

# Interim report January – June 2017



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

<b>Table of contents</b>	<b>Page</b>
- Comments from the Board of Directors	1
- Income Statement, Group	5
- Statement of Comprehensive Income, Group	5
- Balance Sheet, Group	6
- Statement of Changes in Equity, Group	7
- Cash flow Statement, Group	8
- Income Statement, Parent Company	9
- Statement of Comprehensive Income, Parent Company	9
- Balance Sheet, Parent Company	10
- Statement of Changes in Equity, Parent Company	11
- Cash Flow Statement, Parent Company	12
- Notes with Accounting Principles	13

## Comments from the Board of Directors

The CEO of Klarna Bank AB (publ) hereby submits the report for the period January 1 – June 30, 2017. The interim report has been prepared in thousands of Swedish kronor unless otherwise stated.

### Information about the business

Klarna Bank AB (publ) is a registered bank and is under the supervision of the Swedish Financial Supervision Authority (Finansinspektionen). The company's personal data delegate is responsible that 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. Nowadays, Klarna's services have expanded beyond traditional e-commerce, for example, by managing payments for public transport, media and 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 and sales financing. 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 optimized 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.

### Significant events during the 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 since the acquisition date is not yet determined. Thus no financial conditions regarding Billpay GmbH could be disclosed.

In May 2017, the company issued additional tier 1 bonds in the principal amount of SEK 250 million.

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

Loans to the public grew by 15 percent to 9,736 MSEK mainly driven by growth generated from existing merchants predominantly in the Nordic and DACH region, but also to some extent due to new merchants. Deposit from the public grew by 6 percent to 6,190 MSEK mainly driven by increased Euro deposits in Germany.

### 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.

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 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 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**

No important events occurred after the closing date.

## Five Year Summary, Group

Amounts in TSEK	Jan - Jun 2017	Jan - Jun 2016	Jan - Jun 2015	Jan - Jun 2014	Jan - Jun 2013
<b>Income Statement</b>					
Total operating revenues	2,051,579	1,692,830	1,286,226	1,023,028	741,161
Operating income	320,507	133,405	162,780	25,633	64,898
Net income for the period	228,444	96,496	125,423	11,100	50,295
<b>Balance Sheet</b>					
Loans to credit institutions	485,015	1,029,773	966,729	1,030,022	1,317,462
Loans to the public	9,735,650	6,693,105	4,656,409	3,730,467	2,772,657
All other assets	2,583,888	2,122,320	1,934,269	1,679,240	427,375
<b>Total assets</b>	<b>12,804,553</b>	<b>9,845,198</b>	<b>7,557,407</b>	<b>6,439,729</b>	<b>4,517,494</b>
Liabilities to credit institutions	483,532	25,281	338,754	0	67,961
Deposits from the public	6,190,265	5,044,872	3,693,218	3,456,961	2,921,526
All other liabilities	3,027,138	2,189,875	1,438,302	1,085,953	698,557
<b>Total equity</b>	<b>3,103,618</b>	<b>2,585,170</b>	<b>2,087,133</b>	<b>1,896,815</b>	<b>829,450</b>
<b>Total liabilities and equity</b>	<b>12,804,553</b>	<b>9,845,198</b>	<b>7,557,407</b>	<b>6,439,729</b>	<b>4,517,494</b>
<b>Key Ratios and Figures</b>					
Return on equity <sup>1</sup>	11.2%	5.3%	8.0%	1.9%	8.1%
Return on assets <sup>2</sup>	1.8%	1.0%	1.7%	0.2%	1.2%
Debt/equity ratio <sup>3</sup>	3.4	2.7	2.6	3.1	4.1
Equity/assets ratio <sup>4</sup>	24.2%	26.3%	27.6%	29.5%	18.4%
Own funds	2,398,316	1,805,003	919,138	734,119	750,199
Capital requirement	968,904	699,696	500,000	385,161	300,907
Total capital ratio <sup>5</sup>	19.8%	20.6%	14.7%	15.2%	19.9%
Average number of employees	1,331	1,352	1,124	978	872

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 liquidity ratio is current assets as a percentage of current liabilities.

3 The debt/equity ratio is adjusted 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.

## Five Year Summary, Parent Company

Amounts in TSEK	Jan - Jun 2017	Jan - Jun 2016	Jan - Jun 2015	Jan - Jun 2014	Jan - Jun 2013
<b>Income Statement</b>					
Total operating revenues	1,865,908	1,408,727	1,049,215	877,490	660,364
Operating income	378,842	58,440	112,722	45,739	65,750
Net income for the period	336,993	45,584	87,152	35,676	51,285
<b>Balance Sheet</b>					
Loans to credit institutions	200,830	763,806	853,152	969,341	1,302,210
Loans to the public	10,173,342	7,117,057	5,167,298	4,247,379	2,772,578
All other assets	2,130,116	1,690,128	1,409,018	1,192,282	443,770
<b>Total assets</b>	<b>12,504,288</b>	<b>9,570,991</b>	<b>7,429,468</b>	<b>6,409,002</b>	<b>4,518,558</b>
Liabilities to credit institutions	483,532	25,281	338,754	0	67,961
Deposits from the public	6,190,265	5,044,872	3,693,218	3,456,961	2,921,526
All other liabilities	2,931,203	2,140,986	1,419,916	1,101,687	725,910
<b>Total equity</b>	<b>2,899,288</b>	<b>2,359,852</b>	<b>1,977,580</b>	<b>1,850,354</b>	<b>803,161</b>
<b>Total liabilities and equity</b>	<b>12,504,288</b>	<b>9,570,991</b>	<b>7,429,468</b>	<b>6,409,002</b>	<b>4,518,558</b>
<b>Key Ratios and Figures</b>					
Return on equity <sup>1</sup>	14.2%	2.4%	5.7%	3.4%	8.2%
Return on assets <sup>2</sup>	2.8%	0.5%	1.2%	0.6%	1.3%
Debt/equity ratio <sup>3</sup>	3.5	2.8	2.6	3.1	4.1
Equity/assets ratio <sup>4</sup>	23.7%	25.3%	27.4%	29.4%	18.3%
Own funds	3,109,676	2,584,827	1,806,856	1,706,846	733,720
Capital requirement	1,077,632	798,602	621,669	504,377	301,899
Total capital ratio <sup>5</sup>	23.1%	25.9%	23.3%	27.1%	19.4%
Average number of employees	894	936	762	698	645

<sup>1</sup> Return on equity is the operating income for the year as a percentage of adjusted average equity.

<sup>2</sup> Return on assets is the net income for the year as a percentage of average total assets.

<sup>3</sup> The debt/equity ratio is adjusted average liabilities in relation to adjusted average equity.

<sup>4</sup> The equity/assets ratio is adjusted equity as a percentage of total assets at the end of the reporting period.

<sup>5</sup> The total capital ratio is the own funds in relation to total risk exposure amount.

## Income Statement, Group

Amounts in TSEK	Note	Jan - Jun 2017	Jan - Jun 2016	Jan - Dec 2016
Interest income	3	724,247	609,315	1,282,921
Commission income		1,321,186	1,078,444	2,265,763
Other operating income		6,146	5,072	11,977
<b>Total operating revenues</b>		<b>2,051,579</b>	<b>1,692,830</b>	<b>3,560,661</b>
Interest expenses	4	-63,599	-44,869	-102,212
Commission expenses		-90,125	-62,821	-150,281
Net income from financial transactions		-4,688	-9,166	-18,665
General administrative expenses		-1,333,746	-1,192,142	-2,584,887
Depreciation, amortization and impairment of intangible and tangible fixed assets	5	-62,390	-51,407	-112,628
Credit losses, net	6	-176,524	-199,020	-423,688
<b>Total operating expenses</b>		<b>-1,731,072</b>	<b>-1,559,425</b>	<b>-3,392,361</b>
<b>Operating income</b>		<b>320,507</b>	<b>133,405</b>	<b>168,300</b>
Income tax expense		-92,063	-36,909	-54,873
<b>Net income for the period</b>		<b>228,444</b>	<b>96,496</b>	<b>113,427</b>

## Statement of Comprehensive Income, Group

<b>Net income for the period</b>	<b>228,444</b>	<b>96,496</b>	<b>113,427</b>
<b>Items that may be reclassified subsequently to the income statement:</b>			
Exchange differences, foreign operations	9,809	25,233	41,443
<b>Other comprehensive income for the period, net after tax</b>	<b>9,809</b>	<b>25,233</b>	<b>41,443</b>
<b>Total comprehensive income for the period</b>	<b>238,253</b>	<b>121,729</b>	<b>154,870</b>

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 TSEK	Note	30 Jun 2017	31 Dec 2016	30 Jun 2016
<b>Assets</b>				
Cash in hand		51	40	42
Chargeable central bank treasury bills etc.		1,092,344	941,703	700,798
Loans to credit institutions		485,015	1,234,684	1,029,773
Loans to the public	7	9,735,650	8,450,037	6,693,105
Other shares and participations		10,315	10,315	10,315
Intangible assets		1,221,634	1,212,236	1,213,539
Tangible fixed assets		57,652	54,825	57,532
Other assets	8	127,727	132,402	83,684
Prepaid expenses and accrued income		74,165	45,582	56,410
<b>Total assets</b>		<b>12,804,553</b>	<b>12,081,824</b>	<b>9,845,198</b>
<b>Liabilities</b>				
Liabilities to credit institutions		483,532	754,944	25,281
Deposits from the public		6,190,265	5,839,490	5,044,872
Deferred tax liabilities		70,301	74,955	75,958
Other liabilities	9	2,292,054	2,079,328	1,587,078
Accrued expenses and prepaid income		297,989	277,681	227,143
Provisions		69,873	141,260	3,091
Subordinated liabilities		296,921	296,801	296,605
<b>Total liabilities</b>		<b>9,700,935</b>	<b>9,464,459</b>	<b>7,260,028</b>
<b>Equity</b>				
Share capital		52,752	52,752	52,752
Other capital contributed		1,396,207	1,396,207	1,396,207
Additional Tier 1 instruments		250,000	-	-
Reserves		83,206	73,397	57,188
Retained earnings		1,093,009	981,582	982,527
Net income for the period		228,444	113,427	96,496
<b>Total equity</b>		<b>3,103,618</b>	<b>2,617,365</b>	<b>2,585,170</b>
<b>Total liabilities and equity</b>		<b>12,804,553</b>	<b>12,081,824</b>	<b>9,845,198</b>

## Statement of Changes in Equity, Group

Amounts in TSEK	Share capital	Other capital contributed	Additional Tier 1 instruments	Reserves	Retained earnings	Net income	Total equity
<b>Balance at January 1, 2017</b>	<b>52,752</b>	<b>1,396,207</b>	-	<b>73,397</b>	<b>981,582</b>	<b>113,427</b>	<b>2,617,365</b>
Transfer of previous year's net income	-	-	-	-	113,427	-113,427	-
<i>Net income for the period</i>	-	-	-	-	-	228,444	228,444
<i>Exchange differences, foreign operations</i>	-	-	-	9,809	-	-	9,809
<b>Total comprehensive income for the period</b>	-	-	-	<b>9,809</b>	-	<b>228,444</b>	<b>238,253</b>
Issued additional tier 1 instruments	-	-	250,000	-	-2,000	-	248,000
<b>Balance at June 30, 2017</b>	<b>52,752</b>	<b>1,396,207</b>	<b>250,000</b>	<b>83,206</b>	<b>1,093,009</b>	<b>228,444</b>	<b>3,103,618</b>
<b>Balance at January 1, 2016</b>	<b>52,752</b>	<b>1,396,207</b>	-	<b>31,954</b>	<b>855,038</b>	<b>127,411</b>	<b>2,463,362</b>
Transfer of previous year's net income	-	-	-	-	127,411	-127,411	-
<i>Net income for the period</i>	-	-	-	-	-	96,496	96,496
<i>Exchange differences, foreign operations</i>	-	-	-	25,233	-	-	25,233
<b>Total comprehensive income for the period</b>	-	-	-	<b>25,233</b>	-	<b>96,496</b>	<b>121,729</b>
Share based payments	-	-	-	-	78	-	78
<b>Balance at June 30, 2016</b>	<b>52,752</b>	<b>1,396,207</b>	-	<b>57,188</b>	<b>982,527</b>	<b>96,496</b>	<b>2,585,170</b>
<b>Balance at January 1, 2016</b>	<b>52,752</b>	<b>1,396,207</b>	-	<b>31,954</b>	<b>855,038</b>	<b>127,411</b>	<b>2,463,362</b>
Transfer of previous year's net income	-	-	-	-	127,411	-127,411	-
<i>Net income for the year</i>	-	-	-	-	-	113,427	113,427
<i>Exchange differences, foreign operations</i>	-	-	-	41,443	-	-	41,443
<b>Total comprehensive income for the year</b>	-	-	-	<b>41,443</b>	-	<b>113,427</b>	<b>154,870</b>
Group contribution <sup>1</sup>	-	-	-	-	-350	-	-350
Tax effect group contribution	-	-	-	-	77	-	77
Share based payments	-	-	-	-	-594	-	-594
<b>Balance at December 31, 2016</b>	<b>52,752</b>	<b>1,396,207</b>	-	<b>73,397</b>	<b>981,582</b>	<b>113,427</b>	<b>2,617,365</b>

<sup>1</sup> Group contribution to parent company Klarna Holding AB, not paid.



## Cash Flow Statement, Group

Amounts in TSEK	Jan - Jun 2017	Jan - Jun 2016	Jan - Dec 2016
<b>Operating activities</b>			
Operating income	320,507	133,405	168,300
Taxes paid	-53,247	-39,035	-59,619
<i>Adjustments for non-cash items in operating activities</i>			
Depreciation, amortization and impairment	5 62,390	51,407	112,628
Share-based payments	-	-	-594
Provisions excl credit losses	27,966	3,000	141,467
Provision for credit losses	24,397	71,170	42,428
Financial items, unrealized	30,183	-6,216	-14,880
<i>Changes in the assets and liabilities of operating activities</i>			
Change in loans to the public	-1,313,954	-655,295	-2,367,663
Change in liabilities to credit institutions	-271,413	-683,545	46,118
Change in deposits from the public	350,775	1,085,445	1,880,063
Change in other assets and liabilities	-112,376	288,833	583,347
<b>Cash flow from operating activities</b>	<b>-934,772</b>	<b>249,169</b>	<b>531,595</b>
<b>Investing activities</b>			
Investments in intangible assets	-46,397	-36,716	-68,965
Investments in tangible assets	-17,783	-15,320	-24,796
Sales of fixed assets	-	-	-16
<b>Cash flow from investing activities</b>	<b>-64,180</b>	<b>-52,036</b>	<b>-93,777</b>
<b>Financing activities</b>			
Share warrants	-	78	-
Additional Tier 1 instruments	248,000	-	-
Subordinated debt	-	296,605	296,801
Other	-	1	-
<b>Cash flow from financing activities</b>	<b>248,000</b>	<b>296,684</b>	<b>296,801</b>
<b>Cash flow for the period</b>	<b>-750,952</b>	<b>493,817</b>	<b>734,619</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>1,171,696</b>	<b>437,919</b>	<b>437,919</b>
Cash flow for the period	-750,952	493,817	734,619
Exchange rate diff. in cash and cash equivalents	3,103	1,243	-842
<b>Cash and cash equivalents at the end of period</b>	<b>423,847</b>	<b>932,979</b>	<b>1,171,696</b>
<b>Cash and cash equivalents include the following items</b>			
Cash in hand	51	42	40
Loans to credit institutions <sup>1</sup>	423,796	932,937	1,171,656
<b>Cash and cash equivalents</b>	<b>423,847</b>	<b>932,979</b>	<b>1,171,696</b>

<sup>1</sup> Adjusted for non-cash items in loans to credit institutions such as money in transfer.

## Income Statement, Parent Company

Amounts in TSEK	Note	Jan - Jun 2017	Jan - Jun 2016	Jan - Dec 2016
Interest income	3	740,029	624,605	1,314,132
Lease income		2,740	-	3,197
Interest expense	4	-63,362	-44,746	-102,043
<b>Net interest income</b>		<b>679,407</b>	<b>579,859</b>	<b>1,215,286</b>
Dividends received		197,001	-	-
Group contribution		-	-	700
Commission income		1,061,352	875,400	1,828,353
Commission expense		-83,574	-57,881	-138,747
Net income from financial transactions		844	5,110	4,847
Other operating income		10,878	6,240	11,111
<b>Total operating revenue</b>		<b>1,865,908</b>	<b>1,408,727</b>	<b>2,921,550</b>
General administrative expenses		-1,251,878	-1,095,527	-2,391,959
Depreciation, amortization and impairment of intangible and tangible fixed assets	5	-38,746	-31,299	-70,962
Other operating costs		-26,010	-27,515	-49,313
<b>Total expenses before credit losses</b>		<b>-1,316,634</b>	<b>-1,154,341</b>	<b>-2,512,234</b>
<b>Operating income before credit losses, net</b>		<b>549,274</b>	<b>254,386</b>	<b>409,316</b>
Net credit losses	6	-170,432	-195,946	-399,619
<b>Operating income</b>		<b>378,842</b>	<b>58,440</b>	<b>9,697</b>
Appropriations		-	-	-2,539
Income tax expense		-41,849	-12,856	-6,858
<b>Net income for the period</b>		<b>336,993</b>	<b>45,584</b>	<b>300</b>

## Statement of Comprehensive Income, Parent Company

<b>Net income for the period</b>	<b>336,993</b>	<b>45,584</b>	<b>300</b>
Other comprehensive income for the period, net after tax	-	-	-
<b>Total comprehensive income for the period</b>	<b>336,993</b>	<b>45,584</b>	<b>300</b>

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

## Balance Sheet, Parent Company

Amounts in TSEK	Note	30 Jun 2017	31 Dec 2016	30 Jun 2016
<b>Assets</b>				
Cash in hand		4	4	0
Chargeable central bank treasury bills etc.		1,092,344	941,703	700,798
Loans to credit institutions		200,830	946,172	763,806
Loans to the public	7	10,173,342	8,838,723	7,117,057
Shares and participations in group companies		543,999	543,999	543,999
Other shares and participations		10,315	10,315	10,315
Intangible assets		151,242	135,406	134,780
Tangible fixed assets		33,060	28,653	34,313
Other assets	8	221,520	249,441	207,107
Prepaid expenses and accrued revenues		77,632	63,056	58,816
<b>Total assets</b>		<b>12,504,288</b>	<b>11,757,472</b>	<b>9,570,991</b>
<b>Liabilities and equity</b>				
Liabilities to credit institutions		483,532	754,944	25,281
Deposits from the public		6,190,265	5,839,490	5,044,872
Deferred tax liabilities		3,274	3,274	-
Other liabilities	9	2,223,865	2,084,638	1,562,167
Accrued expenses and prepaid income		254,716	240,162	199,354
Provisions		68,027	139,468	1,000
Subordinated liabilities		296,921	296,801	296,605
<b>Total liabilities</b>		<b>9,520,600</b>	<b>9,358,777</b>	<b>7,129,279</b>
<b>Untaxed reserves</b>		<b>84,400</b>	<b>84,400</b>	<b>81,860</b>
<b>Equity</b>				
Share capital		52,752	52,752	52,752
Additional Tier 1 instruments		250,000	-	-
Reserves		74,650	48,602	28,844
Retained earnings		2,184,893	2,212,641	2,232,672
Net income for the period		336,993	300	45,584
<b>Total equity</b>		<b>2,899,288</b>	<b>2,314,295</b>	<b>2,359,852</b>
<b>Total liabilities and equity</b>		<b>12,504,288</b>	<b>11,757,472</b>	<b>9,570,991</b>

## Statement of Changes in Equity, Parent Company

Amounts in TSEK	Restricted equity			Non-restricted equity		
	Share capital	Additional Tier 1 instruments	Reserves	Retained earnings	Net income	Total equity
<b>Balance at January 1, 2017</b>	<b>52,752</b>	-	<b>48,602</b>	<b>2,212,641</b>	<b>300</b>	<b>2,314,295</b>
Transfer of previous year's net income	-	-	-	300	-300	-
<i>Net income for the period</i>	-	-	-	-	336,993	336,993
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>336,993</b>	<b>336,993</b>
Fund for internally developed software	-	-	26,048	-26,048	-	-
Issued additional Tier 1 instruments	-	250,000	-	-2,000	-	248,000
<b>Balance at June 30, 2017</b>	<b>52,752</b>	<b>250,000</b>	<b>74,650</b>	<b>2,184,893</b>	<b>336,993</b>	<b>2,899,288</b>
<b>Balance at January 1, 2016</b>	<b>52,752</b>	-	-	<b>2,214,496</b>	<b>47,020</b>	<b>2,314,268</b>
Transfer of previous year's net income	-	-	-	47,020	-47,020	-
<i>Net income for the period</i>	-	-	-	-	45,584	45,584
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>45,584</b>	<b>45,584</b>
Fund for internally developed software	-	-	28,844	-28,844	-	-
<b>Balance at June 30, 2016</b>	<b>52,752</b>	-	<b>28,844</b>	<b>2,232,672</b>	<b>45,584</b>	<b>2,359,852</b>
<b>Balance at January 1, 2016</b>	<b>52,752</b>	-	-	<b>2,214,496</b>	<b>47,020</b>	<b>2,314,268</b>
Transfer of previous year's net income	-	-	-	47,020	-47,020	-
<i>Net income for the year</i>	-	-	-	-	300	300
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>300</b>	<b>300</b>
Group contribution <sup>1</sup>	-	-	-	-350	-	-350
Tax effect group contribution	-	-	-	77	-	77
Fund for internally developed software	-	-	48,602	-48,602	-	-
<b>Balance at December 31, 2016</b>	<b>52,752</b>	-	<b>48,602</b>	<b>2,212,641</b>	<b>300</b>	<b>2,314,295</b>

<sup>1</sup> Group contribution to parent company Klarna Holding AB, not paid.

## Cash Flow Statement, Parent Company

Amounts in TSEK	Jan - Jun 2017	Jan - Jun 2016	Jan - Dec 2016
<b>Operating activities</b>			
Operating income	378,842	58,440	9,697
Taxes paid	-14,628	-30,333	-49,048
<i>Adjustments for non-cash items in operating activities</i>			
Depreciation, amortization and impairment	5	38,746	31,299
Dividends received	-197,001	-	-
Group contribution	-	-	-700
Provisions excl credit losses	27,930	3,000	141,467
Provision for credit losses	23,920	72,022	50,650
Financial items, unrealized	35,831	6,534	-35,182
<i>Changes in the assets and liabilities of operating activities</i>			
Change in loans to the public	-1,361,742	-700,652	-2,395,898
Change in liabilities to credit institutions	-271,413	-683,545	46,118
Change in deposits from the public	350,775	1,085,445	1,880,063
Change in other assets and liabilities	-140,947	326,139	701,593
<b>Cash flow from operating activities</b>	<b>-1,129,687</b>	<b>168,349</b>	<b>419,722</b>
<b>Investing activities</b>			
Investments in intangible assets	-46,228	-36,643	-68,135
Investments in tangible assets	-12,761	-13,347	-16,485
Dividend from subsidiaries	197,001	-	-
<b>Cash flow from investing activities</b>	<b>138,012</b>	<b>-49,990</b>	<b>-84,620</b>
<b>Financing activities</b>			
Primärkapital	248,000	-	-
Subordinated debt	-	296,605	296,801
<b>Cash flow from financing activities</b>	<b>248,000</b>	<b>296,605</b>	<b>296,801</b>
<b>Cash flow for the period</b>	<b>-743,675</b>	<b>414,964</b>	<b>631,903</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>883,908</b>	<b>252,005</b>	<b>252,005</b>
Cash flow for the period	-743,675	414,964	631,903
<b>Cash and cash equivalents at the end of period</b>	<b>140,233</b>	<b>666,970</b>	<b>883,908</b>
<b>Cash and cash equivalents include the following items</b>			
Cash in hand	4	0	4
Loans to credit institutions <sup>1</sup>	140,229	666,970	883,904
<b>Cash and cash equivalents</b>	<b>140,233</b>	<b>666,970</b>	<b>883,908</b>

<sup>1</sup> 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), maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated financial interim report 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

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

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

#### *IFRS 9, "Financial instruments"*

The Group has an ongoing IFRS 9 project but no impact assessment of IFRS 9 is yet finalized, therefore IFRS 9 will not be adopted 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.

### Note 3 Interest income

	Group		Parent Company	
	Jan - Jun 2017	Jan - Jun 2016	Jan - Jun 2017	Jan - Jun 2016
Loans to credit institutions	122	75	113	72
Loans to the public	724,115	609,230	739,907	624,523
Other interest income	10	10	9	10
<b>Total</b>	<b>724,247</b>	<b>609,315</b>	<b>740,029</b>	<b>624,605</b>

### Note 4 Interest expenses

	Group		Parent Company	
	Jan - Jun 2017	Jan - Jun 2016	Jan - Jun 2017	Jan - Jun 2016
Liabilities to credit institutions	-1,953	-7,861	-1,705	-7,719
Deposits from the public	-30,261	-31,424	-30,261	-31,424
Other interest expenses	-31,385	-5,584	-31,396	-5,603
<b>Total</b>	<b>-63,599</b>	<b>-44,869</b>	<b>-63,362</b>	<b>-44,746</b>

## Note 5 Depreciation, amortization and impairment of intangible and tangible assets

	Group		Parent Company	
	Jan - Jun 2017	Jan - Jun 2016	Jan - Jun 2017	Jan - Jun 2016
Depreciation of tangible assets	-14,488	-11,567	-8,353	-8,311
Amortization of intangible assets	-47,902	-39,838	-30,393	-22,988
Write-offs	-	-2	-	-
<b>Total</b>	<b>-62,390</b>	<b>-51,407</b>	<b>-38,746</b>	<b>-31,299</b>

## Note 6 Credit losses

	Group		Parent Company	
	Jan - Jun 2017	Jan - Jun 2016	Jan - Jun 2017	Jan - Jun 2016
Provision for credit losses	-24,397	-66,467	-23,920	-67,319
Realized credit losses, net	-152,127	-132,553	-146,512	-128,627
<b>Total</b>	<b>-176,524</b>	<b>-199,020</b>	<b>-170,432</b>	<b>-195,946</b>

## Note 7 Loans to the public

	Group		Parent Company	
	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Loans to the public	10,218,762	8,918,032	10,654,331	9,305,457
Allowance for credit losses	-483,112	-467,995	-480,989	-466,734
<b>Total loans to the public</b>	<b>9,735,650</b>	<b>8,450,037</b>	<b>10,173,342</b>	<b>8,838,723</b>
Allowance at beginning of the year	-467,995	-400,740	-466,734	-391,465
Provisions excluding interest and fees, net	-24,397	-42,428	-23,920	-50,650
Provisions for interest and fees, net <sup>1</sup>	10,080	-19,851	10,527	-20,228
Foreign exchange effect	-800	-4,976	-862	-4,391
<b>Allowance at end of the period</b>	<b>-483,112</b>	<b>-467,995</b>	<b>-480,989</b>	<b>-466,734</b>

<sup>1</sup> 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 provisioning.

The fair value is equal to the booked value.

## Note 8 Other assets

	Group		Parent Company	
	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Receivables from group companies	-	-	134,837	155,692
Tax assets	26,333	41,360	13,545	40,766
Deferred tax	7,799	11,662	2,703	2,703
Derivatives	31,418	15,696	31,418	15,696
Other receivables	62,177	63,684	39,017	34,584
<b>Total</b>	<b>127,727</b>	<b>132,402</b>	<b>221,520</b>	<b>249,441</b>

## Note 9 Other liabilities

	Group		Parent Company	
	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Accounts payable	35,512	71,664	28,298	62,002
Tax at source, personnel	21,602	21,996	15,501	15,034
Liabilities to group companies	171,892	174,524	232,021	322,483
Tax liabilities	102,608	76,060	-	-
Liabilities to internet merchants	1,947,701	1,715,599	1,947,701	1,684,217
Other liabilities	12,739	19,485	344	902
<b>Total</b>	<b>2,292,054</b>	<b>2,079,328</b>	<b>2,223,865</b>	<b>2,084,638</b>



## Note 10 Financial assets and liabilities at fair value

Group	30 Jun 2017			31 Dec 2016			
	Amounts in TSEK	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
<b>Assets</b>							
Cash in hand	51	51	-	40	40	-	
Chargeable central bank treasury bills etc.	1,092,344	1,092,344	-	941,703	941,703	-	
Loans to credit institutions	485,015	485,015	-	1,234,684	1,234,684	-	
Loans to the public	9,735,650	9,735,650	-	8,450,037	8,450,037	-	
Shares and participation in unlisted companies	10,315	10,315	-	10,315	10,315	-	
Other assets	48,716	48,716	-	45,656	45,656	-	
Other assets (Fx forwards)	31,418	31,418	-	15,696	15,696	-	
<b>Total</b>	<b>11,403,509</b>	<b>11,403,509</b>	<b>-</b>	<b>10,698,131</b>	<b>10,698,131</b>	<b>-</b>	

### Amounts in TSEK

<b>Liabilities</b>							
Liabilities to credit institutions	483,532	483,532	-	754,944	754,944	-	
Deposits from the public	6,148,626	6,190,265	-41,639	5,916,982	5,839,490	77,492	
Other liabilities	1,983,874	1,983,874	-	1,963,810	1,963,810	-	
Accrued expenses and prepaid income	148,205	148,205	-	148,425	148,425	-	
Subordinated liabilities	296,921	296,921	-	296,801	296,801	-	
<b>Total</b>	<b>9,061,158</b>	<b>9,102,797</b>	<b>-41,639</b>	<b>9,080,962</b>	<b>9,003,470</b>	<b>77,492</b>	

Parent Company	30 Jun 2017			31 Dec 2016			
	Amounts in TSEK	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
<b>Assets</b>							
Cash in hand	4	4	-	4	4	-	
Chargeable central bank treasury bills etc.	1,092,344	1,092,344	-	941,703	941,703	-	
Loans to credit institutions	200,830	200,830	-	946,172	946,172	-	
Loans to the public	10,173,342	10,173,342	-	8,838,723	8,838,723	-	
Shares and participation in unlisted companies	10,315	10,315	-	10,315	10,315	-	
Other assets	170,268	170,268	-	188,502	188,502	-	
Other assets (Fx forwards)	31,418	31,418	-	15,696	15,696	-	
<b>Total</b>	<b>11,678,521</b>	<b>11,678,521</b>	<b>-</b>	<b>10,941,115</b>	<b>10,941,115</b>	<b>-</b>	

### Amounts in TSEK

<b>Liabilities</b>							
Liabilities to credit institutions	483,532	483,532	-	754,944	754,944	-	
Deposits from the public	6,148,626	6,190,265	-41,639	5,916,982	5,839,490	77,492	
Other liabilities	1,996,794	1,996,794	-	2,069,604	2,069,604	-	
Accrued expenses and prepaid income	136,453	136,453	-	131,654	131,654	-	
Subordinated liabilities	296,921	296,921	-	296,801	296,801	-	
<b>Total</b>	<b>9,062,326</b>	<b>9,103,965</b>	<b>-41,639</b>	<b>9,169,985</b>	<b>9,092,493</b>	<b>77,492</b>	

## Note 11 Classification of financial assets and liabilities into valuation categories

Group	Measured at fair value through profit or loss					Total
	Designated at fair value through profit or loss	Held for trading	Available for sale	Loans and receivables	Non-financial assets	
<b>30 Jun 2017 , Amounts in TSEK</b>						
<b>Assets</b>						
Cash in hand	-	-	-	51	-	51
Chargeable central bank treasury bills etc.	1,092,344	-	-	-	-	1,092,344
Loans to credit institutions	-	-	-	485,015	-	485,015
Loans to the public	-	-	-	9,735,650	-	9,735,650
Other shares and participations	-	-	10,315	-	-	10,315
Intangible assets	-	-	-	-	1,221,634	1,221,634
Tangible assets	-	-	-	-	57,652	57,652
Other assets	-	31,418	-	48,716	47,593	127,727
Prepaid expenses and accrued income	-	-	-	-	74,165	74,165
<b>Total</b>	<b>1,092,344</b>	<b>31,418</b>	<b>10,315</b>	<b>10,269,432</b>	<b>1,401,044</b>	<b>12,804,553</b>

30 Jun 2017 , Amounts in TSEK	Measured at fair value through profit or loss			Other financial liabilities	Non-financial liabilities	Total
<b>Liabilities</b>						
Liabilities to credit institution			-	483,532	-	483,532
Deposits from the public			-	6,190,265	-	6,190,265
Deferred tax liabilities			-	-	70,301	70,301
Other liabilities			-	1,983,874	308,180	2,292,054
Accrued expenses and prepaid income			-	148,205	149,784	297,989
Provisions			-	-	69,873	69,873
Subordinated liabilities			-	296,921	-	296,921
<b>Total</b>			<b>-</b>	<b>9,102,797</b>	<b>598,138</b>	<b>9,700,935</b>

Group	Measured at fair value through profit or loss					Total
	Designated at fair value through profit or loss	Held for trading	Available for sale	Loans and receivables	Non-financial assets	
<b>31 Dec 2016 , Amounts in TSEK</b>						
<b>Assets</b>						
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	-	-	-	8,450,037	-	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
Other assets	-	15,696	-	45,656	71,050	132,402
Prepaid expenses and accrued income	-	-	-	-	45,582	45,582
<b>Total</b>	<b>941,703</b>	<b>15,696</b>	<b>10,315</b>	<b>9,730,417</b>	<b>1,383,693</b>	<b>12,081,824</b>

31 Dec 2016 , Amounts in TSEK	Measured at fair value through profit or loss	Other financial liabilities	Non-financial liabilities	Total
<b>Liabilities</b>				
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
<b>Total</b>	-	<b>9,003,470</b>	<b>460,989</b>	<b>9,464,459</b>

Parent Company	Measured at fair value through profit or loss					Total
	Designated at fair value through profit or loss	Held for trading	Available for sale	Loans and receivables	Non-financial assets	
<b>30 Jun 2017 , Amounts in TSEK</b>						
<b>Assets</b>						
Cash in hand	-	-	-	4	-	4
Chargeable central bank treasury bills etc.	1,092,344	-	-	-	-	1,092,344
Loans to credit institutions	-	-	-	200,830	-	200,830
Loans to the public	-	-	-	10,173,342	-	10,173,342
Shares and participations in group companies	-	-	-	-	543,999	543,999
Other shares and participations	-	-	10,315	-	-	10,315
Intangible assets	-	-	-	-	151,242	151,242
Tangible assets	-	-	-	-	33,060	33,060
Other assets	-	31,418	-	170,268	19,834	221,520
Prepaid expenses and accrued income	-	-	-	-	77,632	77,632
<b>Total</b>	<b>1,092,344</b>	<b>31,418</b>	<b>10,315</b>	<b>10,544,444</b>	<b>825,767</b>	<b>12,504,288</b>

30 Jun 2017 , Amounts in TSEK	Measured at fair value through profit or loss			Other financial liabilities	Non-financial liabilities	Total
<b>Liabilities</b>						
Liabilities to credit institutions			-	483,532	-	483,532
Deposits from the public			-	6,190,265	-	6,190,265
Deferred tax liabilities			-	-	3,274	3,274
Other liabilities			-	1,996,794	227,071	2,223,865
Accrued expenses and prepaid income			-	136,453	118,263	254,716
Provisions			-	-	68,027	68,027
Subordinated liabilities			-	296,921	-	296,921
<b>Total</b>			<b>-</b>	<b>9,103,965</b>	<b>416,635</b>	<b>9,520,600</b>

Parent Company	Measured at fair value through profit or loss					Total
	Designated at fair value through profit or loss	Held for trading	Available for sale	Loans and receivables	Non-financial assets	
<b>31 Dec 2016 , Amounts in TSEK</b>						
<b>Assets</b>						
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	-	-	-	8,838,723	-	8,838,723
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	-	188,502	45,243	249,441
Prepaid expenses and accrued income	-	-	-	-	63,056	63,056
<b>Total</b>	<b>941,703</b>	<b>15,696</b>	<b>10,315</b>	<b>9,973,401</b>	<b>816,357</b>	<b>11,757,472</b>

31 Dec 2016 , Amounts in TSEK	Measured at fair value through profit or loss		Other financial liabilities	Non-financial liabilities	Total
<b>Liabilities</b>					
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
<b>Total</b>			<b>9,092,493</b>	<b>266,284</b>	<b>9,358,777</b>

## 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 June 30, 2017, divided up into the three valuation levels.

<b>30 Jun 2017, Group</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Chargeable central bank treasury bills etc.	1,092,344	-	-	1,092,344
Other assets (Fx forwards)	-	31,418	-	31,418
<b>Total assets</b>	<b>1,092,344</b>	<b>31,418</b>	<b>-</b>	<b>1,123,762</b>
<b>Financial liabilities</b>				
Other liabilities (Fx forwards)	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>31 Dec 2016, Group</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Chargeable central bank treasury bills etc.	941,703	-	-	941,703
Other assets (Fx forwards)	-	15,696	-	15,696
<b>Total assets</b>	<b>941,703</b>	<b>15,696</b>	<b>-</b>	<b>957,399</b>
<b>Financial liabilities</b>				
Other liabilities (Fx forwards)	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>30 Jun 2017, Parent Company</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Chargeable central bank treasury bills etc.	1,092,344	-	-	1,092,344
Other assets (Fx forwards)	-	31,418	-	31,418
<b>Total assets</b>	<b>1,092,344</b>	<b>31,418</b>	<b>-</b>	<b>1,123,762</b>
<b>Financial liabilities</b>				
Other liabilities (Fx forwards)	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>31 Dec 2016, Parent Company</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Chargeable central bank treasury bills etc.	941,703	-	-	941,703
Other assets (Fx forwards)	-	15,696	-	15,696
<b>Total assets</b>	<b>941,703</b>	<b>15,696</b>	<b>-</b>	<b>957,399</b>
<b>Financial liabilities</b>				
Other liabilities (Fx forwards)	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Note 12 Pledged assets and contingent liabilities

	Group		Parent Company	
	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
<b>Pledged assets</b>				
<i>Assets pledged for own liabilities</i>				
Pledged loans and receivables	4,029,390	3,836,025	4,029,390	3,836,025
Other pledged assets	8,454	9,058	-	-
<b>Total pledged assets</b>	<b>4,037,844</b>	<b>3,845,083</b>	<b>4,029,390</b>	<b>3,836,025</b>
<b>Contingent liabilities and commitments</b>				
<i>Contingent liabilities</i>				
Guarantees	9,277	83,865	14,929	83,865
<i>Commitments</i>	217,266	-	217,266	-
<b>Total contingent liabilities and commitments</b>	<b>226,543</b>	<b>83,865</b>	<b>232,195</b>	<b>83,865</b>

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 483,532 (490,788) at June 30, 2017.

## Note 13 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](http://www.klarna.se).

### 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 3 report.



Own Funds	Consolidated situation		Parent company	
	Jun 2017	Dec 2016	Jun 2017	Dec 2016
<b>Common Equity Tier 1 capital: instruments and reserves</b>				
Capital instruments and the related share premium accounts	2,182,011	2,192,977	1,448,959	1,448,959
of which: Share capital	1,879	1,879	52,752	52,752
Retained earnings	532,192	412,307	788,686	816,433
Accumulated other comprehensive income (and other reserves)	83,205	73,397	140,482	114,434
Independently reviewed interim profits net of any foreseeable charge or dividend	228,339	113,239	336,993	300
<b>Common Equity Tier 1 (CET 1) capital before regulatory adjustments</b>	<b>3,025,747</b>	<b>2,791,920</b>	<b>2,715,120</b>	<b>2,380,126</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>				
Additional value adjustments (negative amount)	(1,124)	(957)	(1,124)	(957)
Intangible assets (net of related tax liability) (negative amount)	(1,173,230)	(1,159,179)	(151,242)	(135,406)
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(1,174,354)</b>	<b>(1,160,136)</b>	<b>(152,366)</b>	<b>(136,363)</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>1,851,393</b>	<b>1,631,784</b>	<b>2,562,754</b>	<b>2,243,763</b>
<b>Additional Tier 1 (AT1) capital</b>				
<b>Additional Tier 1 (AT1) capital</b>	<b>250,000</b>	<b>-</b>	<b>250,000</b>	<b>-</b>
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>2,101,393</b>	<b>1,631,784</b>	<b>2,812,745</b>	<b>2,243,763</b>
<b>Tier 2 (T2) capital: Instruments and provisions</b>				
<b>Tier 2 (T2) capital</b>	<b>296,921</b>	<b>296,801</b>	<b>296,921</b>	<b>296,801</b>
<b>Total capital (TC = T1 + T2)</b>	<b>2,398,314</b>	<b>1,928,585</b>	<b>3,109,675</b>	<b>2,540,564</b>
<b>Total risk weighted assets</b>	<b>12,111,296</b>	<b>10,251,727</b>	<b>13,470,394</b>	<b>11,355,254</b>
<b>Capital ratios and buffers</b>				
Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.3%	15.9%	19.0%	19.8%
Tier 1 (as a percentage of total risk exposure amount)	17.4%	15.9%	20.9%	19.8%
Total capital (as a percentage of total risk exposure amount)	19.8%	18.8%	23.1%	22.4%
Institution specific buffer requirement (as a percentage of risk exposure amount)	3.5%	3.4%	3.5%	3.3%
of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5%
of which: countercyclical buffer requirement	1.0%	0.9%	1.0%	0.8%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	10.8%	7.9%	14.5%	11.8%
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
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)	7,799	11,661	2,703	2,703

Capital requirement and risk exposure amounts	Consolidated situation		Parent company	
	Jun 2017	Dec 2016	Jun 2017	Dec 2016
<b>Risk exposure amount</b>				
Credit risk according to standardized method	7,787,724	6,885,649	8,804,211	7,870,138
Market risk according to standardized method	170,408	246,190	875,039	550,181
Operative risk according to standardized method	4,153,164	3,119,888	3,791,144	2,934,935
<b>Total risk exposure amount</b>	<b>12,111,296</b>	<b>10,251,727</b>	<b>13,470,394</b>	<b>11,355,254</b>
<b>Exposure amount for credit risk according to the standardized method</b>				
Institute exposure	125,500	252,033	68,332	194,324
Corporate exposure	627,162	243,253	1,211,206	685,144
Retail/household exposure	6,835,675	6,014,576	6,834,040	6,012,574
Exposures in default	96,252	100,273	96,499	100,183
Equity exposure	10,315	10,315	554,314	554,314
Other items	92,820	265,199	39,820	323,599
<b>Total credit risk exposure amount</b>	<b>7,787,724</b>	<b>6,885,649</b>	<b>8,804,211</b>	<b>7,870,138</b>
<b>Market risk exposure amounts according to standardized method</b>				
Foreign exchange risk	170,408	246,190	875,039	550,181
<b>Total market risk according to standardized method</b>	<b>170,408</b>	<b>246,190</b>	<b>875,039</b>	<b>550,181</b>
<b>Capital requirement</b>				
Credit risk according to standardized method	623,018	550,852	704,337	629,611
Market risk to standardized method	13,633	19,695	70,003	44,014
Operational risk according to standardized method	332,253	249,591	303,292	234,795
<b>Total capital requirement</b>	<b>968,904</b>	<b>820,138</b>	<b>1,077,632</b>	<b>908,420</b>
<b>Leverage ratio</b>				
Tier 1 capital	1,873,055	1,631,784	2,812,754	2,243,763
Total exposure	11,718,328	10,934,381	12,440,093	11,630,856
Leverage ratio	16.0%	14.9%	22.6%	19.3%

#### The Internal Capital Adequacy 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 the end of the period 2017 (December 2016) amounted to 1,172,385 (937,220) TSEK for Klarna Bank AB (publ) and 1,063,658 (848,938) TSEK for the consolidated situation. Klarna thereby has sufficient capital to cover for required capital under Pillar I and Pillar II.

## Note 14 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 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 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 CEO certifies that this interim report 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 2017-07-28

---

Sebastian Siemiatkowski  
CEO

Our review report was submitted on 2017-07-28

Ernst & Young AB

---

Stefan Lundberg  
Authorized Public Accountant