

Publication of information concerning capital adequacy and liquidity management

2018-12-31

In accordance with Regulation (EU) 575/2013 and the Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2014:12) on regulatory requirements and capital buffers, this information is presented on a quarterly basis on Klarna's website, www.klarna.com. Klarna's capital requirements are set out in Regulation (EU) 575/2013 and Directive (EU) 36/2013 as well as in the Directive's national implementation regulations. This capital requirement consists of minimum capital requirements for credit, market and operational risk, internal assessed required capital and regulatory capital buffers.

The information is presented for Klarna Bank AB (publ) (556737-0431) and for the consolidated situation ("Group") as of March 29, 2019.

Summary of capital adequacy information

2018-12-31

kSEK

	Consolidated	Klarna Bank AB
Own funds		
Common Equity Tier 1 capital	2,452,244	3,327,255
Additional Tier 1 capital	470,588	250,000
Tier 2 capital	501,494	597,560
Total capital	3,424,327	4,174,815
Risk exposure amount		
Credit risk according to standardised method	17,138,774	18,064,760
Market risk according to standardised method	252,714	1,367,388
Operational risk according to standardised method	5,369,394	4,875,197
Credit valuation adjustment	135	135
Total risk exposure amount	22,761,017	24,307,480
Capital requirement		
Total minimum capital requirement	1,820,881	1,944,599
Internally assessed required capital	106,305	106,305
Total capital requirement excl. regulatory capital buffers	1,927,186	2,050,903
Capital adequacy analysis		
Common Equity Tier 1 capital ratio	10.8%	13.7%
Tier 1 capital ratio	12.8%	14.7%
Total capital ratio	15.0%	17.2%
Combined buffer requirement (incl. the requirements of 575/2013 Art. 92(1)(a))	7.9%	7.9%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	0.9%	0.9%
Common Equity Tier 1 capital available to meet buffers	2.9%	5.8%
Leverage ratio		
Tier 1 capital	2,922,833	3,577,255
Total leverage ratio exposure	26,601,364	26,977,302
Leverage ratio	11.0%	13.3%

Capital requirements per exposure class according to the standard approach
kSEK

Consolidated			
Exposure class	Exposure value	Risk weighted exposure amount	Capital requirement
Central governments or central banks	1,789,504	0	0
Regional governments or local authorities	1,152,300	0	0
Institutions	2,356,109	602,536	48,203
Corporates	1,710,590	1,633,421	130,674
Retail	18,442,671	13,832,012	1,106,561
Exposures in default	589,544	691,987	55,359
Equity	41,217	71,339	5,707
Other Items	236,258	307,488	24,599
Total	26,318,195	17,138,774	1,371,102

Klarna Bank AB			
Exposure class	Exposure value	Risk weighted exposure amount	Capital requirement
Central governments or central banks	1,777,849	0	0
Regional governments or local authorities	1,151,045	0	0
Institutions	2,172,375	562,621	45,010
Corporates	2,467,731	2,402,905	192,232
Retail	17,327,700	12,995,775	1,039,662
Exposures in default	577,667	680,107	54,409
Equity	1,163,482	1,193,604	95,488
Other Items	181,282	229,747	18,380
Total	26,819,130	18,064,759	1,445,181

Sources of funding

As of December 31, 2018 Klarna's business was funded by deposits from the public, debt securities in issue, operational liabilities, subordinated debt and borrowings from credit institutions.

Liquidity reserve

As of December 31, 2018 Klarna's liquidity reserve amounted to SEK 3.49bn and consisted of high-quality liquid assets.

Changes in Capital

During November 2018 an additional EUR 25m of Additional Tier 1 capital instruments was issued.

IFRS 9 Transitional adjustments

From 1 January 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 capital when applying IFRS 9. This includes adjusting the capital adequacy calculations with a dynamic and a static amount over a five year period.

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

kSEK

Consolidated

	a	b	c	d	
	2018-12-31	2018-09-30	2018-06-30	2018-03-31	
Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	2,452,244	2,329,507	2,318,078	2,312,339
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	2,354,095	2,186,082	2,251,582	2,209,806
3	Tier 1 capital	2,922,833	2,527,603	2,500,143	2,562,339
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	2,824,683	2,384,178	2,433,647	2,459,806
5	Total capital	3,424,327	2,977,394	2,746,027	2,859,556
6	Total capital as if IFRS 9 transitional arrangements had not been applied	3,326,177	2,833,969	2,679,531	2,757,023
Risk-weighted assets (amounts)					
7	Total risk-weighted assets	22,761,017	19,299,997	18,530,727	17,156,861
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	22,662,868	19,156,572	18,464,231	17,054,328
Capital ratios					
9	CET1 (as a percentage of risk exposure amount)	10.8%	12.1%	12.5%	13.5%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	10.4%	11.4%	12.2%	13.0%
11	Tier 1 (as a percentage of risk exposure amount)	12.8%	13.1%	13.5%	14.9%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	12.5%	12.4%	13.2%	14.4%
13	Total capital (as a percentage of risk exposure amount)	15.0%	15.4%	14.8%	16.7%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 trans. arrangements had not been applied	14.7%	14.8%	14.5%	16.2%
Leverage ratio					
15	Leverage ratio total exposure measure	26,601,364	21,852,120	20,344,128	18,833,633
16	Leverage ratio	11.0%	11.6%	12.3%	13.6%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	10.6%	10.9%	12.0%	13.1%

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

kSEK

Klarna Bank AB

	a	b	c	d	
	2018-12-31	2018-09-30	2018-06-30	2018-03-31	
Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	3,327,255	3,167,557	3,235,716	3,352,125
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	3,219,957	3,011,138	3,164,581	3,245,398
3	Tier 1 capital	3,577,255	3,417,557	3,485,716	3,602,125
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	3,469,957	3,261,138	3,414,581	3,495,398
5	Total capital	4,174,816	4,015,013	3,782,985	3,899,342
6	Total capital as if IFRS 9 transitional arrangements had not been applied	4,067,517	3,858,594	3,711,850	3,792,615
Risk-weighted assets (amounts)					
7	Total risk-weighted assets	24,307,481	20,479,930	19,759,790	18,597,041
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	24,200,182	20,323,511	19,688,655	18,490,314
Capital ratios					
9	CET1 (as a percentage of risk exposure amount)	13.7%	15.5%	16.4%	18.0%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	13.3%	14.8%	16.1%	17.6%
11	Tier 1 (as a percentage of risk exposure amount)	14.7%	16.7%	17.6%	19.4%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	14.3%	16.0%	17.3%	18.9%
13	Total capital (as a percentage of risk exposure amount)	17.2%	19.6%	19.1%	21.0%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 trans. arrangements had not been applied	16.8%	19.0%	18.9%	20.5%
Leverage ratio					
15	Leverage ratio total exposure measure	26,977,302	21,686,751	20,329,604	19,009,624
16	Leverage ratio	13.3%	15.8%	17.1%	18.9%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	12.9%	15.0%	16.8%	18.4%

Disclosure of information regarding capital adequacy and capital ratios

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

Own funds disclosure kSEK		Consolidated	Klarna Bank AB	Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 (CET1) capital: Instruments and reserves				
1	Capital instruments and the related share premium accounts	3,166,720	2,857,892	26(1), 27, 28, 29
	Of which: Share capital	1,986	52,752	EBA list 26(3)
	Of which: Share premium	3,164,734	2,805,140	EBA list 26(3)
2	Retained earnings	817,882	195,463	26(1)(c)
3	Accumulated other comprehensive income (and other reserves)	190,603	426,517	26(1)
5a	Independently reviewed interim profits not of any foreseeable charge or dividend	103,086	141,824	26(2)
6	Common Equity Tier 1 capital before regulatory adjustments	4,278,291	3,621,697	
Common Equity Tier 1: regulatory adjustments				
7	Additional value adjustments (negative amount)	-80	-80	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-1,924,116	-401,659	36(1)(b), 37
25a	Losses for the current financial year (negative amount)			36(1)(a)
27a	IFRS 9 transitional adjustments to CET1 Capital	98,150	107,298	473a(8)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-1,826,047	-294,441	
29	Common Equity Tier 1 (CET1) capital	2,452,244	3,327,256	
Additional Tier 1 (AT1) capital: Instruments				
30	Capital instruments and the related share premium accounts	470,588	250,000	51, 52
31	Of which: classified as equity under applicable accounting standards	470,588	250,000	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties			85, 86
36	Additional Tier 1 (AT1) capital before regulatory adjustments	470,588	250,000	
Additional Tier 1 (AT1) capital: regulatory adjustments				
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0	
44	Additional Tier 1 (AT1) capital	470,588	250,000	
45	Tier 1 capital (T1 = CET1 + AT1)	2,922,833	3,577,256	
Tier 2 (T2) capital: Instruments and provisions				
46	Capital instruments and the related share premium accounts		597,560	62, 63
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	501,494		87, 88
51	Tier 2 (T2) capital before regulatory adjustment	501,494	597,560	
Tier 2 (T2) capital: regulatory adjustments				
57	Total regulatory adjustments to Tier 2 (T2) capital	0	0	
58	Tier 2 (T2) capital	501,494	597,560	
59	Total capital (TC = T1 + T2)	3,424,327	4,174,816	
60	Total risk-weighted assets	22,761,017	24,307,480	
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	10.8%	13.7%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure amount)	12.8%	14.7%	92(2)(b)
63	Total capital (as a percentage of total risk exposure amount)	15.0%	17.2%	92(2)(c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92(1)(a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total REA)	7.9%	7.9%	CRD 128, 129, 130, 131, 133
65	Of which: capital conservation buffer requirement	2.5%	2.5%	
66	Of which: countercyclical buffer requirement	0.9%	0.9%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of REA)	2.9%	5.8%	CRD 128
Amounts below the thresholds for deduction (before risk-weighting)				
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	20,081	20,081	36(1)(i), 45, 48
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38(3) are met)	47,508	32,313	36(1)(c), 38, 48