**	**1,475,363**	**1,215,286**
Dividends received	-	-	197,001	-
Group contribution	-	700	-	700
Commission income	1,236,626	952,953	2,297,978	1,828,353
Commission expense	-107,362	-80,866	-190,936	-138,747
Net income from financial transactions	-5,892	-263	-5,048	4,847
Other operating income	5,000	4,871	15,878	11,111
Total operating revenue	**1,924,328**	**1,512,823**	**3,790,236**	**2,921,550**
General administrative expenses	-1,391,934	-1,296,432	-2,643,812	-2,391,959
Depreciation, amortisation and impairment of intangible and tangible fixed assets	-34,104	-39,663	-72,850	-70,962
Other operating costs	-62,047	-21,798	-88,057	-49,313
Total expenses before credit losses	**-1,488,085**	**-1,357,893**	**-2,804,719**	**-2,512,234**
Operating income before credit losses, net	**436,243**	**154,930**	**985,517**	**409,316**
Net credit losses	-305,685	-203,673	-476,117	-399,619
Operating income	**130,558**	**-48,743**	**509,400**	**9,697**
Appropriations	-75,212	-2,539	-75,212	-2,539
Income tax expense	-47,500	5,998	-89,349	-6,858
Net income for the period	**7,846**	**-45,284**	**344,839**	**300**

Statement of Comprehensive Income, Parent Company

Net income for the period	**7,846**	**-45,284**	**344,839**	**300**
Other comprehensive income for the period, net after tax	-	-	-	-
Total comprehensive income for the period	**7,846**	**-45,284**	**344,839**	**300**

Balance Sheet, Parent Company

Amounts in SEKk	31 Dec 2017	31 Dec 2016
Assets		
Cash in hand	4	4
Chargeable central bank treasury bills	1,847,705	941,703
Loans to credit institutions	824,695	946,172
Loans to the public	13,739,439	8,838,723
Shares and participations in group companies	1,124,283	543,999
Other shares and participations	-	10,315
Intangible assets	206,096	135,406
Tangible assets	36,008	28,653
Deferred tax assets	2,162	2,703
Other assets	161,237	246,738
Prepaid expenses and accrued revenues	85,237	63,056
Total assets	**18,026,866**	**11,757,472**
Liabilities and equity		
Liabilities to credit institutions	396,965	754,944
Deposits from the public	8,475,892	5,839,490
Debt securities in issue	1,995,036	-
Deferred tax liabilities	6,275	3,274
Other liabilities	2,595,962	2,084,638
Accrued expenses and prepaid income	316,847	240,162
Provisions	104,400	139,468
Subordinated liabilities	297,121	296,801
Total liabilities	**14,188,498**	**9,358,777**
Untaxed reserves	**159,613**	**84,400**
Equity		
Share capital	52,752	52,752
Additional Tier 1 instruments	250,000	-
Reserves	127,619	48,602
Total restricted equity	**430,371**	**101,354**
Retained earnings	2,903,545	2,212,641
Net income for the year	344,839	300
Total non-restricted equity	**3,248,384**	**2,212,941**
Total equity	**3,678,755**	**2,314,295**
Total liabilities and equity	**18,026,866**	**11,757,472**

Definitions

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

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

Merchants
Klarna's e-commerce customers are named merchants

Pay Later
Klarna's invoice product is called Pay Later

Pay Now
Klarna's product for immediate settlement

Slice It
Klarna's account product is called Slice It

Return on assets*
Net income for the period as a percentage of average total assets

Return on equity*
Operating income for the period as a percentage of average equity

Tier 1 capital
The sum of Common Equity Tier 1 capital and additional Tier 1 capital

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

Total capital
The sum of Tier 1 capital and Tier 2 capital

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

*Alternative Performance Measures (APM) are financial measures of historical or future financial position, performance or cash flow that are not defined in applicable regulations (IFRS). These measures are not directly comparable with similar key measures presented by other companies.

Board of Directors' affirmation

The Board of Directors certifies that this annual financial statement release provides a fair overview of the Parent Company's and the Group's operations, their financial position and result, and describes material risks and uncertainties that the Parent Company and other companies in the Group are facing.

Stockholm 2018-02-28

Jonathan Kamaluddin
Chairman of the Board

Niklas Savander
Board member

Mikael Walther
Board member

Sarah McPhee
Board member

Andrew Young
Board member

Michael Moritz
Board member

Sebastian Siemiatkowski
CEO

This report has not been subject to review by the Company's auditors.

Further information

For more information visit the Company website at www.klarna.com or contact

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The information in this report is such that Klarna Bank AB (publ) is obliged to make public under the EU Market Abuse Regulation and the Securities Market Act. This information was submitted for publication, through the agency of the contact persons set out above, at 08.00 CET on February 28, 2018.

Future calendar events

The annual report will become public on the Company's website during the April 16-20, 2018.