Annual Report 2018

Klarna Bank AB (publ)
(Corp. ID 556737-0431)
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The statutory Annual Report comprises of pages 2-79.
To our Shareholders

Fellow shareholders,

A question we are often asked is ‘what is Klarna? Are we a fintech, or a bank, maybe a technology company, an e-commerce facilitator or a payment provider? We are in fact in part all of the above and more but we are not so concerned on fitting into single neat labels, we are focused on what we are actually solving for. When Klarna was founded, the challenge was making technology work in an online retail environment and our mission was to enable merchants to sell and consumers to buy online in an easy, safe and smooth way. We then moved into an era where we had to focus more on reducing unnecessary friction in the shopping journey, so the consumer didn’t abandon their purchase in frustration. We believe we are now in the ‘experience era’. The technology functions, the unnecessary friction is continually being eliminated but the consumer now expects a highly personalised and intuitive experience that not only meets their individual needs before and at the checkout but also in post-purchase. That means offering a range of services that help people seamlessly shop, pay, finance, manage and keep track of their purchases in a simple, convenient and secure way. We want to give consumers control, save them time and where possible create a joyful experience stretching far beyond the actual transaction.

This focus on the user experience is relentless and this principle should guide absolutely everything we do at Klarna. By doing so we also importantly drive loyalty, and ultimately sales for over 100,000 merchants and partners operating in a highly competitive environment. The value which our products bring can be seen in the increased conversion rates, order value, number of users and overall preference for our merchants. This value is also reflected in the continued year-on-year growth in volumes, transactions, active users and merchants base across all markets and the increasing strength of our position, particularly in the DACH region (Germany, Austria and Switzerland), which is now our largest market and the success of Pay later in the UK, to the point it has become a verb to ‘klarna it’.

We set out big ambitions for 2018 and the results of enormous efforts to make them a reality are evident. The new Klarna app with a host of features is now live across multiple markets and engagement has been really positive but this is just the beginning, the app will continue to evolve into something we believe will truly be empowering for consumers in managing their daily financial lives. We launched a new product called Slice it in 3/Slice it in 4 in the UK and the US, which allows consumers to spread their cost over 3 or 4 installments interest free, giving desired flexibility and purchasing power including on a debit card. This offer has already resonated strongly and will be available in other markets soon. Equally, our off-line presence has steadily developed with instore solutions now live in thousands of stores and the successful launch of the Klarna card, which is utilising the capabilities from our banking license. We have also dedicated more resources to meeting the particular needs of SMEs, this includes new automated onboarding and a financing program that enables simplified access to funds. Finally, being able to share the news on our partnership with H&M across multiple markets has been a particular highlight, we are now working together to soon offer a seamless and engaging shopping experience that will delight consumers across touchpoints.

While Klarna is constantly evolving, we cannot be complacent. Every day brings new challenges and new opportunities. The context we are operating in is developing so rapidly, we need to constantly look ahead. Therefore, we made a strategic decision at the beginning of the year to significantly increase important investments in people, systems and products to further strengthen our capabilities and drive efficiencies. These are investments in our future and our core focus is on growth. While revenues continue to increase steadily, this decision has resulted in a lower net profitability for this year, but we know this was the right decision as we are building Klarna for the long term and an acceleration from the investments is already starting to be realised and this will continue.

Consumers and merchants will not settle for average. And neither do we. Every day, we will work to build world class products which offer the very best service and consumer experience. I want to take this opportunity to thank my fellow employees, our shareholders, merchants and users for their support in 2018 and I am very excited with what 2019 will bring, soon to be revealed.

Together we will create wonders.

Sebastian Siemiatkowski, CEO and Co-founder
Report of the Board of Directors

The Board and the CEO of Klarna Bank AB (publ) hereby submit the report for the period January 1 – December 31, 2018. The annual accounts have 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 Supervisory Authority (Finansinspektionen). The company’s personal data protection officer is responsible that all personal details are dealt with in accordance with the General Data Protection Regulation (GDPR).

Our purpose at Klarna is to make the modern purchase experience smoother and this is done by facilitating the relationship between consumers and merchants, creating a flexible buying experience for consumers and making 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 core mission is to give consumers control, to save them time and to create a joyful experience that stretches beyond the actual transaction. 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). This year, Klarna launched Slice it in 3 and 4 in the UK and the US respectively, offering consumers a short-term (3 months or 4 weeks) free installment plan with no interest or fees. Klarna also launched a payment card, over 50,000 cards have already been issued, as well as a shopping browser with a single-use virtual card, making it possible for our app users to use Klarna also at merchants not connected to Klarna, both online and in physical stores, this is what we refer to as the ‘Klarna everywhere’ concept. Together, this ensures that 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, especially on mobile phones, as well as in physical stores. Klarna’s offerings to the merchant include technology, credit risk, customer services and administration. The "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 as well as a newly launched shipping service in one solution. Klarna assumes all the risk for both the consumer and merchant.

During the year, Klarna launched several SME focused services. One example is Boost, a merchant lending product that democratises and simplifies access to capital for SMEs to help them accelerate growth and unlock potential. Another example is the new automated and simplified onboarding tool that makes it easier for SME merchants to start to use Klarna’s services. Klarna has also launched a new merchant portal, including tools that provides all merchants with additional insights on their current customer base.

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

Total sales volume increased by 36% compared to 2017. This was driven by strong growth in the existing merchant base, coupled with continual on-boarding of new merchants across all regions. During 2018, the DACH region established itself as our largest market based on sales volume and the realisation of a successful integration of BillPay GmbH has also contributed positively to this growth trajectory.

Total operating revenues, net, grew by 31% year-on-year resulting in SEK 5,451m at year-end. Klarna had an interest income of SEK 2,034m, corresponding to a 28% growth primarily driven by an increase in the popularity of the Slice it product amongst consumers. Commission income increased by 37% to SEK 3,999m, supported by increased volumes and higher consumer activity. Following the reconciliation of revenues under IFRS 15 and IFRS 9, a reclassification of SEK 1,555m from interest income to commission income in 2018 was made. As planned, reminder fees related to Klarna’s Pay later and Slice it products have continued to decrease in relation to operating revenues.

Total operating expenses grew by 44% as we invest to further strengthen our capabilities, product offering and to support future business expansion. The core business focus is on driving growth and an acceleration from initial investments is already being realised. Investment in talent has increased the average number of full-time equivalents to 1,713 from 1,380 (excluding consultants). We also continue to invest in building our Klarna brand across our markets.
Net credit losses increased by 57% year-on-year, as loans to the public grew significantly, with a higher share of Slice it receivables in relation to total receivables, and strong growth related to expansion in new markets. Furthermore, the implementation of IFRS 9 in 2018 drives higher coverage ratios on early arrear exposures, compared to IAS 39.

Net income recorded at SEK 105m, compared to SEK 346m in 2017.

Loans to the public grew by 44% to SEK 19,979m mainly due to an increased share of Slice it product as a percentage of total volume predominantly in the Nordic countries and the DACH region, but also due to significant global merchant acquisitions.

Deposits from the public grew by 72% to SEK 14,582m, primarily driven by EUR deposits in Germany.

For further comments see below on significant events during the year as well as the notes.

**Significant events during the year**

On February 13, 2018, an announcement of closure of the Klarna Tel Aviv site in Israel was made. The decision was made as part of our 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.

In May 2018, a decision was taken to close part of the debt collection business, Idnet Inkasso AB, including its German branch. All staff employed in Sweden and Germany were offered the possibility to continue to work in other Klarna companies.

On July 5, 2018, Klarna Bank AB (publ) issued subordinated Tier 2 notes in the principal amount of SEK 300m.

On September 13, 2018, Klarna Bank AB (publ) entered into an agreement to acquire Close Brother Retail Finance from Close Brothers Group plc. The acquisition was consummated on 1 January 2019.

On November 15, 2018, Klarna Bank AB (publ) received approval to operate a Branch in the United Kingdom.

**Future development**

Klarna continues to develop the smooth purchase experience, supporting merchant growth and driving consumer loyalty by offering flexibility and control over their payments but also ensuring they spend less time managing their finances, so they have more time to do what they love. This is evident in the strong progress in consolidation of leading position in Nordics, but more particularly the growth across continental Europe, increasing DACH market share which is now our largest market and huge momentum in UK as offer resonates strongly. The investments made in capabilities and talent over the year are so Klarna can further enhance our offering for both merchants and consumers, which provides a platform for driving sustained customer preference and growth in the next years. Product and services development for consumers and merchants will continue at pace across all our markets.

**Risks and risk management**

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

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 risk appetite and tolerance limits.

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

The second line of defense refers to Klarna’s independent Risk Control and Compliance Functions, which report directly to the CEO and the Board. To ensure independence, these functions are not involved in business operations. These functions set the principles and framework for risk management, facilitate risk assessment and perform the independent follow-up, as well as make 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.

The third line of defense refers to the Internal Audit function which performs independent periodic reviews of the governance structure and the system of internal controls. The Board has appointed Deloitte as internal auditors.
ESG, corporate governance and Modern Slavery and Human trafficking reports
In accordance with the Annual Accounts Act chapter 6, 10§, Klarna Bank AB (publ) does not report an Environmental, Social and Governance report (ESG) since an ESG report is reported in the parent company Klarna Holding AB, Corp. ID 556676-2356. Klarna Holding AB has its registered office in Stockholm, Sweden. Klarna Holding AB publishes the ESG report separated from the annual report. The ESG report has been submitted to the auditors at the same time as the annual report. The ESG report is available at Klarna’s website: www.klarna.com

In accordance with the Annual Accounts Act chapter 6, 8§, Klarna Bank AB (publ) has decided to report the Corporate governance report separated from the annual report. The Corporate governance report has been submitted to the auditors at the same time as the annual report. The report is available at Klarna’s website: www.klarna.com

Klarna Bank AB (publ) has decided to report the Modern Slavery and Human trafficking report separated from the annual report. The Modern Slavery and Human trafficking report has been submitted to the auditors at the same time as the annual report. The report is available at Klarna’s website: www.klarna.com

Proposed treatment of unappropriated earnings
The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 3,392,427,265 on Klarna Bank AB (publ)’s balance sheet at the disposal of the Annual General Meeting to be carried forward.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Tier I instruments</td>
<td>250,000,000 SEK</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,000,603,109 SEK</td>
</tr>
<tr>
<td>Net income for the year</td>
<td>141,824,156 SEK</td>
</tr>
<tr>
<td>Total</td>
<td>3,392,427,265 SEK</td>
</tr>
</tbody>
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### Five Year Summary, Group

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<tr>
<td><strong>Income Statement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total operating revenues, net(^1)</td>
<td>5,450,781</td>
<td>4,158,045</td>
<td>3,289,503</td>
<td>2,581,768</td>
<td>1,980,222</td>
</tr>
<tr>
<td>Operating income</td>
<td>160,910</td>
<td>523,987</td>
<td>168,300</td>
<td>170,127</td>
<td>101,441</td>
</tr>
<tr>
<td>Net income for the year</td>
<td>105,224</td>
<td>345,613</td>
<td>113,427</td>
<td>127,411</td>
<td>75,424</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>2,367,631</td>
<td>1,211,778</td>
<td>1,234,684</td>
<td>499,754</td>
<td>756,176</td>
</tr>
<tr>
<td>Loans to the public</td>
<td>19,979,002</td>
<td>13,874,164</td>
<td>8,450,037</td>
<td>6,104,075</td>
<td>4,513,304</td>
</tr>
<tr>
<td>All other assets</td>
<td>5,513,199</td>
<td>3,901,290</td>
<td>2,397,103</td>
<td>2,154,566</td>
<td>1,925,742</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>27,859,832</td>
<td>18,987,232</td>
<td>12,081,824</td>
<td>8,758,395</td>
<td>7,195,222</td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td>1,418,054</td>
<td>396,965</td>
<td>754,944</td>
<td>708,826</td>
<td>386,116</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>14,581,769</td>
<td>8,491,654</td>
<td>5,839,490</td>
<td>3,959,427</td>
<td>3,705,020</td>
</tr>
<tr>
<td>All other liabilities</td>
<td>7,717,750</td>
<td>6,065,083</td>
<td>2,870,025</td>
<td>1,626,780</td>
<td>1,107,479</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>4,142,259</td>
<td>4,033,530</td>
<td>2,617,365</td>
<td>2,463,362</td>
<td>1,996,607</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>27,859,832</td>
<td>18,987,232</td>
<td>12,081,824</td>
<td>8,758,395</td>
<td>7,195,222</td>
</tr>
</tbody>
</table>

#### Key Ratios and Figures\(^2\)

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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Return on equity</strong></td>
<td>3.9%</td>
<td>15.8%</td>
<td>6.6%</td>
<td>7.6%</td>
<td>7.2%</td>
</tr>
<tr>
<td><strong>Return on assets</strong></td>
<td>0.4%</td>
<td>2.2%</td>
<td>1.1%</td>
<td>1.6%</td>
<td>1.3%</td>
</tr>
<tr>
<td><strong>Debt/equity ratio</strong></td>
<td>4.7</td>
<td>3.7</td>
<td>3.1</td>
<td>2.6</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Equity/assets ratio</strong></td>
<td>14.9%</td>
<td>21.2%</td>
<td>21.7%</td>
<td>28.1%</td>
<td>27.7%</td>
</tr>
<tr>
<td><strong>Cost/revenue ratio</strong></td>
<td>82.6%</td>
<td>75.4%</td>
<td>82.0%</td>
<td>80.4%</td>
<td>83.4%</td>
</tr>
<tr>
<td><strong>Own funds (Total capital)</strong></td>
<td>3,424,327</td>
<td>2,830,504</td>
<td>1,928,585</td>
<td>1,388,231</td>
<td>819,777</td>
</tr>
<tr>
<td><strong>Capital requirement</strong></td>
<td>1,820,881</td>
<td>1,244,297</td>
<td>820,138</td>
<td>578,504</td>
<td>431,855</td>
</tr>
<tr>
<td><strong>Total capital ratio</strong></td>
<td>15.0%</td>
<td>18.2%</td>
<td>18.8%</td>
<td>19.2%</td>
<td>15.2%</td>
</tr>
<tr>
<td><strong>Average number of full-time equivalents</strong></td>
<td>1,713</td>
<td>1,380</td>
<td>1,244</td>
<td>1,074</td>
<td>1,017</td>
</tr>
</tbody>
</table>

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\(^1\) Total operating revenues net, have been restated for previous periods due to changed presentation of the income statement.

\(^2\) See "Definitions & Abbreviations" for definitions of how the ratios are calculated.
Five Year Summary, Parent Company

<table>
<thead>
<tr>
<th>Amounts in SEKk</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Statement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total operating revenues, net</td>
<td>5,091,371</td>
<td>3,790,236</td>
<td>2,921,550</td>
<td>2,277,555</td>
<td>1,860,988</td>
</tr>
<tr>
<td>Operating income</td>
<td>100,439</td>
<td>509,400</td>
<td>9,697</td>
<td>68,871</td>
<td>131,063</td>
</tr>
<tr>
<td>Net income for the year</td>
<td>141,824</td>
<td>344,839</td>
<td>300</td>
<td>47,020</td>
<td>75,750</td>
</tr>
</tbody>
</table>

| **Balance Sheet**          |          |          |          |          |          |
| Loans to credit institutions | 1,962,486 | 824,695  | 946,172  | 313,890  | 674,074  |
| Loans to the public         | 19,850,726 | 15,739,439 | 8,838,723 | 6,481,656 | 5,042,232 |
| All other assets            | 5,290,084 | 3,462,732 | 1,972,577 | 1,801,745 | 1,337,849 |
| **Total assets**            | 27,103,296 | 18,026,866 | 11,757,472 | 8,597,291 | 7,054,155 |

| Liabilities to credit institutions | 1,418,054 | 396,965  | 754,944  | 708,826  | 386,116  |
| Deposits from the public       | 14,557,478 | 8,475,892 | 5,839,490 | 3,959,427 | 3,705,020 |
| All other liabilities          | 7,375,651  | 5,475,254 | 2,848,743 | 1,614,770 | 1,072,591 |
| **Total equity**               | 3,752,113  | 3,678,755 | 2,314,295 | 2,314,268 | 1,890,428 |
| **Total liabilities and equity** | 27,103,296 | 18,026,866 | 11,757,472 | 8,597,291 | 7,054,155 |

| **Key Ratios and Figures**   |          |          |          |          |          |
| Return on equity             | 2.8%     | 14.0%    | 0.3%     | 2.7%     | 7.4%     |
| Return on assets             | 0.6%     | 2.3%     | 0.0%     | 0.6%     | 1.3%     |
| Debt/equity ratio            | 4.9      | 3.8      | 3.3      | 2.6      | 3.2      |
| Equity/assets ratio          | 14.3%    | 21.1%    | 20.2%    | 27.7%    | 27.6%    |
| Cost/revenue ratio           | 83.8%    | 74.0%    | 86.0%    | 82.8%    | 80.7%    |

| Own funds (Total capital)    | 4,174,815 | 3,892,400 | 2,540,564 | 2,256,995 | 1,807,132 |
| Capital requirement          | 1,944,599 | 1,371,634 | 908,420   | 697,175   | 553,165   |
| Total capital ratio          | 17.2%     | 22.7%     | 22.4%     | 25.9%     | 26.1%     |

| Average number of full-time equivalents | 1,089 | 900 | 851 | 727 | 700 |

1 See “Definitions & Abbreviations” for definitions of how the ratios are calculated.
Income Statement, Group

<table>
<thead>
<tr>
<th>Amounts in SEKk</th>
<th>Note</th>
<th>2018¹</th>
<th>2017¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income calculated according to the effective interest rate method</td>
<td>5</td>
<td>2,033,517</td>
<td>1,591,013</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>6</td>
<td>-232,144</td>
<td>-138,682</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td></td>
<td>1,801,373</td>
<td>1,452,331</td>
</tr>
<tr>
<td>Commission income</td>
<td>7</td>
<td>3,999,394</td>
<td>2,924,191</td>
</tr>
<tr>
<td>Commission expenses</td>
<td>8</td>
<td>-328,870</td>
<td>-205,253</td>
</tr>
<tr>
<td>Net result from financial transactions</td>
<td>9</td>
<td>-26,970</td>
<td>-23,899</td>
</tr>
<tr>
<td>Other operating income</td>
<td></td>
<td>5,854</td>
<td>10,675</td>
</tr>
<tr>
<td><strong>Total operating revenues, net</strong></td>
<td></td>
<td>5,450,781</td>
<td>4,158,045</td>
</tr>
<tr>
<td>General administrative expenses</td>
<td>10, 11, 12</td>
<td>-4,349,558</td>
<td>-2,932,765</td>
</tr>
<tr>
<td>Depreciation, amortisation and impairment of intangible and tangible assets</td>
<td>13</td>
<td>-154,746</td>
<td>-200,575</td>
</tr>
<tr>
<td><strong>Total expenses before credit losses</strong></td>
<td></td>
<td>-4,504,304</td>
<td>-3,133,340</td>
</tr>
<tr>
<td>Operating income before credit losses, net</td>
<td></td>
<td>946,477</td>
<td>1,024,705</td>
</tr>
<tr>
<td>Credit losses, net</td>
<td>14</td>
<td>-785,567</td>
<td>-500,718</td>
</tr>
<tr>
<td>Operating income</td>
<td></td>
<td>160,910</td>
<td>523,987</td>
</tr>
<tr>
<td>Income tax</td>
<td>15</td>
<td>-55,686</td>
<td>-178,374</td>
</tr>
<tr>
<td><strong>Net income for the year</strong></td>
<td></td>
<td>105,224</td>
<td>345,613</td>
</tr>
</tbody>
</table>

Statement of Comprehensive Income, Group

| Net income for the year                     |      | 105,224 | 345,613 |

**Items that may be reclassified subsequently to the income statement:**

| Exchange differences, foreign operations   |      | 66,444 | 50,931 |
| Other comprehensive income for the year, net after tax |      | 66,444 | 50,931 |
| **Total comprehensive income for the year** |      | 171,668 | 396,544 |

¹The presentation of the income statement has been changed for 2018 and restated for 2017. In note 45 the change in presentation for 2017 is disclosed.

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

<table>
<thead>
<tr>
<th>Amounts in SEKk</th>
<th>Note</th>
<th>31 Dec 2018</th>
<th>31 Dec 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td></td>
<td>331</td>
<td>36</td>
</tr>
<tr>
<td>Chargeable central bank treasury bills</td>
<td>19</td>
<td>3,084,314</td>
<td>1,847,705</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>20, 22</td>
<td>2,367,631</td>
<td>1,211,778</td>
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<tr>
<td>Loans to the public</td>
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<td>19,979,002</td>
<td>13,874,164</td>
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<tr>
<td>Other shares and participations</td>
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<td>21,763</td>
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<td>Other assets</td>
<td>26, 27</td>
<td>107,304</td>
<td>96,401</td>
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<tr>
<td>Prepaid expenses and accrued income</td>
<td>28</td>
<td>145,839</td>
<td>72,469</td>
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<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td><strong>27,859,832</strong></td>
<td><strong>18,987,232</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
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<td>1,418,054</td>
<td>396,965</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>30</td>
<td>14,581,769</td>
<td>8,491,654</td>
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<td>Debt securities in issue</td>
<td>31</td>
<td>1,996,905</td>
<td>1,995,036</td>
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<td>Deferred tax liabilities</td>
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<td>117,633</td>
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<td>Other liabilities</td>
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<td>Accrued expenses and prepaid income</td>
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<td>Provisions</td>
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<td>Subordinated liabilities</td>
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<td>597,560</td>
<td>297,121</td>
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<tr>
<td><strong>Total liabilities</strong></td>
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<td><strong>14,953,702</strong></td>
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<td></td>
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</tr>
<tr>
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<td></td>
<td>52,752</td>
<td>52,752</td>
</tr>
<tr>
<td>Other capital contributed</td>
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<td>2,805,140</td>
<td>2,805,140</td>
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<tr>
<td>Reserves</td>
<td></td>
<td>190,772</td>
<td>124,328</td>
</tr>
<tr>
<td>Additional Tier 1 instruments</td>
<td></td>
<td>250,000</td>
<td>250,000</td>
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<tr>
<td>Retained earnings</td>
<td></td>
<td>738,371</td>
<td>455,697</td>
</tr>
<tr>
<td>Net income for the year</td>
<td></td>
<td>105,224</td>
<td>345,613</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
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<td><strong>4,033,530</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td></td>
<td><strong>27,859,832</strong></td>
<td><strong>18,987,232</strong></td>
</tr>
</tbody>
</table>
### Statement of Changes in Equity, Group

<table>
<thead>
<tr>
<th>Amounts in SEKk</th>
<th>Share capital</th>
<th>Other capital contributed</th>
<th>Reserves</th>
<th>Additional Tier 1 instruments</th>
<th>Retained earnings</th>
<th>Net income</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at January 1, 2018</td>
<td>52,752</td>
<td>2,805,140</td>
<td>124,328</td>
<td>250,000</td>
<td>455,697</td>
<td>345,613</td>
<td>4,033,530</td>
</tr>
<tr>
<td>Impact of adopting IFRS 9</td>
<td>-</td>
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<td>-</td>
<td>-69,246</td>
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<td>-</td>
<td>-</td>
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<td>-</td>
<td>21,447</td>
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<tr>
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<td>124,328</td>
<td>250,000</td>
<td>407,898</td>
<td>345,613</td>
<td>3,985,731</td>
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<tr>
<td>Transfer of previous year’s net income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>345,613</td>
<td>-345,613</td>
<td>-</td>
</tr>
<tr>
<td>Net income for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>105,224</td>
<td>105,224</td>
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</tr>
<tr>
<td>Exchange differences, foreign operations</td>
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<td>66,444</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>66,444</td>
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<tr>
<td>Total comprehensive income for the year</td>
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<td>66,444</td>
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<td>-</td>
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<td>171,668</td>
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<tr>
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<td>-</td>
<td>-</td>
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<td>501</td>
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<td>501</td>
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<td>-</td>
<td>-</td>
<td>-13,357</td>
<td>-</td>
<td>-13,357</td>
</tr>
<tr>
<td>Balance as at December 31, 2018</td>
<td>52,752</td>
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<td>190,772</td>
<td>250,000</td>
<td>738,371</td>
<td>105,224</td>
<td>4,142,259</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amounts in SEKk</th>
<th>Share capital</th>
<th>Other capital contributed</th>
<th>Reserves</th>
<th>Additional Tier 1 instruments</th>
<th>Retained earnings</th>
<th>Net income</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at January 1, 2017</td>
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<td>1,396,207</td>
<td>73,397</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-629,514</td>
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<td>-</td>
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<tr>
<td>Transfer of previous year’s net income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>113,427</td>
<td>-113,427</td>
<td>-</td>
</tr>
<tr>
<td>Net income for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>345,613</td>
<td>345,613</td>
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</tr>
<tr>
<td>Exchange differences, foreign operations</td>
<td>-</td>
<td>-</td>
<td>50,931</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50,931</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>-</td>
<td>-</td>
<td>50,931</td>
<td>-</td>
<td>-</td>
<td>345,613</td>
<td>396,544</td>
</tr>
<tr>
<td>Group contribution(^1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-1,300</td>
<td>-</td>
<td>-1,300</td>
</tr>
<tr>
<td>Tax effect group contribution</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>286</td>
<td>-</td>
<td>286</td>
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<tr>
<td>Shareholders’ contribution</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>779,419</td>
</tr>
<tr>
<td>Additional Tier 1 instruments(^2)</td>
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<td>-</td>
<td>250,000</td>
<td>-8,785</td>
<td>-</td>
<td>241,215</td>
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<tr>
<td>Balance as at December 31, 2017</td>
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<td>2,805,140</td>
<td>124,328</td>
<td>250,000</td>
<td>455,697</td>
<td>345,613</td>
<td>4,033,530</td>
</tr>
</tbody>
</table>

\(^1\) Group contribution to parent company Klarna Holding AB, not paid.

\(^2\) Amounts in Additional Tier 1 instruments column consist of issued instruments, while amounts in Retained earnings column consist of interest on these issued instruments.

\(^3\) 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.

\(^4\) The reserves consist of exchange differences from foreign operations.

Equity is in its entirety attributable to the shareholders of Klarna Bank AB (publ.).
Income Statement, Parent Company

<table>
<thead>
<tr>
<th>Amounts in SEKk</th>
<th>Note</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income calculated according to the effective interest rate method</td>
<td>4, 5</td>
<td>2,009,547</td>
<td>1,609,057</td>
</tr>
<tr>
<td>Lease income</td>
<td>4</td>
<td>-</td>
<td>4,661</td>
</tr>
<tr>
<td>Interest expense</td>
<td>6</td>
<td>-232,929</td>
<td>-138,355</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td></td>
<td><strong>1,776,618</strong></td>
<td><strong>1,475,363</strong></td>
</tr>
<tr>
<td>Dividend received</td>
<td>4</td>
<td>261,487</td>
<td>197,001</td>
</tr>
<tr>
<td>Commission income</td>
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<td>3,105,760</td>
<td>2,297,978</td>
</tr>
<tr>
<td>Commission expense</td>
<td>8</td>
<td>-313,159</td>
<td>-190,936</td>
</tr>
<tr>
<td>Net result from financial transactions</td>
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<td>-10,233</td>
<td>-5,048</td>
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<tr>
<td>Other operating income</td>
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<td>15,878</td>
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<tr>
<td><strong>Total operating revenues, net</strong></td>
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<td><strong>5,091,371</strong></td>
<td><strong>3,790,236</strong></td>
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<td>General administrative expenses</td>
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<td>-2,643,812</td>
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<tr>
<td>Depreciation, amortisation and impairment of intangible and tangible assets</td>
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<td>-84,135</td>
<td>-72,850</td>
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<tr>
<td>Other operating costs</td>
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<td>-88,057</td>
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<tr>
<td><strong>Total expenses before credit losses</strong></td>
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<td><strong>-4,268,129</strong></td>
<td><strong>-2,804,719</strong></td>
</tr>
<tr>
<td>Operating income before credit losses, net</td>
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<td><strong>985,517</strong></td>
</tr>
<tr>
<td>Credit losses, net</td>
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<td>-476,117</td>
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<tr>
<td><strong>Operating income</strong></td>
<td></td>
<td><strong>100,439</strong></td>
<td><strong>509,400</strong></td>
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<tr>
<td>Appropriations</td>
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<tr>
<td>Income tax</td>
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<tr>
<td><strong>Net income for the year</strong></td>
<td></td>
<td><strong>141,824</strong></td>
<td><strong>344,839</strong></td>
</tr>
</tbody>
</table>

Statement of Comprehensive Income, Parent Company

| Net income for the year                    |      | **141,824** | **344,839** |
| Total comprehensive income for the year   |      | **141,824** | **344,839** |
## Balance Sheet, Parent Company

<table>
<thead>
<tr>
<th>Amounts in SEKk</th>
<th>Note</th>
<th>31 Dec 2018</th>
<th>31 Dec 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td></td>
<td>304</td>
<td>4</td>
</tr>
<tr>
<td>Chargeable central bank treasury bills</td>
<td>19</td>
<td>3,084,314</td>
<td>1,847,705</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>20, 22</td>
<td>1,962,486</td>
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</tr>
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<tr>
<td>Shares and participations in group companies</td>
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<td>1,124,283</td>
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<tr>
<td>Other shares and participations</td>
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<td>41,217</td>
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</tr>
<tr>
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<td>206,096</td>
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<tr>
<td>Tangible assets</td>
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<tr>
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<td>15</td>
<td>32,313</td>
<td>2,162</td>
</tr>
<tr>
<td>Other assets</td>
<td>26, 27</td>
<td>417,641</td>
<td>161,237</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td>28</td>
<td>149,773</td>
<td>85,237</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>27,103,296</td>
<td>18,026,866</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td>29</td>
<td>1,418,054</td>
<td>396,965</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>30</td>
<td>14,557,478</td>
<td>8,475,892</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>31</td>
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<td>1,995,036</td>
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<tr>
<td>Subordinated liabilities</td>
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<td>297,121</td>
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</tr>
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<td>Reserves</td>
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<td>3,678,755</td>
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<td>18,026,866</td>
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## Statement of Changes in Equity, Parent Company

<table>
<thead>
<tr>
<th>Amounts in SEKk</th>
<th>Restricted equity</th>
<th>Non-restricted equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share capital</td>
<td>Reserves(^5)</td>
</tr>
<tr>
<td><strong>Balance as at January 1, 2018</strong></td>
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<td>127,619</td>
</tr>
<tr>
<td>Impact of adopting IFRS 9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Impact of adopting IFRS 15</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Restated opening balance</strong></td>
<td>52,752</td>
<td>127,619</td>
</tr>
<tr>
<td>Transfer of previous year's net income</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net income for the year</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Group contribution(^1)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax effect group contribution</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reserve for development costs</td>
<td>-</td>
<td>179,315</td>
</tr>
<tr>
<td>Additional Tier 1 instruments(^2)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance as at December 31, 2018</strong></td>
<td>52,752</td>
<td>306,934</td>
</tr>
</tbody>
</table>

| **Balance as at January 1, 2017** | 52,752 | 48,602 | - | 2,212,641 | 300 | 2,314,295 |
| Transfer of previous year's net income | - | - | - | 300 | -300 | - |
| **Net income for the year** | - | - | - | - | 344,839 | 344,839 |
| **Total comprehensive income for the year** | - | - | - | - | 344,839 | 344,839 |
| Group contribution\(^1\) | - | - | - | -1,300 | - | -1,300 |
| Tax effect group contribution | - | - | - | 286 | - | 286 |
| Shareholders' contribution | - | - | - | 779,420 | - | 779,420 |
| Reserve for development costs | - | 79,017 | - | -79,017 | - | - |
| Additional Tier 1 instruments\(^3\) | - | - | 250,000 | -8,785 | - | 241,215 |
| **Balance as at December 31, 2017** | 52,752 | 127,619 | 250,000 | 2,903,545 | 344,839 | 3,678,755 |

\(^1\) Group contribution to parent company Klarna Holding AB, not paid.

\(^2\) Amounts in Additional Tier 1 instruments column consist of issued instruments, while amounts in Retained earnings column consist of interest on these issued instruments.

\(^3\) The opening balances for reserves consist of reserves for development costs.

Share capital: 157,000 shares (157,000), quota value 336 (336).
## Cash Flow Statement

### Operating activities

<table>
<thead>
<tr>
<th>Note</th>
<th>Group 2018</th>
<th>Group 2017</th>
<th>Parent Company 2018</th>
<th>Parent Company 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>160,910</td>
<td>523,987</td>
<td>100,439</td>
<td>509,400</td>
</tr>
<tr>
<td></td>
<td>-98,965</td>
<td>-120,877</td>
<td>-62,485</td>
<td>3,410</td>
</tr>
</tbody>
</table>

### Adjustments for non-cash items in operating activities

<table>
<thead>
<tr>
<th>Item</th>
<th>Group 2018</th>
<th>Group 2017</th>
<th>Parent Company 2018</th>
<th>Parent Company 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation, amortisation and impairment</td>
<td>154,746</td>
<td>200,575</td>
<td>84,135</td>
<td>72,850</td>
</tr>
<tr>
<td>Impairment of shares in group companies</td>
<td>-</td>
<td>-</td>
<td>2,018</td>
<td>-</td>
</tr>
<tr>
<td>Dividend received from subsidiaries</td>
<td>-</td>
<td>-</td>
<td>-261,487</td>
<td>-197,001</td>
</tr>
<tr>
<td>Provisions excluding credit losses</td>
<td>146,601</td>
<td>86,560</td>
<td>133,949</td>
<td>74,880</td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>166,485</td>
<td>188,127</td>
<td>113,436</td>
<td>172,634</td>
</tr>
<tr>
<td>Financial items including unrealised exchange rate effects</td>
<td>-28,130</td>
<td>22,136</td>
<td>-6,802</td>
<td>40,386</td>
</tr>
</tbody>
</table>

### Changes in the assets and liabilities of operating activities

<table>
<thead>
<tr>
<th>Item</th>
<th>Group 2018</th>
<th>Group 2017</th>
<th>Parent Company 2018</th>
<th>Parent Company 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in loans to the public</td>
<td>-6,255,744</td>
<td>-5,331,454</td>
<td>-6,237,910</td>
<td>-5,073,350</td>
</tr>
<tr>
<td>Change in liabilities to credit institutions</td>
<td>1,021,089</td>
<td>-357,979</td>
<td>1,021,089</td>
<td>-357,979</td>
</tr>
<tr>
<td>Change in deposits from the public</td>
<td>6,090,115</td>
<td>2,652,164</td>
<td>6,081,587</td>
<td>2,636,602</td>
</tr>
<tr>
<td>Change in other assets and liabilities</td>
<td>-463,924</td>
<td>-463,041</td>
<td>-343,479</td>
<td>-565,579</td>
</tr>
</tbody>
</table>

**Cash flow from operating activities**

|                                | 893,183    | -2,599,802 | 624,490             | -2,683,947          |

### Investing activities

<table>
<thead>
<tr>
<th>Item</th>
<th>Group 2018</th>
<th>Group 2017</th>
<th>Parent Company 2018</th>
<th>Parent Company 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in intangible assets</td>
<td>-259,678</td>
<td>-127,903</td>
<td>-256,315</td>
<td>-127,095</td>
</tr>
<tr>
<td>Investments in tangible assets</td>
<td>-53,490</td>
<td>-32,779</td>
<td>-25,586</td>
<td>-23,799</td>
</tr>
<tr>
<td>Sales of fixed assets</td>
<td>671</td>
<td>-23</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investments in subsidiaries</td>
<td>23,46</td>
<td>-400,324</td>
<td>-</td>
<td>-580,285</td>
</tr>
<tr>
<td>Investments in other shares and participations</td>
<td>-41,217</td>
<td>-</td>
<td>-41,217</td>
<td>-</td>
</tr>
<tr>
<td>Dividend received from subsidiaries</td>
<td>-</td>
<td>-</td>
<td>261,487</td>
<td>197,001</td>
</tr>
</tbody>
</table>

**Cash flow from investing activities**

|                                | -353,714   | -561,029   | -61,631             | -534,178            |

### Financing activities

<table>
<thead>
<tr>
<th>Item</th>
<th>Group 2018</th>
<th>Group 2017</th>
<th>Parent Company 2018</th>
<th>Parent Company 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder contribution received</td>
<td>-779,419</td>
<td>-</td>
<td>-779,419</td>
<td>-</td>
</tr>
<tr>
<td>Additional Tier 1 instruments</td>
<td>-248,000</td>
<td>-</td>
<td>-248,000</td>
<td>-</td>
</tr>
<tr>
<td>Senior unsecured bond</td>
<td>-1,994,000</td>
<td>-</td>
<td>-1,994,000</td>
<td>-</td>
</tr>
<tr>
<td>Subordinated debt</td>
<td>297,750</td>
<td>-</td>
<td>297,750</td>
<td>-</td>
</tr>
</tbody>
</table>

**Cash flow from financing activities**

|                                | 297,750    | 3,021,419  | 297,750             | 3,021,419           |

### Cash flow for the year

|                                | 837,219    | -139,412   | 860,609             | -196,706            |

### Cash and cash equivalents at the beginning of year

|                                | 1,043,101  | 1,171,696  | 687,202             | 883,908             |

### Cash flow for the year

|                                | 837,219    | -139,412   | 860,609             | -196,706            |

### Exchange rate diff. in cash and cash equivalents

|                                | 37,087     | 10,817     | 22,055              | -                   |

### Cash and cash equivalents at the end of year

|                                | 1,917,407  | 1,043,101  | 1,569,866           | 687,202             |

### Cash and cash equivalents include the following items

| Item                                                           | Group 2018 | Group 2017 | Parent Company 2018 | Parent Company 2017 |
|                                                               | 331        | 36         | 304                 | 4                   |
| Cash and balances with central banks                          | 1,917,076  | 1,043,065  | 1,569,562           | 687,198             |
| Loans to credit institutions                                  | 1,917,407  | 1,043,101  | 1,569,866           | 687,202             |

1Cash flow from operating activities includes interest payments received and interest expenses paid, see note 42.

2Adjusted 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 of Klarna Bank AB (publ) is Klarna Holding AB, 556776-2356. Klarna Holding AB has its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden.

The consolidated financial statements and the Annual Report for Klarna Bank AB (publ) for the financial year 2018 were approved by the Board of Directors and the CEO on March 27, 2019. They will ultimately be adopted by Klarna Bank AB (publ)’s Annual General Meeting on April 25, 2019.

Note 2  Accounting and valuation principles

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

    Parent Company
    
    The Parent Company’s annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies (ÄRLK, 1995:1559). Klarna Bank AB (publ) applies legally restricted IFRS, which means that the annual accounts have been prepared in accordance with IFRS with the additions and exceptions ensuing from the Swedish Financial Reporting Board recommendation RFR 2 Accounting for Legal Entities and the Swedish Financial Supervisory Authority regulations and general guidelines for the annual accounts of credit institutions and securities companies (FFFS 2008:25). The Group’s accounting principles are also applicable for the Parent Company unless otherwise described in this note.

    The preparation of reports in accordance with IFRS requires the use of a number of estimates for accounting purposes. The areas which involve a high degree of assessment or complexity and which are of considerable importance for the annual accounts will be reported in section 24.

2)  Changed accounting principles

    The income statement for the Group has changed presentation in 2018. The presentation is consistent with the Swedish Financial Supervisory Authority regulations (FFFS 2008:25) and the Annual Accounts Act for Credit Institutions and Securities Companies (ÄRLK, 1995:1559). The change in accounting principle has been applied for comparable figures and increases comparability since it follows the presentation of the largest company of the group; Klarna Bank AB (publ). The change in presentation for the income statement 2017 is presented in note 45.

    The following significant new standards (IFRS) or interpretations have come into effect during the period:

    IFRS 9 Financial instruments

    IFRS 9 covers the classification and measurement of financial assets and liabilities, impairment and hedge accounting, and replaces most of the guidance in IAS 39. The standard became effective for the Group as of 1 January 2018 and comparative figures for 2017 have not been restated.

    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 or loss or fair value through other comprehensive income (see section “Financial assets and liabilities – classification and reporting” below). 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).

    The analysis of the business model and the SPPI review have resulted in a reclassification of the chargeable central bank treasury bills which were previously reported as designated at fair value through profit or loss under IAS 39. For these instruments, the business model is held to collect and the cash flows are deemed to be solely payments of principal and interest. Therefore, as of 1 January 2018, the chargeable central bank treasury bills are measured at amortised cost since they no longer fulfill the designation requirements according to IFRS 9 but instead comply with the requirements for the amortised cost category.
The impairment requirements in IFRS 9 are based on an expected credit loss (ECL) model instead of the incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than under 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 (see section “Impairment of financial assets, financial guarantees and commitments” below).

As a result of applying the IFRS 9 rules, allowances for credit losses increased by SEK 90m for the Group and by SEK 88m in Klarna Bank AB (publ) as of 1 January 2018. Provisions for financial guarantees and commitments have decreased by SEK 2m for the Group and have increased by SEK 7m in Klarna Bank AB (publ) as of 1 January 2018. The impact on equity was SEK -69m, net of tax in the Group and SEK -75m, net of tax in Klarna Bank AB (publ). The increase in allowances for credit losses is driven by the IFRS 9 requirement to also hold provisions for assets without a significant increase in credit risk (stage 1 as defined in the IFRS 9 standard) as opposed to IAS 39 that requires provisions for losses incurred.

During the reporting period Klarna decided to develop a new ECL modelling approach which was implemented in the last quarter of 2018. The effect of the new model, which is a change in estimate, is shown in note 21. Impairment according to this new model is described in the section “Impairment of financial assets, financial guarantees and commitments” below. Compared to the old model it captures the ageing of the receivables on a more detailed level, which in turn captures more granular differences in the probability of default (PD) and thereby produces more precise ECL values. Forward looking effects cannot be predicted since they are dependent on the volume of future financial receivables.

Hedge accounting is not applied by the Group.

**IFRS 15 Revenues from contracts with customers**

From 1 January 2018, Klarna is applying IFRS 15. The standard establishes the principles for revenue recognition from contracts with customers, but it does not impact the recognition of revenue within the scope of IFRS 9.

Revenues for different types of services are reported as commission income. Commissions and fees for payment services are recognised when the performance obligations have been satisfied which can be at a point in time or over time. The revenues are measured at the fair value of the economic benefits associated with the transaction. Commission and fees for extending credit are considered to be an integral part of the effective interest rate and are therefore recognised in interest income calculated according to the effective interest rate method. Commission income stems from merchants that have an agreement with Klarna and different types of fees related to end-customer receivables.

Klarna has applied the retrospective approach with recognising the cumulative effect of initially applying IFRS 15 as an adjustment of the opening balances of equity. The effect reflects a change in the timing of revenues for reminder and dunning fees for the Pay later product. This change was made as a result of the implementation of IFRS 15 and amounts to SEK 21m, net of tax.

As a result of applying IFRS 15 and IFRS 9, a classification of revenues between interest income and commission income has been made. The effect for the financial year of 2018 is a reclassification of SEK 155m from interest income to commission income.

No other 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 16 Leases**

In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretationsIFRIC 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 and the EU adopted the standard in November 2017. Early adoption is permitted. Klarna is applying IFRS 16 from 1 January 2019.

Klarna has applied the modified retrospective approach when implementing IFRS 16 and reports lease contracts for which the contract term ends within twelve months as short-term leases and excludes indirect costs from the measurement of the right-of-use asset at the date of initial application. The practical expedients for short-term contracts and low value assets are used. Furthermore, the practical expedient of not separating non-lease components from lease components is applied to car leases. This has resulted in a right of use asset of SEK 438m, a reduction of prepaid expenses of SEK 19m and a lease liability of SEK 419m for the Group. Klarna Bank AB (publ) does also report according to IFRS 16 which has resulted in a right of use asset of SEK 135m, a reduction of prepaid expenses of SEK 17m and a lease liability of SEK 118m. The right of use assets consist mainly of office space and car lease contracts. IFRS 16 does not have a significant impact on the financial statements and capital ratios.
Other future changes in IFRS
1. IFRS 17 Insurance Contracts
2. IAS 19 Plan Amendments, Curtailments or Settlements
3. Amendments to IFRS 9: Prepayment Features with Negative Compensation
4. Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
5. Annual Improvements to IFRS Standards 2015-2017 Cycle
6. IFRIC 23 Uncertainty over Income Tax Treatments
7. References to the Conceptual Framework in IFRS Standards

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

3) Group consolidation principles
The consolidated accounts are presented according to the acquisition method and comprise of Klarna Bank AB (publ) and its subsidiaries. The companies are consolidated as from the date when control is transferred to Klarna and consolidation comes to an end when Klarna no longer has control. In the case of business combinations, a purchase price allocation is prepared, where identifiable assets and liabilities are valued at fair value at the time of acquisition. The cost of the business combination comprises the fair value of all assets, liabilities and issued equity instruments provided as payment for the net assets in the subsidiary. Any surplus due to the cost of the business combination exceeding the identifiable net assets on the acquisition balance sheet is recognised as goodwill in the Group’s balance sheet. Acquisition-related costs are recognised in the income statement when they arise. The subsidiary’s financial reports are included in the consolidated accounts starting on the acquisition date.

Intragroup transactions and receivables and liabilities between the group companies are eliminated.

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

4) Foreign currency translation
Presentation currency and functional currency
The Financial Statements are prepared in Swedish kronor, which is the presentation currency of the Group. The functional currency is the currency of the primary economic environment in which an entity operates. Different entities within the Group therefore have different functional currencies. The functional currency for Klarna Bank AB (publ) is Swedish kronor.

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

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

5) Interest and commissions
Revenues are recognised in accordance with the effective interest method or when identified performance obligations have been fulfilled. The Group’s revenues and expenses are reported after elimination of intragroup transactions.

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

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

Commission income and commission expenses
Revenues and expenses for different types of services are reported as commission income or commission expenses. Commission income stems from merchants that have an agreement with Klarna and different types of fees related to end-customer receivables.
Commission income from merchants: Klarna provides merchants with a combined service offering (1) a simple, safe and cost-effective payment solution while at the same time (2) providing consumers with credit products and catering for credit risk. Since these two types of services are highly interrelated, this service package epitomises one identified and distinct performance obligation. This performance obligation presents a stand-ready obligation which is satisfied over the contract period since the merchant receives the benefit of that service package over that period.

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

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

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

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

6) Net income from financial transactions
The net income from financial transactions comprises realised changes in fair value of derivatives, realised and unrealised exchange rate effects and impairment of shares.

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

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

Net credit losses for the period comprise of realised credit losses, recovered amounts from debt sales and provisions for credit losses for granted credit with a deduction for the reversal of provisions for credit losses made previously. Realised credit losses are losses whose amounts for example determined via bankruptcy, a composition arrangement, a statement by an Enforcement Authority or the sale of receivables. Provision for credit losses is calculated either as 12 month expected credit loss or lifetime expected credit loss based on the IFRS 9 impairment requirements, see section “Impairment of financial assets” below for more details.

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

- the central bank is domiciled
- the balance is readily available at any time

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

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

Unlike under IAS 39, financial instruments are classified into various categories based on both Klarna’s business model to manage its financial assets and the characteristics of the cash flows of the financial assets. Financial instruments are classified into the following categories in accordance with IFRS 9 Financial Instruments:
Financial assets and liabilities at amortised cost
From 1 January 2018, Klarna only classifies and measures its financial assets at amortised cost if both of the following conditions are met:

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

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

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

Klarna measures all financial liabilities at amortised cost except for its derivatives.

The amortised costs are determined on the basis of the effective interest that was calculated at the time of acquisition or origination.

Financial assets at amortised cost are reported at the amount at which they are estimated to be received, that is after a deduction for impairments.

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

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

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

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

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

Financial assets at fair value through other comprehensive income
Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:

(i) The financial asset is held within a business model with the objective of both: collecting contractual cash flows and selling financial assets, and

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

Klarna does not classify any financial asset at fair value through other comprehensive income since Klarna has no business model whose objective is to both collect contractual cash flows and to sell financial assets. Klarna does not use the option to designate its equity instruments as measured at fair value through other comprehensive income under IFRS 9.

From 1 January 2018, Klarna has not reclassified its financial assets subsequent to their initial recognition. Financial liabilities are never reclassified.

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

Accounting principles relating to prior year’s numbers for financial instruments are presented in the annual report for 2017 except for the accounting principles regarding the impairment of loans and receivables which are presented under section 12.

11) 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 currency forwards within other assets and other liabilities where active markets supply the input to the valuation.
The fair value of currency forwards is estimated by applying the forward rate at balance sheet date to calculate the value of future cash flows.

Level 3
Level 3 includes estimated values based on assumptions and assessments. One or more significant inputs are not based on observable market information. Level 3 is used for other shares and participations.

12) Impairment of financial assets, financial guarantees and commitments
With the adoption of IFRS 9 on 1 January 2018, Klarna’s impairment calculation method changed essentially. Klarna is recording allowances for expected credit losses (ECL) for all loans and other financial assets not measured at fair value through profit or loss. Klarna calculates allowances for:

- Loans to the public
- Loans to credit institutions
- Financial guarantees and commitments

Chargeable central bank treasury bills have been evaluated for impairment. The expected credit losses have been assessed as immaterial due to the features of the assets. This is also applicable for the majority of the loans to credit institutions which have strong credit ratings and are highly liquid.

Equity instruments are not subject to impairment under IFRS 9.

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

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

The loss given default (LGD) component is segmented by geographical region, by merchant type, whether a consumer has previously paid with Klarna and by days past due. These PD and LGD estimates are obtained for each of the segment permutations, which is used to calculate the ECL on a collective basis. Since collateral is not held as security, it is not part of the ECL calculations.

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

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

Stage 2:
When a loan has shown a significant increase in credit risk since initial recognition, Klarna allocates it to stage 2. The allowance for these loans is calculated based on lifetime expected credit losses. Stage 2 also includes loans where the credit risk has improved and that were reclassified from stage 3.

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

POCI:
Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are not allocated to the 3-stage impairment model and are recognised at their fair value at initial recognition.

Significant increase in credit risk:
Klarna assesses, at the end of each reporting period, whether the credit risk of a financial instrument has increased significantly since initial recognition in order to determine whether 12m ECL or lifetime ECL has to be calculated. Klarna determines whether there has been a significant increase in risk on its credit products based on the cash received by the consumer. The definition of a significant increase in credit risk is further influenced by other factors that depend on the product type like days past due or whether the consumer has other contracts with Klarna that are already in stage 2 or 3. An asset being 30 days past due is used as an indicator for a significant increase in credit risk since initial recognition.

If Klarna determines at the reporting date that there is no longer a significant increase in credit risk compared to prior periods, Klarna transfers the respective financial assets back into stage 1 and the allowance is reduced to an ECL calculated on a 12 month basis.
**Definition of default:**
Financial assets are defaulted when the asset has been 90 days or more past due without any payments, has entered debt collection or is classified as fraudulent.

Whether the default criteria are met is determined by analysing historical payment patterns and assessing whether there is no realistic expectation of recovery.

**Measurement of ECL:**
The expected credit loss (ECL) for consumer receivables is calculated as a product of the key inputs PD, LGD and the outstanding balance discounted with the effective interest rate (EIR). These parameters are derived from internal statistics and other historical data.

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

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

**Effective Interest Rate (EIR):**
The effective interest rate is determined based on the product type. It discounts the estimated future cash payments through the expected life of the financial instrument to net present value. Calculating the effective interest rate, Klarna considers all financial terms of the financial instrument as well as all corresponding fees. For products that do not charge any interest or fees that constitute as loan servicing fees the effective interest rate is determined to be 0%. For products that do charge interest or fees that are to be included in the effective interest rate, the EIR is approximated as a yearly interest rate.

This product specific EIR is then used to discount the outstanding balance which represents the expected exposure in the event of default. Klarna’s loss rates of consumer receivables are not significantly affected by macroeconomic factors due to the unique design and short maturities of Klarna’s credit products. Furthermore, Klarna’s underwriting process is built on point in time assessments of transactions where the current state of the consumer is regularly assessed. In combination with the short duration of Klarna’s credit products, this leads to an automatic adjustment to new market scenarios. The current ECL model is continuously reviewed and adjusted.

For financial guarantees and commitments the measurement of ECL follows mainly the same methodology as for consumer receivables but further includes a credit conversion factor (CCF) in the calculation of the exposure at default (EAD). The CCF is the proportion of the undrawn amount that is expected to be drawn in the event of default.

Financial assets for which Klarna has no reasonable expectation of recovering either the entire outstanding amount or a proportion thereof, are written off. Hence, the gross carrying amount of the financial asset is reduced and the amount of the loss is recognised in the income statement as Credit losses, net. Financial assets are generally written off when Klarna determines that the outstanding debt cannot be collected anymore as the borrower does not have assets or sources of income that could be used to repay the amounts subject to write-offs. To determine whether the outstanding debt cannot be collected anymore, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in principal payments. Financial assets which have been written off are no longer subject to enforcement activities.

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

In case a financial asset faces a substantial contractual modification, the previous asset is derecognised and a new asset is recognised. If the modified financial asset fulfils the definition of “credit impaired”, Klarna applies the requirements for purchased or originated credit impaired assets for the recognition of the new asset. If a financial asset faces a non-substantial contractual modification the financial asset is not derecognised and it is assessed if there occurred a significant increase in credit risk since initial recognition. As of now, the volume of contractual modifications is immaterial.

The simplified approach is used when calculating expected credit losses on merchant receivables. Hence the loss allowance for merchant receivables is always measured at an amount equal to lifetime expected credit losses. The merchant receivables are, therefore, initially allocated to stage 2. In order to assess whether a transfer into stage 3 is necessary, Klarna regularly analyses the risk that the merchant would default which is based on quantitative as well as qualitative factors.

**Impairment of loans and receivables before the adoption of IFRS 9**
Klarna tests all loans and receivables for impairment. The Group assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. Loans and receivables that are not individually significant are assessed collectively.
To determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or breach of contract, for example, default or delinquency in principal payments.

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

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

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

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

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

The Group does not apply hedge accounting and has no embedded derivatives.

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

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

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

Brand names and customer related intangible assets
In business combinations a portion of the acquisition price can be allocated to brand names and customer related intangible assets. They are reported at acquisition cost less accumulated depreciation and any accumulated impairment. Straight line depreciation is carried out over the assessed useful life (3-20 years). Certain intangible assets have an indefinite useful life and hence are not amortised, but are tested for impairment at least annually.

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

Impairment
Goodwill and other intangible assets with indefinite useful life are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that impairment may have occurred. The impairment charge is calculated as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or cash generating unit, where the value in use is determined as the present value of expected future cash flows. Disclosures on performed impairment test are provided in note 24.

Intangible assets with definite useful lives are reviewed for indications of impairment. If indications exist an impairment test is performed.
17) Tangible assets
Tangible assets consist of equipment, fixtures and fittings, and computers. Tangible assets are reported at acquisition cost after a deduction for accumulated depreciation and any accumulated impairment. By acquisition cost is meant expenses that are directly attributable to the acquisition of the asset. Straight line depreciation is carried out over the assessed useful life.

The following useful life periods are applied:

| Equipment, tools, and fixtures and fittings | 5 years |
| Computers and other machinery               | 3 years |
| Investments in rented facilities             | No longer than the contract time |

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

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

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

20) Share-based payments
For share-based payment to employees settled with equity instruments, the services rendered are measured with reference to the fair value of the granted equity instruments. The fair value of the equity instruments is calculated as per the grant date. The grant date refers to the date when a contract was entered into and the parties agreed on the terms of the share-based payment. Since the granted equity instruments are not vested until the employees have fulfilled a period of service, it is assumed that the services are rendered during the vesting period. This means that the expense and corresponding increase in equity are recognised over the entire vesting period. Non-market based vesting terms, such as a requirement that a person remain employed, are taken into account in the assumption of how many equity instruments are expected to be vested. Changes in the estimate of how many shares are expected to be vested due to the non-marked based vesting terms are recognised in the income statement and equity. Any related social charges are recognised as cash-settled share-based payment i.e. as an expense during the corresponding period based on the fair value that serves as the basis for a payment of social insurance charges.

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

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

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

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

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

Impairment requirements for goodwill and other intangible assets

The Group tests on a yearly basis if there is an impairment requirement for goodwill and other intangible assets with indefinite useful life, in accordance with the accounting principle described in note 24. This is tested by estimating the recoverable value, i.e. the highest of the realisable value and the value in use. If the recoverable value is lower than the carrying amount, the asset is written down.

The Group’s intangible assets amounted to SEK 2,006,084k (1,801,072), whereof goodwill amounted to SEK 1,327,865k (1,275,723) at the end of the year and are related to the cash-generating units of Sofort GmbH, BillPay GmbH and Klarna Bank AB (publ). See note 24 for disclosure of performed impairment tests.

Assessment of provisions

Klarna Bank AB (publ) has provisioned SEK 168m (104), net of payments, for 2014-2018 as a consequence of tax assessments made by the Swedish Tax Agency on how Klarna Bank AB (publ) handles VAT. Klarna Bank AB (publ) is disputing the assessments; however the provisioning represents a likely outcome. See note 34 for provisions.

Note 3  Risk management

General

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

Klarna has a risk appetite framework in place, set by the Board, which is supported by limits for specific risk areas. The Board and Management also issue written policies and instructions for managing all identified risks, which are complemented by detailed routine descriptions within the organisation.

The purpose of risk management is to safeguard Klarna’s long term survival, manage volatility in financial performance, and increase value for the owners by ensuring efficient capital management. The basis for the risk management and internal control framework is the three lines of defense model. The first line of defense refers to all risk management activities carried out by line management and staff. All accountable leads are fully responsible for the risks, and the management of these, within their respective area of responsibility.

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

Risk Control has the responsibility to monitor, control, analyse and report risks in Klarna’s business.

The Compliance function is responsible for supporting the business and management in compliance matters and for assisting in identifying, follow-up and reporting on compliance risks, which refers to the risk of Klarna not complying with external and internal rules.

Furthermore, the Risk Control and Compliance Functions are responsible for promoting a sound risk and compliance culture across the business by helping to ensure quality, integrity and ethical practices within the business.

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

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

The text, figures and tables below are for the Klarna Group. However, the business activities and risks are mainly related to the Parent Company; Klarna Bank AB (publ).
Credit risk

Credit risk is the risk that Klarna realises a loss due to not having its receivables repaid, either due to a counterpart’s inability or unwillingness to fulfill its obligations. Klarna is mainly exposed to credit risk from four sources:

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

Klarna is exposed to credit risk in the following regions:

- Nordsics (Sweden, Norway, Finland, Denmark)
- DACH (Germany, Austria, Switzerland)
- Netherlands
- United Kingdom
- United States

Klarna’s credit risk management is executed by various domains, with the required standards ensured and managed through the Analytics competence. Once the appetite limits are defined by the Board of Directors and executive management, these domains provide support with specialisation in risk systems, data science and modelling, fraud management, compliance and legal management.

In order to mitigate the credit risk from individual consumers Klarna uses proprietary scoring models to perform an applicant’s credit assessment. Model inputs consist of a number of purchase related data points, such as purchase amount and the specific merchant from which the purchase is made. This is combined with historical internal customer payment and credit behavior history and external information, to produce the scoring models. Due to differences in local legislation, the availability of external credit rating data and local customer behaviors, models tend to be specific to each country where Klarna conducts business. Loans advanced to customers are a blend of flexible revolving credit options where customers pay at their own pace, with a defined minimum monthly payment, where fixed part payment offerings varying between 3 and 48 months, and short term invoice receivables with a weighted lifetime of between 10 and 30 days.

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

Klarna’s reporting of end customer credit risks focuses on both internal metrics such as pay rates, delinquency rates and provisions as well as total loss rates experienced on the portfolio over time. Management and the Board receive reporting on Credit Risk on a regular basis.

Klarna’s underwriting and credit granting policies are defined based on regional and product risk appetite assessment – approved by the Management and the Board of Directors. These are monitored regularly by teams in finance and product domains under the supervision of Risk Control.

The total lending credit exposure amounts to SEK 22,346,633k (15,085,942), out of which SEK 19,979,002k (13,874,164) is lent to the public and SEK 2,367,631k (1,211,778) is lent to credit institutions. For credit exposure to the public and credit institutions Klarna makes provisions to cover for expected losses.

<table>
<thead>
<tr>
<th>Credit risk</th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts in SEKk</td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>Loan receivables, gross</td>
<td>23,286,904</td>
<td>15,751,269</td>
</tr>
<tr>
<td>Allowance for credit losses</td>
<td>-940,271</td>
<td>-665,327</td>
</tr>
<tr>
<td>Loan receivables, net carrying amount</td>
<td>22,346,633</td>
<td>15,085,942</td>
</tr>
<tr>
<td>Of which: Loans to credit institutions</td>
<td>2,367,631</td>
<td>1,211,778</td>
</tr>
<tr>
<td>Of which: Loans to the public</td>
<td>19,979,002</td>
<td>13,874,164</td>
</tr>
</tbody>
</table>

The carrying amount of the financial assets reflects the maximum exposure to credit risk.
Credit risk concentrations

The following tables show Klarna's credit risk exposure and its significant credit risk concentrations as of December 31, 2018:

Group

Amounts in SEKk

<table>
<thead>
<tr>
<th>Gross amounts</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>POCI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden &amp; Denmark</td>
<td>6,572,653</td>
<td>1,215,924</td>
<td>299,894</td>
<td>-</td>
<td>8,088,471</td>
</tr>
<tr>
<td>DACH</td>
<td>5,750,736</td>
<td>1,513,010</td>
<td>373,698</td>
<td>14,517</td>
<td>7,651,961</td>
</tr>
<tr>
<td>Norway</td>
<td>1,429,190</td>
<td>396,957</td>
<td>92,622</td>
<td>-</td>
<td>1,918,769</td>
</tr>
<tr>
<td>Other</td>
<td>4,929,952</td>
<td>429,090</td>
<td>268,661</td>
<td>-</td>
<td>5,627,703</td>
</tr>
<tr>
<td>Total</td>
<td>18,682,531</td>
<td>3,554,981</td>
<td>1,034,875</td>
<td>14,517</td>
<td>23,286,904</td>
</tr>
</tbody>
</table>

Before due and per days past due

<table>
<thead>
<tr>
<th></th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>POCI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before due</td>
<td>16,483,242</td>
<td>2,302,460</td>
<td>97,059</td>
<td>-</td>
<td>18,882,761</td>
</tr>
<tr>
<td>≤30 days</td>
<td>2,191,821</td>
<td>591,940</td>
<td>125,144</td>
<td>-</td>
<td>2,908,905</td>
</tr>
<tr>
<td>&gt;30-60 days</td>
<td>2,255</td>
<td>408,955</td>
<td>52,793</td>
<td>-</td>
<td>464,003</td>
</tr>
<tr>
<td>&gt;60-90 days</td>
<td>1,453</td>
<td>195,037</td>
<td>35,649</td>
<td>-</td>
<td>232,139</td>
</tr>
<tr>
<td>&gt;90 days</td>
<td>3,760</td>
<td>56,589</td>
<td>724,230</td>
<td>14,517</td>
<td>799,096</td>
</tr>
<tr>
<td>Total</td>
<td>18,682,531</td>
<td>3,554,981</td>
<td>1,034,875</td>
<td>14,517</td>
<td>23,286,904</td>
</tr>
</tbody>
</table>

Parent Company

Amounts in SEKk

<table>
<thead>
<tr>
<th>Gross amounts</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>POCI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden &amp; Denmark</td>
<td>6,569,809</td>
<td>1,215,924</td>
<td>299,894</td>
<td>-</td>
<td>8,085,627</td>
</tr>
<tr>
<td>DACH</td>
<td>5,462,879</td>
<td>1,389,222</td>
<td>324,559</td>
<td>-</td>
<td>7,176,660</td>
</tr>
<tr>
<td>Norway</td>
<td>1,428,802</td>
<td>396,957</td>
<td>92,622</td>
<td>-</td>
<td>1,918,381</td>
</tr>
<tr>
<td>Other</td>
<td>4,815,440</td>
<td>428,907</td>
<td>268,258</td>
<td>-</td>
<td>5,512,605</td>
</tr>
<tr>
<td>Total</td>
<td>18,276,930</td>
<td>3,431,010</td>
<td>985,333</td>
<td>-</td>
<td>22,693,273</td>
</tr>
</tbody>
</table>

Before due and per days past due

<table>
<thead>
<tr>
<th></th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>POCI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before due</td>
<td>16,149,471</td>
<td>2,190,196</td>
<td>111,636</td>
<td>-</td>
<td>18,451,303</td>
</tr>
<tr>
<td>≤30 days</td>
<td>2,127,459</td>
<td>587,878</td>
<td>120,321</td>
<td>-</td>
<td>2,855,658</td>
</tr>
<tr>
<td>&gt;30-60 days</td>
<td>-</td>
<td>407,518</td>
<td>48,904</td>
<td>-</td>
<td>456,422</td>
</tr>
<tr>
<td>&gt;60-90 days</td>
<td>-</td>
<td>193,772</td>
<td>32,274</td>
<td>-</td>
<td>226,046</td>
</tr>
<tr>
<td>&gt;90 days</td>
<td>-</td>
<td>51,646</td>
<td>672,198</td>
<td>-</td>
<td>723,844</td>
</tr>
<tr>
<td>Total</td>
<td>18,276,930</td>
<td>3,431,010</td>
<td>985,333</td>
<td>-</td>
<td>22,693,273</td>
</tr>
</tbody>
</table>
Loans to the public past due, not impaired, 2017

<table>
<thead>
<tr>
<th></th>
<th>up to 30 days</th>
<th>&gt;30-60 days</th>
<th>&gt;60-90 days</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group</td>
<td>1,989,373</td>
<td>355,071</td>
<td>120,814</td>
<td>2,463,258</td>
</tr>
<tr>
<td>Parent Company</td>
<td>1,944,715</td>
<td>349,584</td>
<td>117,664</td>
<td>2,411,964</td>
</tr>
</tbody>
</table>

Loans to the public, Group 2017

<table>
<thead>
<tr>
<th>Recognition quarter</th>
<th>Total volume (principal, fees)</th>
<th>Settled (paid, written off, sold)</th>
<th>Currently outstanding, gross</th>
<th>Aging, current outstanding balance in % of total volume</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7-29 days</td>
</tr>
<tr>
<td>Prior to 2016</td>
<td>103,027,048</td>
<td>102,389,906</td>
<td>637,142</td>
<td>0.00%</td>
</tr>
<tr>
<td>2016-03</td>
<td>12,208,864</td>
<td>12,036,536</td>
<td>172,328</td>
<td>0.00%</td>
</tr>
<tr>
<td>2016-06</td>
<td>13,963,768</td>
<td>13,708,966</td>
<td>254,802</td>
<td>0.00%</td>
</tr>
<tr>
<td>2016-09</td>
<td>13,650,248</td>
<td>13,298,161</td>
<td>332,086</td>
<td>0.00%</td>
</tr>
<tr>
<td>2016-12</td>
<td>18,575,338</td>
<td>18,024,808</td>
<td>550,530</td>
<td>0.00%</td>
</tr>
<tr>
<td>2017-03</td>
<td>16,571,285</td>
<td>15,896,739</td>
<td>674,546</td>
<td>0.00%</td>
</tr>
<tr>
<td>2017-06</td>
<td>20,330,183</td>
<td>19,172,191</td>
<td>1,157,992</td>
<td>0.00%</td>
</tr>
<tr>
<td>2017-09</td>
<td>20,050,877</td>
<td>18,238,410</td>
<td>1,812,467</td>
<td>0.06%</td>
</tr>
<tr>
<td>2017-12</td>
<td>21,937,587</td>
<td>12,989,988</td>
<td>8,947,598</td>
<td>7.83%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total: 14,539,491

For additional information on allowances on Loans to the public, please see note 21.

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

Klarna is also exposed to credit risk through its investments in debt securities held for liquidity management purposes. The risk of these investments is however mitigated by only investing in debt securities issued by governments or supranationals with at least a rating of AA by Standard & Poor’s, by Swedish municipalities or the Swedish central bank (“Riksbanken”).

Credit quality of debt securities

<table>
<thead>
<tr>
<th>Amounts in SEKk</th>
<th>31 Dec 2018</th>
<th>31 Dec 2017</th>
<th>31 Dec 2018</th>
<th>31 Dec 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chargeable central bank treasury bills</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AAA</td>
<td>1,668,839</td>
<td>797,118</td>
<td>1,668,839</td>
<td>797,118</td>
</tr>
<tr>
<td>AA+</td>
<td>1,415,475</td>
<td>605,719</td>
<td>1,415,475</td>
<td>605,719</td>
</tr>
<tr>
<td>AA</td>
<td>344,835</td>
<td>-</td>
<td>344,835</td>
<td>-</td>
</tr>
<tr>
<td>Unrated</td>
<td>-</td>
<td>100,033</td>
<td>-</td>
<td>100,033</td>
</tr>
<tr>
<td>Total</td>
<td>3,084,314</td>
<td>1,847,705</td>
<td>3,084,314</td>
<td>1,847,705</td>
</tr>
</tbody>
</table>

1According to rating from Standard & Poor’s.

The monitoring of all defined tolerances limits for credit risk is reported at least quarterly to the Board of Directors by the Risk Control function. Any limit breaches are escalated immediately.
Klarna uses the standardised method for calculating capital requirements for credit risk. See note 44 Capital adequacy for details of the calculation of credit risks.

For financial instruments measured at fair value through profit or loss, the carrying amount represents the maximum exposure to credit risk.

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

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

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

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

Klarna’s lending is concentrated to short maturities. The funding is also primarily of short maturity, through retail deposits and bank credit facilities. See the table for funding sources under the section for Liquidity risk and note 41 for a maturity analysis of Klarna’s liabilities.

Klarna monitors and manages interest rate risk based on internal limits set by the Board. To comply with the internal limits Klarna can adjust rates on its lending or enter into hedging instruments such as interest rate swaps. Klarna calculates and monitors interest rate risk on a continuous basis. As of December 31, 2018, Klarna had not entered into any financial instruments to mitigate interest rate risk.

A parallel shift in market interest rates of 200 bps implies an absolute interest risk of SEK 182,398k (77,482) given discounting of future cash flow at the risk free interest rate for each significant currency. This effect corresponds to 4.40% (1.92) of equity.

The Group’s interest income amounted to SEK 2,033,517k (1,591,013) and interest expenses amounted to SEK 232,144k (138,682) which results in net interest income of SEK 1,801,373k (1,452,331).

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

Klarna is exposed to translation risk on group level. Translation risks primarily arise as a result of revaluation of balance sheet items nominating in currencies other than Klarna’s reporting currency. Translation risks are monitored and currently not hedged but managed with foreign exchange spot transactions.

Klarna is exposed to transaction risks which primarily arise when Klarna Bank AB (publ) grants credit in currencies other than the reporting currency. The risk is mitigated by matching the lending assets with liabilities in the same currency, either by matching foreign currency assets with foreign currency loans or by entering into foreign exchange contracts. Lending in a currency other than the functional currency has been continuously increasing during 2018, as a result of growth in markets outside Sweden. Lending in foreign currencies is expected to continue to grow during 2019. During 2018, exchange rate loss related to transaction risk was SEK -775k (3,773).

Internal policy limits the fluctuations in exchange rates at Group level to 1.0% of Own Funds, which equals to SEK 34,243k (28,305), in the event of an exchange rate movement of ± 10% in any given day. The Group enters into foreign currency contracts to ensure compliance with this policy if required. Treasury is responsible for the operational management of currency risks which are calculated on a daily basis.

Below is a statement of the currency exposure for each currency at the end of the reporting period in absolute numbers. The exposure is defined as the net balance sheet position in each non-SEK currency.
## Currency exposure, Group

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Absolute exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NOK</td>
<td>EUR</td>
<td>USD</td>
<td>GBP</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Net position</td>
<td>24,930</td>
<td>196,920</td>
<td>55,707</td>
<td>25,348</td>
<td>25,907</td>
<td>328,811</td>
</tr>
<tr>
<td>Effect of 10% change versus the foreign currency</td>
<td>-2,493</td>
<td>-19,692</td>
<td>-5,571</td>
<td>-2,535</td>
<td>-2,591</td>
<td>-32,881</td>
</tr>
</tbody>
</table>

|                       | December 31, 2017 |           |           |           |           |                   |
|                       | NOK               | EUR       | USD       | GBP       | Other     |                   |
| Net position          | 23,724            | 66,884    | 8,410     | 460       | 19,008    | 118,486           |
| Effect of 10% change versus the foreign currency | -2,372         | -6,688    | -841      | -46       | -1,901    | -11,849           |

A 10% change in the currency exchange rate (SEK) versus all foreign currencies would entail an effect of 31.25% (3.43) on net income and 0.88% (0.29) on equity for the Group.

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

Klarna uses the standardised method for calculating capital requirements for market risk.

### Liquidity risk

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

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

The main liquidity measure is the Liquidity Coverage Ratio, defined in the EU’s Commission Delegated Regulation. Klarna has a regulatory requirement to maintain sufficient reserves of liquid assets to support a share (100% as of 31 December 2018) of estimated stressed liquidity outflows over 30 days. Klarna monitors and forecasts its Liquidity Coverage Ratio on a daily basis to ensure that its stock of high quality liquid assets is sufficient to meet the requirements.

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

Unutilised credit at the end of the reporting period amounted to SEK3,834,425k (3,653,830).

### Funding sources, Group

<table>
<thead>
<tr>
<th></th>
<th>up to 3 months</th>
<th>&gt;3 to 6 months</th>
<th>&gt;6 to 12 months</th>
<th>&gt;1-5 years</th>
<th>&gt;5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td>21,000</td>
<td>-</td>
<td>-</td>
<td>1,397,054</td>
<td>-</td>
<td>1,418,054</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>3,638,149</td>
<td>3,570,337</td>
<td>4,741,655</td>
<td>2,631,628</td>
<td>-</td>
<td>14,581,769</td>
</tr>
<tr>
<td>Debt securities in issue¹</td>
<td>283</td>
<td>-</td>
<td>-</td>
<td>-1,996,622</td>
<td>1,996,905</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>3,723,737</td>
<td>4,041</td>
<td>93,390</td>
<td>66,043</td>
<td>179,499</td>
<td>4,066,710</td>
</tr>
<tr>
<td>Accrued expenses and prepaid income</td>
<td>302,044</td>
<td>64,500</td>
<td>112,195</td>
<td>19,662</td>
<td>-</td>
<td>498,401</td>
</tr>
<tr>
<td>Subordinated liabilities²</td>
<td>2,659</td>
<td>-</td>
<td>-</td>
<td>-594,901</td>
<td>597,560</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,687,872</strong></td>
<td><strong>3,638,878</strong></td>
<td><strong>4,947,240</strong></td>
<td><strong>4,114,387</strong></td>
<td><strong>2,771,022</strong></td>
<td><strong>23,159,399</strong></td>
</tr>
<tr>
<td>December 31, 2017</td>
<td>up to 3 months</td>
<td>&gt;3 to 6 months</td>
<td>&gt;6 to 12 months</td>
<td>&gt;1-5 years</td>
<td>&gt;5 years</td>
<td>Total</td>
</tr>
<tr>
<td>------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>-----------------</td>
<td>------------</td>
<td>---------</td>
<td>-------</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td>-</td>
<td>-</td>
<td>300,795</td>
<td>96,170</td>
<td>-</td>
<td>396,965</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>3,260,670</td>
<td>1,358,686</td>
<td>2,353,890</td>
<td>1,518,408</td>
<td>-</td>
<td>8,491,654</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>492</td>
<td>-</td>
<td>1,994,544</td>
<td>-</td>
<td>-</td>
<td>1,995,036</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>2,979,080</td>
<td>563</td>
<td>369</td>
<td>1,477</td>
<td>522</td>
<td>2,982,011</td>
</tr>
<tr>
<td>Accrued expenses and prepaid income</td>
<td>334,994</td>
<td>5,419</td>
<td>7,541</td>
<td>4,656</td>
<td>-</td>
<td>352,610</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>393</td>
<td>-</td>
<td>-</td>
<td>296,728</td>
<td></td>
<td>297,121</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,575,629</td>
<td>1,364,668</td>
<td>2,662,595</td>
<td>3,615,255</td>
<td>297,250</td>
<td>14,515,397</td>
</tr>
</tbody>
</table>

1 Interest is included in the amounts for debt securities in issue and subordinated liabilities.

**Operational risk**

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

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

The foundation for Klarna’s work with operational risk is a risk assessment and internal control framework describing the main processes and the identified risks. The method to assess operational risks includes mapping all major processes in the business, identifying the main risks in each process, deciding and implementing adequate controls and finally testing of the controls. The Group also has processes in place for incident management, business continuity/crisis management as well as approval of major changes (NPA Process). These methods for managing operational risk are described in the Risk Policy as well as in detailed separate instructions. The risk assessment and internal control framework together with the NPA Process have been enhanced during 2018.

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

Klarna uses the standardised method for calculating capital requirements for operational risk.

**Capital**

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

The Board is responsible for the overall planning of the capital structure. Relevant capital planning contributes to the company being well-equipped to meet a situation that requires further capital, and to provide an adequate buffer when entering new markets. The following factors are taken into consideration:

- the minimum capital required by laws and regulations, including buffers;
- the owners’ required rate of return and effective capital management;
- the level of capital required for counterparts to consider Klarna a reliable partner and to provide efficient access to the funding market

Klarna’s additional capital required under Pillar II, and the resulting total capital requirement, is assessed through the Group’s Internal Capital Adequacy Process and Internal Liquidity Adequacy Assessment Process (ICLAP). See note 44 for details on Klarna’s capital requirement under Pillar I and Pillar II, and on Klarna’s capital adequacy.

Klarna’s Finance and Risk Control functions monitor capital adequacy on an on-going basis to ensure that capital requirements and board limits on capitalisation are not breached. Any breaches are escalated, and Klarna’s Financial Recovery Plan provides executive management with a wide range of actions to deploy in case of capital stress.
Note 4  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 IFRS measurement principles and allocation between operating segments follow the information reported to the Chief Executive Officer, who is identified as the CODM.

Financial information is presented for the three main operating segments, based on regions; Sweden & Denmark, DACH (Germany, Austria and Switzerland) and Norway. The remainder of operating segments fall below the quantitative thresholds in IFRS 8 and are included in “Other” operating segments. Items not fully allocated to any of the operating segments are shown separately as reconciling items.

Klarna's main geographical markets are Sweden and Germany. The remainder of the geographical markets falls below the quantitative thresholds in IFRS 8 and are included in “Other” geographical markets. Revenues are distributed to geographical areas based on either the location of the end-consumer or the location of the merchant’s operations.

**Group 2018**

<table>
<thead>
<tr>
<th>Operating segments</th>
<th>Sweden &amp; Denmark</th>
<th>DACH</th>
<th>Norway</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,908,191</td>
<td>2,245,186</td>
<td>679,937</td>
<td>875,182</td>
<td>5,708,496</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Geographical breakdown</th>
<th>Sweden</th>
<th>Germany</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,872,801</td>
<td>1,996,533</td>
<td>1,839,162</td>
<td>5,708,496</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>452,850</td>
<td>1,627,352</td>
<td>6,484</td>
<td>2,086,686</td>
</tr>
</tbody>
</table>

**Group 2017**

<table>
<thead>
<tr>
<th>Operating segments</th>
<th>Sweden &amp; Denmark</th>
<th>DACH</th>
<th>Norway</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,654,504</td>
<td>1,530,513</td>
<td>546,754</td>
<td>588,484</td>
<td>4,320,255</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Geographical breakdown</th>
<th>Sweden</th>
<th>Germany</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,626,611</td>
<td>1,371,576</td>
<td>1,322,068</td>
<td>4,320,255</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>242,104</td>
<td>1,600,069</td>
<td>20,742</td>
<td>1,862,915</td>
</tr>
</tbody>
</table>

1."Other" mainly includes the countries Finland, the United Kingdom, the United States, Belgium and the Netherlands.
2."Other" mainly includes the countries Finland, Norway, Denmark, the United Kingdom, the United States, Austria, Switzerland, Belgium and the Netherlands.

Certain revenues, costs 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 operating income is as follows:

<table>
<thead>
<tr>
<th>Reconciliation between total segments and financial statements</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue - Total operating segments</td>
<td>5,708,496</td>
<td>4,320,255</td>
</tr>
<tr>
<td>Interest income from central activities</td>
<td>1,399</td>
<td>371</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>-232,144</td>
<td>-138,682</td>
</tr>
<tr>
<td>Net income from financial transactions</td>
<td>-26,970</td>
<td>-23,899</td>
</tr>
<tr>
<td>General administrative expenses</td>
<td>-4,349,558</td>
<td>-2,932,765</td>
</tr>
<tr>
<td>Depreciation, amortisation and impairment of intangible and tangible fixed assets</td>
<td>-154,746</td>
<td>-200,575</td>
</tr>
<tr>
<td>Credit losses, net</td>
<td>-785,567</td>
<td>-500,718</td>
</tr>
</tbody>
</table>

Operating income                                                      | 160,910   | 523,987   |
In accordance with the requirements of FFFS 2008:25 Klarna Bank AB (publ) also discloses income by geographical area.

<table>
<thead>
<tr>
<th>Parent Company 2018</th>
<th>Sweden</th>
<th>Germany</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income calculated according to the effective interest rate method</td>
<td>1,025,179</td>
<td>296,266</td>
<td>688,102</td>
<td>2,009,547</td>
</tr>
<tr>
<td>Dividend</td>
<td>261,487</td>
<td>-</td>
<td>-</td>
<td>261,487</td>
</tr>
<tr>
<td>Commission income</td>
<td>1,057,697</td>
<td>1,009,087</td>
<td>1,038,976</td>
<td>3,105,760</td>
</tr>
<tr>
<td>Net income from financial transactions</td>
<td>-227,502</td>
<td>120,227</td>
<td>97,042</td>
<td>-10,233</td>
</tr>
<tr>
<td>Other operating income</td>
<td>262,993</td>
<td>5,081</td>
<td>2,824</td>
<td>270,898</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,379,854</td>
<td>1,430,661</td>
<td>1,826,944</td>
<td>5,637,659</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parent Company 2017</th>
<th>Sweden</th>
<th>Germany</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income calculated according to the effective interest rate method</td>
<td>849,008</td>
<td>177,909</td>
<td>582,140</td>
<td>1,609,057</td>
</tr>
<tr>
<td>Lease income</td>
<td>4,661</td>
<td>-</td>
<td>-</td>
<td>4,661</td>
</tr>
<tr>
<td>Dividend</td>
<td>197,001</td>
<td>-</td>
<td>-</td>
<td>197,001</td>
</tr>
<tr>
<td>Commission income</td>
<td>894,381</td>
<td>720,391</td>
<td>683,206</td>
<td>2,279,978</td>
</tr>
<tr>
<td>Net income from financial transactions</td>
<td>-8,664</td>
<td>11,486</td>
<td>-7,870</td>
<td>-5,048</td>
</tr>
<tr>
<td>Other operating income</td>
<td>12,108</td>
<td>2,060</td>
<td>1,710</td>
<td>15,878</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,948,495</td>
<td>911,846</td>
<td>1,259,186</td>
<td>4,119,527</td>
</tr>
</tbody>
</table>

1 “Other” mainly includes the countries Finland, Norway, Denmark, the United Kingdom, the United States, Austria, Switzerland, Belgium and the Netherlands.

**Note 5** Interest income calculated according to the effective interest rate method

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans to credit institutions</td>
<td>669</td>
<td>300</td>
<td>597</td>
<td>272</td>
</tr>
<tr>
<td>Loans to the public</td>
<td>2,032,118</td>
<td>1,590,642</td>
<td>2,008,203</td>
<td>1,608,718</td>
</tr>
<tr>
<td>Other interest income</td>
<td>730</td>
<td>71</td>
<td>747</td>
<td>67</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,033,517</td>
<td>1,591,013</td>
<td>2,009,547</td>
<td>1,609,057</td>
</tr>
</tbody>
</table>

**Note 6** Interest expenses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities to credit institutions</td>
<td>-44,179</td>
<td>-28,680</td>
<td>-44,036</td>
<td>-28,333</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>-122,067</td>
<td>-78,337</td>
<td>-122,067</td>
<td>-78,337</td>
</tr>
<tr>
<td>Other interest expenses</td>
<td>-65,898</td>
<td>-31,665</td>
<td>-66,826</td>
<td>-31,685</td>
</tr>
</tbody>
</table>

All interest expenses are calculated using the effective interest method.
**Note 7** Commission income by operating segments

Revenues from contracts with customers divided by segments under IFRS 15:

**Group**

<table>
<thead>
<tr>
<th></th>
<th>Sweden &amp; Denmark</th>
<th>DACH</th>
<th>Norway</th>
<th>Otheri</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1,072,026</td>
<td>1,925,347</td>
<td>476,034</td>
<td>525,987</td>
<td>3,999,394</td>
</tr>
<tr>
<td>2017</td>
<td>901,015</td>
<td>1,356,835</td>
<td>362,205</td>
<td>304,136</td>
<td>2,924,191</td>
</tr>
</tbody>
</table>

i"Other" mainly includes the countries Finland, the United Kingdom, the United States, Belgium and the Netherlands.

**Parent Company**

<table>
<thead>
<tr>
<th></th>
<th>Sweden &amp; Denmark</th>
<th>DACH</th>
<th>Norway</th>
<th>Otheri</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1,072,026</td>
<td>1,092,137</td>
<td>476,034</td>
<td>465,563</td>
<td>3,105,760</td>
</tr>
<tr>
<td>2017</td>
<td>901,015</td>
<td>777,130</td>
<td>362,205</td>
<td>257,628</td>
<td>2,297,978</td>
</tr>
</tbody>
</table>

i"Other" mainly includes the countries Finland, the United Kingdom, the United States, Belgium and the Netherlands.

The opening balance of receivables connected to commission income amounted to SEK 388m as of January 1, 2018 and the closing balance as of December 31, 2018 amounts to SEK 605m for the Group. For Klarna Bank AB (publ) the opening balance was SEK 294m and the closing balance amounts to SEK 516m. These receivables are included in loans to the public, see note 21.

All commission income arise from financial instruments measured at amortised cost.

**Note 8** Commission expenses

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Commission to partners</td>
<td>-328,870</td>
<td>-205,253</td>
</tr>
<tr>
<td>Total</td>
<td>-328,870</td>
<td>-205,253</td>
</tr>
</tbody>
</table>

All commission expenses arise from financial instruments measured at amortised cost.
### Note 9  Net result from financial transactions

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Realised/non-realised fluctuations in exchange rates</td>
<td>-775</td>
<td>3,773</td>
</tr>
<tr>
<td>Gains from financial instruments</td>
<td>215</td>
<td>112</td>
</tr>
<tr>
<td>Losses from financial instruments</td>
<td>-26,410</td>
<td>-17,469</td>
</tr>
<tr>
<td>Impairment of shares in unlisted companies</td>
<td>-</td>
<td>-10,315</td>
</tr>
<tr>
<td>Impairment of shares in group companies</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-26,970</td>
<td>-23,899</td>
</tr>
</tbody>
</table>

As of December 31, 2018, Klarna Bank AB (publ) had entered into currency forward contracts with the nominal amount of SEK 1,815,599k (2,369,352).

Interest income from financial instruments not measured at fair value through profit or loss amounts to SEK 0 (0).

Interest expense from financial instruments not measured at fair value through profit or loss amounts to SEK 0 (0).
### Note 10  
**Employees and personnel costs**

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Average number of full-time equivalents</td>
<td>1,713</td>
<td>1,380</td>
</tr>
<tr>
<td>Number of men</td>
<td>1,104</td>
<td>884</td>
</tr>
<tr>
<td>Number of women</td>
<td>609</td>
<td>496</td>
</tr>
<tr>
<td>In Sweden</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of men</td>
<td>1,089</td>
<td>922</td>
</tr>
<tr>
<td>Number of women</td>
<td>680</td>
<td>576</td>
</tr>
<tr>
<td>In Norway</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of men</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Number of women</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>In Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of men</td>
<td>437</td>
<td>277</td>
</tr>
<tr>
<td>Number of women</td>
<td>306</td>
<td>185</td>
</tr>
<tr>
<td>In Netherlands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of men</td>
<td>26</td>
<td>15</td>
</tr>
<tr>
<td>Number of women</td>
<td>18</td>
<td>11</td>
</tr>
<tr>
<td>In Finland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of men</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Number of women</td>
<td>131</td>
<td>92</td>
</tr>
<tr>
<td>In Israel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of men</td>
<td>15</td>
<td>39</td>
</tr>
<tr>
<td>Number of women</td>
<td>11</td>
<td>29</td>
</tr>
<tr>
<td>In Austria</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of men</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Number of women</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>In United Kingdom</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of men</td>
<td>45</td>
<td>31</td>
</tr>
<tr>
<td>Number of women</td>
<td>32</td>
<td>23</td>
</tr>
<tr>
<td>In USA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of men</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>Number of women</td>
<td>42</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>31</td>
<td>27</td>
</tr>
</tbody>
</table>
Salaries, other remuneration and social security expenses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Salaries and other remuneration amounted to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board and CEO↑</td>
<td>-8,081</td>
<td>-7,202</td>
<td>-8,081</td>
<td>-7,202</td>
</tr>
<tr>
<td>Other employees</td>
<td>-1,040,234</td>
<td>-849,793</td>
<td>-539,950</td>
<td>-474,503</td>
</tr>
<tr>
<td>Total salaries and other remuneration</td>
<td>-1,048,315</td>
<td>-856,995</td>
<td>-548,031</td>
<td>-481,705</td>
</tr>
<tr>
<td>Statutory and contractual social security expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>whereof pension expenses</td>
<td>-110,030</td>
<td>-81,736</td>
<td>-96,742</td>
<td>-71,528</td>
</tr>
<tr>
<td>Total salaries, other remuneration, social security and pension expenses</td>
<td>-1,462,026</td>
<td>-1,161,116</td>
<td>-878,948</td>
<td>-729,804</td>
</tr>
</tbody>
</table>

↑The basic fee to the board of directors is accounted for in Klarna Bank AB (publ)’s parent company, Klarna Holding AB.

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2018</th>
<th>31 Dec 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number at closing day</td>
<td>Percentage of men</td>
</tr>
<tr>
<td>Board members and senior management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group CEO and other members of senior management</td>
<td>8</td>
<td>88%</td>
</tr>
</tbody>
</table>

The percentage of men in the board was 86% (94%) at the end of the reporting period.

<table>
<thead>
<tr>
<th></th>
<th>Basic salary/fee</th>
<th>Variable remuneration</th>
<th>Other benefits</th>
<th>Pension expenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jonathan Kamaluddin, Chairman of the Board</td>
<td>-775</td>
<td>-1,048</td>
<td>-</td>
<td>-</td>
<td>-1,823</td>
</tr>
<tr>
<td>Niklas Adalberth↑</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Niklas Savander↑</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mikael Walther</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Michael Mortiz</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sarah McPhee</td>
<td>-550</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-550</td>
</tr>
<tr>
<td>Andrew Young</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sebastian Siemiatkowski, CEO</td>
<td>-6,248</td>
<td>-</td>
<td>-3</td>
<td>-782</td>
<td>-7,033</td>
</tr>
<tr>
<td>Knut Frängsmyr, Deputy CEO</td>
<td>-6,576</td>
<td>-316</td>
<td>-3</td>
<td>-770</td>
<td>-7,665</td>
</tr>
<tr>
<td>Other members of senior management (6)↑</td>
<td>-30,668</td>
<td>-2,600</td>
<td>-21</td>
<td>-3,534</td>
<td>-36,823</td>
</tr>
<tr>
<td>Total</td>
<td>-44,817</td>
<td>-3,964</td>
<td>-27</td>
<td>-5,086</td>
<td>-53,894</td>
</tr>
</tbody>
</table>

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

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

KLARNA BANK AB (publ) ● ANNUAL REPORT 2018 35
Group 2017

<table>
<thead>
<tr>
<th>Salaries and other remuneration to the board and senior management</th>
<th>Basic salary/fee</th>
<th>Variable remuneration</th>
<th>Other benefits</th>
<th>Pension expenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jonathan Kamaluddin, Chairman of the Board</td>
<td>-633</td>
<td>-389</td>
<td>-</td>
<td>-</td>
<td>-1,022</td>
</tr>
<tr>
<td>Niklas Adalberth</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mikael Walther</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Anton Levy</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Michael Moritz</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sarah McPhee</td>
<td>-500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-500</td>
</tr>
<tr>
<td>Andrew Young</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sebastian Siemiatkowski, CEO</td>
<td>-5,787</td>
<td>-</td>
<td>-5</td>
<td>-771</td>
<td>-6,563</td>
</tr>
<tr>
<td>Knut Frängsmyr, Deputy CEO</td>
<td>-6,435</td>
<td>-316</td>
<td>-7</td>
<td>-825</td>
<td>-7,581</td>
</tr>
<tr>
<td>Other members of senior management (8)</td>
<td>-23,782</td>
<td>-570</td>
<td>-561</td>
<td>-3,314</td>
<td>-28,227</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-37,135</strong></td>
<td><strong>-1,275</strong></td>
<td><strong>-573</strong></td>
<td><strong>-4,910</strong></td>
<td><strong>-43,893</strong></td>
</tr>
</tbody>
</table>

1 From May 2017, after the annual general meeting in 2017, the basic fee to the board of directors has been accounted for in Klarna Bank AB (publ)’s parent company, Klarna Holding AB.
2 Anton Levy resigned as Board member on December 15, 2017. On the same day Andrew Young was appointed to the board.
3 The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

Parent Company

<table>
<thead>
<tr>
<th>Board members and senior management</th>
<th>31 Dec 2018</th>
<th>31 Dec 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number at</td>
<td>Percentage</td>
</tr>
<tr>
<td></td>
<td>closing day</td>
<td>of men</td>
</tr>
<tr>
<td>CEO and other members of senior management</td>
<td>8</td>
<td>88%</td>
</tr>
<tr>
<td>Board members</td>
<td>7</td>
<td>86%</td>
</tr>
</tbody>
</table>

Parent Company 2018

<table>
<thead>
<tr>
<th>Salaries and other remuneration to the board and senior management</th>
<th>Basic salary/fee</th>
<th>Variable remuneration</th>
<th>Other benefits</th>
<th>Pension expenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jonathan Kamaluddin, Chairman of the Board</td>
<td>-775</td>
<td>-1,048</td>
<td>-</td>
<td>-</td>
<td>-1,823</td>
</tr>
<tr>
<td>Niklas Adalberth</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Niklas Savander</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mikael Walther</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Michael Moritz</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sarah McPhee</td>
<td>-550</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-550</td>
</tr>
<tr>
<td>Andrew Young</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
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<td>-6,248</td>
<td>-</td>
<td>-3</td>
<td>-782</td>
<td>-7,035</td>
</tr>
<tr>
<td>Knut Frängsmyr, Deputy CEO</td>
<td>-6,576</td>
<td>-316</td>
<td>-3</td>
<td>-770</td>
<td>-7,665</td>
</tr>
<tr>
<td>Other members of senior management (6)</td>
<td>-30,668</td>
<td>-2,600</td>
<td>-21</td>
<td>-3,534</td>
<td>-36,823</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-44,817</strong></td>
<td><strong>-3,964</strong></td>
<td><strong>-27</strong></td>
<td><strong>-5,086</strong></td>
<td><strong>-53,894</strong></td>
</tr>
</tbody>
</table>

1 On February 22, 2018, the company’s director Niklas Adalberth resigned from the board of directors and Niklas Savander was appointed new director.
2 The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.
Parent Company 2017

<table>
<thead>
<tr>
<th>Salaries and other remuneration to the board and senior management1</th>
<th>Basic salary/fee</th>
<th>Variable remuneration</th>
<th>Other benefits</th>
<th>Pension expenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jonathan Kamaluddin, Chairman of the Board</td>
<td>-633</td>
<td>-389</td>
<td></td>
<td></td>
<td>-1,022</td>
</tr>
<tr>
<td>Niklas Adalberth</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Mikael Walther</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Anton Levy2</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Michael Moritz</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Sarah McPhee</td>
<td>-500</td>
<td>-</td>
<td></td>
<td></td>
<td>-500</td>
</tr>
<tr>
<td>Andrew Young3</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Sebastian Siemiatkowski, CEO</td>
<td>-5,787</td>
<td>-</td>
<td>-5</td>
<td>-771</td>
<td>-6,563</td>
</tr>
<tr>
<td>Knut Frängsmyr, Deputy CEO</td>
<td>-6,433</td>
<td>-316</td>
<td>-7</td>
<td>-825</td>
<td>-7,581</td>
</tr>
<tr>
<td>Other members of senior management (8)3</td>
<td>-23,782</td>
<td>-570</td>
<td>-561</td>
<td>-3,314</td>
<td>-28,227</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-37,135</strong></td>
<td><strong>-1,275</strong></td>
<td><strong>-573</strong></td>
<td><strong>-4,910</strong></td>
<td><strong>-43,893</strong></td>
</tr>
</tbody>
</table>

1From May 2017, after the last annual general meeting, the basic fee to the board of directors has been accounted for in Klarna Bank AB (publ)'s parent company, Klarna Holding AB.
2Anton Levy resigned as Board member on December 15, 2017. On the same day Andrew Young was appointed to the board.
3The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

Remuneration

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

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

The information below follows the provisions of the disclosure rules.

Klarna Remuneration

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

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

Klarna Remuneration Committee

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

The Remuneration Committee has held two formal meetings in 2018. In addition, it has also handled other matters that have arisen on an ongoing basis through correspondence between the committee members with the formal decisions not covered by its delegation authority being reported to and documented by the Board at the closest following Board meeting.

Remuneration Policy and remuneration risk analysis

Klarna’s Board has adopted a Remuneration Policy that is designed to be compatible with and promote sound and effective risk management, counteract exaggerated risk taking and be in line with Klarna’s long-term interests. The Remuneration Policy shall be revised when it is necessary, at least annually.
Klarna’s Remuneration Policy, remuneration system and list of those staff members whose professional activities have a material impact on Klarna’s risk profile (Identified Staff) are assessed annually. The assessment includes an analysis of all risks Klarna is or might be exposed to, including the risks associated with its Remuneration Policy and remuneration structure. In general, Klarna’s remuneration system involves low risk compared with large banks and other credit institutions with comprehensive trading and other businesses covered by the remuneration rules. The risk cycle in Klarna’s credit business is assessed to be short, which means that any risks materialise within a few months.

Remuneration structure
Klarna applies the following general principles on remuneration:
- Remuneration shall be set on an individual basis, based on experience, competence and performance
- Remuneration shall not be discriminating
- Remuneration shall be competitive, but not counterproductive to Klarna’s long term interests and capability to generate positive results throughout a full economic cycle.

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

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

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

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

Share-based payments
In certain jurisdictions Klarna offers share-based payments to employees consisting of warrants. The warrants are subject to graded vesting in four (five) annual installments, corresponding to the maximum duration of the programs. No program may be settled in cash by Klarna. In total 400,513 (304,119) warrants are considered share-based payments. The weighted average exercise price is as follows: for warrants outstanding at the beginning of the year: SEK 817.57 (752.99); granted during the year: SEK 963.00 (963.00); forfeited during the year SEK 0 (0); outstanding at the end of the year: SEK 817.57 (770.07). All such warrants have an exercise price between SEK 470 and 1,175 (SEK 470 and 1,175). The value of granted warrants has been established using the Black Scholes model.

The total cost of share-based payment is allocated over the duration of warrant programs. The total expense for share-based payments for 2018 is SEK 7,700k (-522).
Remuneration 2018
Total amount entered as an expense for remuneration to the Group Management team (9 persons) was SEK 52,992k and for Identified Staff (79 persons) this sum was SEK 110,170k, which aggregates to SEK 163,162k. Variable remuneration accounts for SEK 4,386k of the Group Management Team figure paid to 5 of its members and SEK 14,864k of the Identified Staff figure, paid to 21 beneficiaries.

Total amount entered as an expense for remuneration to other employees was SEK 885,153k (703,235).

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

The below table gives a breakdown of variable remuneration paid and awarded during 2018:

<table>
<thead>
<tr>
<th>Type of Variable Remuneration</th>
<th>Value of Variable Remuneration (in SEKk)</th>
<th>Number of Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group Management Team</td>
<td>Identified Staff</td>
</tr>
<tr>
<td>Paid as one off Cash payments (relating to Referral bonuses / Gratifications / Sales commission)</td>
<td>443</td>
<td>9,098</td>
</tr>
<tr>
<td>Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits</td>
<td>1,589</td>
<td>-623(^{1})</td>
</tr>
<tr>
<td>Outstanding deferred remuneration</td>
<td>1,237</td>
<td>1,818</td>
</tr>
<tr>
<td>Deferred remuneration awarded(^{2})</td>
<td>0</td>
<td>1,732</td>
</tr>
<tr>
<td>New sign-on bonus paid</td>
<td>2,381</td>
<td>3,702</td>
</tr>
<tr>
<td>Severance payments paid</td>
<td>0</td>
<td>3,167</td>
</tr>
<tr>
<td>Severance payments awarded(^{3})</td>
<td>0</td>
<td>3,167</td>
</tr>
</tbody>
</table>

\(^{1}\) There has been one risk adjustment reduction made to deferred remuneration awards during 2018.

\(^{2}\) The highest severance payment awarded to a single person was SEK 2,569k.

\(^{3}\) Negative amounts are due to reversal of costs of share-based remuneration when employees leave the company.

No employees have been remunerated more than EUR 1m.
### Note 11 Fees and reimbursement of expenses for auditors

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit engagement</td>
<td>-4,373</td>
<td>-3,576</td>
<td>-2,235</td>
<td>-2,363</td>
</tr>
<tr>
<td>Audit related services</td>
<td>-682</td>
<td>-950</td>
<td>-538</td>
<td>-950</td>
</tr>
<tr>
<td>Tax consultancy</td>
<td>-154</td>
<td>-122</td>
<td>-44</td>
<td>-42</td>
</tr>
<tr>
<td>Other services</td>
<td>-826</td>
<td>-5,485</td>
<td>-826</td>
<td>-1,815</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-6,035</td>
<td>-10,133</td>
<td>-3,643</td>
<td>-5,170</td>
</tr>
</tbody>
</table>

|                |            |            |                     |                     |
| **BDO**        |            |            |                     |                     |
| Audit engagement | -          | -286       | -                   | -                   |
| **Total**      | -          | -286       | -                   | -                   |

|                |            |            |                     |                     |
| **P.G. Economides & Co Ltd** |            |            |                     |                     |
| Audit engagement | -80        | -          | -                   | -                   |
| **Total**      | -80        | -          | -                   | -                   |

### Note 12 Operating lease commitments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total lease and rental costs during the year</td>
<td>-103,632</td>
<td>-98,833</td>
<td>-57,497</td>
<td>-51,132</td>
</tr>
</tbody>
</table>

The future aggregate minimum lease payments under operating leases are as follows:

- No later than 1 year: -105,699, -78,941, -71,261, -51,610
- Later than 1 year and no later than 5 years: -176,361, -162,115, -101,262, -94,255
- Later than five years: -35,739, -11,529, -11,519, -

|                |            |            |                     |                     |
| **Total**      | -317,799   | -252,585   | -184,042            | -145,865            |

The leased assets mainly comprise of facilities, vehicles and machinery.
### Note 13  Depreciation, amortisation and impairment of intangible and tangible assets

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td><strong>Amortisation / depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>-107,345</td>
<td>-97,666</td>
<td>-51,153</td>
<td>-56,605</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>-35,140</td>
<td>-29,205</td>
<td>-20,996</td>
<td>-16,645</td>
</tr>
<tr>
<td><strong>Total amortisation / depreciation</strong></td>
<td>-142,485</td>
<td>-126,871</td>
<td>-72,149</td>
<td>-72,850</td>
</tr>
<tr>
<td><strong>Impairment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>-12,261</td>
<td>-73,704</td>
<td>-11,986</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total impairment</strong></td>
<td>-12,261</td>
<td>-73,704</td>
<td>-11,986</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total depreciation, amortisation and impairment of intangible and tangible assets</strong></td>
<td>-154,746</td>
<td>-200,575</td>
<td>-84,135</td>
<td>-72,850</td>
</tr>
</tbody>
</table>

### Note 14  Credit losses, net

#### Loan losses divided by class

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td><strong>Loans to credit institutions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in provisions</td>
<td>-39</td>
<td>-</td>
<td>-39</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-39</td>
<td>-</td>
<td>-39</td>
<td>-</td>
</tr>
<tr>
<td><strong>Loans to the public</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realised loan losses</td>
<td>-1,135,168</td>
<td>-609,019</td>
<td>-1,123,009</td>
<td>-583,487</td>
</tr>
<tr>
<td>Allowances to cover realised loan losses</td>
<td>566,952</td>
<td>196,519</td>
<td>545,172</td>
<td>189,505</td>
</tr>
<tr>
<td>Recoveries on previous realised loan losses</td>
<td>516,086</td>
<td>274,399</td>
<td>513,642</td>
<td>274,190</td>
</tr>
<tr>
<td>Increase in provisions</td>
<td>-1,716,003</td>
<td>-404,721</td>
<td>-1,591,231</td>
<td>-394,740</td>
</tr>
<tr>
<td>Reversal of previous provisions</td>
<td>1,057,311</td>
<td>42,104</td>
<td>980,058</td>
<td>38,615</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-710,822</td>
<td>-500,718</td>
<td>-675,368</td>
<td>-476,117</td>
</tr>
<tr>
<td><strong>Financial guarantees and commitments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in provisions</td>
<td>-92,201</td>
<td>-</td>
<td>-61,327</td>
<td>-</td>
</tr>
<tr>
<td>Reversal of previous provisions</td>
<td>17,495</td>
<td>-</td>
<td>13,931</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-74,706</td>
<td>-</td>
<td>-47,396</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total credit losses, net</strong></td>
<td>-785,567</td>
<td>-500,718</td>
<td>-722,803</td>
<td>-476,117</td>
</tr>
</tbody>
</table>
## Note 15  Taxes

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income tax expense</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax expense for the year</td>
<td>-96,132</td>
<td>-162,752</td>
<td>-</td>
<td>-59,570</td>
</tr>
<tr>
<td>Adjustment of tax attributable to previous years</td>
<td>-3,916</td>
<td>-25,237</td>
<td>-</td>
<td>-26,238</td>
</tr>
<tr>
<td><strong>Total current tax</strong></td>
<td>-100,048</td>
<td>-187,989</td>
<td>-</td>
<td>-85,808</td>
</tr>
<tr>
<td><strong>Deferred tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax regarding temporary differences</td>
<td>44,362</td>
<td>9,615</td>
<td>35,085</td>
<td>-3,541</td>
</tr>
<tr>
<td><strong>Total deferred tax</strong></td>
<td>44,362</td>
<td>9,615</td>
<td>35,085</td>
<td>-3,541</td>
</tr>
<tr>
<td><strong>Reported tax expense</strong></td>
<td>-55,686</td>
<td>-178,374</td>
<td>35,085</td>
<td>-89,349</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income before tax</strong></td>
<td>160,910</td>
<td>523,987</td>
<td>106,739</td>
<td>434,187</td>
</tr>
<tr>
<td>Income tax calculated in accordance with national tax rates regarding income in each country</td>
<td>-55,877</td>
<td>-159,375</td>
<td>-23,483</td>
<td>-95,521</td>
</tr>
<tr>
<td>Non-taxable revenues</td>
<td>3,754</td>
<td>10,889</td>
<td>57,549</td>
<td>43,355</td>
</tr>
<tr>
<td>Non-deductible expenses</td>
<td>-11,639</td>
<td>-22,415</td>
<td>-8,250</td>
<td>-9,756</td>
</tr>
<tr>
<td>Standard revenue, tax allocation reserve</td>
<td>-125</td>
<td>-67</td>
<td>-125</td>
<td>-67</td>
</tr>
<tr>
<td>Taxable income not booked over profit or loss</td>
<td>-10,808</td>
<td>-1,122</td>
<td>-10,808</td>
<td>-1,122</td>
</tr>
<tr>
<td>Deductible expenses not booked over profit or loss</td>
<td>21,223</td>
<td>-</td>
<td>21,090</td>
<td>-</td>
</tr>
<tr>
<td>Effect of change in tax rate</td>
<td>-891</td>
<td>-1,047</td>
<td>-888</td>
<td>-</td>
</tr>
<tr>
<td>Adjustments attributable to previous years</td>
<td>-1,323</td>
<td>-25,237</td>
<td>-</td>
<td>-26,238</td>
</tr>
<tr>
<td><strong>Reported tax expense</strong></td>
<td>-55,686</td>
<td>-178,374</td>
<td>35,085</td>
<td>-89,349</td>
</tr>
</tbody>
</table>

**Effective tax rate**

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>34.6%</td>
<td>34.0%</td>
<td>-32.9%</td>
<td>20.6%</td>
</tr>
</tbody>
</table>

**Deferred tax assets**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The balance comprises temporary differences attributable to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losses carry-forward</td>
<td>37,895</td>
<td>16,248</td>
<td>30,756</td>
<td>-</td>
</tr>
<tr>
<td>Allowance for credit losses</td>
<td>368</td>
<td>48</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>9,245</td>
<td>5,467</td>
<td>1,557</td>
<td>2,162</td>
</tr>
<tr>
<td><strong>Total deferred tax assets</strong></td>
<td>47,508</td>
<td>21,763</td>
<td>32,313</td>
<td>2,162</td>
</tr>
</tbody>
</table>

**Deferred tax liabilities**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The balance comprises temporary differences attributable to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>81,968</td>
<td>94,913</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Untaxed reserves</td>
<td>33,729</td>
<td>35,115</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>1,936</td>
<td>6,222</td>
<td>1,341</td>
<td>6,275</td>
</tr>
<tr>
<td><strong>Total deferred tax liabilities</strong></td>
<td>117,633</td>
<td>136,250</td>
<td>1,341</td>
<td>6,275</td>
</tr>
</tbody>
</table>

The Swedish corporate tax rate will decrease from 22% to 21.4% on January 1, 2019 and to 20.6% on January 1, 2021, consequently the deferred tax assets and liabilities for Swedish companies have decreased.
**Note 16 Appropriations**

<table>
<thead>
<tr>
<th></th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Additional depreciation</td>
<td>-</td>
</tr>
<tr>
<td>Change in tax allocation reserve</td>
<td>6,300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,300</td>
</tr>
</tbody>
</table>

**Note 17 Net result from categories of financial instruments**

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2018</td>
</tr>
<tr>
<td>Financial instruments mandatory measured at fair value through profit or loss</td>
<td>-48,711</td>
<td>-48,711</td>
</tr>
<tr>
<td>Financial assets measured at amortised cost</td>
<td>5,309,838</td>
<td>4,665,804</td>
</tr>
<tr>
<td>Financial liabilities measured at amortised cost</td>
<td>-546,492</td>
<td>-531,706</td>
</tr>
<tr>
<td>Exchange gains/losses</td>
<td>21,742</td>
<td>40,497</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,736,377</td>
<td>4,125,884</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2017</td>
</tr>
<tr>
<td>Available for sale assets, realised</td>
<td>-10,315</td>
<td>-10,315</td>
</tr>
<tr>
<td>Financial instruments designated at fair value through profit or loss</td>
<td>-7,952</td>
<td>-7,952</td>
</tr>
<tr>
<td>Financial instruments held for trading</td>
<td>-3,347</td>
<td>-3,347</td>
</tr>
<tr>
<td>Financial assets measured at amortised cost</td>
<td>4,014,415</td>
<td>3,430,852</td>
</tr>
<tr>
<td>Financial liabilities measured at amortised cost</td>
<td>-335,255</td>
<td>-320,634</td>
</tr>
<tr>
<td>Exchange gains/losses</td>
<td>-10,059</td>
<td>8,792</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,647,487</td>
<td>3,097,396</td>
</tr>
</tbody>
</table>

**Note 18 Proposed treatment of unappropriated earnings**

The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 3,392,427,265 on Klarna Bank AB (publ)’s balance sheet at the disposal of the Annual General Meeting to be carried forward.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Tier 1 instruments</td>
<td>250,000,000 SEK</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,000,603,109 SEK</td>
</tr>
<tr>
<td>Net income for the year</td>
<td>141,824,156 SEK</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,392,427,265 SEK</td>
</tr>
</tbody>
</table>
Note 19  Chargeable central bank treasury bills

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>Central bank</td>
<td>400,044</td>
<td>-</td>
</tr>
<tr>
<td>State and sovereigns</td>
<td>1,333,077</td>
<td>891,775</td>
</tr>
<tr>
<td>Municipalties and other public bodies</td>
<td>1,351,193</td>
<td>955,930</td>
</tr>
<tr>
<td>Total</td>
<td>3,084,314</td>
<td>1,847,705</td>
</tr>
</tbody>
</table>

- in SEK               | 1,751,237 | 1,206,411     | 1,751,237   | 1,206,411   |
- in EUR               | 1,127,379 | 591,273       | 1,127,379   | 591,273     |
- in NOK               | 205,698   | 50,021        | 205,698     | 50,021      |

The chargeable central bank treasury bills have a remaining maturity of up to one year. For the fair value amounts see note 38.

Note 20  Loans to credit institutions

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>2,367,631</td>
<td>1,211,778</td>
</tr>
</tbody>
</table>

- in SEK               | 705,674   | 292,978       | 704,944     | 292,946     |
- in EUR               | 1,122,081 | 700,252       | 831,323     | 398,915     |
- in NOK               | 81,562    | 70,626        | 81,175      | 70,261      |
- in USD               | 157,026   | 61,732        | 119,770     | 23,246      |
- in GBP               | 164,705   | 33,108        | 164,403     | 33,108      |
- in other currencies  | 136,583   | 53,082        | 60,872      | 6,219       |

All loans to credit institutions are payable on demand. For the fair value amounts see note 38.

The loss allowance for loans to credit institutions at the end of the reporting period amounts to SEK 39k and was allocated to impairment stage I. The group has no purchased or originated credit-impaired assets (POCI) related to credit institutions.
### Note 21 Loans to the public

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans to the public</td>
<td>20,919,234</td>
<td>14,539,491</td>
<td>20,730,748</td>
<td>14,345,725</td>
<td></td>
</tr>
<tr>
<td>Allowance for credit losses</td>
<td>-940,232</td>
<td>-665,327</td>
<td>-880,022</td>
<td>-606,286</td>
<td></td>
</tr>
<tr>
<td>Total loans to the public</td>
<td>19,979,002</td>
<td>13,874,164</td>
<td>19,850,726</td>
<td>13,739,439</td>
<td></td>
</tr>
</tbody>
</table>

#### Group

<table>
<thead>
<tr>
<th>Gross carrying amount as at January 1, 2018a</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>POCI</th>
<th>Simplified approach</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,045,403</td>
<td>1,063,987</td>
<td>1,307,735</td>
<td>4,911</td>
<td>144,951</td>
<td>14,566,986</td>
<td></td>
</tr>
<tr>
<td>New assets originated or purchased</td>
<td>53,710,188</td>
<td>36,321</td>
<td>2,125</td>
<td>23,308</td>
<td>1,511,998</td>
<td>55,283,940</td>
</tr>
<tr>
<td>Assets derecognised or repaid (excl. write-offs)</td>
<td>-45,936,874</td>
<td>-830,093</td>
<td>-299,013</td>
<td>-13,902</td>
<td>-1,376,909</td>
<td>-48,456,791</td>
</tr>
<tr>
<td>Transfers to stage 1</td>
<td>517,402</td>
<td>-287,330</td>
<td>-230,072</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to stage 2</td>
<td>-3,256,628</td>
<td>3,397,026</td>
<td>-140,398</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to stage 3</td>
<td>-854,915</td>
<td>-106,095</td>
<td>961,010</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amounts written off</td>
<td>-7,174</td>
<td>-20,476</td>
<td>-609,402</td>
<td>-1,076</td>
<td>-638,128</td>
<td></td>
</tr>
<tr>
<td>Other adjustments</td>
<td>97,459</td>
<td>17,088</td>
<td>47,890</td>
<td>201</td>
<td>5,589</td>
<td>163,227</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gross carrying amount as at December 31, 2018</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>POCI</th>
<th>Simplified approach</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>16,314,861</td>
<td>3,270,428</td>
<td>1,034,875</td>
<td>14,517</td>
<td>284,553</td>
<td>20,919,234</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allowance as at January 1, 2018a</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>POCI</th>
<th>Simplified approach</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>-317,368</td>
<td>-151,576</td>
<td>-269,167</td>
<td>-2,348</td>
<td>-14,911</td>
<td>-755,571</td>
<td>-904,896</td>
</tr>
<tr>
<td>New assets originated or purchased</td>
<td>-870,004</td>
<td>-5,448</td>
<td>-1,499</td>
<td>-17,263</td>
<td>-10,682</td>
<td>741,518</td>
</tr>
<tr>
<td>Assets derecognised or repaid (excl. write-offs)</td>
<td>337,173</td>
<td>253,869</td>
<td>115,254</td>
<td>7,826</td>
<td>27,396</td>
<td>741,518</td>
</tr>
<tr>
<td>Transfers to stage 1</td>
<td>-14,370</td>
<td>10,454</td>
<td>3,916</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to stage 2</td>
<td>116,281</td>
<td>-119,010</td>
<td>2,729</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to stage 3</td>
<td>326,914</td>
<td>28,004</td>
<td>-354,918</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Impact on year end ECL from change in credit risk</td>
<td>12,650</td>
<td>-266,871</td>
<td>-498,977</td>
<td>3,708</td>
<td>-34,846</td>
<td>-784,336</td>
</tr>
<tr>
<td>Changes to models and inputs used for ECL calculationsa</td>
<td>124,955</td>
<td>79,480</td>
<td>12,459</td>
<td>-</td>
<td>-</td>
<td>216,894</td>
</tr>
<tr>
<td>Amounts written off</td>
<td>5,518</td>
<td>10,019</td>
<td>551,009</td>
<td>-</td>
<td>406</td>
<td>566,952</td>
</tr>
<tr>
<td>Other adjustments</td>
<td>-8,412</td>
<td>-1,499</td>
<td>-11,301</td>
<td>0</td>
<td>219</td>
<td>-20,993</td>
</tr>
</tbody>
</table>

| Allowance as at December 31, 2018 | -286,664 | -162,578 | -450,495 | -8,077 | -32,418 | -940,232 |

1 The table shows month over month movements.
2 The opening balances for the gross carrying amounts have been restated due to the implementation of IFRS 15.
3 The opening balances for allowances have been restated due to the implementation of IFRS 9.
4 This line shows the effect of the implementation of the new impairment model.
### Parent Company

<table>
<thead>
<tr>
<th></th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Simplified approach</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross carrying amount as at January 1, 2018&lt;sup&gt;1&lt;/sup&gt;</td>
<td>12,014,397</td>
<td>1,050,274</td>
<td>1,256,878</td>
<td>51,672</td>
<td>14,373,221</td>
</tr>
<tr>
<td>New assets originated or purchased</td>
<td>49,390,300</td>
<td>2,139</td>
<td>854</td>
<td>635,238</td>
<td>50,028,531</td>
</tr>
<tr>
<td>Assets derecognised or repaid (excl. write-offs)</td>
<td>-41,806,954</td>
<td>-645,175</td>
<td>-259,346</td>
<td>-490,993</td>
<td>-43,202,468</td>
</tr>
<tr>
<td>Transfers to stage 1</td>
<td>490,889</td>
<td>-260,841</td>
<td>-230,048</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to stage 2</td>
<td>-2,997,122</td>
<td>3,137,507</td>
<td>-140,385</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to stage 3</td>
<td>-848,223</td>
<td>-46,162</td>
<td>894,385</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amounts written off</td>
<td>-7,144</td>
<td>-20,459</td>
<td>-577,559</td>
<td>-445</td>
<td>-605,607</td>
</tr>
<tr>
<td>Other adjustments</td>
<td>78,262</td>
<td>18,021</td>
<td>40,554</td>
<td>234</td>
<td>137,071</td>
</tr>
<tr>
<td><strong>Gross carrying amount as at December 31, 2018</strong></td>
<td><strong>16,314,405</strong></td>
<td><strong>3,235,304</strong></td>
<td><strong>985,333</strong></td>
<td><strong>195,706</strong></td>
<td><strong>20,730,748</strong></td>
</tr>
</tbody>
</table>

The parent company has no purchased or originated credit-impaired assets (POCI).

<table>
<thead>
<tr>
<th></th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Simplified approach</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance as at January 1, 2018&lt;sup&gt;1&lt;/sup&gt;</td>
<td>-307,431</td>
<td>-148,635</td>
<td>-224,210</td>
<td>-14,393</td>
<td>-694,668</td>
</tr>
<tr>
<td>New assets originated or purchased</td>
<td>-836,800</td>
<td>-105</td>
<td>-353</td>
<td>-9,932</td>
<td>-847,190</td>
</tr>
<tr>
<td>Assets derecognised or repaid (excl. write-offs)</td>
<td>302,338</td>
<td>241,227</td>
<td>93,305</td>
<td>27,396</td>
<td>664,266</td>
</tr>
<tr>
<td>Transfers to stage 1</td>
<td>-8,499</td>
<td>4,598</td>
<td>3,901</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to stage 2</td>
<td>110,463</td>
<td>-113,188</td>
<td>2,725</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to stage 3</td>
<td>326,117</td>
<td>19,837</td>
<td>-345,954</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Impact on year end ECL from change in credit risk</td>
<td>7,504</td>
<td>-250,066</td>
<td>-468,184</td>
<td>-34,640</td>
<td>-745,387</td>
</tr>
<tr>
<td>Changes to models and inputs used for ECL calculations&lt;sup&gt;4&lt;/sup&gt;</td>
<td>124,955</td>
<td>79,480</td>
<td>12,459</td>
<td>-</td>
<td>216,894</td>
</tr>
<tr>
<td>Amounts written off</td>
<td>5,518</td>
<td>10,019</td>
<td>529,239</td>
<td>396</td>
<td>545,172</td>
</tr>
<tr>
<td>Other adjustments</td>
<td>-8,171</td>
<td>-1,386</td>
<td>-9,793</td>
<td>241</td>
<td>-19,109</td>
</tr>
<tr>
<td><strong>Allowance as at December 31, 2018</strong></td>
<td><strong>-284,006</strong></td>
<td><strong>-158,219</strong></td>
<td><strong>-406,865</strong></td>
<td><strong>-30,932</strong></td>
<td><strong>-880,022</strong></td>
</tr>
</tbody>
</table>

<sup>1</sup> The table shows month over month movements.

<sup>2</sup> The opening balances for the gross carrying amounts have been restated due to the implementation of IFRS 15.

<sup>3</sup> The opening balances for allowances have been restated due to the implementation of IFRS 9.

<sup>4</sup> This line shows the effect of the implementation of the new impairment model.

---

### Group Parent Company

<table>
<thead>
<tr>
<th></th>
<th>Allowance as at January 1, 2017</th>
<th>Allowance as at December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of subsidiaries</td>
<td>-437,101</td>
<td>-435,840</td>
</tr>
<tr>
<td>Provisions excl. interest and fees, net&lt;sup&gt;1&lt;/sup&gt;</td>
<td>-53,370</td>
<td>-177,097</td>
</tr>
<tr>
<td>Provisions for interest and fees, net&lt;sup&gt;1&lt;/sup&gt;</td>
<td>-172,634</td>
<td>5,422</td>
</tr>
<tr>
<td>Foreign exchange effect</td>
<td>-3,835</td>
<td>-3,835</td>
</tr>
<tr>
<td><strong>Allowance as at December 31, 2017</strong></td>
<td><strong>-665,527</strong></td>
<td><strong>-666,286</strong></td>
</tr>
</tbody>
</table>

<sup>1</sup> Provisions for interest and fees are included in interest income in the income statement.

All loans and receivables are collectively assessed for impairment. For the fair value amounts see note 38.
## Note 22  Loans and impairment

The information below shows disclosures for 2017 on loans and impairment.

<table>
<thead>
<tr>
<th></th>
<th>Group 31 Dec 2017</th>
<th>Parent Company 31 Dec 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loans, not impaired</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit institutions</td>
<td>1,211,778</td>
<td>824,695</td>
</tr>
<tr>
<td>Public</td>
<td>14,066,159</td>
<td>15,935,814</td>
</tr>
<tr>
<td><strong>Loans, impaired</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>473,332</td>
<td>409,911</td>
</tr>
<tr>
<td><strong>Loans before allowances</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15,751,269</td>
<td>15,170,420</td>
</tr>
<tr>
<td><strong>Allowances for collectively assessed loans, not impaired</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>-358,611</td>
<td>-349,116</td>
</tr>
<tr>
<td><strong>Allowances for collectively assessed loans, impaired</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>-306,716</td>
<td>-257,170</td>
</tr>
<tr>
<td><strong>Allowances</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-665,327</td>
<td>-606,286</td>
</tr>
<tr>
<td><strong>Loans, carrying amount</strong></td>
<td>15,085,942</td>
<td>14,564,134</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Group Loans to the public</th>
<th>Parent Company Loans to the public</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Collectively assessed</td>
<td>Total</td>
</tr>
<tr>
<td>Reversal of previous provisions</td>
<td>42,104</td>
<td>42,104</td>
</tr>
<tr>
<td><strong>Changes through the income statement</strong></td>
<td>-362,617</td>
<td>-362,617</td>
</tr>
<tr>
<td>Allowances used to cover realised loan losses</td>
<td>196,519</td>
<td>196,519</td>
</tr>
<tr>
<td>Translation differences</td>
<td>-62,128</td>
<td>-62,128</td>
</tr>
<tr>
<td><strong>Balance as at December 31, 2017</strong></td>
<td>-665,327</td>
<td>-665,327</td>
</tr>
</tbody>
</table>
**Note 23  Shares and participations in group companies**

Participations in group companies

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of shares</td>
<td>Share Book value</td>
<td>Equity</td>
<td>Book value</td>
</tr>
<tr>
<td>Analyztd Technologies Ltd., Cyprus, Corp. ID 273011</td>
<td>1,000</td>
<td>100%</td>
<td>16,547</td>
<td>-82</td>
</tr>
<tr>
<td>Ident Inkasso AB, Sweden, Corp. ID 596918-1158</td>
<td>50,000</td>
<td>100%</td>
<td>-</td>
<td>1,922</td>
</tr>
<tr>
<td>Klarna Austria GmbH, Austria, Corp. ID 387052w</td>
<td>1</td>
<td>100%</td>
<td>300</td>
<td>3,600</td>
</tr>
<tr>
<td>Klarna B.V., Netherlands, Corp. ID 50315250</td>
<td>18,000</td>
<td>100%</td>
<td>173</td>
<td>11,408</td>
</tr>
<tr>
<td>Klarna Germany Holding GmbH, Germany, Corp. ID HRB 155963 B</td>
<td>25,000</td>
<td>100%</td>
<td>1,100,590</td>
<td>1,415,879</td>
</tr>
<tr>
<td>Klarna GmbH, Germany, Corp ID HRB 77353</td>
<td>25,000</td>
<td>100%</td>
<td>243</td>
<td>37,108</td>
</tr>
<tr>
<td>Klarna Inc., USA, Corp. ID 99-0365994</td>
<td>10,000,000</td>
<td>100%</td>
<td>4,263</td>
<td>45,593</td>
</tr>
<tr>
<td>Klarna Norge AS, Norway, Corp. ID 995 515 164</td>
<td>10,000</td>
<td>100%</td>
<td>122</td>
<td>16,116</td>
</tr>
<tr>
<td>Klarna OY, Finland, Corp. ID 2247127-6</td>
<td>2,500</td>
<td>100%</td>
<td>27</td>
<td>12,121</td>
</tr>
<tr>
<td>Klarna UK Limited, United Kingdom, Corp. ID 08706739</td>
<td>1</td>
<td>100%</td>
<td>0</td>
<td>13,190</td>
</tr>
</tbody>
</table>

Total | 1,122,265 | 1,124,283 |

For the year ending 31 December 2018, the following subsidiary company was entitled to exemption from audit under section 479A of the Companies Act 2006, United Kingdom:

Klarna UK Limited (registered number 08706739)

For the fair value amounts see note 38.

**December 31, 2018**

<table>
<thead>
<tr>
<th>Group companies</th>
<th>Geographical area</th>
<th>Total operating revenues, net</th>
<th>Operating income</th>
<th>Taxes</th>
<th>Average no. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analyztd Technologies Ltd.</td>
<td>Cyprus</td>
<td>-</td>
<td>-87</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>BillPay GmbH</td>
<td>Germany</td>
<td>306,932</td>
<td>48,295</td>
<td>-14,298</td>
<td>107</td>
</tr>
<tr>
<td>Ident Inkasso AB</td>
<td>Sweden</td>
<td>14,520</td>
<td>813</td>
<td>-104</td>
<td>4</td>
</tr>
<tr>
<td>Klarna Austria GmbH</td>
<td>Austria</td>
<td>8,031</td>
<td>2,422</td>
<td>-605</td>
<td>2</td>
</tr>
<tr>
<td>Klarna B.V.</td>
<td>Netherlands</td>
<td>53,543</td>
<td>6,607</td>
<td>-1,552</td>
<td>27</td>
</tr>
<tr>
<td>Klarna Germany Holding GmbH</td>
<td>Germany</td>
<td>218,019</td>
<td>216,165</td>
<td>-65,581</td>
<td>-</td>
</tr>
<tr>
<td>Klarna GmbH</td>
<td>Germany</td>
<td>321,529</td>
<td>32,819</td>
<td>-8,972</td>
<td>194</td>
</tr>
<tr>
<td>Klarna Ltd.</td>
<td>Israel</td>
<td>30,537</td>
<td>3,077</td>
<td>-354</td>
<td>17</td>
</tr>
<tr>
<td>Klarna Norge AS</td>
<td>Norway</td>
<td>47,410</td>
<td>16,050</td>
<td>-3,697</td>
<td>10</td>
</tr>
<tr>
<td>Klarna OY</td>
<td>Finland</td>
<td>33,474</td>
<td>10,782</td>
<td>-2,161</td>
<td>13</td>
</tr>
<tr>
<td>Klarna UK Limited</td>
<td>United Kingdom</td>
<td>141,442</td>
<td>9,227</td>
<td>-2,846</td>
<td>46</td>
</tr>
<tr>
<td>Klarna, Inc.¹</td>
<td>USA</td>
<td>221,510</td>
<td>39,607</td>
<td>-10,367</td>
<td>80</td>
</tr>
<tr>
<td>Klarna SPV GmbH</td>
<td>Germany</td>
<td>-10</td>
<td>-132</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sofort GmbH</td>
<td>Germany</td>
<td>388,088</td>
<td>-1,848</td>
<td>18</td>
<td>162</td>
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<tr>
<td>Sofort Austria GmbH</td>
<td>Austria</td>
<td>9,015</td>
<td>2,024</td>
<td>-525</td>
<td>6</td>
</tr>
<tr>
<td>Group companies</td>
<td>Geographical area</td>
<td>Total operating revenues, net¹</td>
<td>Operating income</td>
<td>Taxes</td>
<td>Average no. of employees</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-------------------</td>
<td>--------------------------------</td>
<td>------------------</td>
<td>--------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Analyzd Technologies Ltd.</td>
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<td>-30</td>
<td>-125</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>BillPay GmbH</td>
<td>Germany</td>
<td>81,640</td>
<td>8,515</td>
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<tr>
<td>Ident Inkasso AB</td>
<td>Sweden</td>
<td>28,813</td>
<td>1,553</td>
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<tr>
<td>Klarna Austria GmbH</td>
<td>Austria</td>
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<td>222</td>
<td>-58</td>
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</tr>
<tr>
<td>Klarna B.V.</td>
<td>Netherlands</td>
<td>25,445</td>
<td>1,355</td>
<td>-273</td>
<td>16</td>
</tr>
<tr>
<td>Klarna Germany Holding GmbH</td>
<td>Germany</td>
<td>390,877</td>
<td>394,013</td>
<td>-98,152</td>
<td>-</td>
</tr>
<tr>
<td>Klarna GmbH</td>
<td>Germany</td>
<td>79,543</td>
<td>6,853</td>
<td>-2,966</td>
<td>63</td>
</tr>
<tr>
<td>Klarna Ltd.</td>
<td>Israel</td>
<td>67,402</td>
<td>4,901</td>
<td>-886</td>
<td>39</td>
</tr>
<tr>
<td>Klarna Norge AS</td>
<td>Norway</td>
<td>14,986</td>
<td>743</td>
<td>-183</td>
<td>8</td>
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<tr>
<td>Klarna OY</td>
<td>Finland</td>
<td>8,577</td>
<td>403</td>
<td>-77</td>
<td>7</td>
</tr>
<tr>
<td>Klarna UK Limited</td>
<td>United Kingdom</td>
<td>76,991</td>
<td>4,260</td>
<td>-1,185</td>
<td>32</td>
</tr>
<tr>
<td>Klarna, Inc.¹</td>
<td>USA</td>
<td>189,196</td>
<td>5,607</td>
<td>-2,731</td>
<td>65</td>
</tr>
<tr>
<td>Klarna SPV GmbH</td>
<td>Germany</td>
<td>99</td>
<td>-980</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sofort GmbH</td>
<td>Germany</td>
<td>215,774</td>
<td>-15,930</td>
<td>2,862</td>
<td>165</td>
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<tr>
<td>Sofort Austria GmbH</td>
<td>Austria</td>
<td>6,616</td>
<td>480</td>
<td>-136</td>
<td>4</td>
</tr>
</tbody>
</table>

¹ New tax regulations in the United States effective as of January 1, 2018, have resulted in an increased tax expense for 2017 since deferred tax assets have been calculated using the new corporate tax rate for 2018 of 21% (34).

² Total operating revenues, net, have been restated due to changed presentation of the income statement.
## Note 24  Intangible assets

<table>
<thead>
<tr>
<th>Group</th>
<th>Goodwill</th>
<th>Brands</th>
<th>Licenses</th>
<th>Capitalised development expenses</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase value as at January 1, 2018</td>
<td>1,275,723</td>
<td>78,872</td>
<td>50,686</td>
<td>485,931</td>
<td>353,958</td>
<td>2,245,170</td>
</tr>
<tr>
<td>This year's purchase</td>
<td></td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This year's sales/disposals</td>
<td></td>
<td>-</td>
<td>-3,152</td>
<td>-23,433</td>
<td>-6,992</td>
<td>-33,577</td>
</tr>
<tr>
<td>Currency translation difference</td>
<td></td>
<td>-</td>
<td>52,142</td>
<td>224</td>
<td>4,563</td>
<td>57,182</td>
</tr>
<tr>
<td>Purchase value as at December 31, 2018</td>
<td>1,327,865</td>
<td>82,094</td>
<td>61,189</td>
<td>670,910</td>
<td>401,055</td>
<td>2,543,113</td>
</tr>
<tr>
<td>Amortisation as at January 1, 2018</td>
<td></td>
<td>-</td>
<td>-656</td>
<td>-38,932</td>
<td>-269,383</td>
<td>-62,085</td>
</tr>
<tr>
<td>This year's amortisation</td>
<td></td>
<td>-</td>
<td>-2,047</td>
<td>-8,814</td>
<td>-75,436</td>
<td>-21,048</td>
</tr>
<tr>
<td>This year's sales/disposals</td>
<td></td>
<td>-</td>
<td>3,152</td>
<td>15,987</td>
<td>2,452</td>
<td>21,591</td>
</tr>
<tr>
<td>Reclassification</td>
<td></td>
<td>-</td>
<td></td>
<td>-157</td>
<td>2,544</td>
<td>2,378</td>
</tr>
<tr>
<td>Currency translation difference</td>
<td></td>
<td>-</td>
<td>-27</td>
<td>-159</td>
<td>-5,203</td>
<td>-916</td>
</tr>
<tr>
<td>Amortisation as at December 31, 2018</td>
<td></td>
<td>-</td>
<td>-2,730</td>
<td>-44,753</td>
<td>-334,192</td>
<td>-79,053</td>
</tr>
<tr>
<td>Write-down as at January 1, 2018</td>
<td></td>
<td>-</td>
<td>-72,970</td>
<td>-72</td>
<td>-</td>
<td>-73,042</td>
</tr>
<tr>
<td>This year's write-down</td>
<td></td>
<td>-</td>
<td></td>
<td>-7,721</td>
<td>-4,540</td>
<td>-12,261</td>
</tr>
<tr>
<td>This year's sales/disposals</td>
<td></td>
<td>-</td>
<td></td>
<td>7,446</td>
<td>4,540</td>
<td>11,986</td>
</tr>
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<td>Currency translation difference</td>
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<td>-2,981</td>
<td>-3</td>
<td>-2,984</td>
<td></td>
</tr>
<tr>
<td>Write-down as at December 31, 2018</td>
<td></td>
<td>-</td>
<td>-75,951</td>
<td>-350</td>
<td>-</td>
<td>-76,301</td>
</tr>
<tr>
<td>Carrying amount as at December 31, 2018</td>
<td>1,327,865</td>
<td>3,413</td>
<td>16,436</td>
<td>336,368</td>
<td>322,002</td>
<td>2,006,084</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group</th>
<th>Goodwill</th>
<th>Brands</th>
<th>Licenses</th>
<th>Capitalised development expenses</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase value as at January 1, 2017</td>
<td>898,455</td>
<td>70,805</td>
<td>38,774</td>
<td>358,534</td>
<td>102,080</td>
<td>1,468,648</td>
</tr>
<tr>
<td>This year's purchase</td>
<td></td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of subsidiaries</td>
<td>349,778</td>
<td>5,901</td>
<td>2,491</td>
<td>26,209</td>
<td>228,287</td>
<td>612,666</td>
</tr>
<tr>
<td>Currency translation difference</td>
<td>27,490</td>
<td>2,166</td>
<td>84</td>
<td>4,495</td>
<td>1,718</td>
<td>35,953</td>
</tr>
<tr>
<td>Purchase value as at December 31, 2017</td>
<td>1,275,723</td>
<td>78,872</td>
<td>50,686</td>
<td>485,931</td>
<td>353,958</td>
<td>2,245,170</td>
</tr>
<tr>
<td>Amortisation as at January 1, 2017</td>
<td></td>
<td>-</td>
<td>-30,882</td>
<td>-183,454</td>
<td>-42,076</td>
<td>-256,412</td>
</tr>
<tr>
<td>This year's amortisation</td>
<td></td>
<td>-</td>
<td>-5,985</td>
<td>-75,078</td>
<td>-15,947</td>
<td>-97,666</td>
</tr>
<tr>
<td>Acquisition of subsidiaries</td>
<td></td>
<td>-</td>
<td>-2,016</td>
<td>-11,132</td>
<td>-</td>
<td>-13,148</td>
</tr>
<tr>
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<td>-49</td>
<td>281</td>
<td>-4,061</td>
<td>-3,829</td>
</tr>
<tr>
<td>Amortisation as at December 31, 2017</td>
<td></td>
<td>-</td>
<td>-38,932</td>
<td>-269,383</td>
<td>-62,085</td>
<td>-371,056</td>
</tr>
<tr>
<td>Write-down as at January 1, 2017</td>
<td></td>
<td>-</td>
<td></td>
<td>-73</td>
<td>-</td>
<td>-73,042</td>
</tr>
<tr>
<td>This year's write-down</td>
<td></td>
<td>-</td>
<td>-3,631</td>
<td>-73</td>
<td>-</td>
<td>-73,042</td>
</tr>
<tr>
<td>Currency translation difference</td>
<td></td>
<td>-</td>
<td>661</td>
<td>1</td>
<td>-</td>
<td>662</td>
</tr>
<tr>
<td>Write-down as at December 31, 2017</td>
<td></td>
<td>-</td>
<td>-72,970</td>
<td>-72</td>
<td>-</td>
<td>-73,042</td>
</tr>
<tr>
<td>Carrying amount as at December 31, 2017</td>
<td>1,275,723</td>
<td>5,246</td>
<td>11,754</td>
<td>216,476</td>
<td>291,873</td>
<td>1,801,072</td>
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</tbody>
</table>
Goodwill is allocated to the following cash-generating units:

<table>
<thead>
<tr>
<th>Parent Company</th>
<th>31 Dec 2018</th>
<th>31 Dec 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Klarna Bank AB (publ), originated from Analyzd Technologies Ltd</td>
<td>10,594</td>
<td>10,152</td>
</tr>
<tr>
<td>BillPay Gmbh</td>
<td>364,054</td>
<td>349,766</td>
</tr>
<tr>
<td>Sofort Gmbh</td>
<td>953,217</td>
<td>915,805</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,327,865</strong></td>
<td><strong>1,275,723</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parent Company</th>
<th>Licenses</th>
<th>Capitalised development expenses</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purchase value as at January 1, 2018</strong></td>
<td>45,202</td>
<td>307,566</td>
<td>67,777</td>
<td>420,545</td>
</tr>
<tr>
<td>This year’s purchase</td>
<td>11,488</td>
<td>202,429</td>
<td>42,398</td>
<td>256,315</td>
</tr>
<tr>
<td>This year’s sales/disposals</td>
<td>-2,399</td>
<td>-23,351</td>
<td>-6,992</td>
<td>-32,242</td>
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<tr>
<td><strong>Purchase value as at December 31, 2018</strong></td>
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<td>486,644</td>
<td>103,183</td>
<td>644,118</td>
</tr>
<tr>
<td><strong>Amortisation as at January 1, 2018</strong></td>
<td>-35,045</td>
<td>-142,947</td>
<td>-36,457</td>
<td>-214,449</td>
</tr>
<tr>
<td>This year’s amortisation</td>
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<td>-3,875</td>
<td>-51,153</td>
</tr>
<tr>
<td>This year’s sales/disposals</td>
<td>2,399</td>
<td>15,905</td>
<td>2,452</td>
<td>20,756</td>
</tr>
<tr>
<td>Reclassification</td>
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<td>2,387</td>
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<td>2,387</td>
</tr>
<tr>
<td><strong>Amortisation as at December 31, 2018</strong></td>
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<td>-164,027</td>
<td>-37,880</td>
<td>-242,459</td>
</tr>
<tr>
<td><strong>Write-down as at January 1, 2018</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>This year’s write-down</td>
<td>-</td>
<td>-7,466</td>
<td>-4,540</td>
<td>-11,986</td>
</tr>
<tr>
<td>This year’s sales/disposals</td>
<td>-</td>
<td>7,466</td>
<td>4,540</td>
<td>11,986</td>
</tr>
<tr>
<td><strong>Write-down as at December 31, 2018</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Carrying amount as at December 31, 2018</strong></td>
<td>13,739</td>
<td>322,617</td>
<td>65,303</td>
<td>401,659</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parent Company</th>
<th>Licenses</th>
<th>Capitalised development expenses</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purchase value as at January 1, 2017</strong></td>
<td>36,024</td>
<td>211,521</td>
<td>45,904</td>
<td>293,449</td>
</tr>
<tr>
<td>This year’s purchase</td>
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<td>96,045</td>
<td>21,873</td>
<td>127,095</td>
</tr>
<tr>
<td><strong>Purchase value as at December 31, 2017</strong></td>
<td>45,202</td>
<td>307,566</td>
<td>67,777</td>
<td>420,545</td>
</tr>
<tr>
<td><strong>Amortisation as at January 1, 2017</strong></td>
<td>-29,649</td>
<td>-100,144</td>
<td>-28,250</td>
<td>-158,043</td>
</tr>
<tr>
<td>This year’s amortisation</td>
<td>-5,396</td>
<td>-42,003</td>
<td>-8,207</td>
<td>-56,606</td>
</tr>
<tr>
<td><strong>Amortisation as at December 31, 2017</strong></td>
<td>-35,045</td>
<td>-142,947</td>
<td>-36,457</td>
<td>-214,449</td>
</tr>
<tr>
<td><strong>Carrying amount as at December 31, 2017</strong></td>
<td>10,157</td>
<td>166,619</td>
<td>31,320</td>
<td>206,096</td>
</tr>
</tbody>
</table>
Impairment testing of goodwill and intangible assets with an indefinite useful life

Goodwill and other intangible assets with indefinite useful life are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that impairment may have occurred. The impairment charge is calculated as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or cash generating unit, where the value in use is determined as the present value of expected future cash flows.

The Group’s recognised goodwill and intangible assets with an indefinite useful life is attributable to the acquisitions of Sofort GmbH, Analyzd Technologies Ltd., and BillPay GmbH. For the goodwill related to Analyzd Technologies Ltd., the cash-generating unit is Klarna Bank AB (publ). The goodwill from the acquisition of Analyzd Technologies Ltd. was mainly attributable to its subsidiary Klarna Ltd. Israel. During 2018, a decision was made to close down Klarna Ltd. Israel. Therefore, the resources were distributed to other Klarna companies. These companies are highly integrated with Klarna Bank AB (publ) and receive their revenues from transfer pricing agreements within the Group. Therefore, the cash-generating unit is Klarna Bank AB (publ). For the goodwill related to the acquisitions of Sofort GmbH and BillPay GmbH, the cash-generating unit is the operating segment DACH.

Expected future cash flows for the cash generating units are based on forecasts for the first 3-5 years. The most important factors for the impairment test are the growth rate of revenues, gross margin, the growth rate of indirect costs and the level of the discount rate. These parameters are based on internal assessments of the cash generating units’ development. A long-term growth rate is applied for years after the first 3-5-year period. The long-term growth rate used in the cash flow forecast for 2018 is 2% (2). The expected cash flows have been discounted to present value using a discount rate that is based on the risk-free interest rate and a company-specific risk adjustment. The discount rate used for 2018 was 8.9% (10.5) before tax. The results of the impairment test showed that the recoverable amount is larger than the carrying amount with a good margin and that there was consequently no need for an impairment charge. A sensitivity analysis has been performed with changes in the most important factors of the impairment test. The result of the sensitivity analysis did not indicate any need of impairment charge. The impairment test was performed in Q4 2018.

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

Note 25  Tangible assets

<table>
<thead>
<tr>
<th>Group</th>
<th>Investments in rented facilities</th>
<th>Equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase value as at January 1, 2018</td>
<td>4,879</td>
<td>178,240</td>
<td>183,119</td>
</tr>
<tr>
<td>Opening balance purchase value adjustment</td>
<td>-</td>
<td>-378</td>
<td>-378</td>
</tr>
<tr>
<td>This year’s purchase</td>
<td>24,019</td>
<td>29,471</td>
<td>53,490</td>
</tr>
<tr>
<td>This year’s sales/disposals</td>
<td>-71</td>
<td>-45,971</td>
<td>-46,042</td>
</tr>
<tr>
<td>Currency translation difference</td>
<td>439</td>
<td>2,386</td>
<td>2,825</td>
</tr>
<tr>
<td>Purchase value as at December 31, 2018</td>
<td>29,266</td>
<td>163,748</td>
<td>193,014</td>
</tr>
</tbody>
</table>

<p>| Depreciation as at January 1, 2018              | -2,325                          | -118,950  | -121,275|
| Opening balance depreciation adjustment         | -                               | 378       | 378     |
| This year’s depreciation                        | -1,154                          | -33,986   | -35,140 |
| This year’s sales/disposals                     | 46                              | 45,146    | 45,192  |
| Currency translation difference                 | -240                            | -1,327    | -1,567  |
| Depreciation as at December 31, 2018           | -3,673                          | -108,739  | -112,412|
| Carrying amount as at December 31, 2018        | 25,593                          | 55,009    | 80,602  |</p>
<table>
<thead>
<tr>
<th>Group</th>
<th>Investments in rented facilities</th>
<th>Equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase value as at January 1, 2017</td>
<td>7,364</td>
<td>137,948</td>
<td>145,312</td>
</tr>
<tr>
<td>This year's purchase</td>
<td>-</td>
<td>32,779</td>
<td>32,779</td>
</tr>
<tr>
<td>Acquisition of subsidiaries</td>
<td>-</td>
<td>5,665</td>
<td>5,665</td>
</tr>
<tr>
<td>This year's sales/disposals</td>
<td>-</td>
<td>-14</td>
<td>-14</td>
</tr>
<tr>
<td>Reclassification</td>
<td>-1,787</td>
<td>1,774</td>
<td>-13</td>
</tr>
<tr>
<td>Currency translation difference</td>
<td>-698</td>
<td>88</td>
<td>-610</td>
</tr>
<tr>
<td>Purchase value as at December 31, 2017</td>
<td>4,879</td>
<td>178,240</td>
<td>183,119</td>
</tr>
</tbody>
</table>

| Depreciation as at January 1, 2017             | -1,041                           | -89,446   | -90,487|
| This year's depreciation                       | -1,017                           | -28,188   | -29,205|
| Acquisition of subsidiaries                    | -                                | -1,526    | -1,526 |
| This year's sales/disposals                    | -                                | 11        | 11     |
| Reclassification                               | -407                             | 420       | 13     |
| Currency translation difference                | 140                              | -221      | -81    |
| Depreciation as at December 31, 2017           | -2,325                           | -118,950  | -121,275|
| Carrying amount as at December 31, 2017        | 2,554                            | 59,290    | 61,844 |

<table>
<thead>
<tr>
<th>Parent Company</th>
<th></th>
<th>Equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase value as at January 1, 2018</td>
<td></td>
<td>123,238</td>
<td>123,238</td>
</tr>
<tr>
<td>This year's purchase</td>
<td></td>
<td>25,586</td>
<td>25,586</td>
</tr>
<tr>
<td>This year's sales/disposals</td>
<td></td>
<td>-38,291</td>
<td>-38,291</td>
</tr>
<tr>
<td>Purchase value as at December 31, 2018</td>
<td></td>
<td>110,533</td>
<td>110,533</td>
</tr>
</tbody>
</table>

| Depreciation as at January 1, 2018             |                                  | -87,230   | -87,230|
| This year's depreciation                       |                                  | -20,996   | -20,996|
| This year's sales/disposals                    |                                  | 38,291    | 38,291 |
| Depreciation as at December 31, 2018           |                                  | -69,935   | -69,935|
| Carrying amount as at December 31, 2018        |                                  | 40,598    | 40,598 |

<table>
<thead>
<tr>
<th>Parent Company</th>
<th></th>
<th>Equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase value as at January 1, 2017</td>
<td></td>
<td>99,438</td>
<td>99,438</td>
</tr>
<tr>
<td>This year's purchase</td>
<td></td>
<td>23,800</td>
<td>23,800</td>
</tr>
<tr>
<td>Purchase value as at December 31, 2017</td>
<td></td>
<td>123,238</td>
<td>123,238</td>
</tr>
</tbody>
</table>

| Depreciation as at January 1, 2017             |                                  | -70,785   | -70,785|
| This year's depreciation                       |                                  | -16,445   | -16,445|
| Depreciation as at December 31, 2017           |                                  | -87,230   | -87,230|
| Carrying amount as at December 31, 2017        |                                  | 36,008    | 36,008 |
### Note 26  Other assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables from group companies</td>
<td>-</td>
<td>-</td>
<td>343,733</td>
<td>96,546</td>
</tr>
<tr>
<td>Current tax assets</td>
<td>31,434</td>
<td>6,701</td>
<td>29,576</td>
<td>-</td>
</tr>
<tr>
<td>VAT receivables</td>
<td>24,114</td>
<td>10,732</td>
<td>14,398</td>
<td>6,860</td>
</tr>
<tr>
<td>Derivatives¹</td>
<td>24,074</td>
<td>29,908</td>
<td>24,074</td>
<td>29,908</td>
</tr>
<tr>
<td>Other receivables</td>
<td>27,682</td>
<td>49,060</td>
<td>5,860</td>
<td>27,923</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>107,304</td>
<td>96,401</td>
<td>417,641</td>
<td>161,237</td>
</tr>
</tbody>
</table>

¹ For more information on derivatives, see note 27

For the fair value amounts see note 38.

### Note 27  Derivatives

**Derivatives held for trading**

**Group**

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>Fair value</th>
<th>Total nominal amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign exchange derivatives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency forwards</td>
<td>24,074</td>
<td>-14,947</td>
<td>1,815,599</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24,074</td>
<td>-14,947</td>
<td>1,815,599</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>Fair value</th>
<th>Total nominal amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign exchange derivatives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency forwards</td>
<td>29,918</td>
<td>-10</td>
<td>2,369,352</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>29,918</td>
<td>-10</td>
<td>2,369,352</td>
</tr>
</tbody>
</table>

**Parent Company**

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>Fair value</th>
<th>Total nominal amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign exchange derivatives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency forwards</td>
<td>24,074</td>
<td>-14,947</td>
<td>1,815,599</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24,074</td>
<td>-14,947</td>
<td>1,815,599</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>Fair value</th>
<th>Total nominal amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign exchange derivatives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency forwards</td>
<td>29,918</td>
<td>-10</td>
<td>2,369,352</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>29,918</td>
<td>-10</td>
<td>2,369,352</td>
</tr>
</tbody>
</table>
**Note 28  Prepaid expenses and accrued income**

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th></th>
<th>Parent Company</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>1,095</td>
<td>980</td>
<td>18,761</td>
<td>23,592</td>
</tr>
<tr>
<td>Accrued other income</td>
<td>8,010</td>
<td>1,577</td>
<td>7,999</td>
<td>1,577</td>
</tr>
<tr>
<td>Prepaid rent</td>
<td>16,510</td>
<td>14,426</td>
<td>14,211</td>
<td>13,460</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>1,518</td>
<td>1,210</td>
<td>875</td>
<td>763</td>
</tr>
<tr>
<td>Prepaid licenses</td>
<td>39,774</td>
<td>28,355</td>
<td>39,435</td>
<td>28,055</td>
</tr>
<tr>
<td>Other prepaid expenses</td>
<td>78,932</td>
<td>25,921</td>
<td>68,492</td>
<td>17,790</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>145,839</strong></td>
<td><strong>72,469</strong></td>
<td><strong>149,773</strong></td>
<td><strong>85,237</strong></td>
</tr>
</tbody>
</table>

For the fair value amounts see note 38.

**Note 29  Liabilities to credit institutions**

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th></th>
<th>Parent Company</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td>1,418,054</td>
<td>396,965</td>
<td>1,418,054</td>
<td>396,965</td>
</tr>
<tr>
<td>- in SEK</td>
<td>438,741</td>
<td>96,170</td>
<td>438,741</td>
<td>96,170</td>
</tr>
<tr>
<td>- in EUR</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- in USD</td>
<td>179,839</td>
<td>-</td>
<td>179,839</td>
<td>-</td>
</tr>
<tr>
<td>- in NOK</td>
<td>790,505</td>
<td>300,795</td>
<td>790,505</td>
<td>300,795</td>
</tr>
<tr>
<td>- in other currencies</td>
<td>8,969</td>
<td>-</td>
<td>8,969</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,418,054</strong></td>
<td><strong>396,965</strong></td>
<td><strong>1,418,054</strong></td>
<td><strong>396,965</strong></td>
</tr>
</tbody>
</table>

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.

**Note 30  Deposits from the public**

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th></th>
<th>Parent Company</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>Private individuals</td>
<td>13,825,440</td>
<td>7,847,312</td>
<td>13,801,149</td>
<td>7,831,550</td>
</tr>
<tr>
<td>Companies</td>
<td>756,329</td>
<td>644,342</td>
<td>756,329</td>
<td>644,342</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,581,769</strong></td>
<td><strong>8,491,654</strong></td>
<td><strong>14,557,478</strong></td>
<td><strong>8,475,892</strong></td>
</tr>
</tbody>
</table>

By currency

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th></th>
<th>Parent Company</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>- in SEK</td>
<td>4,423,930</td>
<td>3,617,770</td>
<td>4,423,930</td>
<td>3,617,770</td>
</tr>
<tr>
<td>- in EUR</td>
<td>9,988,255</td>
<td>4,865,337</td>
<td>9,976,282</td>
<td>4,858,122</td>
</tr>
<tr>
<td>- in USD</td>
<td>2,560</td>
<td>921</td>
<td>333</td>
<td>-</td>
</tr>
<tr>
<td>- in other currencies</td>
<td>167,024</td>
<td>7,626</td>
<td>156,933</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,581,769</strong></td>
<td><strong>8,491,654</strong></td>
<td><strong>14,557,478</strong></td>
<td><strong>8,475,892</strong></td>
</tr>
</tbody>
</table>

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.
**Note 31  Debt securities in issue**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior unsecured bond</td>
<td>1,996,905</td>
<td>1,995,036</td>
<td>1,996,905</td>
<td>1,995,036</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,996,905</strong></td>
<td><strong>1,995,036</strong></td>
<td><strong>1,996,905</strong></td>
<td><strong>1,995,036</strong></td>
</tr>
</tbody>
</table>

In September 2017, Klarna Bank AB (publ) issued SEK 2,000m of senior unsecured notes. The notes have a maturity of 3 years and pay interest on a quarterly basis. They were listed on Nasdaq Stockholm in December 2017.

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.

**Note 32  Other liabilities**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>24,457</td>
<td>135,012</td>
<td>673</td>
<td>121,659</td>
</tr>
<tr>
<td>Personnel related taxes</td>
<td>33,388</td>
<td>28,102</td>
<td>21,169</td>
<td>17,589</td>
</tr>
<tr>
<td>Liabilities to group companies</td>
<td>347,100</td>
<td>170,985</td>
<td>807,104</td>
<td>223,667</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>125,529</td>
<td>108,498</td>
<td>-</td>
<td>48,453</td>
</tr>
<tr>
<td>Liabilities to merchants</td>
<td>3,645,134</td>
<td>2,673,200</td>
<td>3,071,383</td>
<td>2,184,464</td>
</tr>
<tr>
<td>Derivatives</td>
<td>14,947</td>
<td>-</td>
<td>14,947</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>42,926</td>
<td>10,288</td>
<td>33,044</td>
<td>130</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,233,481</strong></td>
<td><strong>3,126,085</strong></td>
<td><strong>3,948,320</strong></td>
<td><strong>2,595,962</strong></td>
</tr>
</tbody>
</table>

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.

**Note 33  Accrued expenses and prepaid income**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued personnel related expenses</td>
<td>193,106</td>
<td>136,181</td>
<td>155,238</td>
<td>112,696</td>
</tr>
<tr>
<td>Accrued commissions to partners</td>
<td>51,839</td>
<td>37,295</td>
<td>50,091</td>
<td>33,173</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>56,118</td>
<td>31,179</td>
<td>48,408</td>
<td>27,199</td>
</tr>
<tr>
<td>Accrued expenses for outsourced functions</td>
<td>38,633</td>
<td>24,237</td>
<td>37,133</td>
<td>22,974</td>
</tr>
<tr>
<td>Accrued expenses for consultants</td>
<td>28,752</td>
<td>14,369</td>
<td>26,672</td>
<td>13,887</td>
</tr>
<tr>
<td>Accrued distribution costs</td>
<td>16,712</td>
<td>16,415</td>
<td>16,712</td>
<td>16,379</td>
</tr>
<tr>
<td>Accrued scoring costs</td>
<td>17,176</td>
<td>17,159</td>
<td>16,619</td>
<td>16,898</td>
</tr>
<tr>
<td>Other accruedexpenses</td>
<td>103,775</td>
<td>79,755</td>
<td>77,898</td>
<td>49,050</td>
</tr>
<tr>
<td>Other prepaid income</td>
<td>26,472</td>
<td>24,590</td>
<td>25,594</td>
<td>24,591</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>532,583</strong></td>
<td><strong>381,178</strong></td>
<td><strong>454,365</strong></td>
<td><strong>316,847</strong></td>
</tr>
</tbody>
</table>

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.
### Note 34 Provisions

<table>
<thead>
<tr>
<th>Group</th>
<th>Restructuring reserve</th>
<th>Pending legal issues and tax litigations</th>
<th>Commitments and guarantees</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provisions as at January 1, 2018</td>
<td>-</td>
<td>105,443</td>
<td>22,179</td>
<td>1,791</td>
<td>129,413</td>
</tr>
<tr>
<td>Adjustment of opening balance</td>
<td>-</td>
<td>-</td>
<td>22,179</td>
<td>-</td>
<td>-22,179</td>
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<tr>
<td>New provisions</td>
<td>23,273</td>
<td>133,949</td>
<td>-</td>
<td>60</td>
<td>157,282</td>
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<tr>
<td>Amounts used</td>
<td>-11,508</td>
<td>-70,193</td>
<td>-</td>
<td>-</td>
<td>-81,701</td>
</tr>
<tr>
<td>Unused amounts, reversed</td>
<td>-10,681</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-10,681</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>-</td>
<td>776</td>
<td>-</td>
<td>-776</td>
<td>-</td>
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<tr>
<td>Other adjustments</td>
<td>-</td>
<td>42</td>
<td>-</td>
<td>73</td>
<td>115</td>
</tr>
<tr>
<td>Provisions as at December 31, 2018</td>
<td>1,084</td>
<td>170,017</td>
<td>-</td>
<td>1,148</td>
<td>172,249</td>
</tr>
</tbody>
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### Provisions for financial guarantees and commitments

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provisions as at January 1, 2018</td>
<td>14,225</td>
<td>4,061</td>
<td>1,963</td>
</tr>
<tr>
<td>New provisions</td>
<td>83,023</td>
<td>4,127</td>
<td>45</td>
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<tr>
<td>Reversed provisions</td>
<td>-24,036</td>
<td>-5,303</td>
<td>-17,108</td>
</tr>
<tr>
<td>Transfers to stage 1</td>
<td>2,343</td>
<td>-2,322</td>
<td>-21</td>
</tr>
<tr>
<td>Transfers to stage 2</td>
<td>-14,557</td>
<td>14,562</td>
<td>-5</td>
</tr>
<tr>
<td>Transfers to stage 3</td>
<td>-4,036</td>
<td>-11,261</td>
<td>15,297</td>
</tr>
<tr>
<td>Impact on year end ECL from change in credit risk</td>
<td>1,160</td>
<td>721</td>
<td>3,124</td>
</tr>
<tr>
<td>Other adjustments</td>
<td>1,045</td>
<td>157</td>
<td>134</td>
</tr>
<tr>
<td>Provisions as at December 31, 2018</td>
<td>59,167</td>
<td>4,742</td>
<td>3,629</td>
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</table>

<table>
<thead>
<tr>
<th>Provisions as at January 1, 2017</th>
<th>Restructuring reserve</th>
<th>Pending legal issues and tax litigations</th>
<th>Commitments and guarantees</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>139,479</td>
<td>1,000</td>
<td>781</td>
<td>141,260</td>
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</tr>
<tr>
<td>New provisions</td>
<td>-</td>
<td>65,565</td>
<td>10,694</td>
<td>986</td>
<td>77,245</td>
</tr>
<tr>
<td>Acquisitions of subsidiaries</td>
<td>-</td>
<td>-</td>
<td>11,485</td>
<td>-</td>
<td>11,485</td>
</tr>
<tr>
<td>Amounts used</td>
<td>-</td>
<td>-99,632</td>
<td>-</td>
<td>-</td>
<td>-99,632</td>
</tr>
<tr>
<td>Unused amounts, reversed</td>
<td>-</td>
<td>-1,000</td>
<td>-</td>
<td>-</td>
<td>-1,000</td>
</tr>
<tr>
<td>Other adjustments</td>
<td>-</td>
<td>31</td>
<td>-</td>
<td>24</td>
<td>55</td>
</tr>
<tr>
<td>Provisions as at December 31, 2017</td>
<td>105,443</td>
<td>22,179</td>
<td>1,791</td>
<td>129,413</td>
<td></td>
</tr>
</tbody>
</table>

For the Group the total provisions at the end of the year 2018 including the provisions for financial guarantees and commitments amount to SEK 239,588k. At the end of the year 2017 the total provisions amounted to SEK 129,413k.
Parent Company

<table>
<thead>
<tr>
<th></th>
<th>Pending legal issues and tax litigations</th>
<th>Commitments and guarantees</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provisions as at January 1, 2018</td>
<td>104,400</td>
<td></td>
<td></td>
<td>104,400</td>
</tr>
<tr>
<td>New provisions</td>
<td>133,949</td>
<td></td>
<td></td>
<td>133,949</td>
</tr>
<tr>
<td>Amounts used</td>
<td>-70,193</td>
<td></td>
<td></td>
<td>-70,193</td>
</tr>
<tr>
<td>Provisions as at December 31, 2018</td>
<td>168,156</td>
<td></td>
<td></td>
<td>168,156</td>
</tr>
</tbody>
</table>

Provisions for financial guarantees and commitments

<table>
<thead>
<tr>
<th></th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provisions as at January 1, 2018</td>
<td>7,482</td>
<td></td>
<td></td>
<td>7,482</td>
</tr>
<tr>
<td>New provisions</td>
<td>57,802</td>
<td>14</td>
<td>8</td>
<td>57,824</td>
</tr>
<tr>
<td>Reversed provisions</td>
<td>-10,760</td>
<td>-605</td>
<td>-2,567</td>
<td>-13,932</td>
</tr>
<tr>
<td>Transfers to stage 1</td>
<td>95</td>
<td>-74</td>
<td>-21</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to stage 2</td>
<td>-2,720</td>
<td>2,724</td>
<td>-4</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to stage 3</td>
<td>-1,640</td>
<td>-14</td>
<td>1,654</td>
<td>-</td>
</tr>
<tr>
<td>Impact on year end ECL from change in credit risk</td>
<td>-8</td>
<td>640</td>
<td>2,870</td>
<td>3,502</td>
</tr>
<tr>
<td>Other adjustments</td>
<td>769</td>
<td>-8</td>
<td>54</td>
<td>815</td>
</tr>
<tr>
<td>Provisions as at December 31, 2018</td>
<td>51,019</td>
<td>2,677</td>
<td>1,994</td>
<td>55,691</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Pending legal issues and tax litigations</th>
<th>Commitments and guarantees</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provisions as at January 1, 2017</td>
<td>138,468</td>
<td></td>
<td></td>
<td>139,468</td>
</tr>
<tr>
<td>New provisions</td>
<td>65,564</td>
<td></td>
<td></td>
<td>65,564</td>
</tr>
<tr>
<td>Amounts used</td>
<td>-99,632</td>
<td></td>
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<td>-99,632</td>
</tr>
<tr>
<td>Unused amounts, reversed</td>
<td>-</td>
<td>-1,000</td>
<td></td>
<td>-1,000</td>
</tr>
<tr>
<td>Provisions as at December 31, 2017</td>
<td>104,400</td>
<td></td>
<td></td>
<td>104,400</td>
</tr>
</tbody>
</table>

For Klarna Bank AB (publ) the total provisions at the end of the year 2018 including the provisions for financial guarantees and commitments amount to SEK 223,847k. At the end of the year 2017 the total provisions amounted to SEK 104,400k.

The restructuring reserve relates to the closure of the Tel Aviv office in Israel.

Klarna Bank AB (publ) has provisioned SEK 168m (104), net of payments, for 2014-2018 as a consequence of tax assessments made by the Swedish Tax Agency on how Klarna Bank AB (publ) handles VAT. Klarna Bank AB (publ) is disputing the assessments; however the provisioning represents a likely outcome. Of the provisions, prior to payments, SEK 232m is related to 2014-2017 and SEK 134m to 2018.

On February 20, 2018, the Administrative Court ruled in the above mentioned tax assessments case concerning 2014-2015. The Administrative Court gave Klarna right in some of the claims but rejected a majority. Klarna Bank AB (publ) has appealed to the Administrative Court of Appeal. The overall assessment concludes that the current provision does not need to be adjusted for the above outcome.
Note 35  **Subordinated liabilities**

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>Subordinated note, nominal value</td>
<td>600,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Transaction expenses</td>
<td>-5,099</td>
<td>-3,272</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>2,659</td>
<td>393</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>597,560</td>
<td>297,121</td>
</tr>
</tbody>
</table>

In June 2016 Klarna Bank AB (publ) issued subordinated Tier 2 notes of SEK 300m. Additional SEK 300m of subordinated Tier 2 notes were issued in July 2018. The subordinated notes have original maturity of 10 years with a call option of the issuer after 5 years. The interest is paid on a quarterly basis.

For the fair value amounts see note 38. For maturity analysis of financial liabilities, see note 41.

Note 36  **Untaxed reserves**

<table>
<thead>
<tr>
<th></th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
</tr>
<tr>
<td>Additional depreciation</td>
<td>2,213</td>
</tr>
<tr>
<td>Tax allocation reserve 2017</td>
<td>85,000</td>
</tr>
<tr>
<td>Tax allocation reserve 2016</td>
<td>14,500</td>
</tr>
<tr>
<td>Tax allocation reserve 2015</td>
<td>40,000</td>
</tr>
<tr>
<td>Tax allocation reserve 2014</td>
<td>11,600</td>
</tr>
<tr>
<td>Tax allocation reserve 2013</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>153,313</td>
</tr>
</tbody>
</table>

Note 37  **Pledged assets and contingent liabilities**

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>Pledged assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets pledged for own liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledged loans and receivables</td>
<td>6,645,083</td>
<td>5,393,252</td>
</tr>
<tr>
<td>Other pledged assets</td>
<td>9,474</td>
<td>8,200</td>
</tr>
<tr>
<td><strong>Total pledged assets</strong></td>
<td>6,654,557</td>
<td>5,401,452</td>
</tr>
</tbody>
</table>

Contingent liabilities and commitments

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>Guarantees</td>
<td>523,952</td>
<td>357,367</td>
</tr>
<tr>
<td>Commitments</td>
<td>4,463,600</td>
<td>706,407</td>
</tr>
<tr>
<td><strong>Total contingent liabilities and commitments</strong></td>
<td>4,987,552</td>
<td>1,063,774</td>
</tr>
</tbody>
</table>

Klarna Bank AB (publ) continually pledges parts of its Swedish receivables as collateral for liabilities to credit institutions which provides security for the Group’s credit facility. The credit liability amounted to SEK 417,741k (96,170) at December 31, 2018.
### Note 38  
**Financial assets and liabilities at fair value**

<table>
<thead>
<tr>
<th>Group</th>
<th>31 Dec 2018</th>
<th>31 Dec 2017</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>Carrying amount</td>
<td>Difference</td>
<td>Fair value</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>331</td>
<td>331</td>
<td>-</td>
<td>36</td>
</tr>
<tr>
<td>Chargeable central bank treasury bills¹</td>
<td>3,083,849</td>
<td>3,083,314</td>
<td>-465</td>
<td>1,847,705</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>2,367,631</td>
<td>2,367,631</td>
<td>-</td>
<td>1,211,778</td>
</tr>
<tr>
<td>Loans to the public</td>
<td>19,979,002</td>
<td>19,979,002</td>
<td>-</td>
<td>13,874,164</td>
</tr>
<tr>
<td>Other shares and participations</td>
<td>41,217</td>
<td>41,217</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>27,682</td>
<td>27,682</td>
<td>-</td>
<td>49,060</td>
</tr>
<tr>
<td>Other assets (Currency forwards)</td>
<td>24,074</td>
<td>24,074</td>
<td>-</td>
<td>29,908</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td>9,094</td>
<td>9,094</td>
<td>-</td>
<td>2,543</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>25,532,880</td>
<td>25,533,345</td>
<td>-465</td>
<td>17,015,194</td>
</tr>
</tbody>
</table>

| Liabilities                                     |                   |                   |           |           |
| | Fair value | Carrying amount | Difference | Fair value | Carrying amount | Difference |
| Liabilities to credit institutions              | 1,418,054         | 1,418,054         | -         | 396,965    | 396,965    | -         |
| Deposits from the public                        | 14,533,365        | 14,581,769        | -48,404   | 8,436,250  | 8,491,654  | -55,404   |
| Debt securities in issue                        | 2,005,971         | 1,996,905         | 9,066     | 2,231,000  | 1,995,036  | 235,964   |
| Other liabilities                               | 4,051,762         | 4,051,762         | -         | 2,982,011  | 2,982,011  | -         |
| Other liabilities (Currency forwards)           | 14,947            | 14,947            | -         | -          | -          | -         |
| Accrued expenses and prepaid income             | 498,401           | 498,401           | -         | 352,610    | 352,610    | -         |
| Subordinated liabilities                        | 607,374           | 597,560           | 9,814     | 316,875    | 297,121    | 19,754    |
| **Total**                                       | 23,129,874        | 23,159,398        | -29,524   | 14,715,711 | 14,515,397 | 200,314   |

¹ Chargeable central bank treasury bills are under IFRS 9, classified as amortised cost instead of fair value through profit or loss.
### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>31 Dec 2018</th>
<th>Fair value</th>
<th>Carrying amount</th>
<th>Difference</th>
<th>31 Dec 2017</th>
<th>Fair value</th>
<th>Carrying amount</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and balances with central banks</td>
<td>304</td>
<td>304</td>
<td>-</td>
<td>4</td>
<td>1,847,705</td>
<td>1,847,705</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Chargeable central bank treasury bills</td>
<td>3,083,849</td>
<td>3,084,314</td>
<td>-465</td>
<td>1,847,705</td>
<td>1,847,705</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>1,962,486</td>
<td>1,962,486</td>
<td>-</td>
<td>824,695</td>
<td>824,695</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loans to the public</td>
<td>19,850,726</td>
<td>19,850,726</td>
<td>-</td>
<td>13,739,439</td>
<td>13,739,439</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other shares and participations</td>
<td>41,217</td>
<td>41,217</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>349,594</td>
<td>349,594</td>
<td>-</td>
<td>124,469</td>
<td>124,469</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other assets (Currency forwards)</td>
<td>24,074</td>
<td>24,074</td>
<td>-</td>
<td>29,908</td>
<td>29,908</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td>26,760</td>
<td>26,760</td>
<td>-</td>
<td>25,169</td>
<td>25,169</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>25,339,010</td>
<td>25,339,475</td>
<td>-465</td>
<td>16,591,389</td>
<td>16,591,389</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>31 Dec 2018</th>
<th>Fair value</th>
<th>Carrying amount</th>
<th>Difference</th>
<th>31 Dec 2017</th>
<th>Fair value</th>
<th>Carrying amount</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities to credit institutions</td>
<td>1,418,054</td>
<td>1,418,054</td>
<td>-</td>
<td>396,965</td>
<td>396,965</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>14,509,074</td>
<td>14,557,478</td>
<td>-48,404</td>
<td>8,420,488</td>
<td>8,475,892</td>
<td>-55,404</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>2,005,971</td>
<td>1,996,905</td>
<td>9,066</td>
<td>2,231,000</td>
<td>1,995,036</td>
<td>235,964</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>3,912,204</td>
<td>3,912,204</td>
<td>-</td>
<td>2,529,922</td>
<td>2,529,922</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities (Currency forwards)</td>
<td>14,947</td>
<td>14,947</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accrued expenses and prepaid income</td>
<td>428,771</td>
<td>428,771</td>
<td>-</td>
<td>292,258</td>
<td>292,258</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>607,374</td>
<td>597,560</td>
<td>9,814</td>
<td>316,875</td>
<td>297,121</td>
<td>19,754</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>22,896,595</td>
<td>22,925,919</td>
<td>-29,524</td>
<td>14,187,508</td>
<td>13,987,194</td>
<td>200,314</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

1 Chargeable central bank treasury bills are under IFRS 9, classified as amortised cost instead of fair value through profit or loss, applicable for 2018.

Chargeable central bank treasury bills are valued in terms of the active market prices.

Booked value for loans to credit institutions and 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.

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

Fair value on liabilities in terms of issued bonds and senior liabilities have been determined with regards to observable market prices from external markets.
Note 39 Classification of financial assets and liabilities into valuation categories

<table>
<thead>
<tr>
<th>Group</th>
<th>Mandatory at fair value through profit or loss</th>
<th>Amortised cost</th>
<th>Non-financial assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>-</td>
<td>331</td>
<td>-</td>
<td>331</td>
</tr>
<tr>
<td>Chargeable central bank treasury bills¹</td>
<td>-</td>
<td>3,084,314</td>
<td>-</td>
<td>3,084,314</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
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<td>-</td>
<td>2,367,631</td>
</tr>
<tr>
<td>Loans to the public</td>
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<td>-</td>
<td>19,979,002</td>
</tr>
<tr>
<td>Other shares and participations</td>
<td>41,217</td>
<td>-</td>
<td>-</td>
<td>41,217</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>-</td>
<td>-</td>
<td>2,006,084</td>
<td>2,006,084</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>-</td>
<td>-</td>
<td>80,602</td>
<td>80,602</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>-</td>
<td>-</td>
<td>47,508</td>
<td>47,508</td>
</tr>
<tr>
<td>Other assets</td>
<td>24,074</td>
<td>27,682</td>
<td>55,548</td>
<td>107,304</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td>-</td>
<td>9,094</td>
<td>136,745</td>
<td>145,839</td>
</tr>
<tr>
<td>Total</td>
<td>65,291</td>
<td>25,468,054</td>
<td>2,326,487</td>
<td>27,859,832</td>
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</table>

<table>
<thead>
<tr>
<th>Group</th>
<th>Mandatory at fair value through profit or loss</th>
<th>Amortised cost</th>
<th>Non-financial liabilities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td>-</td>
<td>1,418,054</td>
<td>-</td>
<td>1,418,054</td>
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<tr>
<td>Deposits from the public</td>
<td>-</td>
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<td>14,581,769</td>
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<td>Debt securities in issue</td>
<td>-</td>
<td>1,996,905</td>
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<td>1,996,905</td>
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<tr>
<td>Deferred tax liabilities</td>
<td>-</td>
<td>-</td>
<td>117,633</td>
<td>117,633</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>14,947</td>
<td>4,051,762</td>
<td>166,772</td>
<td>4,233,481</td>
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<tr>
<td>Accrued expenses and prepaid income</td>
<td>-</td>
<td>498,401</td>
<td>34,182</td>
<td>532,583</td>
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<tr>
<td>Provisions</td>
<td>-</td>
<td>-</td>
<td>239,588</td>
<td>239,588</td>
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<tr>
<td>Subordinated liabilities</td>
<td>-</td>
<td>597,560</td>
<td>-</td>
<td>597,560</td>
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<tr>
<td>Total</td>
<td>14,947</td>
<td>23,144,451</td>
<td>558,175</td>
<td>23,717,573</td>
</tr>
</tbody>
</table>

¹ Chargeable central bank treasury bills are under IFRS 9 classified as amortised cost instead of fair value through profit or loss.
<table>
<thead>
<tr>
<th>Group</th>
<th>Measured at fair value through profit or loss</th>
<th></th>
<th>Held for trading</th>
<th>Loans and receivables</th>
<th>Non-financial assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Designated at fair value through profit or loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td><strong>Assets</strong></td>
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<tr>
<td>Cash and balances with central banks</td>
<td></td>
<td></td>
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<td></td>
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<td>36</td>
</tr>
<tr>
<td>Chargeable central bank treasury bills</td>
<td>1,847,705</td>
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<td></td>
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<td></td>
<td>1,847,705</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td></td>
<td></td>
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<td>1,211,778</td>
<td></td>
<td>1,211,778</td>
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<tr>
<td>Loans to the public</td>
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<td></td>
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<td></td>
<td>13,874,164</td>
<td>13,874,164</td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td>1,801,072</td>
<td>1,801,072</td>
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<tr>
<td>Tangible assets</td>
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<td></td>
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<td>61,844</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>21,763</td>
<td>21,763</td>
</tr>
<tr>
<td>Other assets</td>
<td>29,908</td>
<td>49,060</td>
<td></td>
<td></td>
<td>17,433</td>
<td>96,401</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td></td>
<td></td>
<td></td>
<td>2,543</td>
<td>69,926</td>
<td>72,469</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,847,705</td>
<td>29,908</td>
<td>15,137,581</td>
<td>1,972,038</td>
<td>18,987,232</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>396,965</td>
<td>396,965</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8,491,654</td>
<td>8,491,654</td>
</tr>
<tr>
<td>Debt securities in issue</td>
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<td></td>
<td></td>
<td></td>
<td>1,995,036</td>
<td>1,995,036</td>
</tr>
<tr>
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<td></td>
<td>136,250</td>
<td>136,250</td>
</tr>
<tr>
<td>Other liabilities</td>
<td></td>
<td></td>
<td></td>
<td>144,074</td>
<td>3,126,085</td>
<td></td>
</tr>
<tr>
<td>Accrued expenses and prepaid income</td>
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<td>381,178</td>
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<td>Provisions</td>
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<td>129,413</td>
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<tr>
<td>Subordinated liabilities</td>
<td></td>
<td></td>
<td></td>
<td>297,121</td>
<td></td>
<td>297,121</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14,515,397</td>
<td>438,305</td>
<td></td>
<td>14,953,702</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Due to the implementation of new accounting standards a new assessment has been made of the classification of financial assets and liabilities. It resulted in a reclassification of SEK 2,543k from Non-financial assets to Loans and receivables. The reclassification has no impact on the valuation of the financial assets and liabilities.

2 Due to the implementation of new accounting standards a new assessment has been made of the classification of financial assets and liabilities. It resulted in a reclassification of SEK 120,879k from Non-financial liabilities to Other financial liabilities. The reclassification has no impact on the valuation of the financial assets and liabilities.
## Parent Company

<table>
<thead>
<tr>
<th>December 31, 2018</th>
<th>Mandatory at fair value through profit or loss</th>
<th>Amortised cost</th>
<th>Non-financial assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>-</td>
<td>304</td>
<td>-</td>
<td>304</td>
</tr>
<tr>
<td>Chargeable central bank treasury bills(^1)</td>
<td>-</td>
<td>3,084,314</td>
<td>-</td>
<td>3,084,314</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>-</td>
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<td>-</td>
<td>1,962,486</td>
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<tr>
<td>Loans to the public</td>
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<td>-</td>
<td>19,850,726</td>
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<tr>
<td>Shares and participations in group companies</td>
<td>-</td>
<td>-</td>
<td>1,122,265</td>
<td>1,122,265</td>
</tr>
<tr>
<td>Other shares and participations</td>
<td>41,217</td>
<td>-</td>
<td>-</td>
<td>41,217</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>-</td>
<td>-</td>
<td>401,659</td>
<td>401,659</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>-</td>
<td>-</td>
<td>40,598</td>
<td>40,598</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>-</td>
<td>-</td>
<td>32,313</td>
<td>32,313</td>
</tr>
<tr>
<td>Other assets</td>
<td>24,074</td>
<td>349,594</td>
<td>43,973</td>
<td>417,641</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td>-</td>
<td>26,761</td>
<td>123,012</td>
<td>149,773</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>65,291</td>
<td>25,274,185</td>
<td>1,763,820</td>
<td>27,103,296</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2018</th>
<th>Mandatory at fair value through profit or loss</th>
<th>Amortised cost</th>
<th>Non-financial liabilities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td>-</td>
<td>1,418,054</td>
<td>-</td>
<td>1,418,054</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>-</td>
<td>14,557,478</td>
<td>-</td>
<td>14,557,478</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>-</td>
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<td>-</td>
<td>1,996,905</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>-</td>
<td>-</td>
<td>1,341</td>
<td>1,341</td>
</tr>
<tr>
<td>Other liabilities</td>
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<td>3,948,320</td>
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<tr>
<td>Accrued expenses and prepaid income</td>
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<td>25,594</td>
<td>454,365</td>
</tr>
<tr>
<td>Provisions</td>
<td>-</td>
<td>-</td>
<td>223,847</td>
<td>223,847</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>-</td>
<td>597,560</td>
<td>-</td>
<td>597,560</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14,947</td>
<td>22,910,972</td>
<td>271,951</td>
<td>23,197,870</td>
</tr>
</tbody>
</table>

\(^1\) Chargeable central bank treasury bills are under IFRS 9 classified as amortised cost instead of fair value through profit or loss.
<table>
<thead>
<tr>
<th>Parent Company</th>
<th>Measured at fair value through profit or loss</th>
<th>Designated at fair value through profit or loss</th>
<th>Held for trading</th>
<th>Loans and receivables</th>
<th>Non-financial assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Chargeable central bank treasury bills</td>
<td>1,847,705</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,847,705</td>
<td>1,847,705</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>-</td>
<td>-</td>
<td>824,695</td>
<td>-</td>
<td>824,695</td>
<td>824,695</td>
</tr>
<tr>
<td>Loans to the public</td>
<td>-</td>
<td>-</td>
<td>13,739,439</td>
<td>-</td>
<td>13,739,439</td>
<td>13,739,439</td>
</tr>
<tr>
<td>Shares and participations in group companies</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,124,283</td>
<td>1,124,283</td>
<td>1,124,283</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>206,096</td>
<td>206,096</td>
<td>206,096</td>
</tr>
<tr>
<td>Tangible assets</td>
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<td>-</td>
<td>-</td>
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<td>36,008</td>
<td>36,008</td>
</tr>
<tr>
<td>Deferred tax assets</td>
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<td>-</td>
<td>-</td>
<td>2,162</td>
<td>2,162</td>
<td>2,162</td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>29,908</td>
<td>124,469</td>
<td>6,860</td>
<td>161,237</td>
<td>161,237</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income(^1)</td>
<td>-</td>
<td>-</td>
<td>25,169</td>
<td>60,068</td>
<td>85,237</td>
<td>85,237</td>
</tr>
<tr>
<td>Total</td>
<td>1,847,705</td>
<td>29,908</td>
<td>14,713,776</td>
<td>1,435,477</td>
<td>18,026,866</td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2017</th>
<th>Other financial liabilities</th>
<th>Non-financial liabilities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
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<td>396,965</td>
</tr>
<tr>
<td>Deposits from the public</td>
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<td>8,475,892</td>
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<tr>
<td>Debt securities in issue</td>
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<td>1,995,036</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
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<td>6,275</td>
</tr>
<tr>
<td>Other liabilities</td>
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<td>2,595,962</td>
</tr>
<tr>
<td>Accrued expenses and prepaid income(^2)</td>
<td>292,258</td>
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<td>316,847</td>
</tr>
<tr>
<td>Provisions</td>
<td>-</td>
<td>104,400</td>
<td>104,400</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>297,121</td>
<td>-</td>
<td>297,121</td>
</tr>
<tr>
<td>Total</td>
<td>13,987,194</td>
<td>201,304</td>
<td>14,188,498</td>
</tr>
</tbody>
</table>

\(^1\) Due to the implementation of new accounting standards a new assessment has been made of the classification of financial assets and liabilities. It resulted in a reclassification of SEK 25,169k from Non-financial assets to Loans and receivables. The reclassification has no impact on the valuation of the financial assets and liabilities.

\(^2\) Due to the implementation of new accounting standards a new assessment has been made of the classification of financial assets and liabilities. It resulted in a reclassification of SEK 88,107k from Non-financial liabilities to Other financial liabilities. The reclassification has no impact on the valuation of the financial assets and liabilities.
The following table shows the company’s financial assets and liabilities measured at fair value at December 31, divided into the three valuation levels. For description of the fair value levels, see Accounting and valuation principles, section 11. No transfers between levels have been made during 2017 and 2018.

<table>
<thead>
<tr>
<th>December 31, 2018, Group</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other shares and participations</td>
<td>-</td>
<td>-</td>
<td>41,217</td>
<td>41,217</td>
</tr>
<tr>
<td>Other assets (Currency forwards)</td>
<td>-</td>
<td>24,074</td>
<td>-</td>
<td>24,074</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
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<td>24,074</td>
<td>41,217</td>
<td>65,291</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other liabilities (Currency forwards)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2017, Group</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chargeable central bank treasury bills</td>
<td>1,847,705</td>
<td>-</td>
<td>-</td>
<td>1,847,705</td>
</tr>
<tr>
<td>Other assets (Currency forwards)</td>
<td>-</td>
<td>29,908</td>
<td>-</td>
<td>29,908</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,847,705</td>
<td>29,908</td>
<td>-</td>
<td>1,877,613</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other liabilities (Currency forwards)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2018, Parent Company</th>
<th>Level 1</th>
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<th>Total</th>
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<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
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<tr>
<td>Other shares and participations</td>
<td>-</td>
<td>-</td>
<td>41,217</td>
<td>41,217</td>
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<td>65,291</td>
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<table>
<thead>
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<tr>
<td>Other liabilities (Currency forwards)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2017, Parent Company</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chargeable central bank treasury bills</td>
<td>1,847,705</td>
<td>-</td>
<td>-</td>
<td>1,847,705</td>
</tr>
<tr>
<td>Other assets (Currency forwards)</td>
<td>-</td>
<td>29,908</td>
<td>-</td>
<td>29,908</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,847,705</td>
<td>29,908</td>
<td>-</td>
<td>1,877,613</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other liabilities (Currency forwards)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>
### Note 40  
**Transitional disclosures - classification of financial assets and liabilities**

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

<table>
<thead>
<tr>
<th>Group</th>
<th>IAS 39</th>
<th>Reclassification</th>
<th>Remeasurement</th>
<th>IFRS 9</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Category</td>
<td>Amount</td>
<td>ECL</td>
<td>Other</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>L&amp;R</td>
<td>36</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Chargeable central bank treasury bills(^1)</td>
<td>FVPL design.</td>
<td>1,847,705</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>L&amp;R</td>
<td>1,211,778</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loans to the public(^2)</td>
<td>L&amp;R</td>
<td>13,874,164</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>L&amp;R</td>
<td>49,060</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Other assets (Currency forwards)</td>
<td>FVPL</td>
<td>29,908</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td>L&amp;R</td>
<td>2,543</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-financial assets(^3)</td>
<td>-</td>
<td>1,972,038</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>18,987,232</td>
<td>-</td>
<td>-</td>
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</table>

<table>
<thead>
<tr>
<th>Group</th>
<th>IAS 39</th>
<th>Reclassification</th>
<th>Remeasurement</th>
<th>IFRS 9</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Category</td>
<td>Amount</td>
<td>ECL</td>
<td>Other</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td>AC</td>
<td>396,965</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>AC</td>
<td>8,491,654</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>AC</td>
<td>1,995,036</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>AC</td>
<td>2,982,011</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accrued expenses and prepaid income</td>
<td>AC</td>
<td>352,610</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>AC</td>
<td>297,121</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Non-financial liabilities(^4)</td>
<td>-</td>
<td>438,305</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>14,953,702</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

\(^1\) The fair value of the chargeable central bank treasury bills at period end amounts to SEK 3,084,314k. If these assets would not have been reclassified a loss in fair value of SEK 1.715k would have been reported for the period. The expected interest rate on the date of initial application was 0.7% and the net interest expense recognised for the period amounted to SEK 2,180k.

\(^2\) The re-measurement in column "Other" is the effect of change in principles for revenue recognition as a result of implementing IFRS 15.

\(^3\) The re-measurement is attributable to change in tax receivable resulting from the tax effect from the change in the ECL reserve and the change in revenue recognition.

\(^4\) The re-measurement is attributable to provisions for financial guarantees and commitments.
### Parent Company

<table>
<thead>
<tr>
<th>IAS 39</th>
<th>Reclassification</th>
<th>Remeasurement</th>
<th>IFRS 9</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>January 1, 2018</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>L&amp;R</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Chargeable central bank treasury bills</td>
<td>VPL design.</td>
<td>1,847,705</td>
<td>-</td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>L&amp;R</td>
<td>824,695</td>
<td>-</td>
</tr>
<tr>
<td>Loans to the public</td>
<td>L&amp;R</td>
<td>13,739,439</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>L&amp;R</td>
<td>124,469</td>
<td>-</td>
</tr>
<tr>
<td>Other assets (Currency forwards)</td>
<td></td>
<td>29,908</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td>L&amp;R</td>
<td>25,169</td>
<td>-</td>
</tr>
<tr>
<td>Non-financial assets</td>
<td>L&amp;R</td>
<td>1,455,477</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **January 1, 2018** | | | |
| **Liabilities** | | | |
| Liabilities to credit institutions | AC | 396,965 | - | - | - | 396,965 | AC |
| Deposits from the public | AC | 8,475,892 | - | - | - | 8,475,892 | AC |
| Debt securities in issue | AC | 1,995,036 | - | - | - | 1,995,036 | AC |
| Other liabilities | AC | 2,529,922 | - | - | - | 2,529,922 | AC |
| Accrued expenses and prepaid income | AC | 292,258 | - | - | - | 292,258 | AC |
| Subordinated liabilities | AC | 297,121 | - | - | - | 297,121 | AC |
| Non-financial liabilities | AC | 201,304 | - | 7,481 | - | 208,785 | - |
| **Total** | | | | | 14,188,498 | - | 7,481 | - | 14,195,979 |

1 The fair value of the chargeable central bank treasury bills at period end amounts to SEK 3,084,314k. If these assets would not have been reclassified a loss in fair value of SEK 1,710k would have been reported for the period. The effective interest rate on the date of initial application was -0.7% and the net interest expense recognised for the period amounted to SEK 2.180k.

2 The revaluation in column "Other" is the effect of change in principles for revenue recognition as a result of implementing IFRS 15.

3 The revaluation is attributable to change in tax receivable resulting from the tax effect from the change in the ECL reserve and the change in revenue recognition.

4 The revaluation is attributable to provisions for financial guarantees and commitments.
### Maturity analysis for financial assets and liabilities

#### Group

<table>
<thead>
<tr>
<th>Contractual undiscounted cash flows</th>
<th>31 Dec 2018</th>
<th>31 Dec 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expected to be recovered or settled:</td>
<td>Expected to be recovered or settled:</td>
</tr>
<tr>
<td></td>
<td>Within 12 months</td>
<td>After 12 months</td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td>29</td>
<td>21,000</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>30</td>
<td>12,045,307</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>31</td>
<td>25,531</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>32</td>
<td>3,821,168</td>
</tr>
<tr>
<td>Accrued expenses and prepaid income</td>
<td>33</td>
<td>478,738</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>35</td>
<td>23,131</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,414,875</strong></td>
<td><strong>7,176,923</strong></td>
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</table>

#### Parent Company

<table>
<thead>
<tr>
<th>Contractual undiscounted cash flows</th>
<th>31 Dec 2018</th>
<th>31 Dec 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expected to be recovered or settled:</td>
<td>Expected to be recovered or settled:</td>
</tr>
<tr>
<td></td>
<td>Within 12 months</td>
<td>After 12 months</td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
<td>29</td>
<td>21,000</td>
</tr>
<tr>
<td>Deposits from the public</td>
<td>30</td>
<td>12,021,017</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>31</td>
<td>25,531</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>32</td>
<td>3,120,047</td>
</tr>
<tr>
<td>Accrued expenses and prepaid income</td>
<td>33</td>
<td>409,353</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>35</td>
<td>23,131</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,620,079</strong></td>
<td><strong>6,931,156</strong></td>
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</table>
### Parent Company

#### Contractual undiscounted cash flows

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>Note</th>
<th>Payable on demand</th>
<th>Maximum 3 months</th>
<th>3-12 months</th>
<th>1-5 years</th>
<th>More than 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans to credit institutions</td>
<td>20</td>
<td></td>
<td>1,962,486</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,962,486</td>
</tr>
<tr>
<td>Loans to the public</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td>7,425,236</td>
<td>4,181,925</td>
<td>9,006,250</td>
<td>24,723,761</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td></td>
<td>1,962,486</td>
<td>7,425,236</td>
<td>4,181,925</td>
<td>9,006,250</td>
<td>24,723,761</td>
<td>25,048,273</td>
</tr>
<tr>
<td>Liabilities to credit institutions</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,415,884</td>
<td>1,436,884</td>
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<td>1,878,627</td>
<td>8,346,478</td>
<td>2,701,481</td>
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<td>14,722,498</td>
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<tr>
<td>Debt securities in issue</td>
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<td></td>
<td></td>
<td></td>
<td>6,011</td>
<td>19,519</td>
<td>2,019,378</td>
<td>2,044,908</td>
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<td><strong>Total liabilities</strong></td>
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<td>1,816,912</td>
<td>1,884,638</td>
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<td>6,136,743</td>
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<td>18,204,290</td>
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<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>Note</th>
<th>Payable on demand</th>
<th>Maximum 3 months</th>
<th>3-12 months</th>
<th>1-5 years</th>
<th>More than 5 years</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>Loans to credit institutions</td>
<td>20</td>
<td></td>
<td>824,695</td>
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<td></td>
<td></td>
<td></td>
<td>824,695</td>
</tr>
<tr>
<td>Loans to the public</td>
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<td>6,907,716</td>
<td>2,013,887</td>
<td>16,799,486</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td></td>
<td>959,783</td>
<td>4,644,606</td>
<td>3,098,189</td>
<td>6,907,716</td>
<td>2,013,887</td>
<td>17,624,181</td>
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<tr>
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<td></td>
<td></td>
<td></td>
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<td>96,170</td>
<td></td>
<td>396,965</td>
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<td>1,782,320</td>
<td>3,708,951</td>
<td>1,554,795</td>
<td></td>
<td>8,565,826</td>
</tr>
<tr>
<td>Debt securities in issue</td>
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<td></td>
<td></td>
<td></td>
<td>4,425</td>
<td>13,521</td>
<td>2,031,467</td>
<td>2,049,413</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td></td>
<td>1,519,760</td>
<td>1,786,745</td>
<td>4,023,267</td>
<td>3,682,432</td>
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<td>11,012,204</td>
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</table>

### Note 42 Interest received and paid

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Interest payments received</td>
<td>1,927,845</td>
<td>1,536,378</td>
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<tr>
<td>Interest expenses paid</td>
<td>-281,920</td>
<td>-159,193</td>
</tr>
</tbody>
</table>
Note 43  Information on related parties

Group and Parent Company

The following are defined as related parties: all companies within the Klarna Holding AB 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.

The following transactions have taken place with related parties:

### 2018

<table>
<thead>
<tr>
<th>Related parties - revenues and expenses</th>
<th>Klarna Holding</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>-</td>
<td>24,592</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>-129</td>
<td>-939</td>
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<tr>
<td>Services sold, sales</td>
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<td>270,162</td>
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<tr>
<td>Services purchased</td>
<td>-</td>
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<tr>
<td>Dividend received</td>
<td>-</td>
<td>261,487</td>
</tr>
</tbody>
</table>

### 31 Dec 2018

<table>
<thead>
<tr>
<th>Related parties - assets and liabilities</th>
<th>Klarna Holding</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan receivables</td>
<td>-</td>
<td>638,169</td>
</tr>
<tr>
<td>Other receivables</td>
<td>-</td>
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</tr>
<tr>
<td>Loan liabilities</td>
<td>347,100</td>
<td>287,422</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>-</td>
<td>172,582</td>
</tr>
</tbody>
</table>

### 2017

<table>
<thead>
<tr>
<th>Related parties - revenues and expenses</th>
<th>Klarna Holding</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>-</td>
<td>31,001</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>-</td>
<td>-43</td>
</tr>
<tr>
<td>Services sold, sales</td>
<td>-</td>
<td>11,573</td>
</tr>
<tr>
<td>Services purchased, sales</td>
<td>-</td>
<td>-402,900</td>
</tr>
<tr>
<td>Services purchased, product development</td>
<td>-</td>
<td>-105,531</td>
</tr>
<tr>
<td>Dividend received</td>
<td>-</td>
<td>197,001</td>
</tr>
</tbody>
</table>

### 31 Dec 2017

<table>
<thead>
<tr>
<th>Related parties - assets and liabilities</th>
<th>Klarna Holding</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan receivables</td>
<td>-</td>
<td>500,106</td>
</tr>
<tr>
<td>Other receivables</td>
<td>-</td>
<td>52,797</td>
</tr>
<tr>
<td>Loan liabilities</td>
<td>-</td>
<td>11,884</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>170,985</td>
<td>40,799</td>
</tr>
</tbody>
</table>

Intragroup services is handled in accordance with the internationally recognised arm's length principle, meaning that Klarna Bank AB (publ) and its subsidiaries are remunerated or pay for intragroup services in a manner corresponding to market terms.

See note 10 for transactions with the Board of Directors, CEO, and senior management.
Note 44  

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 Supervisory 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% per annum. The securities were offered to a limited number of large Nordic investors and the first call date is May 26, 2022.

Klarna Holding AB issued in November 2018 EUR 25m in additional Tier 1 capital instruments. They have a fixed-to-floating coupon rate corresponding to 6.63% per annum. The floating interest rate is EURIBOR 3M plus 6.28% per annum. The security was offered to a limited number of large Nordic investors and the first call date is November 15, 2023.

Subordinated liabilities
On June 20, 2016, Klarna Bank AB (publ) issued SEK 300m subordinated notes 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% per annum, which corresponds to an initial coupon of approximately 4%. The notes were allocated to a limited number of large Nordic investors and the first call date is June 20, 2021.

On July 5, 2018, Klarna Bank AB (publ) issued SEK 300m subordinated notes due 2028. The subordinated notes are eligible for inclusion as Tier 2 capital in accordance with current regulations. The notes have a floating coupon rate corresponding to STIBOR 3m plus 3.5% per annum, which corresponds to an initial coupon of approximately 3%. The notes were allocated to a limited number of large Nordic investors and the first call date is July 5, 2023.

Consolidated situation
The consolidated situation for Klarna consists of all companies in the Klarna Holding Group.

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 III report.

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

Excess subsidiary capital deduction
A re-interpretation of CRR Article 85 and 87, following an opinion published by the European Banking Authority, impacted Tier 1 instruments and Tier 2 instruments. The opinion clarified the application of the limitation rules on eligible capital instruments in the consolidated situation. This means Klarna Bank AB (publ)’s Tier 1 and Tier 2 Capital can only be included in the capital base of Klarna Holding Group with the share required to cover the minimum capital requirements of Klarna Bank AB (publ) and its subsidiaries. As of December 31, 2018 the capital was reduced by SEK 36m on Klarna Holding Group Tier 1 capital, and SEK 96m on Klarna Holding Group Tier 2 capital.
### Own Funds

<table>
<thead>
<tr>
<th>Common Equity Tier 1 capital: instruments and reserves</th>
<th>Consolidated situation</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital instruments and the related share premium accounts</td>
<td>3,166,720 2,980,978</td>
<td>2,857,892 2,857,892</td>
</tr>
<tr>
<td>of which: Share capital</td>
<td>1,986 1,967</td>
<td>52,752 52,752</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>817,882 541,614</td>
<td>195,463 98,404</td>
</tr>
<tr>
<td>Accumulated other comprehensive income (and other reserves)</td>
<td>190,603 124,327</td>
<td>426,517 252,117</td>
</tr>
<tr>
<td>Independently reviewed interim profits net of any foreseeable charge or dividend</td>
<td>103,086 344,606</td>
<td>141,824 344,839</td>
</tr>
<tr>
<td><strong>Common Equity Tier 1 (CET1) capital before regulatory adjustments</strong></td>
<td>4,278,291 3,991,525</td>
<td>3,621,696 3,553,252</td>
</tr>
</tbody>
</table>

### Common Equity Tier 1 capital: regulatory adjustments

<table>
<thead>
<tr>
<th></th>
<th>Consolidated situation</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional value adjustments</td>
<td>-80 -1,878</td>
<td>-80 -1,878</td>
</tr>
<tr>
<td>Intangible assets (net of related tax liability)</td>
<td>-1,924,116 -1,706,264</td>
<td>-401,659 -206,095</td>
</tr>
<tr>
<td>IFRS 9 transitional adjustment</td>
<td>98,149</td>
<td>- 107,298 -</td>
</tr>
<tr>
<td><strong>Total regulatory adjustments to Common Equity Tier 1 (CET1) capital</strong></td>
<td>-1,826,047 -1,708,142</td>
<td>-294,441 -207,973</td>
</tr>
<tr>
<td><strong>Common Equity Tier 1 (CET1) capital</strong></td>
<td>2,452,244 2,283,383</td>
<td>3,327,255 3,345,279</td>
</tr>
</tbody>
</table>

### Tier 1 capital

<table>
<thead>
<tr>
<th></th>
<th>Consolidated situation</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Tier 1 (AT1) capital</td>
<td>470,588 250,000</td>
<td>250,000 250,000</td>
</tr>
<tr>
<td><strong>Tier 1 capital (T1 = CET1 + AT1)</strong></td>
<td>2,922,833 2,533,383</td>
<td>3,577,255 3,595,279</td>
</tr>
</tbody>
</table>

### Total capital

<table>
<thead>
<tr>
<th></th>
<th>Consolidated situation</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 2 (T2) capital</td>
<td>501,494 297,121</td>
<td>597,560 297,121</td>
</tr>
<tr>
<td><strong>Total capital (TC = T1 + T2)</strong></td>
<td>3,424,327 2,830,504</td>
<td>4,174,815 3,892,400</td>
</tr>
<tr>
<td><strong>Total risk exposure amount</strong></td>
<td>22,761,017 15,553,716</td>
<td>24,307,480 17,145,425</td>
</tr>
</tbody>
</table>

### Capital ratios and buffers

<table>
<thead>
<tr>
<th></th>
<th>Consolidated situation</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity Tier 1 (as a percentage of total risk exposure amount)</td>
<td>10.8% 14.7%</td>
<td>13.7% 19.5%</td>
</tr>
<tr>
<td>Tier 1 (as a percentage of total risk exposure amount)</td>
<td>12.8% 16.3%</td>
<td>14.7% 21.0%</td>
</tr>
<tr>
<td>Total capital (as a percentage of total risk exposure amount)</td>
<td>15.0% 18.2%</td>
<td>17.2% 22.7%</td>
</tr>
<tr>
<td>Institution specific buffer requirement (as a percentage of risk exposure amount)</td>
<td>3.4% 3.4%</td>
<td>3.4% 3.4%</td>
</tr>
<tr>
<td>of which: capital conservation buffer requirement</td>
<td>2.5% 2.5%</td>
<td>2.5% 2.5%</td>
</tr>
<tr>
<td>of which: countercyclical buffer requirement</td>
<td>0.9% 0.9%</td>
<td>0.9% 0.9%</td>
</tr>
<tr>
<td>Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)</td>
<td>2.9% 6.7%</td>
<td>5.8% 11.5%</td>
</tr>
</tbody>
</table>

### Amounts below the thresholds for deduction (before risk weighting)

<table>
<thead>
<tr>
<th></th>
<th>Consolidated situation</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>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)</td>
<td>47,508 21,763</td>
<td>32,313 2,162</td>
</tr>
</tbody>
</table>

1 Common Equity Tier 1 capital available for use as buffer is defined as Klarna’s Common Equity Tier 1 capital ratio, reduced by the Common Equity Tier 1 capital needed to meet regulatory capital requirements (4.5%). Note that in the Annual report 2017, this figure was further reduced with the institutional specific buffer requirement (3.4%).
<table>
<thead>
<tr>
<th>Capital requirement and risk exposure amounts</th>
<th>Consolidated situation</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2018</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td><strong>Risk exposure amount</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit risk according to standardised method</td>
<td>17,138,774</td>
<td>11,287,794</td>
</tr>
<tr>
<td>Market risk according to standardised method</td>
<td>252,714</td>
<td>112,758</td>
</tr>
<tr>
<td>Operative risk according to standardised method</td>
<td>5,369,394</td>
<td>4,153,165</td>
</tr>
<tr>
<td>Credit valuation adjustment</td>
<td>135</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total risk exposure amount</strong></td>
<td>22,761,017</td>
<td>15,553,716</td>
</tr>
<tr>
<td><strong>Exposure amount for credit risk according to the standardised method</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional exposure</td>
<td>602,536</td>
<td>318,727</td>
</tr>
<tr>
<td>Corporate exposure</td>
<td>1,633,421</td>
<td>375,316</td>
</tr>
<tr>
<td>Retail/household exposure</td>
<td>13,832,012</td>
<td>10,288,748</td>
</tr>
<tr>
<td>Exposures in default</td>
<td>691,987</td>
<td>166,615</td>
</tr>
<tr>
<td>Equity exposure</td>
<td>71,339</td>
<td>-</td>
</tr>
<tr>
<td>Other items</td>
<td>307,488</td>
<td>138,388</td>
</tr>
<tr>
<td><strong>Total credit risk exposure amount</strong></td>
<td>17,158,773</td>
<td>11,287,794</td>
</tr>
<tr>
<td><strong>Market risk exposure amounts according to standardised method</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange risk</td>
<td>252,714</td>
<td>112,758</td>
</tr>
<tr>
<td><strong>Total market risk according to standardised method</strong></td>
<td>252,714</td>
<td>112,758</td>
</tr>
<tr>
<td><strong>Minimum capital requirement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit risk according to standardised method</td>
<td>1,371,102</td>
<td>903,024</td>
</tr>
<tr>
<td>Market risk according to standardised method</td>
<td>20,217</td>
<td>9,021</td>
</tr>
<tr>
<td>Operational risk according to standardised method</td>
<td>429,551</td>
<td>332,252</td>
</tr>
<tr>
<td>Credit valuation adjustment</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total minimum capital requirement</strong></td>
<td>1,820,881</td>
<td>1,244,297</td>
</tr>
<tr>
<td><strong>Leverage ratio</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 capital</td>
<td>2,922,833</td>
<td>2,533,383</td>
</tr>
<tr>
<td>Total leverage ratio</td>
<td>26,601,364</td>
<td>17,776,515</td>
</tr>
<tr>
<td>Leverage ratio</td>
<td>11.0%</td>
<td>14.3%</td>
</tr>
</tbody>
</table>

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. The internally assessed required capital at year-end 2018 (2017) amounted to SEK 2,050,903k (1,466,388) for Klarna Bank AB (publ) and SEK 1,927,186k (1,339,051) for the consolidated situation. Klarna thereby has sufficient capital to cover for required capital under Pillar I and Pillar II.
### Change in presentation of the income statement

The income statement for the Group has changed presentation in 2018 and comparable figures have been restated. The income statement for 2017 is presented below before and after the changed presentation.

#### After change in presentation

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income calculated according to the effective interest rate method</td>
<td>1,591,013</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>-138,682</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td>1,452,331</td>
</tr>
<tr>
<td>Commission income</td>
<td>2,924,191</td>
</tr>
<tr>
<td>Commission expenses</td>
<td>-205,253</td>
</tr>
<tr>
<td>Net result from financial transactions</td>
<td>-23,899</td>
</tr>
<tr>
<td><strong>Other operating income</strong></td>
<td>10,675</td>
</tr>
<tr>
<td><strong>Total operating revenues, net</strong></td>
<td>4,158,045</td>
</tr>
<tr>
<td>General administrative expenses</td>
<td>-2,952,765</td>
</tr>
<tr>
<td>Depreciation, amortisation and impairment of intangible and tangible assets</td>
<td>-200,575</td>
</tr>
<tr>
<td><strong>Total expenses before credit losses</strong></td>
<td>-3,133,340</td>
</tr>
<tr>
<td>Operating income before credit losses, net</td>
<td>1,024,705</td>
</tr>
<tr>
<td>Credit losses, net</td>
<td>-500,718</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>523,987</td>
</tr>
<tr>
<td>Income tax</td>
<td>-178,374</td>
</tr>
<tr>
<td><strong>Net income for the year</strong></td>
<td>345,613</td>
</tr>
</tbody>
</table>

#### Before change in presentation

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income calculated according to the effective interest rate method</td>
<td>1,591,013</td>
</tr>
<tr>
<td>Commission income</td>
<td>2,924,191</td>
</tr>
<tr>
<td>Other operating income</td>
<td>10,675</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>4,525,879</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>-138,682</td>
</tr>
<tr>
<td>Commission expenses</td>
<td>-205,253</td>
</tr>
<tr>
<td>Net result from financial transactions</td>
<td>-23,899</td>
</tr>
<tr>
<td>General administrative expenses</td>
<td>-2,952,765</td>
</tr>
<tr>
<td>Depreciation, amortisation and impairment of intangible and tangible assets</td>
<td>-200,575</td>
</tr>
<tr>
<td>Credit losses, net</td>
<td>-500,718</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>-4,001,892</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>523,987</td>
</tr>
<tr>
<td>Income tax</td>
<td>-178,374</td>
</tr>
<tr>
<td><strong>Net income for the year</strong></td>
<td>345,613</td>
</tr>
</tbody>
</table>
Note 46  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 amortized over the estimated useful life. Goodwill and strong trademarks are considered to have an indefinite useful life and are therefore tested annually for impairment, or whenever there is any indication of impairment. Consideration that is contingent upon the outcome of future events is valued at fair value and the change in value is recognized in the income statement. 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 indirectly owned 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.

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

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 47  Significant events after the end of the reporting period

On September 13, 2018, Klarna Bank AB (publ) entered into an agreement to acquire the operations of Close Brother Retail Finance from Close Brothers Group plc. The acquisition was consummated on January 1, 2019. The consideration amounted to SEK 980m and was paid in cash. In the preliminary purchase price allocation, which is based on Klarna’s accounting policies, SEK 998m is recognised as loans to the public, net. The gross amount is SEK 1,032m. Other assets and liabilities related to the loan portfolio are also part of the agreement. The acquisition aims to significantly strengthen Klarna’s position in the UK market for retail financing and will enable accelerated growth and expansion of the consumer offering.

On January 1, 2019 Klarna Bank AB (publ) established a branch in the United Kingdom under the name Klarna Bank AB UK Branch. On the same day the branch became operational following a transfer of the business from Klarna UK Ltd.

No other significant events occurred after the closing date.
Definitions & Abbreviations

AC
Amortised cost

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

Cost/Revenue Ratio
Total expenses before credit losses divided by total operating revenues, net

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

ECL
Expected credit loss

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

FVPL
Fair value through profit or loss

L&R
Loans and receivables

Merchants
Klarna’s e-commerce customers are named merchants

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

Pay later
Klarna’s invoice product is called Pay later

Pay now
Klarna’s product for immediate settlement is called Pay now

POCI
Purchased or originated credit-impaired assets

Return on assets*
Net income for the year as a percentage of average total assets. The calculation of average total assets is based on opening and closing balances for the reporting period

Return on equity*
Operating income for the year as a percentage of average equity adjusted for untaxed reserves. The calculation of average equity is based on opening and closing balances for the reporting period

Slice it
Klarna’s account product is called Slice it

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

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

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

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

KLARNA BANK AB (publ) ● ANNUAL REPORT 2018 78
Board of Directors’ affirmation

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

Stockholm 2019-03-27

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

Our audit report was submitted on 2019-04-08

Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant
**Auditor’s report**

To the general meeting of the shareholders of Klarna Bank AB (publ), corporate identity number 556737-0431

**Report on the annual accounts and consolidated accounts**

**Opinions**

We have audited the annual accounts and consolidated accounts of Klarna Bank AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 2-80 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company’s audit committee in accordance with the Audit Regulation (537/2014) Article 11.

**Basis for Opinions**

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor’s Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

**Key Audit Matters**

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

**Provision for expected credit losses**

Detailed disclosures and description of the area are provided in the annual report and consolidated accounts. Credit risk exposures and its management are described in Note 3 from page 25. The Group’s reported expected loan losses are specified in Note 21. Disclosures regarding the Parent Company can be found in notes 3 and 21. For the relevant accounting principles for the Group, see Note 2, section 12 on page 18. Of note 2 it can be seen that the Parent Company’s accounting principles regarding credit granting and provisions for expected loan losses are in accordance with the Group’s accounting principles.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.
As of December 31, 2018, lending to the public amounted to SEK 19,979 M (19,850) in the Group (the Parent Company), which represents 71 (73) % of total assets. The total credit risk exposure, including off-balance sheet commitments, amounts to SEK 22,347 M (21,813). Provisions for expected loan losses for lending to the public amount to SEK 940 (880) million and are based on model-based calculations.

The loss reserve shall be valued in a manner that reflects an objective and probability-weighted amount determined by evaluating a range of possible outcomes and based on past events, current conditions and forecasts for future economic conditions. The provision requires the Bank to make assessments and assumptions of, for example, criteria for identifying a significant increase in credit risk and methods for calculating expected credit losses. Given the complexity of the calculation and that it requires the Bank to make judgments and assumptions, the valuation of the reserve for expected credit losses has been assessed as a key audit matter.

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<tr>
<th>Description</th>
<th>How our audit addressed this key audit matter</th>
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<td>We have evaluated whether the Bank's assessment of the probability of default, loss given default, exposure at default and expected credit loss including a significant increase in credit risk is in accordance with IFRS 9.</td>
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<td>We have gained an understanding of and tested the design of key controls in the credit process, such as how credits are registered. We have tested controls for completeness in loading input data. We have also tested controls related to analysis and approval of model changes and credit loss levels.</td>
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<td>We have tested that the underlying data used in the calculation is complete and correct. We have reviewed and evaluated the outcome of model validations that have been performed. We have examined and assessed the assumptions and parameters used in the model and for a selection of segments tested actual loan losses compared to expected loan losses. We have examined the calculation for expected loan losses by making an independent control calculation of the provisioning based on the underlying data and assumptions used in the model. We have examined the bank's own analysis of credit losses and underlying model documentation.</td>
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<td>We have also examined that the information provided in the financial reports regarding credit risk is appropriate.</td>
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**Responsibilities of the Board of Directors and the Managing Director**

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

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

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

**Auditor's responsibility**

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
Obtain an understanding of the company’s internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.

Conclude on the appropriateness of the Board of Directors’ and the Managing Director’s use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company’s and the group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor’s report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Klarna Bank AB (publ) for the year 2018 and the proposed appropriations of the company’s profit or loss.

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

Basis for opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

► has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
► in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

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

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

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

Ernst & Young AB, Jakobsbergsgatan 24, 111 24 Stockholm, was appointed auditor of Klarna Bank AB (publ) by the general meeting of the shareholders on the 13 April 2018 and has been the company's auditor since the 25 May 2016.

Stockholm 8 April, 2019
Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant